

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

Harlan E. Spotts  
H. Lee Meadow *Editors*

# Proceedings of the 2000 Academy of Marketing Science (AMS) Annual Conference



 Springer

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# Proceedings of the 2000 Academy of Marketing Science (AMS) Annual Conference



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**May 24 - May 27, 2000**

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*"Conjoint Model with Artificial and Real Stimuli: A Comparative Assessment of Within and Cross Domain Generalizability and Choice Prediction"*

James Agarwal, University of Regina  
Naresh Malhotra, Georgia Institute of Technology

### **M. WAYNE DELOZIER AWARD FOR THE BEST CONFERENCE PAPER**

*"The Role of Customer Value in Arriving at an Assessment of Satisfaction"*

Frank Huber, University of Mainz  
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*"Partnering Orientation: A Theoretical Explication and Empirical Measurement of the Construct, Its Antecedents, and Performance Implications"*

Mitra Barun Sarkar, University of Central Florida

### **JANE K. FENYO STUDENT PAPER COMPETITION**

*"Network Externalities, Path Dependence or Quality: What Drives the Success of High-Tech Products?"*

Eden Yin, Doctoral Candidate in Marketing, University of Southern California

## Acknowledgements

The Academy of Marketing Science wishes to extend its sincere thanks to the many individuals and organizations who have contributed to the successful outcome of the Academy of Marketing Science Annual Meeting. A special thanks goes to the local organizing committee, which has done an outstanding job in managing an extremely large number of details and program logistics for a conference of this magnitude.

The management of a conference this big is simply not possible without the special cooperation and assistance of the program chairs, conference coordinators, and track chairs. Therefore, the most important acknowledgment goes to Mary Joyce and David Lambert, Conference Co-Chairs. Further, the track chairs worked relentlessly to encourage submission of papers, managing the review process in a timely fashion, and in organizing the session details. They deserve a very special mention and they are also acknowledged in the proceedings.

A special thanks goes to Sally Sultan of the AMS Central Office at the University of Miami and Brock Bolerjack, Graduate Assistant to Lee Meadow at Eastern Illinois University. Without their administrative support, this proceedings would not have been possible.

Finally, a major acknowledgment and many grateful thanks go to all those who submitted their work, the reviewers who assessed the manuscripts and sessions, and the session chairs and discussants who volunteered to take on the per session duties. With their help and support these individuals helped to make the 2000 Academy of Marketing Science Conference a success.

## Foreword

Welcome to the 2000 Academy of Marketing Science Annual Conference at the Delta Montreal Hotel in Montreal, Quebec, Canada. This conference offers many sessions and papers in three categories:

1. Regular Sessions: These are comprised of competitive papers and research in-progress abstracts. Selection was based on a blind review process.
2. Special Sessions and Panels: Some of these sessions were by invitation, while others were selected using a review process.
3. Topic Table Sessions: These sessions are organized to promote discussion among various participants on a variety of topics.

Please plan to attend the Conference Awards Luncheon at 12:00 pm, Thursday, May 25, 2000, in the OPUS 1 Room, and the Presidents Reception and Awards Banquet starting at 6:00 pm in the OPUS I and II rooms.

After the conference is finished, we hope you will have time to visit the beautiful and historic city of Montreal. We hope you enjoy the intellectual and leisure activities the conference location has to offer participants.

## Preface

The Academy of Marketing Science was founded in 1971, held its first Annual Conference in 1977, and has grown and prospered ever since. The relevancy of the Academy's mission and activities to our chosen target market of the marketing professorate has been a key factor in attracting the discipline's best and brightest from all over the world.

The revised Articles of Association of the Academy, approved the Board of Governors in the spring of 1984, and by the general membership in the fall of that year, define the mission of the Academy as follows:

1. Provide leadership in exploring the normative boundaries of marketing, while simultaneously seeking new ways of bringing theory and practice into practicable conjunction.
2. Further the science of marketing throughout the world by promoting the conduct of research and the dissemination of research results.
3. Provide a forum for the study and improvement of marketing as an economic, ethical, social and political force and process.
4. Furnish, as appropriate and available, material and other resources for the solution of marketing problems, which confront particular firms and industries, on the one hand, and society at large on the other.
5. Provide publishing media and facilities for Fellows of the Academy and reviewer assistance on the Fellows' scholarly activities.
6. Sponsor one or more annual conferences to enable the Fellows of the Academy to present research results; to learn by listening to other presentations and through interaction with other Fellows and guests; to avail themselves of the placements process; to conduct discussion with book editors; and to exchange other relevant information.
7. Assist Fellows in the better utilization of their professional marketing talents through redirection, reassignment and relocation.
8. Provide educator Fellows with insights and such resources as may be available to aid them in the development of improved teaching methods, materials, devices and directions.
9. Seek means for establishing student scholarships and professional university chairs in the field of marketing.
10. Offer Fellow of the Academy status to business and institutional executives and organizations.
11. Modify the Academy's purpose and direction as the influence of time and appropriate constructive forces may dictate.

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# Ecologically-Oriented Product Modifications as a Strategic Marketing Option-An Empirical Analysis Based on Example of the Clothing Industry

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## Introduction

Clothing and the related manufacturing processes are no longer considered safe under health and environmental aspects. The media and consumers' associations exert increasing pressure on manufacturers and traders. Unlike corporations in other branches of industry, the clothing industry until just a few years ago has largely neglected ecological criteria and just met minimum requirements in the fields of environmental and consumer protection. Only few corporations became active beyond that and aimed at making their processes and products ecologically more compatible.

But as consumers increasingly prefer environmentally compatible alternatives when selecting new clothing, more and more manufacturers of clothing seek to gain a competitive edge by innovative environmentally friendly products and processes and to utilize the resulting opportunities (Klinke, Groth 1993). The garments offered are usually termed eco-wear, however, this term is interpreted in several different ways. While some manufacturers would award the eco-wear label to any piece of clothing made exclusively of natural fibers, others would require that textiles labeled that way proved to be harmless and free of any harmful substances (Burghold 1990; Loy 1993; Türck 1990). The following paper is based on this stricter interpretation of the term.

Against this background, manufacturers of garments are facing the question how they can meet changing customer requirements in the future. The basic options are to keep up the strategy pursued so far and try to reach ecological variation or differentiation of their production programs (Nieschlag, Dichtl and Hörschgen 1997). Ecological variation means that existing products and production processes are modified based on ecological criteria. Ecological differentiation aims at providing an eco-collection that meets strict environmental standards in addition to the existing range of products. While ecological variation is of a rather reactive nature and aims at adapting to consumers' wishes, ecological product differentiation is a proactive approach involving active influencing of market trends and setting of ecological standards. Needless to say, there is a great many combinations and hybrid forms of product policy between these two poles.

Despite the increasing relevance of this topic there have not yet been any studies that analyze both ecological buying behavior and clothing (cf. Brügelmann 1983; Spiegel-Verlag 1994; Brigitte-Anzeigenabteilung G + J Marketing-Forschung und -Service 1990; Leichum 1991; Albaum 1991). If one wants to predict the prospects of success of various product strategies, one will have to find out if there are groups of customers who differ in their environmental awareness and their attitudes towards clothing (Smith 1956; Wind 1979). If different groups of buyers can be identified, and if these also differ in their willingness to buy eco-wear products, segment-specific product and communication strategies can be developed for manufacturers of conventional garments. First of all, however, a conceptual framework has to be created from which criteria can be derived that seem suitable for constituting different segments. The remainder of this article is organized as follows. First, the conceptual background is introduced. Then the research design and methodology are described. Finally the findings are reported and managerial implications discussed.

## Conceptual Background

The factors determining environmentally conscious buying behavior that are of interest here are the consumers' environmental awareness, social pressure, and situational factors as well as the criteria relevant for buying clothing.

**Environmental Awareness, Social Pressure, and Situational Factors:** Environmental awareness is a multidimensional construct that is defined and used in manifold ways. A person generally has an environmental awareness if his or her values, attitudes, intentions, or behavior fairly consistently take into account environmental consequences resulting from buying, owning, or disposing of products (Henion 1976; Vinson, Scott and Lamont 1977).

Environmental awareness is determined, for example (Iwata 1986; Van Raaij and Verhallen 1983; Hines, Hungerford and Tomera 1986/87) by the consumers' knowledge about the ecological consequences of their behavior and their perceived self-responsibility. The starting point for the influence of perceived consequences of one's own behavior and responsibility is the norm theory by Schwartz (1970). This theory assumes that socially desirable behavior depends on the extent to which a person is aware of the consequences of his or her behavior and feels responsible for the respective act and its consequences. The consumers' knowledge about the harmlessness and environmental compatibility of a product can be assigned to this first point that is of particular interest with respect to clothing.

Consumers are frequently not able to evaluate the ecological quality of a garment (Cromm 1993; Neitzel, Landmann and Pohl 1994; Rehn 1993). The reason for this may be that companies do not publish information about ecological aspects of their products and manufacturing processes. In addition, the environmental and human compatibility of clothes is difficult to understand and check for consumers because they do not have a clear idea of the composition and manufacturing processes of such products.

The perceived own responsibility is a construct that represents the extent to which people feel personally responsible. This is closely related to how a person evaluates the efficiency of his or her consumer habits. The feeling of exerting a positive influence on the development of the environment by one's own behavior is experienced in varying strength depending on the type of product. If, for example, a customer decides in favor of a consumer product that has an environmentally friendly packaging, his or her personal contribution towards solving or preventing environmental problems is fairly obvious. This is different with textiles as their potential adverse effect on the environment or on one's own health is either not visible or becomes apparent after a longer period of time only.

The basic idea of the psychological exchange theory which the construct of social pressure is based on is that an individual tries to make as great an exchange profit as possible (Thibaut and Kelley 1959). An individual will therefore try to behave in conformity to social norms to get the rewards required for this (material benefits, love, prestige) and avoid punishment (aggressiveness, hatred, envy). Clothing, in particular, is a form of expressing individual values and beliefs that is clearly visible for everyone and can therefore directly result in rewards or in punishment. **The Relevance of Selected Criteria When Buying Clothes: Product design and quality:** The decisive factor when buying clothes is their design as determined by aesthetic product criteria such as color, pattern, cut, fit and combinability (Fuchslocher 1993). Manufacturers constantly have to develop new collections to guarantee a fashionable design as required by consumers. This again results in extremely short product life cycles (Kersting 1993). Apart from design, quality criteria such as the materials used, workmanship, wearing, and care are important features that influence the decision in favor or against a garment. As yet only few consumers in Germany are willing to make do without clothing that looks attractively or the favorable properties of chemically treated materials in favor of natural and environmentally friendly eco-clothes.

**The brand name:** The typical characteristics of branded articles such as steadiness of a product as regards its type and appearance, ubiquity and popularity can only be found to a limited extent with fashion brands. It is certainly more typical for garments to change in style, material and color rather than remaining steady. Ubiquity, too, is rather rare as garments are distributed selectively because retailers are striving for exclusiveness in the range of products they offer (Fiedler 1987). It is therefore not astonishing that most garment brands are not very widely known and that brand loyalty is weak. (Stippel 1992; Heiner 1986; Spiegel-Verlag 1994). **Price:** The price is a major criterion for buying in most market segments (n.n. 1995). Only very brand-conscious customers who are interested in fashion are willing to pay more for extraordinary design or above-average quality (Fuchslocher 1994). Consumers accept a surcharge on natural clothing only if a checkable benefit arises from it (Bänsch 1990; Bauer 1995; Cromm 1993; Hemmpel 1994; n.n. 1993). **The function of clothing:** The benefit that clothing constitutes for the individual wearing it can be divided into functional and appearance benefits. The former results from covering the body and protecting it against the cold, heat, rain, and other environmental impacts. It further includes all expectations of the consumer regarding physical and functional features of a garment. It does not just cover and protect. The person wearing it uses it as an important means of expressing personality and emotions; it is used to demonstrate individuality and personal style, to symbolize values and attitudes the person wearing it has as well as this person's social position (Nerdinger and Rosenstiel 1991; König 1985; Piedboeuf 1993).

## The Study

In addition to our preliminary theoretical considerations, we talked to representatives of manufacturers of eco-wear and other persons competent in the field to collect more information on the structure of our field of study and on the design of the questionnaire. The actual empirical study was carried out in writing using a standardized questionnaire. The addresses of the respondents were taken from an address list of German households that was sorted by zip code. 309 out of the 1,000 people who had been sent the questionnaire returned it.

## Results

When the respondents were first asked about the criteria that are relevant to them for buying clothes, it seemed likely that a major part of the consumers could actually be in favor of ecological product modification in the garment sector. Thus natural materials, harmlessness and an environmentally friendly manufacturing process range relatively high. This leads to the assumption that environmental compatibility is considered a basic benefit by the respondents.

In a next step, the statements of the respondents on the questions derived from the relevant dimensions discussed above were reduced to central evaluation dimensions using several exploratory factor analyses. The factors were used as the basis for the following cluster analyses by means of which the participants in the study were to be divided into as homogeneous groups as possible. A combination of the hierarchical and the partitioning methods was used here. In a first step, the classic hierarchical single linkage classifying algorithm and the proximity measure of the squared Euclidean distance were used to identify and then to eliminate outliers. The reduced object quantity was subsequently amalgamated using the Ward method. The elbow criterion suggested a three-cluster solution. Then the k-means method was used for final classification of the respondents. The following characterized clusters were identified using the method outlined:

The "fashion-conscious opponents of eco-wear": Cluster 1 consists of 62 respondents who think they are not very aware of the environment and do not attach great importance to environmental protection and their own health. They have a distinct consciousness of fashion, and materials and the price of garments are of secondary importance. The members of this cluster are also characterized by little knowledge about potential environmental and health hazards that may arise from clothing and are not interested in being informed about natural wear. This group has the least intention to buy eco-wear in the future. Cluster 1 has a high portion of people living in big cities, males are slightly over-represented. The "price-conscious undecided": Cluster 2 (71 respondents) contains an above-average number of women and people living in larger cities. The respondents in this cluster take an intermediate position between the two other groups based on many factors and variables used for characterization. This applies to their fashion-consciousness, their knowledge and need for information regarding eco-wear as well as for their intention to buy. Compared to cluster 1, this group has a clearly stronger environmental awareness and health consciousness as well as a preference for natural materials. What is significantly different from the two other clusters is the high price consciousness when buying clothes. The manifestation of the factors that provide information on their knowledge and need for information about eco-wear as well as this group's open-mindedness towards eco-wear, shows the indifference of the members of this group with regard to natural fashion. The "environmentally conscious advocates of eco-wear": Cluster 3 is made up of 100 consumers who have a comparatively low sense for fashion but the highest awareness of the environment. Despite their high average knowledge they also have an above-average desire for information about eco-wear. This is accompanied by great willingness to buy such garments, acceptance of a higher price as compared to conventional wear, and the demand to make the eco-label more transparent. The members of cluster 3 have an above average education and live more frequently than the members of the other groups in communities with a population under 50,000.

### **Managerial Implications**

Companies that are currently producing conventional garments have the following strategic options that to address the clusters identified: Cluster 1 can be offered the existing range of products for some time. But in the medium and long term, the conditions should be created for restructuring the whole range of products based on ecological criteria to be able to react flexibly should the requirements of customers change. To meet the ideas the respondents in cluster 2 have of what is beneficial to them, corporations should consider an immediate product variation of the whole range of products aimed at meeting minimum ecological requirements. A product variation should be accompanied by such promotional and advertising activities that mention the improved environmental and health compatibility of the product without making this the major sales argument. A product differentiation strategy resulting in a specific eco-wear collection should be pursued to meet the requirements of those buyers who wish to buy eco-wear (cluster 3 and portions of cluster 2). Mainly the members of cluster 2 are not willing - because of their well-developed fashion consciousness - to accept setbacks in appearance or ease of wearing just for the sake of improving environmental or human compatibility. This is why it appears inevitable to give special attention to fashion and quality aspects when developing eco-wear collections.

Our study also revealed that consumers have a considerable knowledge deficit as regards ecological textiles. As natural wear obviously is a product that has to be explained to the user, information and communication activities are of particular importance when carrying out a product differentiation plan. Unlike conventional clothing, it is not enough when communicative activities regarding eco-wear rely on an emotional, purely aesthetic effect of the product alone. Communication with consumers should rather be aimed at information, first of all. In addition, more than 80% of the respondents, in particular the ones in cluster 3 had a desire to be able to check ecological promises made by manufacturers and to get information about the material composition of their garments. Qualified and competent salespeople should contribute to diminish the information deficit many consumers have, arouse their interest in natural wear and meet the request for more information. As only few traders train their employees in ecology, manufacturers could offer ecological seminars for salespeople to ensure qualified advice (Dichtl/Hardock/Ohlwein/ Schellhase 1997). The

benefit components "environmental compatibility" and "human compatibility" should be stressed especially when addressing the respondents in cluster 3 to stand out against manufacturers of conventional clothing. As only 10% of the consumers who took part in our poll complained about health problems caused by clothing, communicative measures should primarily be aimed at environmental protection aspects rather than on health-related benefits of eco-wear. Another major starting point of communicative efforts should be to convey ecological competence and credibility with a view to the fact that more than 60% of the respondents doubt the environmental friendliness of products labeled "organic" or "eco." It seems inevitable to define clear-cut and checkable criteria and terms for identifying the goods. Cooperation with consumer protection associations, private environmental organizations, research institutes, or facilities for testing goods can contribute towards winning the trust of the consumers.

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# **Aaker's Brand Personality Scale in a French Context: A Replication and a Preliminary Test of Its Validity**

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## **Abstract**

This article aims to replicate Aaker's research on the dimensions of brand personality. Our study relies on a convenience sample and deals with twelve brands purchased in a French context. By means of principal components and confirmatory factor analyses, Aaker's scale can be reduced in France to 33 items. Its structure is quite similar to the structure Aaker found in an American environment.

## **Introduction**

The adventurous life of a cow-boy in the wilderness is a typical example of the image and the personality a brand like Marlboro seeks to forge, particularly through advertising. Surprisingly, although the study of personality is very old, almost no research was centered on the specific components of the personality associated with brands. Aaker's recent study (1997) is, in this respect, an exception and a major contribution.

The possibility of extending this American study to the French context was explored. The following questions were thus addressed. Will the same number of factors indicated in Aaker's study be found in a French context? Do the French factors mean the same or on the contrary, do they have a different meaning?

In order to answer these questions, this article is articulated around three complementary sections. In the first section, the literature on human personality and its transposition to brands are synthesized. After a description of the data collection procedure, the methodology used in this research, relying mainly on exploratory and confirmatory factor analyses is detailed in a second section. Finally, results are displayed and discussed in a third section, underlining the main theoretical as well as managerial contributions. In the conclusion, re-search limits are pointed out and relevant directions for future research are suggested.

## **Conceptual Framework**

At this core, this research is based on the study of human personality traits undertaken for many years in psychology. Thus, personality research trends are first presented. Next, Aaker's transposition and application of this research to brands issues are discussed.

### **The study of human personality traits**

The origins of the study of personality traits are very old and can be traced back to Theophrastes (4th century B C). He described several types of characters or modes of behavior. Although personality traits have been the subject of a long tradition of research in the social sciences, there is no unique and universally accepted definition. Generally, they are defined as "*dimensions of individual differences in tendencies to show consistent patterns of thoughts, feelings, and actions*" (Costa and McCrae, 1998, p.104). They must be understood as psychological phenomena which give direction to action and human experience.

The works of Allport (1937), Cattell (1950) and of Eysenck (1960) were precursors of the dominant approach in personality research for about 20 years. As a result, many psychologists are convinced that the best representation of the structure of personality traits is provided by five great factors, commonly called "Big Five" in the American literature (Digman, 1990, see Block, 1995 for a critical vision). In this dominant paradigm, personality traits can thus be described by five fundamental dimensions: Openness to new experiences, Conscientious-ness, Extraversion, Agreeableness and Neuroticism.

On a more operational level, one can mention the hierarchical approach, especially developed to deepen the understanding of the factorial structure underlying personality traits. Within the framework of this approach, each factor summarizes numerous facets. The five factors are at the highest and most abstract level of the hierarchy. They form the structure of personality. Each factor is defined by six conditional and contextual facets. In turn, these facets reflect a great number of distinct and more specific characteristics of personality: personality traits (Costa and McCrae, 1998; John, 1990). McCrae and Costa propose an instrument, the Neo Personality Inventory Revised, to measure them. This instrument includes 240 items (five factors x six facets x eight items) that are measured on a five points Likert-type scale. Research has shown the stability of this structure.

However, many problems remain in the study of personality traits. Even if traits describe recurring modes of behavior, affect, and thought, they do not specify the mechanisms by which durable tendencies concretely appear in particular situations. Even the most enthusiastic supporters of the Big Five point out the difficulty of interpreting the five dimensions (McCrae and John, 1992). In spite of the significant number of research attempts in psychology conducted to conceptualize human personality and to determine its structure, a similar approach in the field of consumer behavior has not been undertaken until Aaker's study.

### **Brand personality**

Aaker (1997) proposed a theoretical model of the concept of brand personality by determining the number and the nature of its dimensions. Considering the lack of consensus among researchers on the definition of this concept and its components, this researcher defines brand personality as "the human characteristics associated with a brand."

It should however be noted that the antecedents of brand personality are different from those of human personality. The perception of an individual's personality traits is indeed inferred from his/her behavior, physical characteristics, attitudes, beliefs, and demographic characteristics (Park, 1986). Perceptions of the personality traits of a brand are inferred by the direct or indirect contact of a consumer with the brand. Consumers associate particular personality traits with a brand directly from the human characteristics they ascribe to the standard user of the brand (McCracken, 1989). Moreover, personality traits can be associated with the brand indirectly through product attributes, associations with the product category, name of the brand, logo or symbol, advertising style, price or distribution channel (Batra et al., 1993).

From a more practical point of view, Aaker generated brand personality traits in three steps. First, redundant traits, among those found both in a literature review in the fields of psychology and consumer behavior, and during tests of free associations of personality traits to brands carried out by consumers, were first eliminated. Secondly, a questionnaire was used to evaluate the adequacy and the relevance of the 309 remaining traits for a set of brands: this allowed to reduce the number of traits to 114. Finally, five dimensions were obtained through a type "O" factor analysis. On each of the resulting five dimensions, a principal components analysis was carried out to determine their facets. A cluster analysis was finally carried out on each facet to determine their specific features. These various procedures led to the presentation of a scale of 42 items.

Globally, the model suggested by Aaker is thus based on a hierarchical approach similar to that developed by McCrae and Costa.

### **Research Objectives**

The model proposed by Aaker is interesting in more than one way, not only does it represent a skillful transposition of what was made in the field of the human personality with brands but it is also of undeniable managerial interest. In particular it seems to apply well to the development of positioning and advertising strategies. However, the question remains as to whether the results of a study conducted in the American context are transposable to another cultural context (Markus and Kitayama, 1998)? This is the reason why this first exploratory study was carried out in order to validate the possible stability of the factorial structure in a French context. If Aaker's scale is transposable to the French context, it should be possible to validate its structure whatever the selected sample and the number of selected brands. Hence it was decided to use a convenience sample and a reduced number of French brands prior to considering a large-scale study based on a representative sample. The retained methodology is detailed in the following section and the main results are displayed in the third section.

### **Methodology**

In this section the nature of the sample is first presented, followed by the procedures used to validate the structure of the scale.

#### **Nature of the sample**

This study was carried out on a convenience sample of 246 students, 57.85% of whom were female. Choosing such a sample does not *a priori* question the validity of the study, as Aaker proved the stability of her results between several sub-groups of individuals, among which students. This population was split in three groups of identical size. Respondents were asked to evaluate four brands in two basic consumable categories: Chevignon, Etam, Grand-Mère and Carte Noire for the first group, BN, Lu, Heineken and 1664 for the second, Nike, Adidas, Apple and Compaq for the third. These brands were selected on a convenience basis. Evaluations were based on Aaker's (1997) personality scale (after using back-translation).

### **Validation of the scale structure**

In order to test Aaker's (1997) brand personality scale in a French context, Churchill's (1979) recommendations as well the usual practices in cross-cultural research were taken as a starting point. The procedures that were followed were divided into three stages. In the first stage, the 42 items retained by Aaker were translated by an interpreting company, following a back translation procedure. In the second stage we tested the scale structure. Of iterative nature, this part of the procedure allows to start from the initial scale structure, tested by a principal components analysis, and to purify the measure by successively eliminating all the poorly affected items, that is, with a commonality lower than 0.5. Lastly, in the third stage, we validated the structure of the reduced scale by means of a confirmatory factor analysis whose results are validated by a systematic bootstrap procedure.

Within the framework of confirmatory factor analysis and for the sake of clarity, we recall that (Bagozzi, 1994, Bagozzi and Yi, 1994):

A dimension shows a good convergent validity if the  $t$  test associated with each loading is higher than 2. This criterion can be possibly supplemented by the extracted average variance (Fornell and Larcker, 1981).

A concept shows a discriminant validity if the model tested by leaving free the correlation between the various latent variables proves to be better than a model where the correlation between these variables and the concept under study is fixed at one: for that, the variation between the chi-square for the two models must be significant, considering the difference in degrees of freedom (Bagozzi and Yi, 1988).

These two validity indices for concept measurement must be supplemented by a index of reliability. Cronbach's  $\alpha$  coefficient used to be recommended. However, Jöreskog (1971) prefers to replace it by the coefficient  $\rho$  of internal coherence, which appears more adapted to structural equations models since it explicitly integrates the error terms and is not based on the restrictive assumption linked to coefficient alpha (Bollen, 1989).

### **Results**

The results of this study are presented in two steps: the presentation of Aaker's scale obtained in a French context, and the comparison between this scale and the initial Anglo-Saxon Aaker's scale.

#### **Implementation of Aaker's scale in a French Context**

The presentation of the test of the Aaker's scale in a French context will be articulated around the two stages of the methodological procedure.

Structure of the initial scale: The principal components analysis of the 42 items did not recapture the initial structure of the American scale. The number of factors with an eigenvalue greater than one was seven and quite higher than the five dimensions identified by Aaker. By constraining the structure to five factors, nine variables needed to be eliminated on the ground of their weak commonalities. On the other hand, the scale thus obtained (33 items) had a five dimensional structure which explained 61,56% of the variance.

Trait validity of the final scale: **Tables 1** and **2** successively show the factorial structure of the reduced scale, as well as its indicators of convergent and discriminant validity. All these indicators are largely satisfactory and lead to the conclusion of a good trait validity of the obtained scale. In particular coefficient alpha and Jöreskog's  $\rho$  are above .80 for each dimension. Hence, each dimension seems to possess acceptable levels of reliability. All the estimates are based on a systematic bootstrap procedure relying on maximum likelihood estimation.

When a method factor is specified by means of correlated measurement errors, as this is necessary in our case since each respondent scored 4 brands successively, one obtains a RMSEA of 0.0617 and a GFI and AGFI of 0.910 and 0.878 respectively. These indices therefore correspond to the acceptability standards reported within the literature.

#### **Comparison Between Aaker's Scale and the Reduced Scale Obtained in a French Context**

This comparison is based on two observations. The first observation is rather positive: three dimensions out of five are common, grouping together, except for one item, the same variables around the same idea: dynamism (excitement), robustness and femininity (sophistication). Only the adjective "senti-mental" has an assignment different from that of Aaker. It does not contribute to its dimension "sincerity", but to "femininity", an affectation that seems quite understandable.

Secondly, factors are reorganized starting from the dimensions of sincerity and competence. Indeed, Aaker's sincerity is split in two distinct concepts: sincerity *stricto sensu* and conviviality, which constitutes in a French context a distinct dimension. In addition, Aaker's factor "competence" is not found as such and is divided in two: the items of competence related to real qualities of the brand join with the items of sincerity, which are now deprived of any

connotation of conviviality. On the other hand, some items of competence related to a recognition of the brand (leader, confident) disappear.

## **Conclusion**

The main objective of this article was to evaluate and validate in a French context Aaker's brand personality scale, developed in the United States. Hence, this is one of the first cross-cultural validations of this scale. Although the structural and semantic correspondences with Aaker's five factors are only partial, the results are, after a reduction procedure, very encouraging. Aaker's scale proves to be transposable in a French speaking environment. Four of Aaker's five dimensions emerge: sincerity, dynamism (excitement), femininity (sophistication) and robustness. If dynamism, femininity and robustness are almost identical to the original structure, the meaning of the sincerity dimension evolved noticeably, being freed from a connotation of conviviality, towards the perceived competence of the brands. The fifth dimension of the French scale precisely consists of these items of conviviality, thus creating a distinct factor. The French reduced scale made up of 33 items and articulated around five dimensions provides a coherent and plausible representation of the personality traits associated with the brands. To summarize, the transposition in a French context of Aaker's personality scale seems relatively satisfactory. Only the dimensions of sincerity and competence are reallocated without really disappearing: this reveals an interpretation significantly different from one country to another. In fact, sincerity in an Anglo-Saxon context seems to join with subjective qualifiers characterizing the "human" relationship between a brand and a person, whereas in a French context this sincerity seems to be based on objective elements related to the real performances of the brand.

These results remain exploratory, partly because of many methodological limits in this research. Compared with the procedure developed by Aaker, our collection is of smaller scale, since it includes only twelve brands rated by a small convenience sample. In addition, using only one kind of statistical technique, namely principal components or confirmatory factor analyses, reduces the scope of our results.

Limits of a more conceptual nature also open directions for future research. The comparison between Aaker's scale and the scale obtained in a French context deserves to be confirmed by a large scale validation procedure, based on more than one data collection and a statistical processing of greater width. It requires also a finer analysis of the similarities in terms of dimensions and facets constituting these dimensions. The concept of brand personality remains to be enriched. The first research avenue relates, in our opinion, to the antecedents of brand personality. Which is the source of brand personality that a company can influence? How can this personality vary over time? What are, for example, the interactions between the personality of a mother brand and that of a brand extension? For this reason, a rather logical investigation would be to rely on the personality of the individuals, since a rather recent 44-item scale developed by John et al. (1991) facilitates its measure.

These comments suggest the potentialities of the brand personality concept in consumer behavior. They underline the interest of this study and stress the need for a short, reliable and valid cross-cultural brand personality trait scale.

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**TABLE 1**  
**Factor structure of the final scale (bootstrapped estimates)**

Dimensions	Items	Load- ing	t Test
<b>Sincerity</b>	Sincere	0.825	41.60
	Honest	0.797	44.60
	Real	0.770	40.09
	Reliable	0.723	35.96
	Secure	0.696	25.84
	Hard working	0.679	26.71
	Wholesome	0.667	28.97
	Down-to-earth	0.649	24.39
	Intelligent	0.616	20.65
	Original	0.567	28.97
<b>Dynamism</b>	Trendy	0.802	47.34
	Up-to-date	0.790	38.34
	Contemporary	0.717	32.45
	Imaginative	0.711	33.92
	Spirited	0.687	27.08
	Spirited	0.665	28.29
	Young	0.630	26.59
	Exciting	0.616	23.47
	Daring	0.541	16.48
	Successful		
<b>Femininity</b>	Charming	0.926	123.-
	Good looking	0.922	64
	Glamorous	0.793	77.51
	Smooth	0.632	42.00
	Feminine	0.574	26.69
	Sentimental	0.481	20.30
<b>Robustness</b>			16.12
	Tough	0.905	63.68
	Rugged	0.904	65.54
	Outdoorsy	0.518	17.30
	Technical	0.514	17.92
<b>User-friendliness</b>	Cool	0.791	41.74
	Friendly	0.684	30.44
	Cheerful	0.676	28.36
	Family-oriented	0.446	11.84

Validity indices of the model	RMSEA	0.0617
	GFI	0.910
	AGFI	0.878

**TABLE 2**

**Trait Validity of the Scale**

	Dimension 1:	$\rho_{VC}$	0.65
	Sincerity	T	*>2
	Dimension 2:	$\rho_{VC}$	0.62
	Dynamism	T	*>2
	Dimension 3:	$\rho_{VC}$	0.68
	Femininity	T	*>2
	Dimension 4:	$\rho_{VC}$	0.66
	Robustness	T	*>2
	Dimension 5:	$\rho_{VC}$	0.56
	User-friendli- ness	T	*>2
Convergent validity			
Discriminant validity			

The discriminant validity, as tested in the methodology section, appeared to be correct.

Reliability	Cronbach's Alpha	Jöreskog's $\rho$
Sincerity	0.87	0.95
Dynamism	0.87	0.94
Femininity	0.86	0.92
Robustness	0.82	0.88
User-friendli- ness	0.80	0.83

**CROSS-NATIONAL EXAMINATIONS OF THE COMPREHENSIBILITY, PREFERENCE, AND MEANING OF DIFFERENT SOCIAL ORIENTED FOCUSES – ABSTRACT**

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Past research found that consumers in a collectivist society (e.g., East Asia countries) have more favorable attitudes toward advertising emphasizing social values than toward advertising emphasizing individualistic values (Han and Shavitt, 1994; Zhang and Neelankavil, 1997). Several advertising content research also showed that advertising in an individualistic culture uses a more informational approach, while advertising in a collectivist culture adopts a more social oriented approach (Belk and Pollay, 1985; Mueller 1987; Zandpour, Chang, and Catalano 1992; Zandpour et al. 1994). Although progress has been made in explaining how the cultural factor affects a consumer preference toward advertising or product concepts, the interpretation of social orientation is still debatable. Social orientation may imply different meanings (Eagly and Chaiken 1993; Triandis 1994); one is for a value expressive purpose, the other is for a social adjustment purpose. The first one centers on expressing inner-values to others; it is for self-expression and self-actualization (Katz, 1960). The second one stresses the importance of expressing one values to facilitate and maintain relationship with important others (Smith, Brunner, and White, 1956); it is for self-adjustment and self-adaptation. Both dimensions have social meanings, but the functions they serve are different.

The distinction between social adjustment and value expressive functions has significant academic importance in the cross cultural research. People in different cultural environments may prefer different social oriented attitude functions. For example, in an individualistic society, social fabrics are much looser and people are more likely to be motivated by self-interests and personal pressures (Triandis 1994). They will consider about themselves first and then think about how to express the inner attributes of the selves to others. Others are important for social comparison and for the standard of reflected appraisal (Markus and Kitayama 1991). On the other hand, people in collective societies consider their relationship with the context first, and then think about how to behave to fit into the environment and be accepted by others (Triandis 1994). They see themselves as part of an encompassing social relationship and recognize that one behavior is determined by what the actor perceives to be the thoughts, feelings, and actions of others (Markus and Kitayama 1991). Relationship with others in the specific context defines the self (Triandis 1994). Therefore, it is possible that people in a collective society mostly express their attitudes for the social adjustment function. A 2 (culture: U.S. vs. Taiwan) x 3 (product concept: value expressive vs. social adjustment vs. non-social oriented) factorial experiment was conducted. A laser printer was chosen as the object in this research. Three product concepts for the printer were developed based on several qualitative pre-tests. One concept focused on social adjustment statements, one emphasized value expressive statements, and the other is non-social oriented. 295 student subjects in Taiwan and 301 student subjects in mid-western U.S. participated in the experiment. The result showed that U.S. subjects preferred a value expressive product concept to a social adjustment product concept. On the other hand, Taiwan subjects evaluated a social adjustment product concept and a value-expressive product concept equally. In addition, Taiwan subjects comprehended a social adjustment product concept better than a value expressive product concept.

In order to explore the meaning of purchasing a printer and other more social oriented products, a second experiment was conducted. Two types of product decision situations (gifts giving and computer printer) were the objects of the experiment. Gift giving is considered to be a social-oriented object, while the computer printer is a non-social oriented object. Subjects were first

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***FOR THE REST OF THIS ABSTRACT, PLEASE CONTACT THE AUTHOR.***

## **Supplier Selection In Business-to-Business Markets: Scope For Applying Artificial Intelligence Systems**

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### **Abstract**

This paper presents the result of a study into how organizations choose their supply partners and the extent to which they apply information technology-based systems to co-ordinate and harness potentially diverse sources of knowledge within the organization in carrying out this task. The results revealed that managers have abysmally low awareness of expert systems' capabilities to revolutionize supply partner selection process and alter the dynamics of competitive advantage. This is worrying because many businesses are becoming vulnerable to growing strategic information-related actions and sophisticated competitive intelligence network of their competitors.

### **Introduction**

In today's global, dynamic business environment, trends toward outsourcing and vertical integration are revealing the critical importance of partner-ship sourcing in maintaining and/or improving competitive positions. This paper aims to (a) review organizational approaches to selecting supply-partners and identify the problems inherent in the conventional approaches, (b) identify the factors which organizations take into consideration in evaluating and selecting suppliers and how those factors are weighted, and (c) assess the relevance of Expert Systems technology in developing an effective supplier strategy. There is nothing revolutionary in 'a' and 'b' above as the literature is replete with studies addressing supplier selection processes and problems (Dickson, 1966; Weber, Current and Benton, 1991). However, the third strand will probably open up a new vista on firm competitiveness in a way that is not hitherto known. In the area of supply-partner selection, it makes sense to speculate on the potential role of Expert Systems in enhancing mutually rewarding relationships linking supplier value-adding activities to organizational competencies, which, in turn, may lead to sustained competitive advantage.

### **The Process For Selecting Supply-Partners**

Since the seminal work by Dickson (1966), there have been incremental additions to knowledge relating to supplier selection and problems appertaining thereto. Some of the changes have encompassed an accelerated interest in quality issues, technical capabilities and improved computer communication (Weber, Current and Benton, 1991). However, very little empirical research exists which addresses the actual selection stage involving the utilization of artificial intelligence-based information in making the choice of which vendor to select (Patton, 1996). Often, subjective measures are applied. As a result of the shortcomings associated with traditional techniques (Thompson, 1996), several authors have applied quantitative techniques to provide what are intended as more objective approaches. Examples include the data envelopment analysis (DEA) (Weber, 1996), analytical hierarchy process (AHP) (Al-Faraj, Alidi and Al-Zayer, 1993), activity based costing approach, (Roodhooft and Koning, 1997), and mixed-integer programming model (Kasilingam and Lee, 1996).

### **Expert Systems Technology**

Expert systems (ES) is a knowledge-based system within the field of artificial intelligence that focuses on leveraging human experts within organizations to gain competitive advantage. It does so by capturing the problem-solving knowledge of experts and making this information available to everyone in the organization. Once this knowledge is captured, ES can provide information on demand, 24 hours a day, to improve the effectiveness and efficiency of organizational decision-making processes of non-experts (Motiwalla and Fairfield-Sonn, 1998). Sometimes called 'knowledge management' or 'diagnostic systems', these hardware and software systems are designed using highly systematic, rules-based algorithms to approximate human knowledge and expertise in specialized areas. An expert system deals with problems the way a human expert does. Unlike conventional computer programmes, but quite like human experts, an Expert System has the ability to justify its own line of reasoning in a manner directly intelligible to the inquirer. A method used to attain this reasoning characteristic is known as rule-based programming. The rules

are in the form of: IF ... THEN ..., i.e. IF <condition> and <(condition) and ... THEN <conclusion> and <conclusion> etc. Where all conditions and conclusions are statements with a truth-value, the condition is called antecedent while the conclusion is the consequent, that is, IF<antecedent> THEN <consequent>. These rules can be used to construct powerful inference systems by being combined into networks in which the consequents of some rules (or parts of the consequent) are antecedents of other rules (or parts of those consequents); see, for example, Grandon (1996), Liker and Sindi (1997), Owrang and Grupe (1997).

ES is being widely applied in the world of business, with positive impacts, in areas such as accounting and risk management, insurance, logistics management and business process reengineering, total quality management, human resources management, and public sector contexts (Berry, Berry, and Foster, 1998). Although there have been studies of the use of ES by businesses in the UK (Coakes and Merchant, 1996), no study, to the best of our knowledge, has related ES technology to supplier selection decisions, either in the UK or anywhere else. While the larger project from where this paper is extracted partially developed an ES technology for supplier selection (only the financial attribute assessments have been successfully modeled so far), empirical information provided here relate to usage assessment.

### **Methodology**

There were three approaches to the research process. The first involved an extensive search of the literature to determine the extent and limits of Expert Systems application to supplier selection decision-making. In spite of the evident interest in this technology in other spheres of business activities, no published research exists which suggests that it has been applied for partnership sourcing purposes. This lacuna necessitated the second approach which involved a series of unstructured and informal one-to-one interviews with professionals in marketing (especially, the purchasing and supply functions). These interviews, which usually took place at social gatherings, private homes and over the telephone, were conducted with 8 senior managers from a range of organizations in both manufacturing and service industries. Interviewees were chosen on discretionary grounds because of the knowledge and 'privileged information' they possess based on their practical experience. Information obtained from the interviews afforded novel insights into a wide range of issues relating to supplier selection processes and problems and, very importantly, the scope for applying a branch of artificial intelligence, a computer-based system, to facilitate the process.

The third approach involved distribution, through the postal system, of questionnaires to 500 UK organizations randomly selected from the COMPASS business directory. Questionnaires were addressed to named individuals (where known), otherwise to the 'purchasing manager'. The questionnaire was intended to capture data on: how managers in purchasing and supply functions perform the task of supplier selection; the factors they consider in evaluating and selecting suppliers; the weight they allocate to those factors; the general usage level of computer technology/artificial intelligence in purchasing functions; and the attitude towards the idea of using expert systems technologies to improve supplier selection tasks.

Out of the 500 questionnaires sent, only 66 were duly completed and returned over a period of three months, achieving a response rate of 13.2 per cent. The response rate achieved is typical of this type of research (i.e. postal surveys addressed to senior management positions with no pre-notification or follow up calls) and compares favorably with those of similar population and data collection methodologies both in the UK (Caruana, 1995) and USA (Dorsch, Swanson and Kelly, 1998). For this reason, no follow-up measures were undertaken to improve the response rate. However, the possible effect of non-response bias was investigated by comparing the response data from the early and late respondents (first and last quartile). This method is based on the assumption that late respondents are more similar to non-respondents (Armstrong and Overton, 1977). No significant differences were observed, thus indicating that non-response bias may not be a significant problem in this study.

### **Results**

Organizations that completed and returned the questionnaires were of different sizes and types. As a result, two sets of analysis were performed. The first was to determine whether the size of an organization influenced the way it solved the problem of supplier selection. The second was to find out whether the type of organization affected its approach to solving the same problem. Respondents were required to rank the factors, which they considered during the process of supplier selection. Ranks 1 to 20 were to be awarded, reflecting the importance they attached to each

factor. For example, rank 1 indicated 'most important' and 20 represented 'least important'. The 20 item rank factors (see table 2) were determined, based on the synthesis of the literature and the discovery-oriented survey, as those generally considered during the selection process.

From the total usable sample, the average rank awarded to each factor was calculated and the factor that had the least ranked value was regarded as the most important. The result reveals that quality, price, ability to deliver on time, production methods and the financial background of suppliers are respectively the five most important factors which organizations consider in making supplier selection decisions. This result is not surprising as it is consistent with those found in other studies, especially in the USA (e.g. Griffith, 1998). The five least important factors are loyalty, listing in business directories, size, similarity in technology and recommendations. This result is rather fascinating given the popular view in the literature that technological compatibility is a key consideration in supplier selection. Moreover, the result flies in the face of the much talked about 'reciprocity in buying' paradigm. Loyalty was not considered a crucial factor. Equally fascinating is that vendor size does not really matter. This has obvious implications for the development of entrepreneurship.

Interestingly, many SMEs tend to believe that a listing in the business directory will yield more business and/or enhance their credibility as potential suppliers. This was not found to be a key issue amongst our sampled population and is worrying because of the size of SME representation in the sample. From this global ranking, it became necessary to find out whether the ranking would vary according to organizational size. Various patterns emerged. There seems to be a significant level of correlation in how the ranks were awarded by different sizes of organization. However, there were other curious observations. These appear to suggest that the larger the organization, the better the average rank given to factors such as finance, manufacturing capacity and relationship. The larger the organization, the more emphasis on the financial capability of potential vendors, size and scope of activities, position in the industrial sector, and marketing support they are able to provide. This suggests that in supplier selection decisions, larger organizations differ from SMEs in the degree to which they emphasize continuity, capability and relationships. In contrast, SMEs are more likely than large organizations to base vendor selection decisions on recommendations from friends or colleagues, information supplied through brochures and loyalty driven by friendship or affinity.

It is of interest that none of the respondent organizations uses ES technology in performing vendor selection tasks. They were found to have little knowledge of ES and its capabilities, irrespective of their size. The most significant argument against the use of ES is the perceived potential to undermine personal responsibilities and empowerment as well as the damage it might cause to personal contact and supplier relationships. Many of these are well documented in the literature as reasons why people use or refuse to use computer technology especially in the area of management information and decision support systems (Berry, 1997).

## **Conclusions**

An effective supply strategy is of considerable importance to many organizations as decisions relating to how input factors are sourced may greatly affect competitive position. Interestingly, many organizations have in place well-developed systems for assessing product/service performance but rarely use equivalent methodologies in evaluating their own suppliers. Knowledge management is an enabler and is the key to the development of an integrated supply strategy. A number of conclusions can be drawn from this study. It is apparent from the findings that although the field of artificial intelligence is pervading various spheres of business activities and altering the dynamics of competitive advantage, the results suggest that UK businesses (especially those involved with purchasing functions) have yet fully to operationalise the concept of knowledge management. It appears that organizations, in their purchasing roles, tend to be reluctant players and far more skeptical about the benefits afforded through knowledge management.

The growing utilization of ES by leading firms in the USA could not have happened without reasonable returns on investment. In view of the strategic value of ES, it is time UK organizations start to think about how to harness this technology to gain a competitive edge in an increasingly globalize world. They must recognize and accept several key truths about today's 'semi-wired' world. The business environment is filled with turbulence, exacerbated by the growing impact of digital media on business processes. Success in the evolving environment, with all its attendant

discontinuities, requires that management must come to terms with the inevitable technology-driven transformations and determine how best they might be deployed to serve their organizations.

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## **Teens' Attitudes Toward TV Advertising–Abstract**

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The burgeoning Teen market is of interest to various marketers and advertisers. This paper examines how Teens respond to TV advertising by measuring their attitudes toward television advertising. The study was conducted with high school students in the Northeast. A total of 117 teens between the ages of 15-18 years, were surveyed. The sample had a good representation of both genders, with girls accounting for 55% of the sample and boys 45%. Our study generated three interesting results. The first was the observation that on average Teens are less appreciative of TV advertising and many rate advertising low on entertainment and information value. The second interesting result of our study was the observation that Teen girls are less enamored by TV advertising as compared to their male counterparts. Thirdly, our study identified three distinct clusters within the Teen population, each holding significantly different (and often diametrically opposed) attitudes toward TV advertising:

"Despise TV advertising": This group expressed the strongest criticism of TV advertising. Teens in this group disliked TV ads; found TV ads boring and annoying; found little entertainment and information value in TV ads; felt that a reduction in TV ads would enhance program entertainment; and were very agreeable to the possibility of banning TV ads altogether. This group was female dominated (73% were girls).

"Tolerate TV advertising": Teens in this cluster held mixed feelings about TV advertising as for most attitude statements their mean responses hovered around the midpoint. Though they felt strongly that reducing TV advertising would make TV viewing more enjoyable, they were ambivalent about banning TV advertising altogether. They were not much entertained by TV ads but to some extent appreciated the information value of advertising. This group had a somewhat higher percentage of females (girls = 59%; boys = 41%).

"Enjoy TV advertising": This segment of Teens liked TV advertising; were often entertained by TV ads; found TV advertising a useful and fairly reliable source of product information; and were not in agreement with the proposition that TV advertising should be banned. There was a higher proportion of males in this cluster (girls = 46%; boys = 54%).

## **Understanding Consumer Reactions to Premium-based Promotional Offers--Abstract**

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This paper reports the results of a three-study research program whose purpose is to gain a better understanding of consumer reactions to premium-based promotional offers. In the first study, a comprehensive typology of premium-based promotional offers is elaborated and evaluated with respect to its content and predictive validity. In the next study, the semantics that are used by consumers when they are presented with premium promotions are explored and a series of research hypotheses are developed from qualitative interviews with 12 consumers. In the final study, a survey of 182 adult consumers is conducted to test these research hypotheses. The results reveal that consumer appreciation of premium-based promotional offers is more positive when the premium is direct than when it is delayed, when there is a relatively lower quantity of product to purchase, when the value of the premium is mentioned, when brand attitude is positive, when interest in the premium is great, and when consumers are characterized by deal-proneness and compulsive buying tendencies. Consumers' perception of manipulation intent is affected mainly by directness of the premium, mention of the value of the premium, interest in the premium, and deal-proneness.

**The Attractiveness of Television Versus Magazines as Advertising Media to Target Collegians: 1989 - 1999—Abstract**

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This paper argues that college-aged men and women represent an increasingly attractive market for a wide range of goods and services. Therefore, how this segment regards and responds to promotion is of great interest to a large set of advertisers. Ten years ago, college students were surveyed to uncover their perceptions regarding television versus magazine advertising. An adapted “Magazine Publishers Association of America” schedule of items used to assess the students’ agreement or disagreement that such ads were appealing, annoying, informative, exaggerated, believable, unbelievable, helpful, silly, boring, offensive, and that they presented quality products. In comparing the survey results from ten years ago to a recent replication, the findings indicate that while students used to be more universally positive about magazine advertising, their perceptions of the two media have become more similar over time. Still, although students perceive that television advertising has become more appealing, informative, and helpful, they concurrently feel that it has become more annoying and exaggerated. Comparison tables with Chi-square measures are provided for each item characteristic. The results indicate that as ads and media have become more sophisticated, the media planner’s decisions have necessarily become more complex.

# **Consumer Emotional Reactions to Television Advertising And Their Effects on Attitude Toward the Ad (Aad) and Attitude Toward the Brand (Ab)**

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## **Abstract**

In contrast to past research that have studied emotions as a whole, this study examines the effects of three dimensions of emotions (pleasure, arousal and domination) on attitude toward the ad (Aad) and attitude toward the brand (Ab). Path analyses suggested that emotions matter in assessing the effectiveness of advertising since they are strong predictors of attitude toward the ad (Aad) and attitude toward the brand (Ab). It has been found that the three dimensions of emotions do lead to significant differences in Aad and Ab. "Domination" emotions have a negative direct effect on attitude toward the ad (Aad) and a negative indirect effect on attitude toward the brand (Ab). On the contrary, "Pleasure" emotions have a positive direct effect on attitude toward the ad (Aad) and a positive indirect effect on attitude toward the brand (Ab). "Arousal" emotions seem to be the most effective on both Aad and Ab. They have a strong positive direct effect on Aad, and an indirect effect on Ab. Finally, limitations of this study are underlined and issues for further research are discussed. *Acknowledgments* : The author acknowledges the financial support of the FNEGE (Fondation Nationale pour l'Enseignement de la Gestion) and wishes to thank Professor Pierre-Louis Dubois, Professor, University of Paris II Pantheon Assas, for his encouraging and helpful comments about this paper.

## **Introduction**

Consumer attitudes and cognitions have long been accorded central roles as mediators of advertising effects : the persuasive content of advertising influences attitudes and cognitions, which in turn influence consumption behavior (Lutz, 1981). Until the end of the 70's research and theory concerning attitude formation and change has tended to emphasize the cognitive aspect of attitude and has placed little or no emphasis on the emotional components of attitudes. More recently, researchers have begun to examine the role of consumer emotional experiences in the formation and change of attitudes (Gardner, 1985).

Extensive research in the last few years has demonstrated that the impact of television advertising is probably mediated through emotional responses made to commercials, through attitude toward the brand (Ab), and through attitude toward the ad (Aad) (Batra and Ray, 1986 ; Holbrook and Batra, 1987 ; Edell and Burke, 1987). Researchers have therefore focused on measuring emotional responses. Psychologists have identified three basic underlying emotional dimensions to describe the diversity of responses that may occur in everyday situation : pleasure, arousal, dominance (PAD). "Pleasure" ranges from extremely unpleasant to extremely pleasant, "Arousal", ranges from calm to excited, and "Dominance" or "Control" varies from a feeling of being in control of the situation to that of being controlled (Mehrabian and Russell, 1974).

In the advertising context, some researchers have assessed emotions as a general affective response, such as warmth measure of Aaker, Stayman and Hagerty (1986). Other researchers have focused on facial expressions to evaluate emotional responsiveness to advertising (Derbaix, 1995 ; Derbaix and Bree, 1997). More common are typologies of emotional responses to ads (Batra and Ray, 1986 ; Holbrook and Batra, 1987 ; Burke and Edell, 1989). Holbrook and Batra (1987) confirmed the existence three primary dimensions P.A.D. and validated the Standardized Emotional Profile (SEP) a scale composed of 27 items. The SEP was designed to assess emotional responses to print ads or television ads, and to explore the effects attributable to nonverbal components of advertising. The dimensions of the Holbrook and Batra (1987) SEP were somewhat different, in their content, from those defined by Mehrabian and Russell (1974). "Pleasure" referred intuitively to such feelings as joy, affection, gratitude, and pride. Subdimensions were labeled as faith, affection, and gratitude. "Arousal" reflected interest, activation, surprise, and involvement.

Subdimensions were labeled as interest, activation, and surgency. Finally, "Domination"<sup>1</sup> involved a sense of helplessness, sadness, fear, and distrust. Subdimensions were labeled as sadness, fear, and skepticism.

Although there has been exploration on the role of emotions as a mediator of advertising effects, researchers tend to consider emotions as a whole. As a consequence, few studies have been made on how each dimension of emotion may affect attitude. To help fill this gap, the purpose of the present study is to determine whether the three dimensions of emotional responses to advertising have the same effect on attitude and to discuss the role of each dimension (PAD) on attitude toward the ad (Aad) and attitude toward the brand (Ab).

## **Background**

### **The effects of positive emotions on attitude**

In spite of the progress that has been made to measure emotions and understand their role in an advertising context, very little is currently known about the mediating role of each dimension of emotions. However, some studies have focused on positive affective responses, often studying together several emotions belonging to two different dimensions like "Pleasure" and "Arousal".

Batra and Ray (1986) and Holbrook and Batra (1987) have studied positive emotions such as joy or peaceful relaxation (belonging to the "Arousal" dimension) and social affection (belonging to the "Pleasure" dimension). Aacker, Stayman, and Hagerty (1986) have focused on warmth and tenderness belonging to the "Pleasure" dimension. They concluded that positive affective responses do have a positive influence on attitude toward the ad (Aad), as well as attitude toward the brand (Ab).

These results may occur through two different mechanisms: classical conditioning or congruency in accessibility. Classical conditioning mechanism works as follows : an unconditioned stimulus (the advertising copy) is producing an unconditioned response (positive emotions) and is repeatedly paired with a conditioned stimulus (the brand name), after several repetitions of the process, the conditioned stimulus by itself (the brand name) will produce the unconditioned response, that is, favorable emotions toward the brand (Shimp, 1981 ; Gorn, 1982 ; Petty, Cacioppo et Schumann, 1983). Congruency in accessibility happens when positive emotions increase the accessibility of positive thoughts, which in turn lead to a more favorable brand judgment (Isen, 1987).

### **The effects of negative emotions on attitude**

Another research direction is focusing on the mediating role of negative emotions in advertising on attitude toward the ad (Aad) and attitude toward the brand (Ab). Emotions such as fear (Leventhal, 1970 ; Krisher, Darley and Darley, 1973, Dembrowski, Lasater and Ramirez, 1978 ; Shelton and Rogers, 1981), guilt (Ghingold and Bozinoff, 1981 ; Ruth and Faber, 1988 ; Pinto and Priest, 1991 ; Coulter, Cotte and Moore, 1997) or sadness (Coke, Batson and McDavis, 1978) have been studied with contradictory results. Moore and Hoenig (1989) tried to clarify under what conditions negative emotions may have positive effects on attitudes suggesting that it may be linked to a new attitude concept : attitude toward helping.

In spite of the progress that has been made to measure emotions and understand their role in an advertising context, very little is currently known about the mediating role of each dimension of emotions, "Pleasure", "Arousal" and "Domin-ation". In order to clarify the role of emotions on attitude, we suggest to study emotions according to their three underlying dimensions, as identified by Holbrook and Batra (1987). Therefore, consistent with the literature, we expect that::

H1 : Affective reactions to advertising have an influence on attitude toward the ad (Aad).

H1.1: Affective reactions belonging to "Pleasure" dimension have a positive influence on attitude toward the ad (Aad).

H1.2: Affective reactions belonging to "Arousal" dimension have a positive influence on attitude toward the ad (Aad).

H1.3: Affective reactions belonging to "Domination" dimension have a negative influence on attitude toward the ad (Aad).

H2: Affective reactions to advertising have an influence on attitude toward the brand (Ab) .

H2.1: Affective reactions belonging to "Pleasure" dimension have a positive influence on attitude toward the brand (Ab).

H2.2: Affective reactions belonging to "Arousal" dimension have a positive influence on attitude toward the brand (Ab).

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<sup>1</sup> This third dimension has received several denominations : Holbrook et Batra (1987) use the word "domination" whereas Mehrabian et Russel (1974) use the word "Dominance".

H2.3: Affective reactions belonging to "Domination" dimension have a negative influence on attitude toward the brand (Ab).

### **The effects of attitude toward the ad (Aad) on attitude toward the brand (Ab)**

Research considering the role of emotions in advertising has focused on the attitude toward the ad (Aad) construct, trying to assess the effects of Aad on attitude toward the brand (Ab). Many studies have validated that Aad is playing a mediating role between exposure to the ad and Ab, and that a positive relationship does exist between the constructs (Mitchell and Olson, 1981 ; Mitchell, 1986 ; Gardner, 1985 ; Edell and Burke, 1986 ; MacKenzie, Lutz and Belch, 1986 ; Park and Young, 1986). Shimp (1981) suggested that the transfer from Aad to Ab occurred through classical conditioning implying that the more one likes the ad, the more he will like the brand. Consistent with the literature, we suggest the following hypothesis :

H3 : Attitude toward the ad (Aad) has a positive influence on attitude toward the brand (Ab).

## **Method**

As explained above, our goal is to highlight the mediating role of the three dimensions of emotions (PAD) to understand which are the best predictors of both Aad and Ab. Therefore, we selected an experimental approach which took place as described below.

**Subjects:** Two hundred and seventy seven students from an introductory marketing class of a French business school participated in the study. Sex and age (between 20 and 23) were evenly represented.

**Stimuli:** We selected six 30" television commercials with the following procedure in three steps. First, one hundred and fifty five ads tested by the Ipsos Marketing System company in 1996, were viewed by three judges to select 16 consistent with three criteria :

1. they were automobile advertisements for familiar brands<sup>2</sup> ;
2. they were highly emotional or highly rational<sup>3</sup> ;
3. all three dimensions of emotions were represented in the highly emotional ads.

The second step consisted in showing the 16 selected ads to 2 judges and 15 students in order to select the 13 ads that were felt as highly emotional or highly rational. Finally, the third step consisted in showing those 13 ads to 2 other judges and 12 other students in order to select only six ads that were clearly perceived as linked to one of the PAD dimensions. One commercial was perceived as linked to Pleasure emotions (BMW), one commercial to Domination emotions (Audi), two commercials to Arousal emotions (Citroën and Ford Escort), and, two commercials were elected because they were not linked to any emotion and were perceived as highly rational (Ford Mondeo and Honda).

**Procedure :** The six commercials were presented in a different order to each group of students. Nine small groups of 30 students watched the video tape of the ads. Each commercial was shown once. Immediately afterwards, the students had to indicate their emotional responses, attitude toward the ad (Aad) and attitude toward the brand (Ab). The students were given four minutes to respond to each commercial. No one had difficulty filling out the items in that time. After about thirty minutes, the students had viewed all of the six ads and were thanked and excused.

**Dependent Measures:** All scales were Likert 5-point scales. A pretest has been performed on 266 management students from different French universities, in order to validate the adequacy of the translation of American scales into French. For each scale, the procedure was the same : a factor analysis was conducted on all the items, then alpha coefficients were calculated in order to test the internal consistency and reliability of each dimension of the scales. When needed some items were eliminated to obtain satisfactorily high alpha coefficients. Convergent validity was tested as recommended by Jöreskog (1971) using t tests. Discriminant validity was tested for multidimensional scales calculating the difference between the Chi square of the tested free model and the Chi square of the constraint model, as recommended by Bagozzi and Yi (1989). Finally reliability has been tested using alpha coefficients and coefficients r of Jöreskog (Jöreskog, 1971).

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<sup>2</sup> Automobile advertisements were chosen because students are familiar with cars and brands. Besides, French car advertisements often appeal to domination emotions such as fear, which are rare emotions in advertising.

<sup>3</sup> Emotional ads do not exist *per se*. As a consequence, in order to select ads that elicited strong emotional reactions as opposed to ads that elicited few emotional reactions, at each step of the procedure, we interviewed judges and students with the Holbrook et Batra (1987) scale. To simplify the text, we will refer to the selected ads as highly emotional ads or highly rational ones.

Emotional responses were measured with the Holbrook and Batra (1987) scale : the Standardized Emotional Profile. The factor analysis confirmed the three factors of the SEP : Pleasure, Arousal, Domination. Coefficients alpha indicated that only 13 items should be kept in the French version of the scale : 5 for Pleasure, 5 for Domination and 3 for Arousal. Every t test associated to each item of the scale was superior to 2, indicating a good convergent validity. Discriminant validity was also satisfactory. Finally, coefficients of Jöreskog indicated a good reliability of each dimension with 0.8182 for Pleasure, 0.8262 for Arousal, and 0.7852 for Domination.

Attitude toward the ad (Aad) was measured with the Machleit and Wilson (1988) scale. The factor analysis and the alpha coefficients suggested to reduce the scale to six items : favorable, good, enjoyable, fond of, like very much, well made. T test associated to each item of the scale was superior to 2, indicating a good convergent validity. Coefficient of Jöreskog was as high as 0.9417, indicating a good reliability.

Attitude toward the brand (Ab) was measured with the scale of Goodstein, Edell and Moore (1990). The factor analysis and the alpha coefficients suggested the three items of the scale to be kept : favorable, good, like very much. Every t test associated to each item of the scale was superior to 2, indicating a good convergent validity. The coefficient of Jöreskog was as high as 0.9403 indicating a good reliability.

## Results

To test the model's ability to capture data relationships, the maximum likelihood procedure for path analysis in LISREL 8 was used (Jöreskog and Sörbom, 1994) after aggregating the data for all the six commercials merged. As shown in **Table 1**, the statistics indicate that the model provides a good representation of data relationships. The Goodness of Fit (GFI) and Adjusted Goodness of Fit (AGFI) statistics are close to 0.9, the Chi square is significant<sup>4</sup>, the Root Mean Square Residual (RMR) is very low, so is the Root Mean Square Error of Approximation (RMSEA), the Non-Normed Fit Index (NNFI) and the Comparative Fit Index (CFI) are superior to 0.9, and the Consistent Akaike Information Criterion (CAIC) of the tested model is inferior to the CAIC of the saturated model (CAICs).

### Effects of emotions on attitude toward the ad (aad)

Hypothesis 1 suggested that affective reactions to advertising have an influence on attitude toward the ad (Aad). To test this hypothesis a path analysis was conducted with Aad being the dependent variable. **Table 2** shows the results of this analysis.

The results show that emotions do have a direct effect on Aad, and that this effect depends on the dimension of emotions. "Pleasure" emotions have a significant positive direct effect on Aad (beta = 0.28, t test = 12.84) ; "Domination" emotions have a negative direct effect on Aad (beta = -0.12, t test = -6.79) ; and "Arousal" emotions have a very strong positive direct effect on Aad (beta = 0.75, t test = 29.19). In addition, the total effects of emotions on Aad show that there is no indirect effect of "Pleasure" or "Domination" emotions on Aad, there is an positive indirect effect of "Arousal" emotions on Aad (0.17). Thus the total effect of "Arousal" emotions is very strong (0.92, t test = 38.99).

**Table 1 : Path analysis results**

Results	Tested model
GFI	0.89
AGFI	0.86
Chi square / Degrees of Freedom	3919.43 (635 df) p=0.0
RMR	0.037
RMSEA (Associated test)*	0.049 p=1.00
NNFI	0.95
CFI	0.96
CAIC/CAICs**	4811.50<6236.09

<sup>4</sup> The somewhat high Chi square may be attributable to our large sample composed of 1662 observations (277 students interviewed on 6 different ads).

\* Test the probability to have a RMSEA inferior to 0.05.

\*\* Comparison between the tested model CAIC and the saturated model CAIC (CAICs).  
The tested model CAIC should be lower than the saturated model CAIC.

**Table 2 : Effects of Emotions on Attitude toward the Ad (Aad)**

Influence on attitude toward the ad (Aad) of	Direct effect (Beta)	t test	Total effect	t test
"Pleasure" Emotions	0.28	12.84	0.28	12.84
"Domination" Emotions	-0.12	-6.79	-0.12	-6.79
"Arousal" Emotions	0.75	29.19	0.92	38.99

**Table 3 : Effects of Emotions on Attitude toward the brand (Ab)**

Influence on attitude toward the brand (Ab) of	Direct effect (Beta)	t test	Indirect effect through Aad	t test	Total effect	t test
"Pleasure" Emotions	-0.01	-0.52 NS*	0.04	3.01	0.03	0.81 NS
"Domination" Emotions	0.04	1.55 NS	-0.02	-2.82	0.02	0.89 NS
"Arousal" Emotions	0.04	0.93 NS	0.11	3.08	0.15	6.64

\*NS : the link is not significant

**Table 4: Effects of attitude toward the ad (Aad) on attitude toward the brand (Ab)**

Influence on attitude toward the brand (Ab) of	Direct effect (Beta)	t test	Total effect	t test
Attitude toward the ad (Aad)	0.13	3.10	0.13	3.10

These results indicate that for a diverse sample of commercials, the three dimensions of emotions do have an influence on Aad. As a consequence, hypothesis H1 is validated. In addition, it has been found, as expected, that only "Pleasure" and "Arousal" emotions have a positive effect, whereas "Domination" emotions have a negative impact on Aad, validating hypothesis H1.1, H1.2 and H1.3.

#### **Effects of Emotions on Attitude toward the Brand (Ab)**

Hypothesis 2 suggested that affective reactions to advertising have an influence on attitude toward the brand (Ab). Again, to test this hypothesis a path analysis was conducted with Ab as the dependent variable. [Table 3](#) shows the results of this analysis.

The results of the t tests show that emotions do not have a direct effect on Ab, as a consequence, hypothesis H2 is not validated. However, an indirect effect through Aad, of emotions can be observed : it is very slight for "Pleasure" emotions (0.04, t test = 3.01) or "Domination" emotions (-0.02, t test = -2.82), it is somewhat stronger for "Arousal" emotions (0.11, t test = 3.08). Only "Arousal" emotions have a total positive effect on Ab (0.15, t test = 6.64). These results indicate that none of the three dimensions of emotions has a direct influence on Ab, as a consequence, hypothesis H2.1, H2.2, H2.3 cannot be validated.

**Effects of attitude toward the ad (Aad) on attitude toward the brand (Ab)**

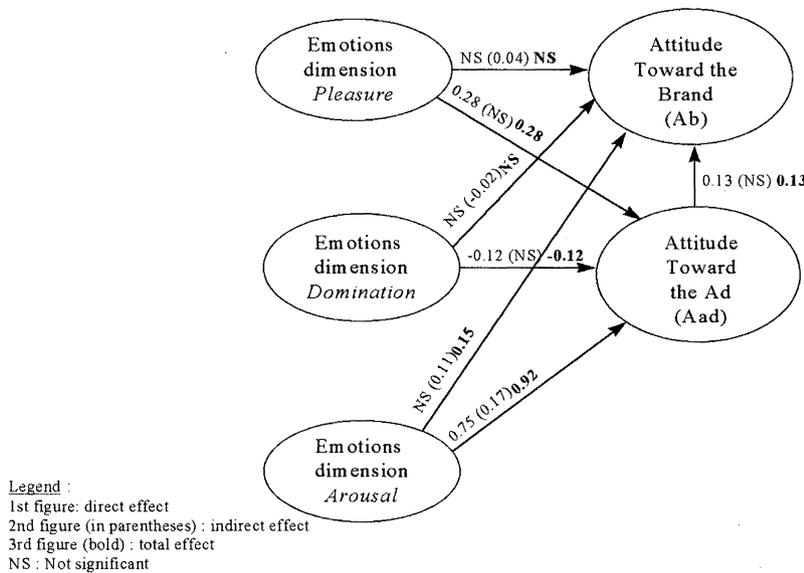
Hypothesis 3 suggested that attitude toward the ad (Aad) has an effect on attitude toward the brand (Ab). To test this hypothesis a path analysis was conducted with Aad being the independent variable and Ab the dependent variable. **Table 4** shows the results of this analysis.

As expected, the results show that attitude toward the ad (Aad) has a direct positive influence on attitude toward the brand (Ab) (beta = 0.13, t test = 3.10). These results indicate that Aad is a significant mediator of Ab and that hypothesis H3 is validated. To illustrate our findings concerning our research on the effects of emotions on attitude toward the ad (Aad) and attitude toward the brand (Ab), the results of our analyses are presented in **Figure 1**.

research shows that emotional responses are significant, they exert a direct effect on attitude toward the ad (Aad) as well as an indirect effect, via Aad, on attitude toward the brand (Ab). Attitude toward the ad (Aad) is therefore a strong mediator of ad-evoked feelings as observed by Edell and Burke (1987) and Derbaix (1995). As a consequence, the understanding of Aad and of Ab will be improved if emotions experienced by the viewer while seeing an ad are measured. Measuring ad-evoked feelings may be a way to improve our understanding of the persuasion process.

This study stresses the fact that the three dimensions of emotion do lead to significant differences in attitude toward the ad (Aad) and attitude toward the brand (Ab). "Domination" emotions have a negative direct effect on attitude toward the ad (Aad) and a negative indirect effect on attitude toward the brand (Ab). On the contrary, "Pleasure" emotions have a positive direct effect on attitude toward the ad (Aad) and a positive indirect effect on attitude toward the brand (Ab). However, "Arousal" emotions seem to be the most effective on both Aad and Ab. They have a strong positive direct effect on Aad, and an indirect effect on Ab.

**Figure 1 : Results of our research**



**Discussion**

The results of this study are of interest for both the theorist and the practitioner. They suggest that emotions matter in assessing the effectiveness of advertising since they are strong predictors of Aad and Ab. The specific way in which emotions contribute, has not been found uniform across all emotions. The effects of emotions on Aad and Ab might have been confounded in research that did not consider a detailed description of emotions, and that adopted a

unidimensional view of them. Adopting a three-dimensional view of emotions, as suggested by Holbrook et Batra (1987), may help explain their effects on Aad and Ab, to understand better their influence in the persuasion process. As indicated by the results, the three dimensions, "Pleasure", "Domination", and "Arousal" can be powerful determinants of attitude. These results are also of interest for the practitioner who is interested in creating commercials that elicit emotional responses in order to generate positive attitudes toward the commercials and the brand. Many commercials elicit "Domination" emotions, like sadness, fear or anxiety. In the car industry, for instance, commercials may appeal to the fear of having an accident or the anxiety about the car breaking down. Our results suggest that such commercials are not as effective as they should be, since they generate negative effects on Aad and Ab. On the contrary, commercials appealing to "Pleasure" or "Arousal" do have a positive effect on attitude. "Arousal" emotions have been found to be the most effective. As a consequence, emotions such as attention, curiosity or interest, induced by commercials have a strong effect on Aad and should be chosen by practitioners wishing to be effective.

### **Limitations**

Although this study supports previous research, the findings must be tempered by a few limitations. First of all, only students were included in our research sample. Secondly, only one product category, cars, has been studied. The student sample and the use of a single product may have constrained the extrapolation of our present results and the possibility to generalize them. Thirdly, the ads used in this study all promoted existing products and existing brands. For new products or new brands additional research is needed since an informational appeal may be more appropriate than emotional advertising. Fourthly, only television ads were studied. Future research is therefore needed across products, media and different and more representative populations, to establish whether these findings could be generalized. Fifthly, the procedure chosen for the experiment may have slightly biased the results : we chose a pretest-like setting with a procedure that is a clear departure from a natural setting and interviewing students after each ad may have induced a reactive behavior. Finally, we chose to study emotions starting from a three-dimensional model because of its relative simplicity and its large theoretical and empirical support. However, future research may focus on a more complex model, differentiating the multifaceted nature of emotions, which can vary in intensity and valence, to assess in a more detailed way the relationships between emotions and Aad or Ab.

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## **A Comparative Analysis of Wholesaler-Retailer Relations Within Vertical Marketing Systems : a Political Economy Approach-Abstract**

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This research used for the first time the political economy framework as a whole to test wholesaler-retailer (W-R) relations within vertical marketing systems theory. So far, a number of authors have examined one or more aspects of this framework empirically. However, very few of these studies have been concerned with the similarities and differences in the structure and functioning of W-R relations within vertical marketing systems. Moreover, there has been no attempt to compare analytically and simultaneously the economic and political processes within such systems. In fact, one of the basic purposes of this study is to validate the existence of the three vertical marketing systems proposed over 30 years ago by McCammon (1970) but has so far never been tested empirically. Furthermore, a comparative analysis model of vertical marketing systems in food distribution is proposed.

Corporate chains, voluntary groups and unaffiliated retailers also referred to as corporate, contractual and administered vertical marketing systems are the main entities investigated in this study of wholesaler-retailer relations. Furthermore, comparing the three vertical marketing channel arrangements on a number of variables required the use of a methodological tool outside mainstream marketing research. Standard multivariate procedures, including LISREL, were simply not well suited to perform such a comparative analysis. Therefore, the study is the very first one to apply STATIS, a comparative statistical tool for interpreting simultaneous interactions on a number of variables taken from two or more observation groups in a channel context. STATIS or the ACT method, is largely unknown in the field of marketing statistical analysis.

The comparative analysis revealed the numerous similarities and differences in the organization and functioning of vertical marketing systems in food distribution. The results of the research clearly show the distinctive characteristics of the organization and functioning of the three vertical marketing systems operating in food distribution. In terms of locus of decision making, it was shown that unaffiliated stores clearly operate on their own. Therefore, new technologies and efforts to streamline their operations to make them more alert to market conditions will be very difficult. Affiliated (i.e., contractual systems) and corporate stores while showing marked differences on the internal political economy as expected, they showed similar perceptual environmental uncertainties. However, the locus of decision making as shown by the centralization variable is key in understanding main difference between the two systems. Affiliated stores preferred to have more control to exercise about merchandising policies in their own local market. On the other hand, corporate store centralize all decision making and manifest less flexibility to local demand.

The study points out to a number of possible avenues for future research. First, a different focus on channel participants other than retailers, would be interesting, for example on food processors. Second, food manufacturer as part of a channel study using the key informant survey method, selected by product class, would either confirm or disconfirm the results obtained here. Given the broad product range of food processors, the political economy approach of studying vertical marketing systems would reveal if there are any similarities and differences by food product class and by distribution organizational arrangement. Vertical marketing systems are common in almost all retail sectors. Thus, it would be possible to carry out a study in a sector other than food to validate the results for the retail trade in general. This could lead to a classification or typology or even a general retailing theory related to organization and functioning of various vertical marketing systems. There is a need to understand the evolution and development of the systems themselves over time using historical data. Such a study would be feasible, because STATIS in the past has been applied almost exclusively to observations over time. Consequently, it would be a question of gathering secondary data on different types of retail businesses, according to the distribution structures to be examined, for a desired period of time, and then subjecting the data to a STATIS analysis. This would produce a profile of the evolution of each variable through two orthogonal axes. In conclusion, it is our view that comparative research deserves greater attention from researchers in the field of marketing. The exercise performed here for distribution channels could be extended to the international marketing level.

# Time-dependence and Relationship-dependence Between Firms in Marketing Channels

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## Abstract

The topic of the paper is on the time-dependence and the relationship-dependence between firms in marketing channels. The dependence between firms is interpreted and argued to be a central issue that cause the existence of vulnerability in a marketing channel. Based upon the time-dependence and the relationship-dependence between firms, a typology of vulnerability scenarios in a marketing channel is developed.

## Introduction

Manufacturers in many regional, domestic, international and global industries are exposed to an extremely keen competitive environment. Firms are exposed to a time based economy and they are dependent on the adequate maintenance of business relationships. In order to stay competitive, maintain cost-effectiveness, and achieve reasonable profitability, manufacturers have for many years implemented and applied pull strategies and other lean manufacturing principles in their marketing channels. Marketing channels have a vertical emphasis; that is, they do not normally comprise horizontal matters. Therefore, the perspective in this paper is supported by and limited to the channel theory (e.g. Weld, 1916; Bucklin, 1966). Nowadays, the marketing channels of materials and components are to a large extent based upon the principle of postponement. From time to time, it is based upon the demands of the ultimate consumer, which reinforce the time-dependence and relationship-dependence between firms in a marketing channel.

Most of the inventory management and production planning in marketing channels is usually carried out under normal working conditions (e.g. time and relationship aspects), rather than taking into account unplanned events that may occur in the marketing channel, which might affect the normal or expected flow of materials and components. This may lead to an increasing vulnerability scenario in the activities performed in the marketing channel, because of the time-dependence and relationship-dependence that exist between firms. In this paper, the dependence between firms in a marketing channel is interpreted as a necessity for the existence of vulnerability scenario in marketing channels. If there do not exist any dependence between firms, then they are not vulnerable in terms of the used significance of vulnerability scenario of this paper. Thus, the vulnerability of a marketing channel may cause disturbances or disruptions, and thus seriously harm the business and threaten the survival of a manufacturer.

In literature, the concept of vulnerability is unexplored and there is a lack of conceptualisation of the concept. In literature, various theoretically-paired concepts are related to the concept of vulnerability, for example power/dependence (e.g. Cartwright, 1959; Emerson, 1962), risk/uncertainty (e.g. Knight, 1921; Ganesan, 1994), and reliability/availability (e.g. Sandler, 1963; Frankel, 1988). There are also some other concepts that could be of interest, for example, conflict (e.g. Lusch, 1978; Rosenberg and Stern, 1971), control (e.g. Pfeffer and Salancik, 1978), and exchange (e.g. Blau, 1964). There is a common feature or denominator between the mentioned concepts. None of them provide any real typology or conceptual framework that could be used in an overall or generalised environment of vulnerability in a marketing channel context. Therefore, its meaning is still ambiguous and unclear. The lack of conceptualisation has implicated that a valid and reliable grounded framework for the analysis of vulnerability scenarios is also missing. Nowadays, vulnerability in marketing channels is of immediate importance due to the fact that logistic flows in many industries not only strive to be lean, but also responsive and agile. Accordingly, different circumstances in the environment may create vulnerable situations in a marketing channel.

## Research Objective

However, the essence of this paper is on the dependence between firms in marketing channels in general. Specifically, it is on the time-dependence and the relationship-dependence between firms. The research question in this paper is: How can the vulnerability in a marketing channel be conceptualised in terms of time-dependence and relationship-dependence? Its relevance is motivated by the fact the concept of vulnerability has been long neglected in marketing. As the UPS strike demonstrated to JIT buyers and sellers, firms are vulnerable in today's highly time and relationship based economy (Coleman and Jennings, 1998). Therefore, the objective of this paper is to describe a developed typology of vulnerability scenario based upon time-dependence and relationship-dependence between firms in a marketing channel. The contribution of the paper is intended to be a basic framework for the analysis of dependence between firms that may cause and create different vulnerability scenarios in a marketing channel.

The approach to handle the formulated research question and to accomplish the objective of the paper is initially and principally inductive. An attempt to apply a deductive approach is also considered, in terms of a preliminary pre-testing of the developed conceptualisation of the concept of vulnerability.

### **A Typology of Vulnerability Scenarios**

Based upon the inductive approach undertaken in this paper, a typology of vulnerability scenarios is proposed in [table 1](#) below from the point of view of the manufacturer (i. e. the seller) or the buyer. In addition, the typology is proposed to be restricted and only applicable to the presence of a dependence scenario between firms in a marketing channel. In situations of non-dependence between firms, the proposed typology is not suitable or intended to be adequate. In terms of vulnerability, a non-dependence scenario is assumed not to be of interest, because the existence of dependence between firms is seen as a necessary fundament of vulnerability in a marketing channel context.

Two major dependence dimensions construct the typology of vulnerability scenarios proposed in this paper, namely the time-dependence and the relationship-dependence between firms. The time-dependence dimension consists of two underlying dimensions, namely the temporary dependence and the permanent dependence. They are interpreted as opposite of each other. The temporary time dimension refers to that the dependence scenario between firms in a marketing channel is short-term. On the contrary, the permanent dependence refers to a long-term dependence between firms in the marketing channel. The other dependence dimension consists also of two underlying dimensions, namely the unilateral and the bilateral dependence. They are also interpreted as opposite of each other. The unilateral dependence scenario refers to that only one of the firms in a business relationship is dependent on the other. Accordingly, the bilateral dependence scenario refers to that there is a mutual dependence between firms in a business relationship. In addition, the described dependence scenarios depend on upstream or downstream interdependencies in the marketing channel.

The two underlying dimensions of time-dependence and relationship-dependence create a matrix that consists of four cells. In each cell there is illustrated a vulnerability scenario. Each of the four proposed types of vulnerability scenarios has unique characteristics that separate them from each other. For example, the elastic vulnerability temporary dependence and a unilateral dependence in the interface to its sub-contractors. This signifies that the firm has to handle a high dependency level and a short-term dependence in the upstream activities of the marketing channel. Probably, this kind of vulnerability scenario might be present under duopolistic or an oligopolistic marketplace. The non-elastic vulnerability scenario signifies that a firm is exposed to a more or less permanent dependence and a bilateral dependence in the interface to its sub-contractors. In this context the firm has to manage a low dependency level and a long-term dependence. This type of vulnerability scenario is also most likely to appear in situations of duopolistic or an oligopolistic environment. The static vulnerability scenario implicates that a firm is exposed to a permanent dependence and a unilateral dependence in the interface to its sub-contractors. This implicates that the firm has to handle a high dependency level and a long-term dependence. Presumably, a more or less monopolistic market might cause this kind of vulnerability scenario. The dynamic vulnerability scenario signifies that a firm is exposed to a temporary dependence and a bilateral dependence in the interface to its sub-contractors, that is, the firm has to manage a low dependency level and a short-term dependence. It is likely to appear in a competitive market place.

The described typology of vulnerability scenarios, based upon the time-dependence and the relationship-dependence between firms in a marketing channel, has been pre-tested on a few preliminary items extracted (as a spin-off) from a survey in three industries in Sweden. Consequently, further refinements and aggregations of the used items are necessary in future research.

### **Methodology**

The study was performed as a mail survey. The questionnaire was addressed to the managing director or the president of the company. Principally, the items in the questionnaire focused on dependence issues in marketing channels. The population consisted of 274 companies in three different industries, which were all included in the survey. A questionnaire was sent to each of them. 118 responses (total response rate: 43.1 %) were collected from the three industries, namely from retail suppliers (response rate: 49.3 % or 68 responses of 138), from furniture manufacturers (response rate: 37.0 % or 40 responses of 108), and from manufacturers of pre-fabricated houses (response rate: 35.7 % or 10 responses of 28). Consequently, a non-response bias appeared in the survey. Therefore, a complete analysis of non-response bias was performed in order to clarify if the non-response bias in the survey might affect the results of the study, that is, if there existed any difference between the companies who answered or

participated in the survey, and the ones who did not. The analysis of non-response bias included all the non-response companies except for a few (5.8 % or 9 of 156 companies) which were not available, because no answer was obtained, because they did not want to participate at all, because they were too busy at the time of the survey, or because the executive in charge was on a business trip. A non-parametric test (Chi Square-test: Pearson) was used for the analysis of non-response bias. Using such variables as: number of employees, number of full time employees, total company sales and home market share of total company sales. There did not exist any significant difference (Significance < 5 %) between obtained responses and non-responses. Therefore it is suggested that the results presented in this paper are not affected by the non-response bias, and the results of the study might be generalised to the whole population

### **Empirical Findings**

In the following paragraphs the analysis and the interpretations of the data collected in the survey are summarised. The preliminary items used in the survey are measured in seven intervals accordingly to the Likert scale. Various bivariate correlation tests (Pearson's correlation coefficient) have been performed. The scores from the correlation tests are described below.

Originally, several items were used in the questionnaire, but four remain for the analysis of time and relationship-dependence in marketing channels, according to the described typology. They are divided into the two main groups that illustrate the two principal dimensions in the context of creating a typology of vulnerability scenarios. On the one hand, there is the time-dependence dimension. On the other hand, there is the relationship-dependence dimension. The empirical findings that make them up, and their development process, are also described in the following paragraphs.

#### **Time-Dependence**

Hence, one of the principal dimensions identified in this study is the time-dependence between firms in a marketing channel. Two broad items from the questionnaire remain and have been used in the analysis to measure the existence of time-dependence in marketing channels. Notice that in the original questionnaire the items were located apart from each other, with other items between them. There is a strong correlation between the two items scenario implicates that a firm is exposed to a (Pearson: 0.505; Significance: < 0.01). The items of time-dependence have been divided into two interconnected sub-categories, namely temporary dependence and permanent dependence. The two sub-categories are interpreted as opposite of each other.

#### **Relationship-Dependence**

The other principal dimension is the relationship-dependence between firms in a marketing channel. Two other broad items have been used from the questionnaire in the analysis to measure the existence of relationship-dependence in marketing channels. Notice that in the original questionnaire the items were located apart from each other, with other items between them. There is a strong correlation between the two items (Pearson: 0.578; Significance: < 0.01). The items of relationship-dependence have been divided into two interconnected sub-categories, namely unilateral dependence and bilateral dependence. The two sub-categories, as the two previous ones in the context of time-dependence, are seen as opposite of each other.

#### **Time- and Relationship-Dependence**

In order to control the outcome of the correlation tests, a factor analysis has been performed. The factor analysis performed (Extraction Method: Principal Component Analysis; Rotation Method: Varimax with Kaiser Normalization; Kaiser-Meyer-Olkin measure of sampling adequacy (0.63) and Bartlett's test of sphericity (Approx. chi-square: 101.78; df: 6; Significance: 0.000)) identify and confirm two underlying factors that explain the pattern of correlation within the set of four observed variables. The factors are identified and their corresponding factor loadings are illustrated below in [tables 2](#) and [3](#) below. Factor 1 corresponds to the relationship-dependence dimension, and factor 2 equals the time-dependence dimension.

### **Managerial Implications**

Ideally, the type of vulnerability scenario to be preferred by a firm might be to maintain a dynamic vulnerability scenario in the interface to its customers, at the same time as the firm's sub-contractors are exposed to static vulnerability scenario. Consequently, the four proposed types of vulnerability scenarios are double-edged in the sense that in the interface to the sub-contractors a firm might strive to achieve a different dependence, than in the interface to its own customers. The type of vulnerability scenario has to be judged in the context of a buyer or a supplier perspective. However, the typology proposed in this paper view the vulnerability scenario from the point of view of the buyer's perspective.

The static vulnerability scenario is likely to appear in a situation where a firm's dependence on its sub-contractors is high. In this situation, the firm has few replaceable or non-existent alternative sub-contractors available and its flexibility is heavily restricted. In addition, it might be characterised by a lack of entrepreneurship and organisational inertia. The most favourable type of vulnerability scenario, from the point of view of the buyer or the manufacturer, might be the dynamic vulnerability scenario, due to the temporary and mutual dependence that exists between the firm and its sub-contractors. Probably, the existence of mutual dependence creates an increased interest between the firms. Thus, the dependence between the firm and its sub-contractors is a common interest. In addition, the firm may search for new sub-contractor sources and replace existing ones more easily. This signifies that changes may be done without the involvement of affected sub-contractors. In the case of static vulnerability scenario, the firm is highly dependent on its sub-contractors. This implicates that the firm's power in terms of negotiation is limited. Elastic and non-elastic vulnerability scenario might be seen as inter-mediate dependencies between the dynamic and static vulnerability scenarios. Consequently, the first impression is that these are more probable to appear, but as shown it is not necessarily the case in an empirical context.

### **Conclusions**

It is proposed that the typology of vulnerability scenarios developed and described in this paper succeed in classifying the concept of vulnerability into time-dependence and relationship-dependence in the context of marketing channels. Presumably, these might be seen as two parallel and interdependent vulnerability dimensions that are of substantial importance to any firm in a marketing channel. Accordingly, four major types of vulnerability scenarios have been proposed, namely, static and dynamic vulnerability scenarios, and elastic and non-elastic vulnerability scenarios. However, the typology has to be further tested (i. e. a broader variety of items has to be used). Development, refinement, and repeated measurement of the items used in the questionnaire and new ones have to be created, in order to verify or reject the empirical findings of this preliminary study. Other industries could also provide fruitful contributions to test the potential ability of the two utilised dimensions in terms of their generalising power and discriminating features. Consequently, further re-search has to be carried out, as the presented research is at a preliminary and initial stage. Nevertheless, main contributions of the paper are a proposed grounded typology vulnerability scenarios and a fundamental conceptualisation of the vulnerability concept based upon the time-dependence and the relationship-dependence between firms in a marketing channel.

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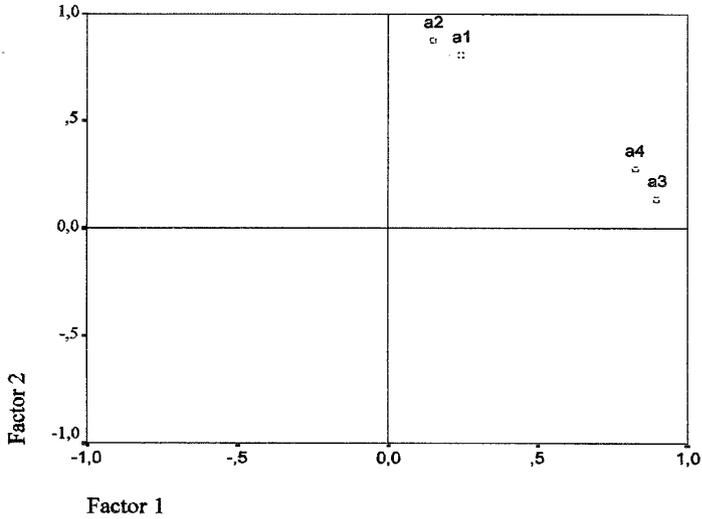
**Table 1: A typology of vulnerability scenarios in marketing channels based upon the time-dependence and the relationship-dependence between firms.**

		<b>Relationship-dependence</b>	
		<i>Bilateral</i>	<i>Unilateral</i>
<b>Time-dependence</b>	<i>Temporary</i>	Dynamic vulnerability	Elastic vulnerability
	<i>Permanent</i>	Non-Elastic vulnerability	Static vulnerability

**Table 2: Factor loadings matrix**

		<b>Factors</b>	
		<i>1</i>	<i>2</i>
<b>Items</b>	<i>1</i>	0.244	<b>0.810</b>
	<i>2</i>	0.152	<b>0.875</b>
	<i>3</i>	<b>0.898</b>	0.137
	<i>4</i>	<b>0.826</b>	0,137

Table 3: Rotated factor plot.



## **Why Do Consumers Continue To Shop On The Internet?**

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### **Abstract**

This paper presents research propositions to explain why consumers continue to shop from a firm's Web site. Research from the consumer satisfaction, Internet marketing, and relationship marketing literature was explored to provide evidence for the propositions. A generic model of future purchasing behavior from a firm's Web site is also presented.

### **Introduction**

The literature suggests that Internet shopping is distinct from retail shopping and that it will greatly impact future marketing and consumer purchasing behavior (i.e., Hair and Keep 1997; Sheth and Sisodia 1997). Several scholars recommend investigating the implications of this new medium to learn its impact on business operations and the customer-firm relationship (i.e., Hoffman and Novak 1996). This paper attempts to fill this gap by examining research in consumer satisfaction, Internet marketing, and relationship marketing to enhance satisfaction research with several proposition and a conceptual model of the antecedents of engaging in future purchases from a firm's Web site.

### **Proposed Antecedents To Satisfaction With Web Shopping**

The relationship between satisfaction and future purchasing has been so well supported in marketing research that it has become axiomatic. Internet shopping, however, is a new retailing medium and the unique characteristics of the Web require us to rethink and enhance our models of consumer satisfaction. A good place to begin this reexamination, is by focusing on the unique characteristics of the Internet in regards to Web shopping.

One of the most important unique characteristics of the Internet is the ease with which consumers can access information. In traditional shopping, satisfaction with product information has been found to be a positive and significant factor that explains overall satisfaction with a product (Crosby and Stephens 1987; Spreng et al. 1996) but this research did not include information quality as a construct. Perceived information quality is defined as the perception of how useful and accurate the information from the firm's Web site is for the consumer in making the purchasing decision. If reliable and useful product information can be shown to enhance a consumer's satisfaction with shopping on the Web, then information quality becomes a critical construct.

Interactive information found on the Web can provide on-demand answers to virtually any question consumers may have about their purchasing decisions, thereby giving them greater knowledge from which to make a more informed decision. Burke (1997) found that the information available in a Web site environment was superior to traditional forms of information in terms of its capacity to assist consumers in making better and faster decisions.

The perception of information quality therefore has two parts. One is the degree to which the information was useful to the consumer in making the purchasing decision and two is the degree to which the consumer believes the information to be reliable. It is proposed that Web sites that provide consumers with reliable information that assists them in making their purchasing decisions will enhance satisfaction, therefore,

*P1: Consumers' perceived information quality leads to satisfaction with the Web purchasing experience.*

The Web site is a tool consumers use to purchase products. This means satisfaction may be linked to the degree to which the consumer was able to successfully use the tool to shop (Burke 1997; Davis et al. 1989; Hoffman and Novak 1996). To use this shopping tool depends on how quickly the consumer is able to learn and become skillful at functioning within the Web site to complete the shopping task. This construct, perceived ease of use, is defined as the perception of how easy, convenient, and free from difficulty conducting the purchase from a firm's Web site is for the consumer. The perceived ease of use is likely to positively impact customer satisfaction with a Web purchasing experience.

Perceived ease of use over technology and information can also produce a feeling of control over the experience, leading to enhanced satisfaction. The easier it is to learn to maneuver within a particular Web site, the greater the perception of control over the process. This perception of control increases confidence in consumers' ability to use online shopping to meet their needs (Hoffman and Novak 1996). Moreover, when a firm's Web

environment allows consumers to customize the site and narrow down the product offerings, the perception of control is enhanced. Given that product information is important when purchasing, a Web site that makes it easy to obtain and customize information will improve satisfaction.

In addition to giving the consumer a feeling of control, perceived ease of use may also influence the degree to which the shopping experience is enjoyable. It has been found that ease of use in a computer environment can create feelings of enjoyment (Dabholkar 1996; Hoffman and Novak 1996). Higher levels of pleasure, enjoyment, and involvement during computer interactions have been found to result in subjective perceptions of positive mood and satisfaction (Starbuck and Webster 1991; Webster and Marocchio 1992). A successful and satisfying session may even become almost hypnotic in that perceptions of time become distorted (i.e., "flow experience", Hoffman and Novak 1996). Since perceived ease of use helps consumers control and enjoy the shopping experience, it is proposed that,

P2: *Consumers' perceived ease of use leads to satisfaction with the Web purchasing experience.*

Product value has been shown to be an important and significant antecedent of customer satisfaction (i.e., Bolten and Drew 1991; Ostrom and Iabucci 1995). The importance of product value as a construct will presumably not change with the use of Internet shopping. Still, Internet shopping changes the process by which products are identified, selected, and purchased. The construct of perceived value of Web shopping, then, is the value of the product purchased and the value of the Web as a shopping medium compared to a retail store. Consumers shopping from a firm's Web site receive different benefits and incur different costs than when shopping at a retail store. Evaluating the rewards of purchasing the product online as compared to buying the product in a traditional retail store relative to the sacrifices incurred will result in a value perception of the Web shopping experience.

Shopping over the Internet provides a multitude of benefits in terms of cost savings and convenience (i.e., Alba et al. 1997; Hoffman and Novak 1996; Sheth and Sisodia 1997). Consumers have specified low prices as being a primary motivate for making purchases over the Internet (Ernst and Young 1999). Purchasing products from a Web site also reduces information search time and eliminates checkout and travel time, thereby reducing total shopping time, which makes shopping more convenient and easy to schedule. Online shopping also provides consumers with other conveniences, such as expanding the number of stores that can be visited; increasing the selection of products and retailers; and in some cases improving the ability to buy an unusual product at all.

These same authors have also reported likely costs of shopping over the Internet. The costs associated with Web shopping include potential delivery fees, charges related to returning the merchandise, and possible spoilage of perishable items in transit. Internet shopping may also produce inconveniences for the consumer. These include wait time before the receipt of the product, possible inconvenient delivery times, inability to examine the product before purchase, and the time that may be required to download information from the Web site. When the costs of buying on the Web versus retail store shopping are outweighed by the likely rewards and the product purchased has value then the consumer is likely to perceive value from using a Web site for shopping. Therefore,

P3: *Consumers' perceived value leads to satisfaction with the Web purchasing experience.*

Disconfirmation, or the discrepancy between performance and expectations, has been found to be a key determinant and significant indicator of overall satisfaction in a number of studies (Bearden and Teel 1983; Oliver 1980; Spreng et al. 1996; Spreng and Olshavsky 1993). Any discrepancy between the expectations and perceived performance levels results in disconfirmation. Positive disconfirmation occurs if performance is judged to be greater than expectations and negative disconfirmation results if perceived performance was found not to meet expectations. Satisfaction results with positive disconfirmation and dissatisfaction follows from negative disconfirmation (Oliver 1980).

Expectations for Web shopping refer to the perceived beliefs that the online purchasing experience possesses certain attributes, benefits, or outcomes (Bearden and Teel 1983; Oliver 1980; Westbrook 1987). Consumers do have expectations about shopping on the Web and the products they will receive. Consumers expect and desire speed of access, reliability, security, time and costs savings, high-quality goods and services, simplicity, and ease of user interface when purchasing over the Internet (Ernst and Young 1999; Jarvenpaa and Todd 1997). It is the consumer's perception of the ability of the interaction on the firm's Web site to deliver and exceed the expected attributes, benefits, and/or outcomes that influence if satisfaction results from the purchasing experience. Therefore, it is proposed that,

P4: *Consumers' perceived positive disconfirmation of expectations leads to satisfaction with the Web purchasing experience.*

#### **Satisfaction And Future Purchasing From A Firm's Web Site**

Research on traditional purchasing behavior has previously documented the positive relationship between

satisfaction and purchasing intentions (Bearden and Teel 1983; Oliver 1980; Ostrom and Iabucci 1995). Web shopping affects both how people shop and the products they buy. In this sense it is important to look at the influence of product satisfaction (traditional model) and the influence of the Web shopping process (enhanced model) on future purchasing behavior. Consumers will need a decisive advantage to continue engaging in this new purchasing activity (Sheth and Sisodia 1997). Satisfaction with the shopping experience from a firm's Web site can lead to a higher probability of continuing the shopping behavior, given similar circumstances and choices. Dissatisfaction will presumably diminish or eliminate the desire to shop from the same Web site for future purchases. This leads to the proposition that,

*P5: Consumers who are satisfied with their Web purchasing experience will continue to purchase from that Web site in the future.*

### **Perceived Company Image And Future Purchasing From A Firm's Web Site**

Relationship marketing theories connect consumers' perception of company image and purchasing behavior (Crosby et al. 1990; Crosby and Stephens 1987; Doney and Cannon 1997; Wilson 1995). It has been reported in the literature that shopping in a Web environment alters the customer-firm relationship and the communication between the buyer and seller (Hoffman and Novak 1996). On the Internet, the Web site functions as the contact point between the customer and seller, essentially replacing the salesperson in the buyer-seller exchange process. Studies have been conducted investigating the buyer-seller relationship to determine the impact the sales force has on the probability of a future interchange between the customer and the firm (Crosby et al. 1990; Crosby and Stephens 1987; Doney and Cannon 1997). Drawing from this research, it is proposed that a company image can be enhanced or blemished by the firm's Web presence based on the consumers' perception of trust, reputation, and a mutually beneficial relationship derived from shopping on the firm's Web site. This company image can subsequently affect the consumers' future Web interactions with the firm.

Positive company image results from consumers' perception of a favorable reputation and firm trust. Firm reputation has been defined, as the extent to which others believe the company is honest and concerned about its customers (Doney and Cannon 1997). If the firm's reputation is well justified, trust will be conferred upon the firm based on the history of the relationships with its customers. There is empirical evidence that supports the link between a seller's reputation and buyer trust (Anderson and Weitz 1989; Ganesan 1994). A favorable reputation also magnifies the credibility of the firm (Doney and Cannon 1997).

It is proposed that after interacting with the firm's Web site, the consumers' interpretation of information quality, ease of use, and value will influence the perception of a company image. The perception of how useful and accurate the Web site information is (information quality), how easy and free from difficulty it is to conduct the purchase on the Web site (ease of use), and whether the benefits received outweighed the costs incurred (value) will affect the consumer's evaluation of the company's reputation, the level of firm trust, and the buyer-seller relationship (company image). It has been established that a positive and significant relationship exists between likability and trust (Doney and Cannon 1997). Consumers will like a Web site that they can easily navigate within to accomplish the exchange process, are able to get worthwhile information to improve their decision making process, and one in which they received some value. If they like the Web site, trust should develop, leading to a favorable company image and future shopping intentions to purchase from the firm's Web site. Therefore,

*P6: Consumers' positive perceptions of information quality, ease of use, and value from the firm's Web site results in a favorable company image.*

Several scholars have expounded on the contribution of the Internet in encouraging and improving the customer-firm relationship because of its interactive properties (Hoffman and Novak 1996; Peterson et al. 1997; Phillips et al. 1997; Sheth and Sisodia 1997). Bitner (1995, p. 248) has designated interactive marketing to be "the dominant function for relationship building". Continual positive encounters with the firm via its Web site can serve to enhance the level of trust and the firm's reputation, contributing to a positive company and Web site image. Consumers will view firms on the Web that possess an indisputable, positive reputation, known for their reliability and trust has having a more favorably image than sellers on the Internet without these attributes. It is more likely for consumers to continue a relationship with firms they trust and perceive favorably, therefore,

*P7: A positive relationship exists between consumers' perceived company image and future purchases from the firm's Web site.*

### **Research Implications**

From these research propositions a generic model of future purchasing behavior from a firm's Web site is developed (see [Figure 1](#)). There is a definite need for testing the propositions through empirical, confirmatory

research. This type of research will help to determine which of the proposed constructs have significant effects on satisfaction, company image, and future purchasing behavior. From a management perspective, identifying the relevant importance of the significant constructs will aid in determining where to channel the firm's resources in Web site development. Developing strategies to keep consumers shopping from the firm's Web site is the ultimate goal.

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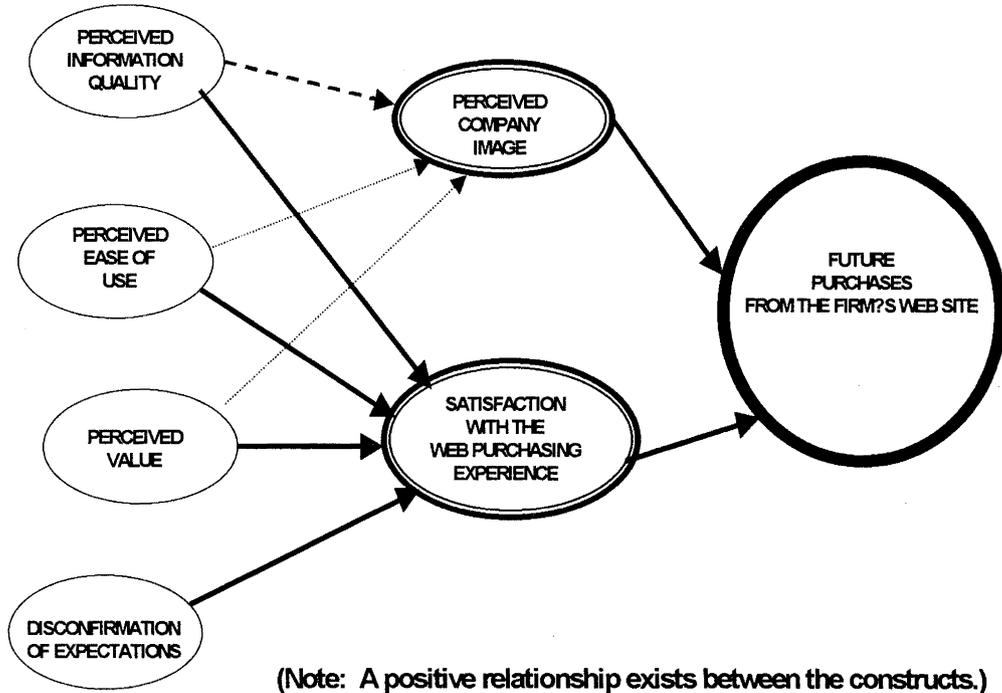
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Figure 1: A Model of Purchasing Intentions from a Firm's Web Site



# **A Conceptual Model To Measure Service Quality Of Online Companies: E-qual**

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## **Abstract**

The importance of service quality in improving customer satisfaction and loyalty in traditional business settings has been established. However, valid models to assess service quality for online businesses have not been developed. This paper presents a framework for evaluating the service quality of online businesses--E-QUAL

## **Introduction**

Whether out of fear of competition or in anticipation of conquering new markets, both traditional and new breed of businesses are making their presence known on the World Wide Web (Web, WWW). But in the rush to have a Web presence, have they considered the quality of service their online visitors receive? Have they realized the power of this new electronic medium?

In traditional business settings, service quality is already acknowledged in playing a large role in customer loyalty in many industries (Ostrowski, O'Brien, & Gordon, 1993). To better understand factors impacting service quality, Parasuraman, Zeithaml and Berry (1988) introduced the SERVQUAL tool to measure the five dimensions of service quality. Since this seminal article, the SERVQUAL instrument has been used to measure service quality in many industries (Augustyn & Ho, 1998; Ryan & Cliff, 1997; Ryan & Cliff, 1996; Parasuraman et al., 1988). However, no research has been done concerning the assessment of service quality of online businesses.

The primary objective of this study was to develop a model for measuring and improving service delivery quality in the electronic commerce setting. Therefore an assessment tool, E-QUAL, was developed to analyze the quality of Web sites from the consumers' perspective. In contrast to the existing Web site evaluation tools that focus on the "coolness" or level of "interactivity" of the site, E-QUAL is based on the proven conceptual framework of the SERVQUAL instrument.

## **Service Quality**

Research has consistently demonstrated the strategic advantage of superior quality relative to an organization's profitability, ability to administer premium prices, and market share (Zeithaml et al., 1996) (Buzzell & Gale, 1987). Organizations with superior quality also enjoy stronger customer loyalty, which makes promotions through cross selling and up selling on those loyal customers much easier. In addition, the delivery of superior quality is a very effective positioning strategy in markets where competitive brands are difficult to differentiate in a meaningful way. On the more positive side, superior service quality enables an organization to attract and retain a talented staff because of the favorable work environment (Sherden, 1988). But in order to reap the benefits of high service quality, particular attention must be given to customers.

Parasuraman, Zeithaml and Berry (1985) introduced a service quality model to measure customers' perceived service quality. Since this seminal article, the SERVQUAL instrument has been used to measure service quality in many industries (Augustyn & Ho, 1998; Ryan & Cliff, 1997; Ryan & Cliff, 1996; Cronin Jr. & Taylor, 1992; Babakus & Boller, 1992; Carman, 1990; Bojanic, 1991). According to this model, service quality from the consumer's perspective is the result of a comparison between customers' expectations of a service they will receive and perceptions of what they received (Parasuraman et al., 1985; Parasuraman et al., 1988). Perceived service quality is then interpreted from the extent and direction of the differences between expectations and perceptions (Gronroos, 1982).

However, knowing the customers' service quality evaluation is only part of the SERVQUAL analysis, understanding how internal organizational processes contribute to this evaluation is the key to providing consumer driven quality assessment. Thus the model is based on the notion of minimizing the five quality gaps. These gaps include the: (1) Difference between consumer expectations and management perceptions of consumer expectations, (2) Difference between management perceptions of consumer expectations and service quality specifications, (3) Difference between service quality specifications and the service actually delivered, (4) Difference between service delivery and what is communicated about the service to customers, and (5) Difference between customer expectations and perceptions (Zeithaml et al., 1988). Even though the use of the SERVQUAL scale is one of the most efficient ways of measuring and controlling service quality (Zeithaml et al., 1988), the research on the five dimensions of the SERVQUAL scale on the consumers' side for electronic commerce is nonexistent.

## **Electronic Commerce & Service Quality**

With the emergence of the World Wide Web in the early part of this decade, the once utilitarian, predominantly

scientific Internet continues to expand exponentially. This tremendous growth can be attributed to mainstream commercial interests who envision the potential of the Web with its multimedia and interactivity as a new communication medium to reach their customers. Once a novelty, brochure style Web sites that advertise by displaying products online or describing services are commonplace (Briones, 1998). However, businesses that actually let consumers handle transactions online are not as prevalent. In a recent survey of 60 companies with Web sites, only 30% of the sites allow online transactions (Bell & Tang, 1998).

Consumers' use of the Internet continues to grow, and the demographics of Web users are changing. Previously the domain of the young, affluent male (Edmondson, 1997), the Internet is becoming more popular with middle age users as well (Boomers flock to the Web, 1998). Now more than 90 million people conduct business or exchange information worldwide (Hof et al., 1998).

These developments are extending the perception of the Internet as both a communication medium as well as a significant market. Companies increasingly are using their Web sites to build and strengthen their customer relations. These sites have begun progressively to capture information on customers and use the information for cross-selling and up-selling. Further, marketers look more to partnering with the Web sites that are either in complementary businesses or are distribution leaders. In doing so, manufacturers will electronically drive customers to a point-of-sale where their products and brands have a presence (Briones, 1998). As the popularity of the Web with consumers continues to grow, businesses are experimenting with selling products and service purely online (Gross, 1999).

Service quality will be just as important for online companies' survival as for the survival of traditional brick-and-mortar firms. The very same service quality gaps identified by Parasuraman, Zeithaml and Berry (Parasuraman et al., 1985) exist for companies that provide the bulk of their services online. There is great potential for reducing the size of five quality gaps through the use of both technology and the human touch to improve overall service quality. Gap 1, could be greatly reduced by using technology to gather data on consumers both directly through online surveys and telephone interactions and more surreptitiously through transaction logs. Online companies can also use database technology to set strict service quality standards for response time, delivery of services and employee conduct. Consequently, setting the proper standards to meet customers' expectations and ensuring that those standards are met would go far in reducing gaps 2 and 3.

Online companies also have a tendency to over promise in their communications with consumers. Interestingly, online consumers do not seem to be compensated in terms of price breaks for taking on these additional responsibilities. Since the scope of services provided by online businesses differ from those of traditional companies, they must be forthright with consumers concerning the level of service provided in order to reduce service quality gap 4.

Are some online companies setting consumers up for disappointment with flashy Web sites and big promises? In order for service quality gap 5 to be reduced, customers' expectations, whether formed by their past experiences with brick-and-mortar companies or from the advertisements of online businesses, must be matched by the customers' perception of the actual service received. Gap 5 can be viewed in terms of five underlying dimensions, (1) tangibles, (2) reliability, (3) responsiveness, (4) assurance, and (5) empathy (Parasuraman et al., 1988). However, online companies do not seem to be fully utilizing the research already conducted in the area of service quality. There is a definite need for an evaluation system to be developed which relates the five dimensions of service quality to the electronic commerce environment. The dynamic nature of this new setting requires systems that continuously assesses and improves the quality of service (Berry & Parasuraman, 1997).

#### **Development Of The E-equal Model**

In order to develop a detailed tool for assessing the service quality of electronic commerce from the consumers' perspective, Web site evaluation criteria were gathered from reputable site evaluation sources. Dow Jones & Company rate sites included in their business directory based on content, speed, navigation and design (Dow Jones & Company, 1999). Having been in the business of evaluating Internet content for some time, Argus Clearinghouse also discloses their evaluation criteria (Argus Clearinghouse, 1999). Argus suggests looking at content, usability, authority, and design. To Argus, the expertise of the site's creators is just as much if not more important as mentioned by Argus. But without proper design (attractive images, layout, white space and navigational aids), users will not be able to find the information they need. Quickly becoming the standard for quality Web site evaluations, the Scout Report selects sites based on content, authority, information maintenance, presentation, availability, and cost (Internet Scout Project, 1999). In terms of content, Scout looks at scope, the intended audience, the purpose of the site, the currency of information provided, and accuracy. While there are many similarities in evaluation criteria between the better evaluation services, a standard evaluation tool for electronic

commerce has not been developed.

While it is difficult to narrow the number of possible evaluation criteria from the more than 100 quality indicators suggested by researchers, evaluation services, and librarians (International Business Travel Association, 1998), based on the criteria established by these reputable evaluation sites and others (Tapscott, 1998), we developed a preliminary E-QUAL scale of specific criteria grouped under seven main headings. These main dimensions include (1) content, (2) accessibility, (3) navigation, (4) design and presentation, (5) responsiveness, (6) interactivity, personalization and customization, and (7) reputation and security issues. We believe these seven dimensions, with their 42 respective categories, best capture the essence of the multidimensional construct of electronic commerce service quality.

The E-QUAL dimensions were developed specifically because of their compatibility to the five dimensions of the SERVQUAL instrument already being used to assess service quality in traditional businesses (Parasuraman et al., 1988). The first SERVQUAL dimension of "tangibles" is reflected in the categories for "accessibility," "navigation," and "design and presentation." Rather than looking at the physical facilities and appearance of contact personnel, the design of the site and the quality of presentation should be considered. In order to perform the promised service, the "reliability" dimension, the site's "content and purpose" in terms of the promised services is examined. The "content and purpose" also requires the site to provide an explanation of its purpose. With the variety of material on the Web in terms of informational, communications and commercial sites and the virtual nature of online business it is sometimes more difficult to determine the purpose of a purely online company than a traditional business storefront.

The "responsiveness" dimension is kept with the same name of the E-QUAL scale. Ghose and Dou (1998) give definitions for "interactivity" and its role in furthering the company's marketing efforts. They assert that the appeal of a Web site can be measured by the level of interactivity or the number of different ways a consumer can interact with a site in terms of feedback and purchasing. They articulate 23 types of interactive functions ranging from providing online forms for customer feedback, inquiries or comments, order status checking and product surveys, to personal choice helpers (helping consumers make final purchase decisions) and multimedia presentations (Ghose & Dou, 1998). In this study, many of these aspects of interactivity are included in the "interactivity, personalization and customization" dimension. The personal attention described by the "empathy" dimension is reflected in this construct through "customization and personalization" (Kalakota & Whinston, 1997).

The online businesses should have knowledgeable contact employees and should provide their customers with a sense of security. The "reputation and security" category of the E-QUAL instrument, a four-item section, includes elements borrowed from the "assurance" section of the SERVQUAL scale.

#### **The E-Qual Model and Its Seven Dimensions**

**1. Accessibility (3 criteria):** Just as a good physical location is important for a traditional business, accessibility on the Web is crucial for an online business. But what if the consumer does not know the name of the online company? If a consumer were to visit some of the well-known search tools, would he or she be able to locate the business in the appropriate section of the Web directories? In answer to this question, the best way to increase accessibility is "to think as consumers do" when they go to the virtual directory for assistance. Another dimension of the accessibility issue is to have a special arrangement with the most used Internet search tools for link placement on that tool's site. The number of search engines and directories that a site is registered with is positively correlated with the accessibility of the listed site.

**2. Navigation (4 criteria):** In terms of navigation, the tangible aspect of being able to see what content is available on the site and move freely around the site, the majority of online businesses do well. As the site development and enhancement technology becomes more accessible and sophisticated, more and more sites use navigation toolbars that are easy to use and capable of offering the best nonlinear features of the web. However, some sites quickly lose the navigation bar a few levels down into the site, or when referring customers to external links. If the content is not easily found on the Web site (a rule of thumb is to be 3-mouse-clicks away to desired information), it will be harder to meet customers' expectations.

**3. Design and Presentation (7 criteria):** Without a physical office space and in-person contact, the design and presentation of the Web site become crucial in meeting customers' expectations. While many could argue that design and presentation are subjective, there are some criteria that seem consistent among Web site evaluators. For instance, the visitor should not have to scroll down to see important elements of the home page, and the site should have some elements of originality to project the image of the product and service. Just as customers would not want to visit a dirty office space, users would not want to stay long at a cluttered, unattractive and slow Web site.

**4. Content and Purpose (4 criteria):** The substance (breadth) and the richness (depth) of the site are of critical value especially when one considers information to be the most important aspect of the online world. Therefore, sites that offer interchange of valuable information can create communities of similar interests that have shown loyalty and solid relationships. Further, currency and accuracy are important aspects of the "content" dimension. Often visitors of online sites complain that there is no way to tell when individual sections of the page have been updated. Finally, the strategic purpose of the site (Internet Presence Site v. Online Storefront) should be clearly implemented along with appropriate tactics.

**5. Responsiveness (5 criteria):** The "responsiveness" dimension is kept with the same name in the E-QUAL scale. It measures the company's propensity to respond to e-mail messages and whether or not it collects information on the visitors via a variety of methods (i.e., cookies technology, guest book, contest, chats room, club, storybook, auto-email, and option to talk to a representative) and consequently what it does with the information gathered.

**6. Interactivity, customization and personalization (15 criteria):** The hi-touch level of service provided by experienced online companies provides each shopper with a unique experience. Online companies such as Amazon.com provide a very sophisticated back-end customer service that parallels the quality of customer services of traditional brick-and-mortar businesses.

Since all of the online businesses are becoming more and more homogeneous and offer basically the same services, how will they be able to convince consumers to stay at their sites long enough to make a purchase and then remain loyal customers over time? The answer may be found in the customization and personalization features of electronic commerce. Interactivity, personalization and customization relate to the "empathy" dimension of SERVQUAL referring to a firm's ability to show individualized caring for its customers. One could argue that such detailed customer profiling would improve the "empathy" dimension of service quality since marketers could seamlessly tailor the content to individualized preferences without the customer having to do all the work in setting up a profile.

**7. Reputation and security (4 criteria):** The "reputation and security" category of the E-QUAL scale relates to the "assurance" dimension of SERVQUAL. By providing detailed background information on the company and proven encryption technology, online companies can inspire trust and confidence in their potential market. The security issue is a challenging one and although many companies creatively offer options such as allowing the transaction to be completed on the phone, consumers are still hesitant about providing credit card and personal information online. Some sites allow the shopper to provide only the last 4 digits of their credit card number and then the complete number on the phone.

### **Conclusion**

In general, online businesses have become homogeneous both in terms of content and customer profiling. If all the online sites provide the same content, customer profiling, and product and service options, how will they compete? First, electronic sites need to compete with better navigation and design tools. These sites need to get rid of the clutter on their online storefront and have the courtesy to provide a consistent navigational toolbar throughout all the pages on their site. In terms of responsiveness, online companies must follow up on e-mail questions quickly with a personalized response rather than sending auto reply messages. Why would a customer wait two days for an answer from an online company when they receive more specialized information instantaneously by calling or visiting their favorite store?

If online businesses could bring the service quality of their e-presence up to the quality of their brick-and-mortar counterparts, then by providing personalized, customized information they are adding value to the chain. The Web site can identify customers even before they browse the pages and then use that identity to customize the presentation. This customization can take many forms, from selecting which specials to display and providing targeted special offers, to inserting advertisements of likely interest.

Technology can assist companies realize this potential since the Internet offers many opportunities to improve the value of customer service delivered. With Internet service, the system is available 24 hours a day, 7 days a week with no need to schedule a flexible work force according to peak hours and seasons. The Internet opens the ways to make information available in many different forms. However, the most technologically advanced system will not operate in a vacuum. This is supported by a study conducted by Weekes et al. which concludes that successful businesses are not necessarily more technologically competent; instead they rely on communication and human interaction (Weekes et al., 1996). Trained, responsive back-end customer service representatives are the keys to the success of online service providers.

The future research in this area should focus on testing the instrument (E-QUAL) on a variety of online businesses/industries to establish its validity and reliability in measuring constructs related to e-service quality. Because it is only by improving service quality in electronic commerce, that these companies can exceed customers' expectations and foster a loyal customer base into the future. The deepening and enhancing the relationship between the buyer and the seller is what the e-commerce is all about.

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## Sales Force Motivation and Outcome- or Behavior-Based Controls--Abstract

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One major objective of a sales force control system is to provide salespersons with the motivation to perform at the highest possible level. Consequently, it is reasonable to expect that important characteristics of the control system selected by management should influence salespersons' motivation processes, as well as their motivation levels to perform various selling tasks (Stathakopoulos 1996). For instance, such control system characteristics as whether controls are exerted on outcome- or behavior-based (Anderson and Oliver 1987), and/or on quantitative or qualitative elements (Jackson, Keith, and Schlacter 1983) can be expected to have a strong impact on sales force motivation processes.

Although most conceptual and empirical past sales force control studies have investigated the likely impact of the behavior- versus outcome-based characteristic of a control system on salesperson motivation (Anderson and Oliver 1987; Stathakopoulos 1996), none seems to have considered the impact of this characteristic (as well as other characteristics) on a salesperson *motivation process*. According to expectancy theory, the leading paradigm for explaining work motivation in general (Lawler 1976) and sales force motivation in particular (Walker Churchill and Ford 1977), a salesperson motivation process involves three important salesperson perceptions: Expectancies, instrumentalities, and valences for rewards. Consequently, the choice of a control system, with specific characteristics, may (or should) affect the nature and importance of such motivation mechanisms.

The objective of this paper is to assess the impact of various basic characteristics of salesperson control systems (especially outcome-versus behavior-based, qualitative versus quantitative) upon the different salesperson motivation mechanisms (especially salespersons' expectancies, instrumentalities, and valences for rewards), as specified in Vroom's (1964) expectancy theory. A conceptual framework of salespeople's motivation under different types of control systems is proposed. The likely impact of different sales force control systems on salespersons' motivation leads to a set of testable research hypotheses. Some managerial implications are also drawn.

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**Tangible And Intangible Dimensions Of Supplier Performance And Business Marketing Relationships: A Case Study In The Motor Vehicles Industry--Abstract**

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Although the body of research examining business marketing relationships continues to grow, few conceptualizations have specifically assessed the role of supplier performance on relationship formation and strength. (The full text version of this paper presents an exploratory framework and research propositions that distinguish between tangible dimensions of supplier performance and intangible dimensions.) This paper argues that tangibles are not meaningful predictors of relationship formation but rather proposes that intangibles are the critical drivers of relationship moderators and, ultimately, relationship strength. An opportunistic data collection effort that permitted a preliminary test of the propositions and framework was undertaken. Findings support the view that tangibles are not important factors in fostering marketing relationships but intangibles are. Additionally, evidence of the role of relationship moderator variables in determining the strength of relationships was found. Managerial and research implications of these results are discussed in the full paper.

**NOTE: Please contact the author to view the complete manuscript.**

## **Relationship Marketing – Who Benefits? An Exploratory Study of Buyer-seller Dyads**

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### **Abstract**

Knowledge concerning relationship benefits has been limited to the independent exchange partner level. A key prerequisite of successful relationships is 'mutual gain' (Grönroos 1990). Thus, it seems necessary to us to address relationship benefits from the perspective of both parties. In this dyadic study we identify seven benefit categories and, reveal significant differences across categories for both buyers and suppliers.

### **Introduction**

A number of authors have claimed that relationship marketing (RM) offers a paradigm shift for marketing, a 'springboard' from which some of the inadequacies associated with conventional marketing management can be addressed (Gummesson 1998). While it would be inaccurate to suggest that relationships had no place in conventional marketing thinking, the RM view is differentiated in that it explicitly advocates longevity of relationships, mutual respect, a win-win strategy, and the acceptance of the customer as a partner, a co-producer of value and not just a passive recipient of the supplier's product (Gummesson 1998).

### **Who Benefits – The Firm or Individual?**

The focus in much of the literature with respect to specific benefits of relationships has almost exclusively rested on those accrued by organizations. These have been largely outcomes based on the principles of efficiency and effectiveness. The personal or individual benefits to a relationship partner (whether the employee of the supplier or buyer firm, who is the relationship partner representing that firm, or to the individual consumer), have been largely ignored. An exception however can be found in the recent study by Gwinner, Gremler and Bitner (1998) who sought to identify the benefits experienced by end-customers as a result of their relationship with service providing firms. The authors revealed 'confidence' benefits, which include trust, confidence, and reduced anxiety to be the most important benefit (as perceived by customers). Confidence benefits were then followed hierarchically in terms of their importance by 'social' benefits and 'special treatment' benefits.

### **Who Benefits – The Buyer or Supplier?**

The relational benefits to be gained by supplier organisations, such as cost efficiencies and enhanced revenue, has provided for much of the impetus in the marketing literature, in particular, the services marketing literature (e.g. Reichheld and Sasser 1990). Specifically, research has shown that suppliers achieve concrete outcomes such as profitability and inventory holding and control costs (Kalwani and Narayandas, 1995). However the issues and challenges posed by relationship marketing from a buyer viewpoint, have also been addressed. It has been suggested in the industrial marketing literature that buyers have the "upper hand" in the relationship (e.g. Ramsay, 1990). Indeed, long-term relationships are usually initiated by the buyer (Kalwani and Narayandas, 1995). From the buyers viewpoint, relationships are mostly associated with increased performance, gaining a stronger competitive position (Nowak, Boughton and Pereira, 1997) as well as concrete outcomes such as continuous cost reductions (e.g. Trevelen, 1987).

In spite of the win-win philosophy of relationship marketing apparent in Gummesson's (1998) definition, and, the implicit call for research by Worthington and Horne (1996) to address whether relationship marketing practices equally benefit both parties, notably few researchers have explored this issue directly. Conceptual studies by Lyons, Krachenberg and Henke (1990) and Barringer (1997) provide two exceptions; however no empirical study addressing the *simultaneous* achievement of benefits by both parties has to date been conducted.

### **Objectives**

Our research program, designed to investigate these and other questions, serves to fill this void and thereby contributes to the development of theory in the area. In this initial study, we focus our efforts on the buyer-supplier relationship. The main objectives of this exploratory study are: to identify generic relationship benefits among buyers and their suppliers (referred to in this study as 'buyers' and 'suppliers'); to develop benefit categories that represent these items; to identify (if both parties benefit) whether the benefits are equally gained by both parties; to

identify (if both parties benefit) whether the same or different types of benefits are gained (i.e. are the gains in the same category?)

### **Literature Summary**

A review of the literature reveals that the term *benefits* has been discussed across a number of marketing streams, i.e. consumer marketing (Sheth and Parvatiyar 1995), buyer-seller relationships (Dwyer, Schurr and Oh 1987), channel relationships (Anderson and Narus 1990; Lyons et al. 1990), and strategic alliances (Varadarajan and Cunningham 1995). Thus it appears that the term has been used to describe positive phenomena at the personal (Gwinner et al. 1998), operational (Lyons et al. 1990; Kalwani and Narayandas 1995) and strategic levels (Varadarajan and Cunningham 1995).

In addition, benefits and other semantic like terms (i.e., rewards, advantages, gains etc.) have been discussed in the literature with respect to the establishment, development and maintenance of relationships, as motivations for the aforementioned (e.g., Sheth and Parvatiyar 1995; Bendapudi and Berry 1997) and, likewise, as outcomes derived as a result of their existence (Varadarajan and Cunningham 1995). Similarly, benefits have received temporal differentiation through the recognition that they can be held at the expected/anticipated level i.e. pre and early relationship stages (Ghosh, Benoy, Gardner and Thatch 1997) and similarly at the acknowledged (mature relationship) stage (Ghosh, Benoy, Gardner and Thatch 1997).

While all the above studies view relationships as mutual exchanges between parties, none have empirically examined the benefits gained by each party simultaneously. This represents a key objective of this study and similarly one of our primary contributions to the literature. We next outline the selected methodology for our study.

### **Data Collection**

The aim of the data collection phase was to collect information on relationship benefits perceived by buyers and their suppliers; that is, equivalent information was collected from both sides of the dyad. A total of 40 depth interviews were conducted, 20 with buyers and 20 with a nominated supplier of each such buyer. The 20 buyers were randomly selected from a list of firms in a major Australian city and represented for profit, not for profit, and government organisations. Within each buyer organisation a senior manager or director who was involved in the selection of a supplier company, was selected and an appointment was made for a personal interview. The respondent was asked to consider his/her relationship with a selected supplier and answer questions eliciting benefits of that specific relationship. Subsequently, appointments were made with the supplier (the subject of the buyer interview) who was interviewed in person, unless the supply firm was located interstate or overseas, in which case interviews were conducted by telephone. Suppliers were asked about their relationship with the customer (buyer) who had nominated them. Each interview (buyers and suppliers) opened with a discussion of the benefits to the firm from the informant's perspective, followed by a discussion of benefits to the individual. The final sample represented 25 for profit firms, ten not for profit firms, and five government organisations. Most of the total of 40 (33) represented service firms, while seven represented firms whose core product is a good rather than a service (e.g. book publisher, manufacturer of furniture, printed materials, beer).

### **Analysis and Results**

First, the transcripts of the interview sessions were analyzed in terms of the key theme triggering the mention of a benefit. The theme has been recognized as one of the most useful units of content analysis due to the richness of the type of information discussed in this form (Kassarjian, 1977).

Following this, categories of benefits were developed using the rules and procedures identified within the constant comparative data processing method discussed by Lincoln and Guba (1985). The two authors were the primary data analysts in each of the first two stages. The categorisation process suggested seven main benefit categories: symbiotic, psychological, operational, social, economic, strategic, and customisation. These will be discussed individually. A review of the literature offered support for all categories. However some categories, such as economic and operational (firm related) benefits were supported by literature on channel relationships, while for other (individual) benefits such as psychological, support was evident in literature on benefits both from the end customer viewpoint, and the viewpoint of the channel member. Support for social benefits was entirely derived from research on relational benefits from the end customer's viewpoint.

The seven benefit categories are defined in [Table 1](#), along with example comments derived from the interviews.

## Evaluation of Objectives

While many items can be argued to represent more than one category, the key theme within the sentence dictated its categorisation. For example, “they refer work to us” was mentioned primarily in the context of economic gain, rather than in the context of the commonality or understanding that underlies the symbiotic category. Hence it was classified within the economic category.

Addressing objectives 1 and 2, the methodology described above (i.e. the constant comparative data processing method) generated relationship benefit categories that were appropriate to both buyers and suppliers. Benefits mentioned by both buyers and suppliers were classified into the seven categories developed. Further, many of the benefits that were generated were deemed by both researchers and a third independent researcher, not involved in the development of the study, to be appropriate to both buyers and suppliers. Hence from a measurement point of view, many of the benefit items generated were largely generic.

The third objective was to address whether benefits are equally gained by both parties. While buyers perceived more benefits (7.85 per buyer compared to 6.55 per supplier), the difference was not significant ( $p > 0.30$ ). Overall, operational benefits were most commonly mentioned (2.30 per respondent) followed by psychological and symbiotic benefits (1.45 and 1.20 respectively). Nonetheless, buyers and suppliers clearly perceived different types of relationship benefits. Firstly, suppliers perceived significantly more strategic benefits than buyers (1.25 mentions per supplier compared to 0.15 per buyer) (Table 2). Similarly, suppliers reported more economic benefits than buyers (1.15 mentions per supplier compared to 0.62 per buyer), although differences were not significant. Buyers, in contrast perceived significantly more psychological benefits (2.09 mentions per buyer compared to 0.81 per supplier), and also more symbiotic benefits (1.49 mentions per buyer compared to 0.92 per supplier). Customisation benefits were almost exclusively perceived by buyers, although this category was minor in comparison to all others with the exception of social benefits.

Table 2 about here

While differences across benefit categories were identified in terms of buyers vs. suppliers, no significant differences were found across organisational type (profit, not-for-profit, and government).

Finally, the analysis addressed whether the same or different benefits were identified across the dyad. This required a comparison of each of the seven benefit categories across the 20 pairs. For example, if a supplier perceived a certain level of strategic benefits from the relationship, could this be associated with any particular benefits to the buyer? In reverse, if the buyer gained psychological benefits from the relationship, does this equate to any specific advantage to the supplier? Correlation analysis between buyers and suppliers with respect to the same benefit categories revealed no clear pattern of association. In fact, of the 49 coefficients produced, only two were significant. These pertained to benefits with small numbers of mentions (social and customisation benefits) suggesting that any finding needs to be interpreted with caution. To summarize, it appears that no simple relationships exist with respect to benefits across buyer-supplier pairs. On a cautionary note, given the small sample size and the exploratory nature of the study, further research is warranted to substantiate our findings.

## Managerial Implications & Conclusions

Our research indicated seven benefit categories, common to both suppliers and buyers. Overall, buyers and suppliers benefited equally although the benefits were derived from different categories. While operational benefits were the main benefits derived for both buyers and suppliers, buyers viewed the ‘process’ benefits, i.e. psychological and symbiotic benefits, as particularly relevant. This contrasted with suppliers who were more ‘outcome’ orientated, viewing economic and strategic benefits as more important than process benefits. Economic benefits were third in terms of importance among suppliers, but only fourth in terms of importance to buyers. This suggests that from the buyer point of view, the relationship does not have a strong direct effect on the economic performance of the organisation, rather, that the attainment of the process benefits ultimately leads to the achievement of organisational objectives which even for ‘not-for-profit’ organisations relate to financial outcomes.

This exploratory research provides a basis for understanding the balances of benefits gained by both suppliers and buyers in a dyadic relationship. Given that both parties are interested in maximising the potential of relationship marketing in order to achieve organisational outcomes, it is important for each to recognise the benefits of the relationship to the other party. For example, a buyer seeking stronger relationships with a supplier for operational, psychological and symbiotic benefits, needs to understand that the supplier may view the relationship

differently, and be more focussed on economic and strategic benefits. Hence while both parties desire to gain from a relationship, the specific perceived benefits are different. This is clearly important in the 'awareness' and 'exploration' phases of relationships discussed by Dwyer, Schurr and Oh (1987), during which partners consider the costs and benefits of a relationship. Thus, this first stage of our research provides timely insight into the management of buyer-supplier relationships.

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**TABLE 1**  
**Categories, Definitions and Example Items**

Title	Definitions	Example items
<b>Operational benefits</b>	Operational systems/processes (relating to the facilitation, development, creation, distribution of the product) provided/carried out in a value adding way.	If we make a mistake, they'll help us out They understand our systems We can have these frank conversations It allows us to get on with our routine work
<b>Symbiotic benefits</b>	Derived from a sense of sharing, mutuality, reciprocity, commonality, partnering, alliance, co-ism, togetherness and common understanding.	They understand what we are trying to achieve We are a good match for each other We work together in collaboration There's a real sense of understanding between us
<b>Economic benefits</b>	Economic advantage to organization or individual of dealing with the other organization, either directly through having their business (in terms of both income and cost saving) or indirectly via referrals.	Dealing with them is likely to lead to additional business They offer us extras that save us money They refer work to us Our profit is more or less assured
<b>Customization benefits</b>	Customizing or tailoring the nature of the product to add extra value for the client.	They treat us well because it is us! They do us favours
<b>Strategic benefits</b>	Strategic/longer term benefits for the firm (i.e. factors that facilitate our competitive position, other than income, operational and symbiotic benefits). Includes: reputation, expertise, strategic planning, competitive strength, opportunities, access to distribution channels	Improves our reputation, skill and efficiency It guarantees sustainable business It provides the security of extra work in the long-run It helps with strategic planning
<b>Psychological benefits</b>	Organizational or individual feelings of trust or confidence in the other party, resulting in a perceived reduction in hassles, anxiety and stress, and an increase in peace of mind and self confidence	We feel relaxed with them It makes life easier for us We trust each other to carry out our work respectively Xyz are empathetic when things don't quite go to plan
<b>Social benefits</b>	Organizational or individual perceptions of affinity, friendship, or a sense of familiarity, homophily (perceptual or demographic similarity) with the contact person or and/or other employees in the other organization	We have more than just a formal business relationship with them We have a real friendship

**TABLE 2**  
**Differences in Perceived Benefits Across Buyers and Suppliers**

	<b>Total sample</b>	<b>Buyers</b>	<b>Suppliers</b>	<b>F statistic</b>	<b>Sig. of F</b>
<b>Symbiotic</b>	1.20	1.49	0.92	2.96	0.09
<b>Psychological</b>	1.45	2.09	0.81	5.60	0.02
<b>Operational</b>	2.30	2.61	1.98	1.20	0.28
<b>Social</b>	0.33	0.35	0.31	0.03	0.86
<b>Economic</b>	0.89	0.62	1.15	1.84	0.18
<b>Strategic</b>	0.70	0.15	1.25	6.69	0.01
<b>Customization</b>	0.33	0.53	0.12	4.22	0.05

## **Assessing Implementation Approaches For Internal Marketing Programs**

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### **Abstract**

Internal marketing of a firm's marketing strategy is viewed as important to the success of implementing its external marketing strategies. This paper assesses two approaches for implementing internal marketing programs. First, the traditional marketing mix framework is discussed. Then, internal marketing based on the relationship marketing paradigm is presented. The purpose of presenting these two approaches is not to advocate one approach over the other. Instead, the two approaches are presented as alternative paths that can be used to reach the same goal, successful implementation of marketing strategy.

### **Introduction**

A noteworthy point in the marketing strategy literature is that there has been little attention given to strategy implementation issues. In their research on market orientation, Kohli and Jaworski (1990) define market orientation as the implementation of the marketing concept. They build upon a definition of the marketing concept as "a philosophy of business management, based upon a company-wide acceptance of the need for customer orientation, profit orientation, and recognition of the important role of marketing in communicating the needs of the market to all major corporate departments" (McNamara 1972, p. 51). Two important outcomes of achieving a market orientation are positive interdepartmental dynamics and effective organizational systems that allow employees to interact with both internal and external customers (Jaworski and Kohli 1993).

A philosophy that has emerged in pursuit of the achievement of a market orientation is internal marketing. As the name implies, internal marketing focuses on the role of employees in the implementation of an organization's marketing strategy. Internal marketing is viewed as a strategy that is parallel to an organization's external marketing strategy. The purpose of internal marketing according to those who subscribe to this position is that a firm's marketing strategy must be understood and accepted within the organization before one should expect successful execution in external markets.

The purpose of this paper is to assess two approaches to implementing an internal marketing program: the traditional marketing mix and relationship marketing. First, a discussion of application of the traditional marketing mix to internal marketing is presented. Second, relationship marketing is presented as another tool that could be utilized to implement an internal marketing program. Finally, a discussion of strengths and weaknesses of each approach as a vehicle for internal marketing programs is presented. This paper will not suggest one approach is superior to the other, but rather it will outline how a firm could take two different routes to achieve similar results.

### **Internal Marketing as a Means of Implementing External Marketing Strategies**

A view of an internal marketing program frequently discussed in the literature is that it can be used for implementation of an external marketing strategy among those individuals who will play a vital role in the strategy's success: the organization's employees. The underlying premise is that in order for marketing strategies to succeed in external markets the strategies must first be "sold" internally to all employees, particularly those employees who have frequent contact with customers.

The main thrust of internal marketing as a means of executing external marketing strategies comes from the application of traditional external marketing concepts to internal markets. Recognition of employees as an important part of a firm's marketing strategy is not a new idea. Kotler (1972) sought to broaden the marketing concept by pointing out that firms have several "publics" or groups that are important to them, other than customers. Employees are identified as being one of these groups with which a firm must engage in marketing activities. One description of the use of internal marketing in this manner is that it serves as the "framing" of an organization's external strategy with its employees, thus serving as a linkage between external strategies and internal markets (Berg 1986). The attention given to internal activities is not misguided given that a great deal of resources is used within the organization (Flipo 1986). It is important to note that despite the focus internal marketing gives to a firm's employees, meeting the needs of external customers and of the organization itself are the focal points of an internal marketing program (Cahill 1995).

## **Marketing Mix Approach to Internal Marketing**

The traditional marketing mix, or the 4Ps, is one of the most commonly used approaches for describing the structure of an internal marketing program. Such a conceptualization of internal marketing makes it inherently more appealing to practicing managers because of the familiarity of marketing mix concepts. If internal marketing is a parallel strategy to external marketing, discussing the internal marketing program in terms of product, price, promotion, and place offers a unified internal and external strategy. The following is a discussion of the components of the "internal marketing mix."

The product of an internal marketing program is not a tangible one; rather it is the marketing of an idea. The principle product being marketed is a commitment to certain beliefs or values such as the importance of service quality and customer retention. In other words, the firm is attempting to "sell" to its employees the product(s) that will make the external marketing strategy succeed (Morgan 1990; Piercy 1992; Piercy and Morgan 1991). Job duties which must be performed in order for the external marketing strategy to be successful can be considered part of the internal marketing product, too (Berry and Parasuraman 1991; Piercy 1992).

The focus of price in internal marketing is not necessarily the firm's price for carrying out the program although such activities as training and publishing newsletters will increase marketing costs. The price of an internal marketing program refers to the price internal customers are asked to "pay" for buying in to the program (Morgan 1990; Piercy and Morgan 1991; Piercy 1992). Examples of price elements for an internal marketing program include increased time demands, commitment, and fear of change (Barnes 1989; Rafiq and Ahmed 1993). Like any product development process, this internal program has start-up costs.

Distribution issues in an internal marketing program involve how information is delivered. Options for choosing a location for communicating with employees include at the job site, in a designated training area at the firm's location, or at a site away from the firm's location. In addition, the potential is great for delivery of internal marketing messages electronically via email and company intranets. The source of the message must be considered too. Internal marketing communication can be delivered by employee teams, lower and middle level management, top management, training departments, or outside trainers and consultants.

The promotion aspect of the internal marketing program, the most tangible component (Morgan 1990; Piercy and Morgan 1991; Piercy 1992), refers to the various communication channels used to inform and persuade employees regarding the attitudes and beliefs the organization seeks to manage (Barnes 1989; Piercy 1992). Communication channels used to implement the internal marketing program can be formal or informal, direct or indirect, and internal or external (Barnes 1989). A formal communication channel would include such activities as a monthly newsletters, videos, department meetings, and training sessions. Informal communication such as "management by walking around", discussing issues with employees while on the job or at lunch, can be used to carry out the internal marketing program. Direct communication would include many of the formal media discussed earlier such as newsletters or videos. An example of an indirect method would be the organization's use of an advertising campaign that touts its employees. Internal communication would include many of the formal, direct methods mentioned earlier. External communication would take the form of advertising or event sponsorships that allow employee involvement. Recent research has shown that a firm's external communication has a profound and important effect on its employees (Gilly and Wolfenbarger 1998). Indeed, communication is the integrative element that helps tear down departmental divides and close the distance between the company and all stakeholder groups (Duncan and Moriarty 1998).

Application of the marketing mix to internal markets raises some concerns. One primary concern is that the "products" a firm is selling to its employee might be unwanted (e.g., a new way of performing a job). A firm has coercive powers over its employees that it does not have with customers (Rafiq and Ahmed 1993). A second concern is the strong emphasis placed on the needs and wants of employees. Caution is given that employee markets must be secondary to external markets in order for a firm to survive long-term (Cahill 1995; Rafiq and Ahmed 1993). Another concern is that reliance on the marketing mix for developing an internal marketing program ignores the interdisciplinary nature of internal marketing. The key component of internal marketing is communication with employees in a firm's efforts to convey the external marketing strategy internally (Cahill 1995). Human resource activities such as employee recruitment, training, motivation, and retention are an important part of an internal marketing program (Tansuhaj, Randall, and McCullough 1988), but framing an internal marketing program in terms of the traditional marketing mix fails to consider these activities in depth.

## **A Relationship Approach to Internal Marketing**

An alternative focus of an internal marketing program is relationship marketing. Relationship marketing is a

paradigm that has drawn increased interest in recent years. The primary difference between relationship marketing and the traditional marketing mix approach is that relationship marketing is concerned with long-term relational exchanges between buyer and seller, while the established approach to marketing stresses individual, discrete transactions as the focus of marketing (Morgan and Hunt 1994). It is defined by Morgan and Hunt (1994, p.22) as "all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges." Regardless of the definition used, relationship marketing develops and maintains long-term relationships (Juttner and Wehrli 1994).

The use of the relationship marketing paradigm for internal marketing is advantageous because of its direct application to internal markets. The traditional marketing mix focuses on external markets, isolating the marketing function from the rest of the firm. A decision must be made by the firm whether the traditional marketing mix or relationship marketing should be used to reach target markets because neither approach is effective for all markets (Gronroos 1995). In the case of internal markets, the long-term, holistic approach of relationship marketing appears to have advantages over the short-term, manipulative approach of the traditional marketing mix especially if one considers the intimacy theory as its foundational basis.

Implementing an internal marketing program utilizing relationship marketing concepts requires a firm to reconsider how to structure the program. A traditional marketing mix approach to internal marketing considers internal marketing in terms of product, price, place and promotion. The relationship marketing view instead focuses on "relationship management (i.e., creating, developing, and maintaining a network in which the firm thrives) in order to serve the customers and employees better" (George 1990, p. 65). The following paragraphs present elements of a relationship marketing approach to an internal marketing program.

The price components of internal marketing under a traditional marketing mix focus and relationship marketing focus are similar, with one important distinction. Both approaches require a sacrifice in terms of overcoming fear of change. However, the group of employees affected most differs by approach. Under the marketing mix approach, front-line employees must "pay" in terms of time and involvement in such activities as training and classes. The employee group that makes the greatest sacrifice under the relationship marketing approach is management. Managers have reduced authority with employees due to the decentralization of decision making. The increased authority of front-line employees reduces dependence on management employees. Relationship marketing's key feature of reciprocity (Peterson 1995) dilutes the power of management.

The place component of an internal marketing program is concerned with activities that demonstrate to employees that management is committed to them and to the strategies it seeks to implement. Such activities as hosting employee picnics and sponsoring employee sports teams are often used to show concern for employees. In addition, more formal practices such as employee training and feedback which emphasize the behaviors desired to execute the firm's marketing strategies are used to deliver the internal marketing program from the executive suite to the front-line. A relationship marketing approach to implementing the internal marketing program throughout the organization is consistent with the relationships that subsume the product component of the internal marketing program. Rather than focusing on delivering the product to employees as with the marketing mix approach, the relationship marketing approach emphasizes activities that encourage employee participation and performance.

The promotion component of internal marketing under the marketing mix approach is concerned with the communication channels used for delivering messages that support the internal marketing program. Among the vehicles used for communicating messages are training sessions, company newsletters, and departmental meetings. A common thread among these communication channels is that they offer primarily one-way communication, which is from management to employees. On the other hand, the relationship marketing approach to internal marketing selects communication channels that offer two-way communication between management and employees (Duncan and Moriarty 1998). In fact, bi-directionality is more important than the frequency in intra-firm communications (Fisher et. al 1997). Another communication method that fosters stronger relationships between management and employees is employee focus groups. Employees are encouraged to discuss job-related problems and offer ideas to improve not only their jobs but overall organization performance as well.

### **Discussion**

There is little doubt that the internal marketing concept is a useful vehicle for implementing a firm's marketing strategies. For example, it is insufficient for management to simply exhort employees to be customer conscious. Instead, a formal plan should be put into place to develop and reinforce behaviors that would lead to higher levels of customer service. What is unclear about internal marketing is how to best implement a program. Little research has been done in this area, with those who have discussed the issue recommending the traditional marketing mix approach (Morgan 1990; Piercy and Morgan 1991; Piercy 1992). The logic behind their position is that since most

managers are already familiar with marketing concepts, implementing an internal marketing program using the marketing mix approach would allow managers to approach with some familiarity of the underlying concepts to the program.

While using the marketing mix approach to internal marketing might offer managers some comfort in the administration of the program, this approach is not without its shortcomings. A marketing mix approach to internal marketing focuses on the tools used to create an internal marketing program rather than the ongoing interpersonal exchanges that are critical to the success of internal marketing. In contrast, a relationship marketing approach to internal marketing focuses not on the mix of tools used, but rather it identifies activities that will strengthen relationships between managers and employees.

The position of this paper is not to discard the marketing mix approach completely in favor of relationship marketing as the only approach to implementing an internal marketing program. Some firms have little need to implement relationship marketing concepts. For example, an organization that is highly centralized and would not benefit from pushing decision making down the organization has little to gain by implementing a relationship marketing approach. However, as with the case of many service organizations in the private sector, extending marketing strategies such as total customer satisfaction to front line employees can be accomplished by fostering relationships between management and employees. Relationship marketing, when applied to internal markets, should be part of an overall program that includes relationships with customers through external marketing activities and interactive marketing with customers during actual service encounters (Joseph 1996).

Internal marketing is a philosophy for communicating and implementing marketing strategies within an organization. The approach used to implement the program should be consistent with methods used to implement external marketing strategies. Today, many firms are professing the importance of establishing long-term, mutually beneficial relationships with their customers. However, the implication usually is that they are referring to external customers. Attempts to develop meaningful relationships with external customers will be difficult without committing to develop similar relationships within the organization.

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**The Semantic Structure of Time-Oriented Retail Service Guarantees:  
The Moderating Role of Cultural Norms on Perceived Performance Risk--Abstract**

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Past research of warranties and guarantees has examined the importance of structure and phrasing (Shimp and Bearden, 1982). Previous research by Straughan and Albers-Miller (2000) examined the semantic dimensions of time-oriented service guarantees. Their work looked at the effects time and redress specificity played in reducing consumers' perceived risk. The present study seeks to examine their findings in a cross-cultural context.

In addition to the redress specificity and time specificity effects shown by Straughan and Albers-Miller (2000), the current study considers the moderating role that culture might play in risk reduction across countries. Using Hall's cultural time orientation (Hall 1976; Hall and Hall 1987) and Hofstede's cultural uncertainty avoidance and masculinity dimensions (Hofstede 1980, 1991), the study proposes several interesting interaction effects, in addition to the main effects discussed in Straughan and Albers-Miller (2000).

The research used a web-based experimental approach to examine these hypotheses. Data were collected from Brazil, Germany, India, and the United States. The experimental manipulations were contained in a web-based narrative describing an air travel scenario. After reading the narrative, subjects were asked to complete Shimp and Bearden's (1982) performance risk scale. Respondents were screened for cultural affiliation. A multiple regression procedure was used to address the stated research hypotheses.

Cronbach's alpha indicated a reliable measure of risk ( $\alpha = .76$ ). The overall model was significant ( $p < 0.0001$ ,  $r^2 = .07$ ). While the predictor variables explained only a small part of the risk variance, all hypothesized interaction effects were significant at an  $\alpha = .05$  level. The cultural interactions wash out the significance of the time and redress specificity main effects from Straughan and Albers-Miller (2000). The authors discuss the relevance of the findings for service managers and suggest some directions for future research in this area.

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# Contrasting Country and Product Images of Japanese and Canadian Consumers and the Effect of Ethnocentrism

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## Abstract

With the trend toward globalization, the country of origin of products has been said to become irrelevant (Sheth, 1999). However, persisting significant differences still exist, as shown in this present study comparing the perceptions of 376 Japanese and 191 Canadian consumers. Attributes of countries and products manufactured in seven different countries were found to show significant differences between Canadian and Japanese respondents. Ethnocentrism, as a moderating variable of consumption, was significantly related to age and gender in Japan but not in Canada. Ethnocentrism was not found to be significantly related to the importance of the country of manufacture as a buying factor in Japan. In Canada, however, ethnocentrism was found positively (although weakly) related to the importance of the country of manufacture in consumer buying decisions.

## Introduction

With the increasing globalization of world trade, detailed knowledge of consumer perceptions of foreign countries and imported products is crucial for marketers. The study of the a priori strengths and weaknesses of country and product images and of their determinants hold potential value for marketing managers. Knowing one's country and product category standing vis-a-vis competitors allows manufacturers to concentrate their efforts on these strong assets and to focus their marketing strategies on consumer segments holding positive images of their product origin. This information is also valuable to direct importers, wholesalers and retailers in their buying and marketing decisions.

## Literature Review And Research Hypotheses

The effect of the country of origin on the evaluation of products has been the object of numerous research over the last thirty-five years. Since the study of Schooler in 1965, and in spite of many divergent results, meta-analyses by Liefeld (1993) and Peterson and Jolibert (1995) concluded that the effect of the country of origin on product evaluation was confirmed and appeared to be more important for perceived quality than for purchase intention. The following dimensions have been considered in measures of the image of the country of origin: the level of economic development, the political dimension and the technological dimension (Martin and Eroglu, 1993). In addition, the cultural dimension is also likely to play a significant part in shaping the image of a country. Even if the cultural aspect has not been previously included, we suggest that dimensions such as the perceived degrees of traditional vs. modern culture, taste refinement and industriousness of the population and trust are relevant dimensions of country image.

Measures of imported product quality have been pioneered by Nagashima (1970, 1977). Later studies by Han and Terpstra (1988), Roth and Romeo (1992) and Papadopoulos and Heslop (1993) show a consistent pattern with four of the following dimensions: 1) Technical advancedness, 2) Design, 3) Prestige and 4) Workmanship and price for value. Studies measuring the perception of imported products have been criticized if no specific categories of product were involved. However, various chapters in Papadopoulos and Heslop (1993) have suggested that attitudes toward each country and its products and product categories tend to be congruent. In a more recent study, Heslop, Papadopoulos and Bourk (1998) show that specific product evaluations are virtually identical to the evaluation of a global product. Product images tend to be congruent across categories. In a previous study conducted by Chéron, Sugimoto and Hayashi (1994), significant differences were found in buying frequencies and motivations for buying nineteen categories of products between Canadian and Japanese consumers. Therefore, we suggest that *Japanese and Canadian consumers will differ in their respective perception of country and product images* (Hypothesis 1).

Consumer ethnocentricity has been defined as the belief that buying foreign product is wrong because it hurts the domestic economy and causes unemployment (Shimp and Sharma 1987). The effect of ethnocentric tendencies has been well established in several empirical research studies (Good and Huddleston 1995; Herche 1992; 1994; Vida, Damjan and Fairhurst 1996). Previous research has shown that senior individuals may have more conservative views (Han 1988; Wall, Heslop and Hofsta, 1988; McLain and Sternquist, 1991) and that women

tended to be more ethnocentric (Wall et al. 1988). We suggest that for both Japanese and Canadian consumers, *ethnocentrism will be higher for older consumers and for women consumers* (Hypothesis 2).

Marcoux, Filiatrault and Chéron (1997) found that protectionism (as a subdimension of ethnocentricity) was consistently the most important variable (as compared to social status demonstration, interpersonal mediation, age or sex) to explain Polish consumer preferences for clothing, cosmetics or electronic products made in Poland vs. Western countries. Hence, *higher ethnocentrism will be related to a higher importance of the country of manufacture of products in the buying decisions of both Japanese and Canadian consumers* (Hypothesis 3).

### **Objectives of the Research**

This study is being conducted to compare the images that Japanese and Canadian consumers have of seven countries (China, France, Canada, Japan, USA, South Korea, and Germany), and products imported from foreign countries as compared to those manufactured domestically. The study is also designed to compare the Japanese and the Canadian samples in terms of degree of ethnocentrism and to examine the effect of age and gender on ethnocentrism in each country. Further, ethnocentrism is tested for its relationship with the relative importance of the country of manufacture in Japanese and Canadian consumer buying decisions.

### **Research Methodology**

#### **Development of the research instrument**

A structured self-administered questionnaire was used, developed in English and translated in Japanese with extensive discussions using a parallel approach (Campbell and Werner 1970). The final English questionnaire was then translated and back-translated in French for data collection in the mostly French speaking city of Montreal in the province of Quebec to ensure equivalence (Brisles 1970).

Country image dimensions were derived from previous research (Martin and Eroglu 1993) to which the aspects of taste refinement, trustworthiness and industriousness were added. Product image dimensions were selected using previous research by Nagashima (1970, 1977) and Papadopoulos and Heslop (1993). Ethnocentrism was measured by the degree of agreement (on a seven point-scale) with six statements. The six statements were selected in such a way that they represented equally (with two statements each) the three dimensions of the original CETSCALE (Shimp and Sharma 1987) found in the study by Marcoux, Filiatrault and Chéron (1997).

#### **Research instrument**

The questionnaire contained an introductory statement presenting the topic of the survey and stating that the answers would be treated in the strictest confidentiality. Then, the following sections appeared in sequential order: Degree of agreement (on a seven point-scale) with four statements pertaining to the extent of consideration of the following elements in buying decision: country of manufacture, quality, popularity, brand name.

Degree of ethnocentrism measured by the agreement (on a seven point-scale) with six statements (see [Table 2](#)).

Perception of each of the seven country images measured by the degree of agreement (on a seven point-scale) with seven statements (refined taste, trustworthy, industrious, technologically advanced, more manufacturing than agriculture, more consumer than industrial products, more modern than traditional culture).

Perception of each of the product images of each of the seven countries measured by the degree of agreement (on a seven point-scale) with seven statements (good workmanship, technologically advanced, good quality, recognizable brand, innovative rather than imitative, reliable, expensive).

Respondent profile: gender, age group, occupation, annual income, number of people in household and whether the respondent had ever visited or lived in any one of the countries included in the survey (apart from his or her own country). Other measurement items were also included in the questionnaire, but are not presented here.

#### **Data Collection**

The field work in Japan was done using a "drop and pick up" procedure by the Kansai Branch office of Video Research Ltd. The sample for the research was selected from a representative master sample constructed by Video Research in 1997 and accounting for 5204 households representing a total of 12500 individuals in the Kyoto-Osaka-Kobe metropolitan areas in Japan. The initial sample size of 747 yielded a total of 376 completed questionnaires. The distribution of age groups of the final sample was very close to the census distribution. The Canadian sample was collected using a snowballing approach, originating from employees and evening students of a French speaking university in the city of Montreal in the province of Quebec. Gender and age quotas guidelines were used to improve sampling equivalence. Out of a total of 300 questionnaires distributed in Canada, 191 were completed. The percentage of male respondents was 47.3% in Japan and 49.2% in Canada.

## Results

### Country and product images

All multivariate and most univariate tests of country image differences between Japanese and Canadian respondents were statistically significant, as shown in [Table 1](#), for the example of the dimension of refined taste. To ensure metric equivalence between the two samples and to control for Japanese respondents' tendency to avoid extreme responses, an "ipsatization" procedure was used (Hui and Triandis 1989; Cunningham, Cunningham and Green 1977). This adjustment procedure gave similar results as can be seen in [Table 1](#). Multivariate and most univariate tests T tests and "ipsatized" T tests of product image differences between Japanese and Canadian respondents were statistically significant. Therefore Hypothesis 1 is supported; Japanese and Canadian consumers differ in their respective perception of the seven countries and product images of the survey.

### Ethnocentrism

Ethnocentrism was measured using the six items listed in [Table 2](#). Exploratory and confirmatory factorial analyses confirmed the unidimensionality of the measure of ethnocentrism both for Japan and for Canada. Composite reliabilities were 0.87 for Japan and 0.86 for Canada. An index of ethnocentrism was therefore computed using a linear unweighted average of the six items. On a scale of 6 to 36, the mean of this index was 18.87 (median of 18.50) for Japan and 19.35 (median of 19.00) for Canada with standard deviations of 6.92 and of 7.65 respectively. Mean ethnocentrism was not significantly different between Japan and Canada (T value of .76).

Using this index as a dependent variable, with two age groups and gender as factors in a 2x2 a posteriori classification design, yielded statistically significant effects of age ( $F = 19.98$ ) and gender ( $F = 9.67$ ) on ethnocentrism with no significant interaction for Japan but no significant effects for Canada. Hypothesis 2 is thus confirmed for the sample of Japanese consumers only.

Mean results in [Table 3](#) indicate that both Japanese and Canadian consumers consider the attribute of quality first when making a buying decision. However, quality was valued more by Canadian as compared to Japanese consumers. In Canada, brand name ranked second whereas it was almost equal with country of manufacture and popularity in Japan. Multiple regression results in [Table 3](#) revealed that in Japan, higher ethnocentrism was unrelated to a higher importance of country of manufacture, but negatively related to quality and positively related to popularity. However, in Canada, higher ethnocentrism was positively related to country of manufacture only. These results were tested and found stable both for Canada and Japan over two random split-half samples. Thus Hypothesis 3 is confirmed for Canadian consumers only.

## Discussion

The results of this study confirm that Japanese and Canadian consumers have different perceptions of countries of manufacture and products. Personal experience of visiting or living in other countries appears to allow respondents to increase their perception of differences among countries. Japanese respondents, who were less likely to ever have visited or lived in the USA than Canadian respondents, perceived fewer differences between country and product images of the USA and Canada than Canadian respondents.

This study has also shown that the degree of ethnocentrism did not differ between Japanese and Canadian respondents and that ethnocentrism was not related to age and gender for Canadian respondents. However, with respect to age, this may be the result of a lower percentage of respondents above 45 years old in the Canadian sample than in the Japanese sample (22.5% vs. 43%).

The absence of perfect sample equivalence is a limitation of this study. However, attaining perfect equivalence of two samples being part of two different demographic, socioeconomic and ethnographic populations is of course illusive. For example, the Canadian sample is quite representative on the percentage of respondents not born in Canada (23%), but it is in no way enough to support perfect sample equivalence.

## MARKETING AND MANAGEMENT IMPLICATIONS

This study indicates that Canadian international marketing managers interested in selling their products in Japan compete with a less favorable and a less differentiated image. A previous study on the quality of products from 19 countries by Gallup (Milner 1996) indicated that Canadian manufactured products (with 17.9% of respondents rating the country's products as excellent or very good) ranked after Japan (41.2%), Germany (35.1%), the USA 34.9%), Britain (21.2%) and France 20.8%). In addition, 60% of Canadian respondents rated their own country's products as very good to excellent, but only 41% felt that way about Japanese goods. All other respondents had a lower perception of their own country's products. Canadian manufacturers are thus likely to find that getting acceptance for their products outside Canada is much more difficult than in the domestic market.

A condition for success for Canadian exporters to Japan is to first increase awareness of Canadian products and then to build a better image of quality. Knowledge of the country of manufacture is not the most important attribute for Japanese consumers (see [Table 3](#)) and therefore, in addition to basic awareness, the most important element of success is the quality of the product. Ethnocentrism of older and female Japanese consumers does not affect the importance of the country of manufacture, but rather decreases the importance of quality. This may be an opportunity for Canadian products that compete on price.

Japanese international marketing managers interested in selling their products in Canada should take into account that quality is also the most important attribute valued by Canadian consumers. Building a well known brand image is also important, since this is a significant attribute favored by Canadian consumers. Consumer ethnocentrism in Canada also tends to increase the importance of the country of manufacture, and thus may give an advantage to products imported from countries enjoying a favorable image.

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**Table 1 Japanese and Canadian comparisons on the dimension of refined taste of countries**

	Mean (Mean ranking)		T value	Ipsatized T
	Japan (n=376)	Canada (n=191)		
CANADA	4.58 (4)	5.15 (2)	6.44**	5.41**
CHINA	3.40 (7)	3.36 (7)	0.29 <sup>NS</sup>	1.74 <sup>NS</sup>
FRANCE	5.24 (1)	6.08 (1)	8.33**	7.01**
GERMANY	4.60 (3)	5.07 (3)	4.42**	3.55**
JAPAN	4.55 (5)	4.95 (4)	3.37**	2.65**
SOUTH KOREA	3.62 (6)	3.43 (6)	1.56 <sup>NS</sup>	3.47**
USA	4.93 (2)	3.63 (5)	10.42**	12.69**

\*\* Significant at level <.01

NS Non significant

**Table 2 Degree of agreement with six statements of ethnocentrism**

	Mean		T value	Ipsatized T
	Japan (n=376)	Canada (n=191)		
1. Japanese/Canadian people should always buy Japanese-/Canadian-made products instead of imports.	3.89	4.32	2.85**	3.42**
2. Only those products that are unavailable in Japan/Canada should be imported.	3.83	3.55	1.81 <sup>NS</sup>	3.61**
3. Purchasing foreign products is un-Japanese/ un-Canadian.	2.49	2.74	1.79 <sup>NS</sup>	1.95 <sup>NS</sup>
4. It is not right to purchase foreign products, because it puts Japanese/Canadians out of jobs.	2.94	3.03	0.59 <sup>NS</sup>	0.26 <sup>NS</sup>
5. We should purchase products manufactured in Japan/Canada instead of letting other countries get rich off us.	2.74	3.54	5.36**	8.55**
6. Curbs should be put on most imports.	3.00	2.20	6.63**	10.01**

\*\* Significant at level <.01

NS Non significant

**Table 3 Multiple regression of the relationship of the four buying attributes with ethnocentrism mean values\***

Ethnocentrism	Japan R <sup>2</sup> = 4.34%	Canada R <sup>2</sup> = 7%	Japan (Means)	Canada (Means)
Country of manufacture	NS	1.17 (t=3.78)	4.42	4.04
Quality	-1.21 (t=-3.59)	NS	5.81	6.43
Popularity	0.74 (t=2.64)	NS	4.48	4.01
Brand name	NS	NS	4.42	5.32
Constant	22.6 (t=10.54)	14.64 (t=10.77)		

NS Non significant.

\* On a scale of 1 (no agreement) to 7 (high agreement).

# **The Effect Of Cultural Differences On The Development Of Trust And Commitment In International Agency Relationships: Some Propositions**

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## **Abstract**

This study examines the impact of cultural differences of exchange partners on the formation of international agency relationships. A model including dimensions of cultural differences is developed and propositions outlining their impact on the formation of trust and commitment are formulated.

## **Introduction**

In an era marked by increasing globalisation of business, it has been noted that firms must become trusted cooperators in order to be effective competitors (Morgan and Hunt 1994). To compete globally, firms often establish agency relationships with other corporations operating within diverse cultures. Therefore, understanding the formation of international relationships and the factors that drive long-term success is becoming very important.

Research on international business shows that greater cultural distance between a host country and its foreign market leads to a greater reliance on relational exchange relationships (Macniel, 1980; Heide, 1994). Relationships evolve from being discrete and contract-governed, to being relational and norm-governed. Relational norms emerge as sentiments that the relationship is worth maintaining, and serve as a mechanism for providing flexibility to long term relationships because they promote stewardship and highly collaborative behaviours (Heide and John 1992). While the importance of relational norms has long been recognised, little attention has been paid to how they can potentially mitigate the adverse effects of cultural differences on relationship formation and maintenance.

Forming lasting, productive relationships is challenging in any circumstance. Forming them across international boundaries is even more complex due to cultural differences (Aviv, Rose and Kropp 1997). Although agency relationships with foreign-based distributors are attractive for entering uncertain or risky new markets, they are difficult to coordinate because cultural differences can lead to slow information flows and uncoordinated business functions (Lee and Jang 1998). Furthermore, these relationships require more time, effort, and involve unique risks due to the potential problems of cooperating with a partner from a different culture.

Although the importance of understanding cultural differences has been a cornerstone of research in international business, little has been done to link research on cultural differences with that progressing on relationship marketing. Existing research has focused on the impact of cultural differences on entry mode choices, management decision making, and equity partnerships such as those found in alliances and joint ventures. However, the link between cultural differences and the development of long term relationships between firms and their independent agents has been overlooked.

This paper is written in an attempt to address this knowledge gap; specifically how cultural differences between firms and their international agents affect their relationships. First, we review and integrate the literature from the two disciplines. Next, we discuss how cultural differences among international channel members may affect the development of trust and commitment, variables at the heart of any relationship effort. We then ask whether relational norms mitigate the effects of cultural differences. Finally we develop a conceptual model and research propositions to guide further investigations in this area.

## **Relationship Marketing**

Firms are increasingly focusing attention on building sustainable competitive advantage by developing and maintaining close, long-term relationships with a limited set of customers and suppliers. Long-term relationships create value because buyers and sellers work together to develop solutions that can enhance the profits for both firms (Ganesan 1994; Kalwani and Narayandas, 1995). Several scholars suggest that relationship marketing, which is grounded in relational exchange theory, is an effective way to govern interactions between independent entities (Morgan and Hunt 1994). Relationship marketing refers to "all the marketing activities directed toward establishing, developing and maintaining successful relational exchanges" (Morgan and Hunt 1994, p.22).

Relationship marketing began attracting academic attention in the 1990's as firms began to enter long-term associations to counter the effects of increased customer demands and intensifying global competition. Although relationship marketing has been examined in a number of diverse settings such as those between retailers and

consumers (Sheth and Parvatiyar 1995), services (Berry 1995; Gwinner, Gremler and Bitner 1998), between buyers and sellers (Noordewier, John and Nevin 1990), and among distribution channel members (Morgan and Hunt 1994), international channel relationships have not been examined extensively.

A number of constructs have emerged as drivers of successful long-term relationships, however trust and commitment have been recognised as pivotal variables (e.g., Anderson and Narus 1990; Anderson and Weitz 1989; Dwyer, Schurr, and Oh 1987; Morgan and Hunt 1994, Ganesan 1994). They are key to successful relationship marketing because both encourage positive relationship outcomes. They increase acquiescence and cooperation, while reducing functional conflict and the propensity to leave (Morgan and Hunt 1994; Anderson and Weitz 1989, 1992; Ganesan 1994; Dwyer, Schurr and Oh 1987).

### **Relationship Trust**

Trust has assumed a central role in marketing theory regarding the development of long-term relationships (Dwyer, Schurr and Oh 1987; Anderson and Weitz 1989; Morgan and Hunt 1994, Ganesan 1994). Trust is perceived credibility and benevolence (Ganesan 1994). Trust exists when one party has confidence in an exchange partner's reliability and integrity (Morgan and Hunt 1994). High levels of trust not only foster cooperation (Morgan and Hunt 1994), but also reduce conflicts and enhance channel member satisfaction (Anderson and Narus 1990). Trust also mitigates opportunism in exchange contexts characterised by uncertainty and dependence (Heide 1994). This enables parties to focus on the long-term benefits of the relationship (Ganesan 1994) thereby enhancing competitiveness while reducing transaction costs (Noordewier, John and Nevin 1990).

### **Relationship Commitment**

Commitment to the relationship is defined as an enduring desire to maintain a valued relationship (Moorman, Zaltman, and Deshpande 1992), and as a willingness to make short-term sacrifices to realize longer-term benefits (Dwyer, Schurr and Oh 1987). Commitment is closely related to mutuality, loyalty, and forsaking of alternatives, variables that are essentially relational, and an important construct of relationship marketing (Morgan and Hunt 1994). Several studies have found that commitment by exchange partners is mutually reinforcing, and increases over time through the development of relational norms (Gundlach, Achrol and Mentzer 1995).

In summary, the relationship marketing literature suggests that long-term relationships are desirable, and that the development of trust and commitment by exchange partners can enhance their agency relationship by mitigating opportunism and focusing on the long term benefits of their relationship. However, firms who expand abroad and engage in agency relationships in increasing heterogeneous cultural environments may experience difficulty in developing trust and commitment.

### **Cultural Differences**

Despite moves towards greater standardisation of marketing strategies, cultural differences are still acknowledged as an important facet of international business practice. Following Hofstede (1980), culture is defined as a pattern of assumptions, values, and beliefs whose shared meaning is acquired by members of a group. Specifically, values are at the core of culture, and lead to a broad tendency to prefer certain states of affairs over others. These differences in values have important implications for organisations operating across cultural borders because culture can determine the way companies manage and develop their relationships between exchange partners.

Hofstede (1980) offers perhaps the seminal work in operationalising the cultural difference concept. He defines four key dimensions of cultural difference: Power Distance, Uncertainty Avoidance, Individualism-Collectivism, and Masculinity-Femininity. Each of these dimensions can be quantified and measured by a cultural distance index, measuring quantitatively the degree to which two or more societies differ (Kogut and Singh 1988).

Several cross-cultural studies have shown that variables important to the understanding of marketing relationships are affected by cultural differences. For example, societies characterised by high power distance and low individualism have a greater need for dependence than members of societies characterised by low power distance and high individualism. In addition, executives from collectivist and high power distance countries are found to prefer decision alternatives that involve greater face saving, longer-term repayment of obligations, more authoritarian and less consensual decision processes than executives from individualistic countries (Tse, Vertinsky and Wehrung 1988). Similarly, collectivist cultures are found to use more referrals and more network activity than individualistic countries, which suggests that it is important to invest resources in building relationships with intermediaries such as banks (Money, Gilly and Graham 1998).

Previous research has found that greater cultural distance between the home and host country leads to less equity ownership modes and greater incidence of shared-control modes of entry, such as agency relationships with distributors (Kogut and Singh 1988; Erramilli and Rao 1993). Furthermore, as cultural distance increases, the challenge for organizational control systems increases proportionally because accurate information about agency performance becomes more difficult and expensive to obtain (Norhia and Ghoshal 1994). Although a main determinant of international channel conflict is the cultural distance between exchange partners, an essential factor is the development of mutually trusting, long-term relationships (Piercy, Katsikeas and Cravens 1997). Efforts to develop and sustain good relationships between exporters and importers and exporters are in some cases more productive than conventional marketing investments (Lee and Jang 1998).

In summary, although the previous literature review suggests that cultural differences affect many aspects of exchange relationships, the impact on marketing relationships, specifically trust and commitment, remains unclear. Moreover, little is known about which of the four dimensions of cultural differences have the greatest impact on the development of trust and commitment. Even more important may be the fact that since relationships evolve in a step-by-step fashion (Dwyer, Schurr and Oh 1987), it might be the case that negative experiences from cultural differences lead to early dissolution of relationships. The role of relational norms in overcoming the adverse effects of cultural differences has been largely unexplored, and it is to this topic that we turn next.

### **The Role Of Relational Norms**

Relational exchange theory suggests that exchange relationships can be organised and managed through cooperative relational processes that rely on norm-based mechanisms of governance (Macneil 1980; Nevin 1995). Relational norms are expectations about behaviour that are shared by a group of decision-makers that emerge as relationships develop (Macneil 1980; Heide and John 1992). They yield highly collaborative behaviours such as when trading partners are flexible in adjusting to each other's need and requests. These can be operationalised along three dimensions: flexibility (willingness to adapt behaviour), information exchange (provision of useful information to the partner), and solidarity (value placed on relationship maintenance).

Recent research on relational exchange theories has emphasised the key governance role played by relational norms as distinct from market or hierarchical mechanisms in long term exchange (Dwyer, Schurr and Oh 1987; Heide 1994; Ganesan 1994; Williamson 1975; Macneil 1980). According to the transaction cost theory vertical integration is a governance structure required under particular conditions such as environmental uncertainty or asset specificity (Williamson 1975). However, in uncertain environments such as foreign markets, the advantage of vertical integration is reduced because of the cost of inflexibility (Achrol, Reve and Stern 1983). Alternatively, under conditions of uncertainty, firms can protect their specific assets by pursuing a variety of hybrid governance mechanisms such as the development of relational norms. Thus, relational norms play a very significant role in structuring efficient relationships and in governing inter-organisational behaviour between independent firms (Heide and John 1992).

Previous studies also show that under conditions of high uncertainty increasing relational governance improves purchasing performance (Noordwier, John and Nevin 1990), increases the level of commitment, and decreases opportunism and dependence between partners (Joshi and Arnold 1997; Heide and John 1992). When relational norms develop in international settings, cooperative behaviour facilitates coordination and programming of activities within export channels, which in turn provides potential cost advantages and relationships are coordinated and managed efficiently through the process of flexible negotiations (Gilliland and Bello 1997).

### **An Integrative Framework**

#### **The Effect of Cultural Differences on the Development of Trust and Commitment**

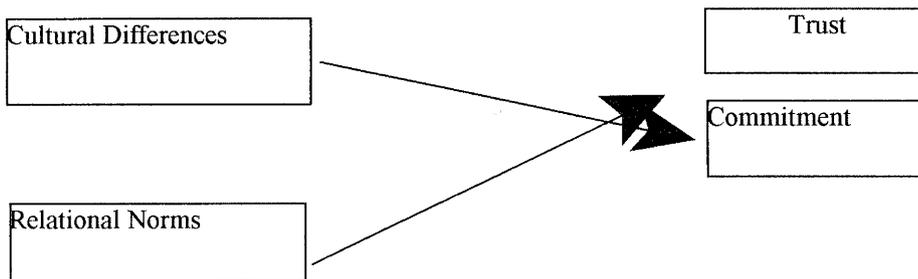
Merging the literature on relationship marketing and cultural differences suggests a model in which cultural differences have a negative effect on the development of trust and commitment in agency relationships, and where relational norms moderate this otherwise adverse effect. [Figures 1](#) portrays this model.

According to Morgan and Hunt (1994), trust and commitment are key to successful relationship marketing outcomes such as cooperation and satisfaction. Shared values have been found to contribute to the development of both trust and commitment in relationship marketing (Morgan and Hunt 1994). However, values are not universal and differ across countries, which may affect the development of trust and commitment by foreign exchange partners (Anderson and Weitz 1989). Since relationships develop incrementally, cultural differences are proposed to play a strong role in the early stages of the relationship (i.e., awareness, exploration), before relational norms are developed. In these initial stages, there is a limited history of interaction upon which to evaluate the exchange partner and relationship benefits. Based on this premise, we suggest that relationships involving partners from culturally diverse backgrounds will have lower levels of commitment and trust in the early initial stages of the relationship.

**Cultural Dimensions and Their Affect on the Development of Commitment and Trust**

*Individualism /Collectivism:* Individualism and collectivism anchor the two poles of the first dimension of cultural differences (Hofstede 1980). Individualism refers to societies in which the ties between individuals are loose. Individualistic people prefer to act independently rather than as members of groups and great

**Figure 1: The Effect of Cultural Differences on Trust and Commitment, and the Role of Relational Norms.**



emphasis is placed upon individual achievements, entrepreneur activity, job specialisation, individual rewards, and competitive climate (Hoecklin 1995). Individualistic cultures show a high level of mobility between companies, and low levels of loyalty and commitment in managers. Collectivism refers to societies in which people are integrated into strong, cohesive groups, which protect them throughout their lifetime (Hofstede 1980). In collectivist societies the group to which you belong is the major source of your identity and the unit to which you owe loyalty. Collectivist societies give great importance to face saving (respect for an individual because of his or her position in society). Strong identification with the group creates pressure for mutual help and collective action. Research on the effects of individualism versus collectivism lead to our next proposition.

- P1:** The greater the cultural distance between a supplier and its foreign distributor, the lower the levels of trust and commitment in the early stages of exchange relationships.
- P2:** The greater the societal distance in individualism/collectivism between a supplier and its foreign distributor, the lower the levels of trust and commitment in exchange relationships.

*Power Distance:* Power distance is defined as "the extent to which the less powerful members of organisations and institutions within a country expect and accept that power is distributed unequally" (Hofstede 1980, p.104). People belonging to high power distance countries show great reliance on centralisation and formalisation of authority (Hofstede 1980). In addition, they show tolerance in accepting power hierarchy, tight control, and vertical communication. Superiors are entitled to privileges because there are more signs of status and contrasts between superior and subordinates (Hoecklin 1995). In cultures with low power distance, superiors and subordinates regard each other as equals and equality of roles is assumed. Roles are designated to accomplish specific ends and they may change depending on circumstances. All people should have equal rights, and inequality should be minimised. Since assumptions about power distance govern relationship expectations, differences in this dimension of cultural

differences can inhibit relationship formation and damage relationship maintenance. This reasoning leads to our next propositions.

**P3:** The greater the power distance between a supplier and its foreign distributor, the lower the levels of trust and commitment in exchange relationships.

*Masculinity:* This dimension represents the "dominant gender role pattern related to behaviours and values" (Hofstede 1980, p.261). It expresses the extent to which the dominant values in societies are masculine or feminine. Masculine societies value male assertiveness, performance, ambition, and independence and emphasise differentiated gender roles (Hofstede 1980). Female societies value nurturance, quality of life, service, and interdependence (Hoecklin 1995). Moreover, in feminine cultures, since decision-making is participative and compromises the watchword for maintaining friendly working conditions, it is suggested that they are more prone to relationship formation. Thus, differences in masculine versus feminine orientation are also proposed to result in a breakdown in relationship formation.

**P4:** The greater the distance in masculinity/femininity between a supplier and its foreign distributor, the lower the levels of trust and commitment in exchange relationships.

*Uncertainty Avoidance:* Uncertainty avoidance is defined as "the extent to which the members of a culture feel threatened by uncertain or unknown situations and try to avoid them" (Hofstede 1980, p.165). People with low uncertainty avoidance tend to accept uncertainty, take risks easily, and show tolerance for opinions and behaviours different than their own. People with high uncertainty avoidance have a strong need for control. They establish formal rules to govern situations and events (Hoecklin 1995). Differences in uncertainty avoidance imply differences in how people perceive opportunism and threats in their environments. The way exchange partners act upon these perceptions can breed disagreement and can affect relationship formation and maintenance.

**P5:** The greater the distance in uncertainty avoidance between a supplier and its foreign distributor, the lower the levels of trust and commitment in exchange relationships.

### **The Role of Relational Norms**

Several scholars propose relational norms as an additional governance mechanism for managing exchange relationships (Heide and John 1992; Ganesan 1994). Under conditions of relational norms exchange partners will be inclined to behave relationally even when they have the opportunity to behave opportunistically (Joshi and Arnold 1997). They consider themselves to be members of a larger system and adopt norms favouring unit actions. Joint accomplishments and a concern for the long-term benefit of the relationship serve as a restraint of individual tendencies (Heide 1994). Through the development of relational norms, relationship partners will be restrained from opportunism through a socialisation process that will lead to shared values (Heide 1994). Thus, it is proposed that as relational norms emerge in agency relationships, the negative effect of cultural differences on the development of trust and commitment will be nullified.

**P6:** Under conditions of relational norms, the adverse effects of cultural differences will be mitigated and trust and commitment will evolve.

### **Conclusions**

Although the propositions derived from the literature review must be viewed as tentative and needed to be empirically tested, we believe that they offer some insight into an under researched topic, specifically in understanding the effect of cultural differences in international channel relationships. Differences in all four cultural dimensions are proposed to have a negative impact on the development of commitment and trust in the early stages of agency relationship development. However, this impact is reduced when relational norms govern the relationship. Firms can actively manage their working relationship by developing relational norms as a governance mechanism. Furthermore, relational norms may increase the level of human investments in the relationship, which can lead to higher levels of trust and commitment (Gilliland and Bello 1997). This speaks to the need for expanding firms and their agents to commit personnel with task specific knowledge to the exchange process with a foreign

partner. Relational norms may prevent opportunism and the exploitation of these transaction specific assets. Thus, relational norms may transform otherwise destructive differences into rich assets that foster competitive advantage.

In sum, if these propositions hold true, cultural differences between foreign firms and their agents will negatively influence early stages of relationship formation. However if relational norms are developed, then trust and commitment will evolve. We encourage empirical research in this area.

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## **Managing Information In Servicescapes To Affect Consumers' Emotions And Purchase Intention**

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### **Abstract**

This exploratory study examines the effect of signs that provide search and experience information on consumers' emotions and willingness to buy in the context of a service physical environment. The results of the study suggest that experience attribute quality information shows higher pleasure and higher willingness to buy when compared to search attribute quality information. The study also suggests that pleasure mediates the effect of informational signs and willingness to buy.

### **Brief Literature Review**

Several researchers have stated that service consumers desire knowledge of experience and credence attributes in the service selection process (Friedman and Smith 1993; Legg and Baker 1991; Murray 1992), and that service consumers are attentive to tangible cues in the physical environment to evaluate its nature and quality (Legg and Baker 1991; Ward, Bitner and Barnes 1992; Zeithaml 1981).

### **Attribute Quality Information**

Nelson (1970, 1974) has proposed that goods have two basic properties: search qualities and experience qualities. He has defined search attribute qualities as those qualities of a product that can be accurately and efficiently evaluated prior to purchase by using knowledge and inspection, reasonable effort and normal channels of information acquisition. In contrast, experience attribute qualities have been defined as those qualities of a product that can be accurately and efficiently evaluated only after the product has been purchased and used for a short period of time in comparison to the product's total usage life (Bateson 1985; Nelson 1970, 1974; Murray 1992; Zeithaml 1981).

Darby and Karni (1973) have added a third class of properties, called credence, to those proposed by Nelson. They have defined credence properties as those qualities of a product that cannot be accurately and efficiently evaluated even after the product is used extensively because of consumers' lack of technical expertise, or because the cost of acquiring sufficient, accurate information is prohibitively greater than its expected value (Bateson 1985; Darby and Karni 1973; Murray 1992; Zeithaml 1981).

The attributes of goods that have been defined by Nelson (1970) and Darby and Karni (1973) constitute the Search-Experience-Credence Framework. The applicability of this framework to services has been addressed by Zeithaml (1981). She has arrayed goods and services along a continuum of evaluation ranging from "easy to evaluate" to "difficult to evaluate". At the left of the continuum are goods high in search qualities which are easy to evaluate. In the center are goods and services high in experience qualities, more difficult to evaluate because they must be purchased and consumed before assessment is possible. At the right end of the continuum are goods and services high in credence qualities which are the most difficult to evaluate because the consumer may be unaware of or may lack sufficient knowledge to appraise whether the offerings satisfy given wants or needs even after consumption. Zeithaml's (1981) major premise is that most goods fall at the left of the continuum and that most services fall at the right end of the continuum and she argues that the essential characteristics used to distinguish services (intangibility, nonstandardization, perishability, and simultaneity of production and consumption) from products cause services to be relatively low in search qualities but high in non-search qualities (experience and credence qualities).

Various researchers have indicated that service consumers desire knowledge of experience and credence attributes in the service selection process to reduce purchase uncertainty (Friedman and Smith 1993; Legg and Baker 1991; Murray 1992). In this regard, Turley (1990) has suggested that perceptions of risk associated with the purchase of services can be reduced with the provision of testimonials or information about consumers' experiences with the service provider. Friedman and Smith (1993) have empirically established that service consumers rely on experience attributes and do not rely on search attributes available for evaluation prior to purchase. They have concluded that service consumers realized that positive search attributes could not offset the effects of a negative experience with the service provider.

## **Service Physical Environment or “SERVICESCAPE”**

Bitner (1992) has identified the dimensions of the physical environment (servicescape) as all the objective physical factors that can be controlled by the firm to enhance (or constrain) employee and customer actions. The factors were classified in: 1. Ambient conditions, 2. Spatial layout and functionality; and 3. Signs, symbols and artifacts. Ambient conditions include background characteristics of the environment such as temperature, lighting, noise, music, and scent. Spatial layout refers to the ways in which machinery, equipment, and furnishings are arranged, the size and shape of those items, and the spatial relationship among them. Functionality refers to the ability of the same items to facilitate performance and the accomplishment of goals. Signs are explicit communicators, and symbols and artifacts are implicit communicators. Bitner (1992) has indicated that each dimension may affect the overall perception of the environment either directly or through the interaction with other dimensions, and that customers and employees may respond cognitively, emotionally and psychologically to the environment.

The effects of the physical environment on behavior have been examined in various disciplines. In the environmental psychology discipline, Mehrabian and Russell (1974) have proposed a comprehensive model of human-environment relations in which they argue that there are three basic emotional dimensions which modulate all human behavioral responses towards the physical environment: pleasure, arousal and dominance. Their model indicates that the three emotional dimensions are employed as intervening variables linking the environment to a variety of human behaviors which can be generalized along an approach-avoidance continuum. In services marketing, Bateson and Hui (1987) proposed a revised model where dominance is considered a cognitive/perceptual construct that influences pleasure and arousal, and where the effects of the environment follow a cognitive/emotional/behavioral sequence. In retailing the effects of the physical environment on consumers' have been empirically examined and researchers have concluded the following:

1. Pleasure and arousal are significant mediators of the intended shopping behavior within the store (Donovan and Rossiter 1982)
2. Arousal and Pleasure mediate the effects of social and ambient cues on consumers' willingness to buy (Baker, Levy and Grewal 1992).
3. Pleasure induced by store environment appears to be a strong cause of consumers' spending extra time in the store and spending more money than intended (Donovan, Rossiter, Marcolyn and Nesdale 1994)
4. In-store environment stimuli (expressed in terms of information rate) are positively related to the level of pleasure experienced in the store. In turn, environment induced emotional states in the store are positively related to in-store shopping behavior (Tai and Fung 1997)
5. Pleasure and arousal induced by the store environment are strong predictors of behavior intentions (Van Kenhove and Desrumaux 1997).

The marketing literature has long recognized that the physical environment is an important variable that may influence consumer responses (Baker 1987). The physical environment is particularly relevant in highly intangible services (Berry 1980) and in services where the consumer experiences the product/service while in the firm's facility (Booms and Bitner 1986). In these types of services the environmental conditions in which the service occurs are often employed by the consumer as tangible cues to the quality of the service rendered (Burton 1990; Grove and Fisk 1983; Turley and Fugate 1992; Zeithaml 1981). The services marketing literature has suggested that the physical environment should be included as a marketing mix element to influence specific modes of consumer behavior (Booms and Bitner 1986), and that service managers should focus on the design of the physical environment and in understanding the role it plays in the service delivery process (Congram 1991; Turley and Fugate 1992). In this regard, Legg and Baker (1991) have proposed the management of tangible cues in a way that consumers can infer experience and credence qualities of the service at the pre-consumption stage without actually experiencing the service.

### **Research Hypotheses**

Based on the literature review it is hypothesized that in a service physical environment consumers exposed to signs that provide experience attribute quality information will show a significantly higher pleasure (H1) and a significantly higher willingness to buy (H2) when compared to consumers exposed to signs that provide search attribute quality information. In addition, it is hypothesized that Pleasure mediates the effects of Informational signs on consumers' Willingness to buy (H3).

## Research Method

An experimental research procedure was conducted to test the research hypotheses in which search and experience attributes were manipulated and their effects on consumers' emotions (pleasure) and purchase behavior (willingness to buy) were examined in the context of a service physical environment. Undergraduate students participated in the various stages of the research project. The following pretests were involved in developing the research methodology:

1. Identification of a service relevant to undergraduate students.
2. Identification and categorization of the attributes to be used as exemplars for the search-experience manipulation that do not differ significantly with respect to attribute importance. The attributes identified as search and experience attributes were the following:  
*Search attribute* - Mechanics certifications and training.  
*Experience attribute* - Mechanics provide clear and thorough explanations about what is wrong with the car, what will be done and its cost.
3. Development and pretest of informational signs.
4. Development of written scenario.
5. Pretest of the pleasure scale (Baker et al. 1992) and the willingness to buy scale (Dobbs, Monroe and Grewal 1991).

The experimental research procedure was similar to that followed by Hui and Bateson (1991). The class sessions that participated in the study were randomly assigned to one of the treatment conditions. At the beginning of each experimental session the experimenter announced that the main objective of the study was to examine human reactions to daily situations. Then, subjects were instructed to open the survey booklet and to read the scenario. After reading the scenario the subjects were exposed to six slides. The slides depicted the waiting room of the service with one informational sign. The slides were projected on a big screen. (Prior studies confirmed that slides can adequately represent the environment (Bateson and Hui 1992; Bosselmann and Craik 1986; Hui and Bateson 1991).) Once the slides were projected for approximately five minutes, the subjects were instructed to answer the self administered questionnaire. The questionnaire measured pleasure (Baker et al. 1992), willingness to buy (Dobbs et al. 1991), demographic variables and manipulation checks about the attribute quality information in the informational sign.

## Research Findings

A sample of 109 undergraduate students participated in the experimental study. These participants correctly identified the attribute in the informational signs.

The results of the ANOVAS used to test the hypotheses 1 and 2 (H1 and H2) are summarized in **TABLE 1**. The analyses of variance indicate that consumers exposed to signs that provide experience attribute information show a significantly higher pleasure and a significantly higher willingness to buy when compared to consumers exposed to signs that provide search attribute quality information.

The results of the ANCOVA used to test hypothesis 3 (H3) is summarized on **TABLE 2**. The analysis shows that the effect of the informational sign treatment (ATTRIBUTE QUALITY INFORMATION) is reduced after adjusting for pleasure (COVARIATE). This result suggests that pleasure is a mediator of the effects of informational signs on willingness to buy.

## Discussion

This study integrated concepts from the disciplines of marketing, economics of information, and environmental psychology. It can be concluded that: 1. informational signs are a dimension of the service physical environment that influence consumers' emotions and purchase behavior, 2. information about experience attributes in the service physical environment increases consumers' pleasure and willingness to buy, and 3. pleasant environments affect purchase behavior.

From a theoretical perspective this study makes two contributions to the marketing literature. First, it examines how an environmental dimension influences consumers' emotions and purchase behavior. Researchers have recognized that the physical environment is an important marketing tool and that attribute quality information can influence consumers' emotions and purchase behavior. However, literature offers little insight into the linkages between informational signs (signs that provide attribute quality information as a dimension of the service physical environment), consumers' emotions and purchase behavior. The second theoretical contribution is that the study

provides an understanding of service consumers' information needs and service consumers' information acquisition activities. This study adds to the extant literature by suggesting that experience attribute quality information increases pleasure and increases willingness to buy in service physical environments.

The finding that informational signs in the service physical environment provide cues upon which consumers feel pleasure suggests that the management of informational signs can be used to affect consumers' emotions and purchase behavior in the service physical environment and suggests the opportunity of capitalizing on experience attribute information.

There are several potential limitations to the study. These limitations, along with the study's findings, also suggest directions for future research. Although the study results generally support the hypotheses, the results are necessarily limited to the context of the study. Future research is needed to explore the effects of informational signs on consumers' emotions and purchase behavior with other services (e.g. low risk, not frequently purchased, non-professional), scenarios (e.g. regular consumers, low critical scenarios), attributes (e.g. credence attributes), and environmental stimuli (e.g. videos, info-mercials, informational brochures and employee advice).

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**TABLE 1**  
**ANOVA RESULTS**  
**Effects Of Attribute Quality Information on Pleasure And Willingness To Buy:**  
**Cell Means, F-Ratios and Significant Levels**

	Attribute Quality Information		<i>F</i>	<i>P</i>
	<i>Search</i>	<i>Experience</i>		
<b>Pleasure</b>	<b>2.93</b>	<b>3.70</b>	<b>8.67</b>	<b>0.02</b>
<b>Willingness to Buy</b>	<b>2.59</b>	<b>3.46</b>	<b>12.39</b>	<b>0.00</b>

**NOTES:**

1. Auto repair service N = 109
2. A 7 item scale (1 = low to 7 = high) was used to assess pleasure.
3. A 3 item scale (1 = low to 7 = high) was used to assess willingness to buy.

**TABLE 2**  
**ANCOVA RESULTS**  
**Effects of Attribute Quality Information(AT) on Willingness to Buy**  
**with Pleasure as Covariate(PLE)**

No Covariate	$F(AT) = 12.39$	$P = .00$
Covariate (Pleasure)	$F(AT) = 4.28$	$P = .04$
	$F(PLE) = 81.75$	$P = .00$

## **The Roles of Communication and Participative Decision Making in Patient Compliance-- Abstract**

Angela Hausman, Marshall University

Patient compliance with physicians' instructions is a major individual and societal problem, costing millions of dollars per year in lost wages, increased healthcare costs, and lost profits. This study supports a significant role for both communication and participative decision-making in improving patient compliance, based on structural equation modeling results.

Medical attempts to increase compliance include patient education and training, but have been unsuccessful in significantly increasing patient adherence to physician advice. The impact of the physician-patient relationship on compliance, while suggested in the medical literature, has not been empirically assessed and is often underestimated. Evidence from relationship marketing suggests open communication and participative decision-making may have a positive impact on patient compliance. The purpose of this paper is specifically to test the roles of: 1) open communication between the patient and his/her physician; and 2) participation of the patient in determining treatment on compliance with physician recommendations.

The presentation proposes and tests the following hypotheses:

H<sub>1</sub>: Perceptions of open communication with their physician improve patient compliance with physician advice.

H<sub>2</sub>: Patients' perceptions of participation in the decision process with their physician improve compliance with physician advice.

H<sub>3</sub>: Interactions between open communication and participative decision-making improve compliance with physician advice.

A convenience sample was drawn from residents of a medium sized Midwestern city resulting in 239 survey responses. The instrument contained established scale measuring open communication and participative decision making. A new scale was developed to measure compliance using accepted procedures. Relational features assessed in the survey suggest enough contact to establish an encounter ritual and to develop shared understanding.

Cronbach's  $\alpha$  shows good internal consistency and SEM results support the construct validity for all scales.

Subsequent hypothesis testing on the three hypotheses was accomplished using SEM to produce goodness-of-fit statistics, path coefficients and associated t-values for hypothesized paths. The pattern of fit statistics established support for all three hypothesized relationships (GFI=.94; AGFI =.89; CFI=.99; RMSEA=.068;  $\chi^2=113.98$ ). Path coefficients were: open communication---compliance 0.57; open communication---participative decision-making 0.41; and participative decision-making---compliance 0.09

This study demonstrates how open communication and participative decision-making can improve patient compliance and argues that, despite the costs of allowing patient input in determining treatment options, positive outcomes are achieved through patient participation. Further, the study suggests that open communication requires more than one way communication, whereby the physician simply explains procedures beforehand. Open communication also must go beyond improving physicians' bedside manner to include social conversation. In this study, open communication (based on the interaction between it and participative decision-making) means listening, answering questions, and presenting treatment options in a way that allows patients to make truly informed decisions about their bodies.

## **Relationship Marketing: Loyalty In The Face Of Product Failure And Blame-- Abstract**

Randi Priluck, Seton Hall University

Relationship marketing has begun to gain acceptance as a strategy for developing effective consumer-firm exchanges. Firms, such as Chase Manhattan Bank, have used the notion of a relationship in the pursuit of a brand identity to attract consumers. This research is an exploratory study, which examines the role that a relationship plays in mitigating the effect of product failure when consumers perceive that the marketer could have prevented the failure. In such cases, consumers are expected to consider the new information about the relationship they have with the firm and evaluate whether the past relationship mitigates a negative consumption experience. Bolton (1998) suggests that long-term consumers continually update and re-assess relationships with firms based on past and present information. This research describes a situation in which consumers may consider adjusting their evaluations of a firm based on a negative experience, but instead remain loyal to the relationship.

In the marketing literature relationships have been described as existing on a continuum from relational to discrete exchanges (Dwyer, Schurr and Oh 1987). Relational exchanges are described as those that occur over time in which there is an anticipation of future dealings. Discrete exchanges are characterized as short term involving a single transaction between the consumer and the marketer (Dwyer, Schurr and Oh 1987).

When consumers enter into relationships with marketers, they do so voluntarily and may alter their value perceptions in favor of the firm (Crosby and Stephens 1987). Even if consumers blame the marketer for the negative consequences of poor product performance, they may be more likely to overlook the situation if they feel they have a relationship with the marketer. Therefore, the first hypothesis suggests that subjects engaged in a relational exchange with a firm who experience poor product performance and who perceive the marketer had control over the failure will be more satisfied with the encounter and will remain more loyal to the marketer than those in a discrete exchange. The second hypothesis examines the role of attributions in relationship marketing and suggests that a relationship will mitigate poor product performance even when the marketer is clearly to blame for the product failure.

Eighty seven students from an eastern university participated in a role playing experiment in which they were asked to imagine themselves in a particular familiar scenario. The study was a 2 X 2 factorial design. Subjects were randomly assigned to either a discrete or relational exchange condition and either a scenario in which the marketer was to blame for a product failure or a situation that was beyond the control of the marketer. Satisfaction with the marketer and loyalty to the marketer were measured separately.

The results indicate that hypothesis one was supported for both satisfaction ( $t = 3.99, p \leq .01$ ) and loyalty ( $t = 4.84, p \leq .01$ ) indicating that the relationship does mitigate in instances of poor product performance and blame. Hypothesis two was supported for loyalty ( $F_{1,83} = 6.31, p \leq .05$ ), but not for satisfaction.

References available on request.

## **Factors Influencing Consumer Credit Usage: Students and Their Parents—Abstract**

Elizabeth C. Alexander, Marshall University  
Angela V. Hausman, Marshall University

Building on extant research, this study investigates a broad range of variables affecting average credit balance and attitudes toward credit balances among consumers. Given the negative potentiality of high credit card balances and perceptions regarding the appropriateness of using credit, it would be interesting to examine differences in two types of credit card users: those with reported high balances in respect to their monthly income versus those with reported low balances. The purpose of this study was to examine the reported high and low balance users and their respective personal characteristics which may partially explain differences and attitudes toward carrying a balance and the size of the balance, including demographic and attitudinal variables. Specifically, the research addressed the following questions:

- 1) Do respondents reporting a high balance relative to their monthly income differ significantly from those reporting a low balance?
- 2) Do respondents perceiving their balance to be high differ significantly from respondents perceiving their balance to be low?
- 3) Do respondents perceiving a high balance relative to their monthly income but describing their balance to be low (classified as negatively mis-aligned) differ significantly from respondents reporting a high balance and perceiving that balance as high?

Results indicate that individuals reporting a high credit card balance are more likely to be female, younger, more impulsive, and less satisfied. Individuals perceiving their balance to be high were younger, more materialistic, more impulsive, and less satisfied. The group of respondents that reported a high credit card balance, but perceived that balance to be low were more materialistic. Further analysis suggests that age, education, impulsiveness, and satisfaction also contribute to group membership.

Further research exploring differences between the negatively mis-aligned and the positively mis-aligned groups in attitudes and usage of credit would be beneficial to marketers, educators, and the credit industry. Research could also continue to explore differences in credit card usage and attitudes related to developmental stages between the young (college age) and older users.

# **The Virtual Service Encounter: Opportunities for Research**

Maria Dolores Alvarez, Boğaziçi University

## **Abstract**

This paper examines the applicability of the service encounter literature to the remote, technology-mediated interaction between the customer and the service provider, defined as a virtual service encounter. Through a comparison between the physical and the virtual encounters areas for future research are identified and propositions are suggested.

## **Introduction**

The marketing literature on the service encounter has mainly concentrated on the physical, face-to-face interaction between the service provider and the customer, and only recently have authors started to pay attention to the impact of technology on the encounter (Bitner et al. 2000). With the emergence of new technologies, new channels of distribution for services are starting to appear. These are based on a remote interaction between the buyer and the seller, sometimes totally eliminating the need for the physical encounter of the participants. The purpose of this paper is to examine the remote interaction between the customer and the service provider through the use of online channels, such as the World Wide Web (WWW). If a service is delivered through the WWW, the interaction between the buyer and the seller is not direct but mediated by the technology. Here technology refers to the software and hardware needed for people to remotely access information or communicate with each other through the online medium. The applicability of existing research on the physical service encounter to a technology-mediated encounter will thus be discussed and research propositions will be proposed.

There seems to be a consensus among academicians and practitioners alike to use the word virtual to describe the online environment as an alternative to the real physical world (Hagel and Armstrong 1997; Shih 1998). Thus, the term virtual encounter will be used in the paper in relation to a technology-mediated encounter to distinguish it from a physical direct interaction between the buyer and the seller.

## **The Nature of the Virtual Service Encounter**

The virtual service encounter can be defined as a remote, non-physical, mediated interaction between a customer and a service provider. This encounter is achieved through the interactivity of both people and online technologies. Thus, the first characteristic of the virtual service encounter is that it is mediated; that is the participants do not interact with each other directly, but through the online medium.

The virtual service encounter, as the physical encounter, can further be characterized as interactive. Interactivity implies the ability to gather and remember the response of an individual and the capability to address this person taking into account his or her unique answer (Deighton 1996). Thus, during a technology-mediated encounter, sellers can immediately react to customer responses and tailor their services. For example, a person trying to purchase an airline ticket through the WWW will be asked the city of origin and destination, the price range and the dates for the trip. According to this information, different customized options will be offered to him.

The virtual encounter can also be either goal-oriented (eg. online gift shopping) or experiential (exploration of the Web in search of interesting site experiences) (Hoffman and Novak 1996). Similarly, during the face-to-face encounter between a buyer and a retailer, the customer can derive either utilitarian or hedonic value from the shopping activity (Babin et al. 1994). Recognizing the potential of the virtual encounter as providing hedonic value, many web-based service providers are offering stimulating new experiences, such as games, or interesting graphics, to increase traffic to their sites. For example, Disney's web site offers games, songs and pictures of favourite cartoon characters. Customers can visit it to buy Disney products, book a vacation at a Disney resort, or just for the fun of exploring this colorful site.

## **The Physical versus the Virtual Service Encounter**

### **Influence of the environment on the service encounter**

The services marketing literature has emphasized the physical nature of the encounter. This has led some authors to adopt the concept of an expanded marketing mix for services, including the physical evidence as comprising all tangible cues and the environment in which the service is delivered (Zeithaml and Bitner 1996). Perceptions of the environment can lead to beliefs, emotions and physiological sensations, which in turn influence behaviors (Bitner 1992). Furthermore, a cognitive reaction to the environment can be derived from the use of the

physical environment as an external cue to form beliefs about the quality and other attributes of the service. This is favored by the intangible nature of services where customers may need the use of surrogate indicators to form beliefs (Bitner 1992). A store's atmosphere can also induce emotions of pleasure or arousal on customers, resulting on approach or avoidance behaviors (Donovan and Rossiter 1982). Therefore, the physical surroundings can generate emotional, cognitive and behavioral responses from customers during the service encounter.

Similarly, the virtual environment where the technology-mediated encounter takes place can induce customer responses. The consumer perceives two environments when interacting with the computer: the physical environment in which he or she is located, and the virtual environment (Hoffman and Novak 1996; Shih 1998). The term telepresence is used to describe "the extent to which consumers feel their existence in the virtual space" (Shih 1998, p. 658). A high degree of telepresence would result in the individual's immersion in the virtual environment leading to positive affective feelings (Shih 1998). The more consumers enjoy the virtual interaction, the more time they will spend in the web site, browsing and spending money, often returning to the site for further virtual encounters. The virtual environment can thus generate an emotional response from the consumer.

The technology-mediated environment can also induce a cognitive response from the customer, creating an image of the service organization in the consumer's mind and producing external cues that can be used to infer quality and other attributes of the service. For example, the relative sophistication of a service provider's web site can be used by the consumer to infer high competence of the seller, and quality of the service to be provided.

The virtual environment can furthermore act on the ability of the consumer to achieve his goal, by minimizing or increasing the skills necessary to interact with the medium, or by offering elements of diversion, such as links to other web sites. Web advertisements can also use enticing wording and graphics urging individuals to click on the banner and move to the web site of the sponsor company. The virtual environment can thus induce a behavioral response from the consumer.

P1: The technology-mediated environment in which the virtual service encounter takes place will induce: (a) an emotional, (b) a cognitive, and (c) a behavioral response from the customer.

Further research should be directed at establishing the link between virtual environment and consumer response and determining the most important elements of the online environment to be used as part of an extended marketing mix by service providers. These elements might include links to other sites, graphics, pictures, colors, etc. What specific responses will be induced in customers is another important area for future investigations.

Hoffman and Novak (1996) have recognized the heterogeneity of consumers in their ability to interact with the online environment, thus providing an important segmentation base. According to these authors, consumers with lower skills than those required for the interaction will experience anxiety and be overwhelmed, while those with higher skills might become bored. Parasuraman et al. (2000) have also noted that a customer's technology readiness will affect his perceptions of the quality and value of the interaction with technology. Sen et al. (1998) have proposed web savviness as a new segmentation variable, referring to the desire of visitors to find state-of-the-art technology present in the web sites. These authors argue that some individuals novice to the WWW, might be discouraged by these features. Consequently, individuals will differ in their responses to the virtual environment.

P2: Customers with adequate technological skills to interact through the online medium with the service provider, will be more responsive to the virtual environment than those whose skills are either insufficient or excessive.

### **The Service Encounter as Social Interaction**

Several authors have recognized the role of the service encounter as leading to social interaction. The service experience which distinguishes one service organization from another is a result of the unique interaction between the customer and the service provider (Solomon et al. 1985). Furthermore, the experience of one customer can be affected, positively or negatively, by other customers (Grove and Fisk 1997). A study by Gwinner, Gremler and Bitner (1998), recognized that customers may receive social benefits such as friendship, as the result of engaging in long-term relational exchanges with service firms. Oliver (1999) has similarly acknowledged that social relationships may lead to loyalty.

Although the contact between the participants in the virtual encounter is not face-to-face, social interaction is still possible, especially among customers interacting with the same service provider through the medium. Virtual communities on the Internet are an example of how online relationships can be created. People with similar experiences or who share the same interests can come together and form meaningful personal relationships (Hagel and Armstrong 1997). Participation in a community has been recognized as a factor leading to loyalty as consumers submit to the judgements and recommendations of the group (Oliver 1999). Thus the social aspect of the virtual encounter and its potential for inducing loyalty and facilitating word of mouth should not be overlooked. One of the

most successful examples of a virtual community is The Well. In its web site, this community describes itself as “a cluster of electronic villages on the Internet, inhabited by people from all over the world.” (<http://www.well.com/aboutwell.html>). Members often return to this site to engage in discussions, attend virtual conferences, swap information or greet their friends online. As participants bring their contributions to the medium, they facilitate the dissemination of information regarding products and services of interest to members. Furthermore, an increasing number of Web sites try to encourage visitor's generated content, including bulletin boards and chat areas for individuals to interact with each other. An important advantage of the Web-based book retailer Amazon over traditional retailers, is its ability to provide book reviews from other readers.

P3: There is a positive relationship between the degree of social interaction achieved during the virtual service encounter and the customer's loyalty to the service provider.

### **Personalization and Customization of the Service Encounter**

The service encounter involves a dyadic interaction of service employees and customers (Solomon et al. 1985). The face-to-face contact between the buyer and the seller facilitates the personalization and customization of the service. Mittal and Lassar (1996) define personalization as “the social content of interaction between service employees and their customers. Thus 'personalization' concerns the manner in which service employees relate to customers as people - cold and impersonal on the one end to warm and personal at the other” (p. 96). The role of this interpersonal interaction has been recognized to influence customer satisfaction (Solomon et al. 1985) and perceptions of service quality (Mittal and Lassar 1996). Customization is different from personalization and it implies the ability of the service provider to adapt his offerings to meet specific customer needs. In a recent article, Bitner et al. (2000) have acknowledged the critical role of technology in facilitating this customization. These authors further argue that increased adaptation and flexibility result on increased customer satisfaction.

The virtual encounter takes place in a technology intensive environment which facilitates both personalization and customization. Service providers can collect data, which is either provided by the individual or gathered from his past behavior and purchases. Thus companies selling through the WWW can overtime form very complete customer profiles that will allow them to provide a personalized and customized treatment to buyers, For example, web-based music retailer CDnow lets customers design their own web pages according to their stated preferences and past purchases. Visitors can thus create a music store that is customized to their individual tastes. Early experiences of web service providers such as Excite, CDnow or Amazon, have concluded that customers who use the customization options tend to come back more than those who don't (Judge 1998). However, the capture of information that allows the seller to either personalize or customize his interaction with the customer in the online environment can be negatively perceived by the consumer as invading his privacy. Concerns regarding confidentiality and privacy, and the receipt of unsolicited communications, have been considered as negative aspects of technology infusions (Bitner et al. 2000). Furthermore, Sen et al.(1998) point out that “attitude towards privacy” is an important segmentation variable for Web users. Thus, further research should investigate how much personalization and customization in the virtual service encounter is desired by the consumer, and whether there are differences between individuals.

P4: Personalization and customization of the virtual service encounter will have positive effects on (a) provider evaluations, and (b) service evaluations, for those individuals who are less concerned about privacy issues.

### **The Impact of the Service Encounter on Service Evaluations**

The service encounter affects customer perceptions of service quality (Mittal and Lassar 1996), and it is implicit in some of the dimensions of perceived service quality as defined by Parasuraman et al. (1985; 1988). The “tangibles” dimension of service quality includes physical evidence of the service such as physical facilities, appearance of personnel, whereas the “assurance” dimension comprises the knowledge and courtesy of the employees in their interaction with the consumer (Parasuraman et al. 1988). These dimensions of service relate to a direct physical interaction between the service provider and the buyer. For the measurement of the quality of a service delivered remotely using technology, previously used instruments need to be adapted. Specifically, the ability of the virtual environment to provide representations of the service is not sufficiently recognized in the “tangibles” dimension of service quality in SERVQUAL (Parasuraman et al. 1988). This is a fertile area for research.

The service encounter has also been found to affect customer satisfaction. Solomon et al. (1985) determined that customers approach the service encounter with expectations regarding the role of themselves and the service provider in the encounter. The discrepancies of this expectation to the actual conditions of the encounter will

ultimately result in satisfaction/dissatisfaction. Several authors (Bitner et al. 2000) have recently argued that technology enhances customer satisfaction during the encounter, through the ability to offer customization and flexibility, an effective service recovery and an experience of spontaneous delight. The link between the use of technology and satisfaction has also been acknowledged by Alba et al. (1997). According to these authors interactive technologies can provide the consumer with a greater amount of information on product or service attributes. In some cases “experiential attribute information could be conveyed more effectively electronically than in-store” (p. 43), as the customer has access to not only seller-provided information, but also to the opinions and experiences of other fellow consumers. A greater amount of information would allow buyers to make more informed decisions and give them the ability to predict post-purchase satisfaction. Consequently, the use of online channels should increase customer satisfaction for those services where more information can be provided through the online medium.

P5: The ability to receive more information on the service during the virtual encounter will influence customer’s choice and expectations and thus have a positive effect on customer’s satisfaction with the service.

### **Conclusion**

Previous literature on the service encounter has stressed the physical direct interaction between the service provider and the customer. The advent of new online technologies enabling the remote delivery of services raises significant questions relating to the applicability of traditional theoretical frameworks to situations where the interaction between the buyer and the seller is remote and mediated by technology. However, old models should not be readily discarded but should be used as the basis for contrasting traditional and new mediums. Such comparisons will facilitate identification of the areas in need of research and will provide solid foundations on which to build new knowledge.

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# **Astrology: Its Influence on Consumers' Buying Patterns and Consumers' Evaluations of Products and Services**

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## **Abstract**

The impact of astrological signs on personality traits has often been investigated in the area of psychology. Every person is born into a specific astrological sign (e.g., Aquarius, Taurus). However, the effect of astrological signs has not been systematically studied in the marketing literature. Here, we apply the notion of zodiac signs to explain a) consumers' general evaluations of products and services and b) consumers' buying patterns (i.e., impulsive buying and compulsive buying) as personality traits. Following a survey of 239 college student subjects, we find that odd (e.g., Aries, Gemini) and non-water (e.g., Leo, Virgo) signs are positively associated with consumers' impulsive buying tendencies. The results also suggest that consumers born under water signs (e.g., Cancer, Scorpio) are more likely to show favorable evaluations of services than are those with non-water signs. Implications and future research topics are also discussed.

## **Introduction**

The impact of personality traits on consumers' buying patterns has been frequently investigated in the marketing literature. In most studies, researchers find that personality traits are important antecedents for explaining both patterns of buying behavior and consumers' perceptions of firms' marketing activities. Examples of such studies include: personality traits (e.g., impulsiveness, compulsiveness, risk-taking propensity, need for cognition, the role of self) and buyer behavior (Aaker 1999; Faber et al. 1995; Mantel 1999; Rook and Fisher 1995; Zuckerman 1983) and personality traits and marketing efforts (e.g., branding strategy, products) (Chan & Misra, 1990; Fournier, 1998; Venkartraman, 1991).

Astrological symbolism (i.e., zodiac signs) is one potentially important personality trait that has not been studied in the marketing literature. In contrast, researchers in psychology and even in organizational behavior have been consistently interested in studying the relationship between zodiac signs and attached personality traits which has been called astrological "theories" of personality. Such theories specify the association between astrological signs and a variety of personality variables.

The purpose of the present study is to investigate the influence of astrological personality traits on consumer buying patterns (i.e., impulsive buying and compulsive buying) and on consumers' reaction to marketing activities (i.e., evaluations of product quality and service quality). Here, we adopt two traditional astrological classification methods: odd/even zodiac signs and water/non-water zodiac signs. A literature review is provided, along with four research questions, and a survey of consumers is conducted to explore our research themes.

## **Literature Review and Research Questions**

### **Astrological personality traits**

Astrology is built around the idea that personality and destiny are unalterably predetermined by the position of the sun, moon, and planets at the moment of birth. That is, an individual's "sign" or "sun sign" is determined at the time of his/her birth by the position of the sun in the zodiac, a giant circle which encompasses the yearly path of the movement of the sun, moon and planets (Pellegrin, 1973). Since the western calendar is based on the laws of solar and lunar motion, the signs can be ascertained easily the birth dates. For example, all people born under the zodiac zone of Cancer (June 21 to July 20) are Aries whereas those born from July 21 to Aug 20 are under the sign of Leo.

Each of the zodiac signs is believed to be associated with a set of characteristics and to predetermine the characteristics of people born under certain astrological influence. Specific traits regarding an astrological sign assume that people born in any of the twelve signs inherently possess certain personality traits. That is, some traits are more salient with those born under one sign than in other signs. Jung (1961) contends that much apparently random variation in human behavior is actually orderly and consistent due to certain basic differences in the ways people approach their life style. Jung's (1961) type theory assumes that individuals are born with preference for some functions over others. Although there is variability in defining the specific characteristics of zodiac signs among researchers, most studies in astrology have used two classification systems (i.e., odd/even and water/non-water zodiac signs) to understand the relationship between astrological signs and their attached personality traits.

### **Odd vs. Even Zodiac Signs**

Traditional astrology theory states that when certain zodiac signs are “strongly emphasized” in the birth chart, there will be a tendency toward extraversion or introversion. Mayo (1978) argues that astrological proposition that people born with the sun in an odd-numbered sign of the zodiac (i.e., Aries, Gemini, Leo, Libra, Sagittarius, Aquarius) show a tendency toward extraversion, whereas those born with the sun in an even-numbered sign (i.e., Taurus, Cancer, Virgo, Scorpio, Capricorn, Pisces) show tendency toward introversion. According to Eysenck and Nias (1982), the link of these positive signs with extroversion can be interpreted in terms of active, assertive, outgoing, dominant, and risk-taking personality traits using Eysenck's biological trait theory. Similarly, negative signs symbolize passive, self-repressive feminine qualities. Other personal traits that are associated water signs include sensitivity and moodiness.

### **Water vs. Non-Water Zodiac Signs**

Another area of astrology involves the relationship between a specific group of zodiac signs and the neuroticism factors. Collating the neuroticism trait with the astrologically linked personality traits, Mayo and Eysenck (1978) propose that people born with the sun, moon, or planets in the "water" signs of Cancer, Scorpio, or Pisces tend to be more sensitive and emotional than do people who have the bodies in other elemental signs. Using the Eysenck Personality Inventory (Eysenck & Eysenck, 1964), Mayo and Eysenck (1978) find that individuals born under water signs exhibit higher neuroticism scores than do individuals born under other signs.

Psychological personality influences the buying process. In the same way, traits that are astrological personality traits could influence buying patterns. Impulsive and compulsive buying are two examples that have been long associated with some psychological traits. Impulsive buyers are characterized as experiencing more of an acute loss of impulse control when shopping, whereas compulsive buyers suffer from chronic loss of impulse control that develops into a repetitive pattern distinguished by much more serious consequences (d'Astous, 1990; Faber & Christenson, 1996; Rook & Fisher, 1995). Impulsive buying is also viewed as a desire for specific items, while compulsive buyers often lose interest in items after the purchase.

Here we investigate the following research questions:

- R1:** What are the relationships between astrological personality traits associated with several zodiac signs (i.e., odd/even and water/non-water signs) and impulsive buying?
- R2:** What are the relationships between astrological personality traits associated with several zodiac signs (i.e., odd/even and water/non-water signs) and compulsive buying?
- R3:** What are the relationships between consumers' astrological personality traits (i.e., odd/even and water/non-water signs) and consumers' general evaluations of products?
- R4:** What are the relationships between consumers' astrological personality traits (i.e., odd/even and water/non-water signs) and consumers' general evaluations of services?

## **Method**

### **Sample**

Survey questionnaires were administered to a convenience sample of 253 undergraduates. Questions were designed to measure consumers' buying patterns (i.e., impulsive buying and compulsive buying) and to assess consumers' overall evaluations of products and services. In addition, respondents were asked to report their date of birth to identify their individual zodiac signs. There were 239 respondents (95%, 239/253) after eliminating incomplete survey responses. Our sample consists of 131 males (54.8%) and 108 females (45.2%)

### **Measures**

**Zodiac Signs** Subjects' zodiac signs were identified by both their date of birth and self-reported zodiac signs. The number of subjects in each zodiac sign ranges from 13 to 25. It is interesting to note that women are more likely to know their correct zodiac signs than are men ( $\chi^2 = 15.8, p < .05$ ). In other words, 14.2% (34/131) of our male subjects report wrong zodiac signs whereas only 2.9% (7/108) of female respondents incorrectly identified their zodiac signs.

There are almost equal number of odd and even zodiac signs: 118 (49.4%) and 121 (50.6%), respectively. Finally, 28.5% (68) of our respondents are identified as the water signs whereas there are 171 non-water-sign subjects (71.5%).

**Other Measures** For the assessment of consumers' impulsive buying tendencies, Rook and Fisher's (1995) eight-item scale which is Likert-type scale with seven points (strongly disagree/strongly agree) was employed. An

item of the scale reads: "Sometimes I feel like buying things on the spur-of-the-moment." Compulsive buying behavior is one dimension of excessive and abnormal purchasing. In order to evaluate compulsive buying tendency, Faber and O'Guinn's (1992) seven-item Diagnostic Screener for Compulsive Buying was adopted. In assessing consumers' perceptions of the marketplace (i.e., product quality), Gaski and Etzel's (1986) index of consumer sentiment toward marketing was employed. Consumers' evaluations of another aspect of firms' marketing activity (i.e., service quality) was measured using the modified Gaski and Etzel's (1986) index of consumer sentiment toward marketing.

## Results

A series of one way analyses of variance (ANOVA) is conducted to investigate the impact of consumers' astrological personality traits on purchasing patterns (i.e., impulsive buying and compulsive buying) and consumer perceptions of the marketplace (i.e., product quality and service quality).

Some evidences of the role of consumers' astrological personality traits are found in the subjects' buying behavior patterns (see [Table 1](#)). First, odd zodiac signs are more likely to engage in impulsive purchasing tendency than are even zodiac signs ( $F=4.40, p<.05$ ), whereas there is no relationship found between compulsive buying tendencies and odd/even astrological signs. Second, the results show that water/non-water zodiac signs do not contribute to consumers' compulsive buying tendencies. Consumers who belong to water zodiac signs are less likely to engage in impulsive purchasing than are those with non-water zodiac signs. Thus, our evidence indicates that zodiac signs can influence impulsive purchase behavior (R1) but not compulsive purchase (R2) as indicated by extant scales for measuring these syndromes.

Finally, the influence of consumers' zodiac signs on consumers' marketplace perceptions (i.e., product quality and service quality) are assessed. First, we find that neither odd/even zodiac signs nor water/non-water astrological signs play a significant role in consumers' evaluations of product qualities (see [Table 3](#)). Second, we find that odd/even zodiac signs do not influence consumers' general assessments of service qualities. However, the results suggest that there is significant relationship between consumers' water/non-water zodiac signs and their overall evaluation of perceived service quality ( $F=6.16, p<.05$ ). That is, consumers who were born in water-sign period are more likely to show favorable attitude toward firms' service qualities than are those born in non-water zodiac time. Thus, we find that zodiac signs do not influence overall evaluations of product quality (R3), but they do influence overall evaluations of service quality (R4).

## Discussion

Astrology has received a considerable amount of interest in the psychology literature. Here, we explored four research questions that link the notion of astrological signs with consumer activities and perceptions in the marketplace. The results in the present paper suggest that consumers who were born under even zodiac signs and non-water zodiac signs are more likely to exhibit impulsive buying tendencies than are those born under even and water zodiac signs. We also find that consumers who were born under water signs are more likely to show favorable evaluations of firm's services than are those born under non-water signs.

We find some evidence to link astrology and marketplace perceptions. Here, we adopted only two zodiac classification methods (i.e., odd/even and water/non-water zodiac signs). Future research might want to employ other classifications such as fire (i.e., Aries, Leo, Sagittarius), earth (i.e., Taurus, Virgo, Capricorn), and air (i.e., Gemini, Libra, Aquarius). Birth location and Chinese zodiac signs are also of interesting topics for future research. From a marketing perspectives, the role of zodiac signs in consumers' actual marketplace selections is worthy to investigate since firms have already implemented the use of zodiac signs in consumer market (e.g., Ford Taurus). In our study we investigated perceptions, but we used existing scales to assess consumer behavior patterns (e.g., compulsive and impulsive buying).

Some consumers believe in their zodiac signs and believe that astrology is a powerful, predictive method. Others don't believe at all in the predictive power of astrology. Here, we focus on the consumers' birth into an astrological sign. In future studies, it might be interesting to compare believers and non-believers. Does the marketplace behavior of these two groups vary in some systematic way? Is there a difference between believers in the Chinese system of astrology and believers in Western versions?

The present study is exploratory in nature. We take some initial steps toward illustrating the potential application of astrology to marketing. Astrology has a long and controversial history. Marketing is a relatively new applied social science. Thus, there are interesting areas of intersection (and conflict).

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**Table 1:**  
**ANOVA Results for Odd/Even and Water/Non-Water Astrology Signs**

Research Questions	Odd/Even Zodiac Signs		Water/Non-Water Zodiac Signs		F
	Odd (n=118)	Even (n=121)	Water (n=68)	Non-Water (n=171)	
<b>R1: Impulsive Buying<sup>1</sup></b>	30.3 (9.5)	27.7 (9.8)	27.0 (9.6)	29.7 (9.6)	<b>3.81*</b>
<b>R2: Compulsive Buying<sup>2</sup></b>	13.6 <sup>a</sup> (6.7) <sup>b</sup>	13.3 (6.3)	12.7 (5.8)	13.8 (6.8)	1.34
<b>R3: Evaluations for Products<sup>3</sup></b>	9.4 (3.3)	8.8 (3.4)	8.8 (3.6)	9.2 (3.3)	1.01
<b>R4: Evaluations for Services<sup>4</sup></b>	9.4 (3.2)	9.0 (3.2)	8.4 (3.2)	9.5 (3.2)	<b>6.16*</b>

Note: \* significant at  $p < .05$

<sup>a</sup> mean, <sup>b</sup> standard deviation

<sup>1</sup> scale range: 1 - 56, observed scale range: 8-56, the higher the more impulsive buying tendency

<sup>2</sup> scale range: 1 - 42, observed scale range: 5 - 35, the higher the more compulsive buying tendency

<sup>3</sup> scale range: 1 - 21, observed scale range: 3 - 21, the higher the more unfavorable evaluations of products

<sup>4</sup> scale range: 1 - 21, observed scale range: 3 - 20, the higher the more unfavorable evaluations of services

# **An Examination of Export Success Determinants Between Manufacturing Andservice Firms Using Artificial Neural Networks**

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## **Abstract**

This study examines the export performance of 106 randomly selected firms engaged in fabricated metal manufacturing and engineering services. A mail survey is used inquiring about environmental, organizational, managerial, strategic, and functional determinants of these exporting firms. A feedforward Artificial Neural Network (ANN) is selected in addressing two primary research questions. Can industry/performance category membership of fabricated metal manufacturers and engineering service exporters be predicted? Which determinants are the most effective in discriminating among the categories of these manufacturing and service firms? The research suggests that each group's membership can be consistently and accurately predicted. Also, results further identify which determinants significantly associate with category membership supported by differences in training and testing of the ANN and through feature extraction.

## **Introduction**

The study of export behavior and performance has focused primarily on the operational variables associated with export initiation and export success. In this context, a majority of studies have used manufacturing firms as a population. It is difficult to find comprehensive empirical analyses of similar variables in a service setting. The general marketing literature suggests that goods and services require different strategies regarding marketing mix implementation. However, few studies have examined these operational variables in an international marketing/export context.

Furthermore, many earlier studies characterized as using a high degree of conceptual complexity failed to employ a high degree of statistical testing. It has been suggested that in order to avoid misleading or unreliable research findings, more appropriate and complex statistical techniques should be employed (Albaum & Peterson, 1984).

## **Literature Review**

The identification of key operational variables and their association with export performance continues to evolve. This study attempts to categorize a selected group of variables that have consistently demonstrated an association with export performance in earlier studies. The five categories of independent determinants used are environmental, organizational, managerial, strategic, and functional. These are similar to those used by Ford and Leonidou (1991). Environmental determinants are variables outside the control of the firm that appear to have a tangent relationship with export performance. Most of the early literature suggests that these factors are more critical during the firm's early decision-making stage regarding whether or not to begin exporting. The most recurrent environmental variables are identified as cultural differences with export markets (Douglas & Dubois, 1977; Johanson & Nonaka, 1983), government barriers in the host country (Rabino, 1980), infrastructure development and facilities (Green, 1982; Kaynak & Kothari, 1984), availability of local export services (Cunningham & Spigel, 1971; Cavusgil & Kaynak, 1982), and degree of competition (Alexandries, 1971; Daniels & Robles, 1985). Organizational determinants are variables closely linked with the physical attributes of the firm. Studies indicate that the exporting firm's structure directly associates with export behavior and performance. Organizational determinants are within the control of management and have a high correlation with managerial commitment. These common factors are export divisions within the firm (Burton & Schlegelmilch, 1987), export policies within the firm (Cavusgil et al., 1979; Bello & Barksdale, 1986), sales volume (Reid, 1985), and number of employees (Cavusgil, 1976).

Managerial factors are the third group of operational variables examined. Similar to organizational determinants, these variables are directly associated with management's behavior, perceptions and expectations about exporting. Also, the ability to learn from previous international experiences is also present within this category. The six specific variables are growth aspirations from exporting (Tesar, 1975; Cavusgil et al., 1979; Cavusgil & Nevin, 1981; Smith, 1999), export orientation: marketing vs. selling (Kaynak & Kothari, 1984), commitment to exporting (Tesar, 1975; Cavusgil et al., 1979; Czinkota & Johnston, 1983; Moini, 1992; Smith,

1999), frequency of foreign market visits (Cunningham & Spigel, 1971; Bello & Barksdale, 1986), perception of export barriers (Tesar, 1975; Bauerschmidt et al., 1985; Axinn, 1988; Smith, 1998), and foreign language proficiency (Joynt, 1982; Sullivan & Bauerschmidt, 1987).

Strategic determinants are the variables most closely associated with traditional marketing mix decisions. Management again plays a vital role in determining which strategies will be used in the various marketing stages. The ability to accurately implement the appropriate mix strategy in an international context directly relates to export performance. The strategic factors examined in this study are product and packaging adaptation (Johnston & Czinkota, 1985; Christensen et al., 1987), product advantage (Tesar, 1975; McGuinness & Little, 1981; Moini, 1992; Smith, 1999), product delivery performance (Rosson & Ford, 1982; Grottko & McMahon, 1988), pricing practice in foreign markets (Kirplani & MacIntosh, 1980; Piercy, 1981; Bilkey, 1982; Christensen et al., 1987), overseas promotion (Kirplani & MacIntosh, 1980; Yaprak, 1985), and promotion adaptation (Kirplani & MacIntosh, 1980).

Functional determinants are variables that correlate with management's ability to prepare for new international markets. The literature consistently shows that successful exporters analyze as much information as possible prior to entering the foreign market. Management's ability to collect and synthesize foreign market data is vital to the export venture. The primary functional factors identified are the availability of export information (Reid, 1984), use of export marketing research (Czinkota & Johnston, 1983; Denis & Depelteau, 1985), existence and adequacy of an export market plan (Hunt et al., 1970; Kaynak & Kothari, 1984), and availability of sources to finance the export effort (Tookey, 1975; Kaynak & Kothari, 1984).

### **Performance Measures**

The examination of export performance is accomplished using an accepted approach of performance measurement (export sales to total sales ratio) (Gemunden, 1991). Earlier similar studies select an arbitrary export ratio percentage (10%) as a threshold for successful exporting. This study also uses a greater than 10 percent export sales to total sales ratio as the indicator of successful export activity for classification purposes.

This study assumes the concept of successful export performance. Various citations in the literature question success in the context of a measurable outcome (Aaby & Slater, 1989; Moini, 1992). The measures incorporated in this study are supported by previous literature (Tookey, 1964; Kirplani & MacIntosh, 1980; McGuinness & Little, 1981; Cavusgil, 1984; Cooper & Kleinschmidt, 1985; Louter, et al., 1991; Sriram & Sapienza, 1991), but the questionable subjectivity of success should be noted (Axinn, 1985).

The performance ratio is combined with the two represented industry sectors sampled. This combination creates four mutually exclusive membership categories: (1) manufacturing – successful; (2) manufacturing – unsuccessful; (3) service –unsuccessful; and (4) service successful (see [Figure 1](#)).

### **Methodology**

The 25 independent variables are grouped by environmental, organizational, managerial, strategic, and functional determinants as developed in the literature review (see [Figure 2](#)). Specifically, the independent variables are measured using a Likert scale response format. Artificial neural networks are increasingly receiving considerable attention in solving complex practical problems in non-engineering areas for which conventional approaches have proven ineffective. ANN's have many advantages including data compression, parallel computation, and ability to learn and generalize. Neural networks are selected as the statistical method because the research questions involve a highly nonlinear function of several variables and they have been proven to numerically approximate such functions much easier than conventional methods. The process consists of three phases, learning, validation, and feature extraction (Bigus, 1996). The ANN approach to data analysis is chosen because of its ability to consistently and accurately predict membership classification and for providing weighted analyses of independent (input) variables.

In its basic form, an ANN consists of many interconnected simple processing units, called neurons or nodes, which form layers. An individual neuron aggregates its weighted inputs and yields an output through a nonlinear activation function. ANN's can be divided into two architecture groups depending on the type of node interconnections. The first type is the feedforward network (see [Figure 3](#)) and is used in this study. The second type is the recurrent network, which is formed by feedback connections of the nodes. The choice between the two types of the neural networks and the learning algorithms is problem dependent. The feedforward networks inherently have no time dependence, which makes them good candidates for static nonlinear mapping, pattern

classification, and function approximation, making them appropriate here. The functionality of an ANN is determined by modifying the weights of the connections during the learning phase (McClelland & Rumelhart, 1986).

The architecture of the neural networks (number of neurons and layers) has been established through trial and error guided by the authors' experience in similar studies. The generalization ability of the trained neural network was established with no indications of over and underfitting. The criteria for successful use of neural networks are found through convergence and consistency of the results.

The source of respondents for this sample is the InfoUSA database of American businesses. The specific respondent groups are identified as fabricated metal manufacturer (SIC 34) and engineering services (SIC 87). The respondents meet the following conditions: (a) they are not subsidiaries or related to any other firms within the study; and (b) answers are provided by senior company officials. Five hundred questionnaires were sent out with a cover letter explaining the purpose of the study. The instrument is found to be reliable with a cronbach alpha of .7255 while demonstrating validity through previous empirical conclusions.

## **Results**

The survey resulted in a response from 106 firms (21.2%), both manufacturing and service exporters. Twenty-two (22) of the firms are successful manufacturing exporters (M+), 33 are unsuccessful manufacturing exporters (M-), 30 are unsuccessful service exporters (S-), and 21 are successful service exporters (S+). Firm responses show no bias toward region or size. The median age of the firm's exporting experience is 8.4 years.

## **Learning**

The ANN consists of 25 input neurons (corresponding to the number of independent determinants), 2 hidden layers with 20 and 10 neurons, and 4 outputs (corresponding to dependent membership classification and scaled between zero and one 0.20, 0.40, 0.60, 0.80). The learning rate was set at 0.7; the momentum rate was 0.9. The training set included 102 samples numbered sample 1 through 102. The number of iterations to complete the learning phase was 4419. The normalized system error upon completion of the training was 0.00001. Using four selected respondents (7,25,59,84), the results indicate that the ANN learned the sequencing of proper membership classification (see [Table 1](#)). The expected responses (true) and the calculated ANN responses are extremely close indicating that the patterns have been learned. Although the number of cases in the training set (102) is somewhat low, results were encouraging nonetheless. The results may have been better if the training set was more elaborate. However, this would require greater resources (time and money).

## **Validation**

[Table 2](#) provides the results of the validation phase. Validation is done using samples that were withheld in the learning phase. Using four withheld samples (one from each membership category), response data were entered and run with the previously learned ANN. The anticipation is that membership category classification is predicted. Results show that the ANN places the firms into their prospective membership category with almost exact precision to those established in the training set.

## **Feature Extraction**

When investigating the sensitivity of the independent variables (25 determinants), the following method is applied: (1) choose a base respondent from each membership category; (2) change one data feature at a time (5 options); (3) run the new samples through the ANN; (4) using the outputs of the ANN, calculate the maximum change in percent occurring in the dependent variable based on the change in each independent variable.

The results suggest (see [Table 3](#)) that independent variables can be clustered into three types (dominant, moderate, passive). The ability to cluster the determinants allows for the generalization of similarities and differences among the four membership categories.

## **Performance Profile**

A comparison of the successful fabricated metal manufacturing and engineering services exporters is provided. However, when examining the variable cluster strengths, many practical conclusions may be formed. The successful manufacturing exporters are extremely similar to service exporters with regard to having established export policies in place within their firms and having a dedicated commitment to exporting by senior management.

These two variables are consistent with earlier export performance literature. The sampled firms are moderately similar with regard to: (1) the significance of competition in the foreign markets; (2) sales volume; (3) the frequency of foreign market visits; (4) foreign language proficiency; (5) export orientation; (6) product and packaging adaptation; (7) product delivery performance; and (8) promotion adaptation.

The major differences in the responses of successful manufacturing and service exporters are found with: (1) number of employees; (2) the perception of product advantage; (3) the availability of export information; and (4) the use of export marketing research. The deductions from these results suggest that successful manufacturing exporters are substantially larger than successful service exporters and also believe they have a product advantage in their foreign markets. Furthermore, successful service exporters believe there is an abundance of export information available for their export ventures and also seem to focus on export market research to a greater extent than the successful manufacturing exporters.

### **Conclusion**

This study's intent is to determine: (1) if fabricated metal manufacturing exporters' and engineering service exporters' performance can be predicted using 25 established independent determinants, and; (2) which of these determinants discriminate most effectively among the membership categories. Identifying which determinants are more influential among category membership also allows for further explanation of the industry/performance differences.

As expected, the results empirically predict group membership significantly greater than chance. Also, there are specific determinants that better discriminate among the four performance groups. These results are useful because they: (1) support early studies which also predict export activity among various manufacturing groups; (2) provide insight into differences between the two business sectors; (3) offer an approach for similar research examining export behavior within/between other industries; and (4) provide a practical benchmark for exporters in similar industries, comparing their current and potential exporting strengths and weaknesses. Further research in this area should include the use of longitudinal studies and the development of more operational variables.

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**Figure 1**  
**Dependent Variables**

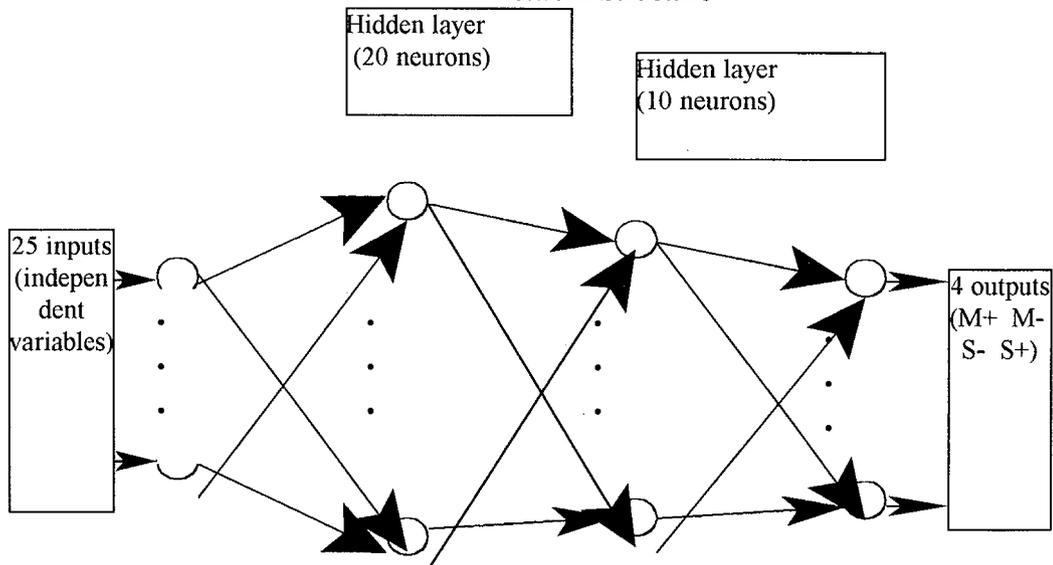
**Category Membership**

- M+**    **Manufacturing firm exporting greater than 10% of total sales**
- M-**    **Manufacturing firm exporting less than or equal to 10% of total sales**
- S-**    **Service firm exporting less than or equal to 10% of total sales**
- S+**    **Service firm exporting more than 10% of total sales**

**Figure 2**  
**Independent Variables**

- |   |  |
|---|--|
| <p align="center"><b>Environmental</b></p> <ul style="list-style-type: none"> <li>1 Cultural Differences with Export Markets</li> <li>2 Government Barriers in Host Country</li> <li>3 Infrastructure Development and Facilities</li> <li>4 Availability of Local Export Services</li> <li>5 Degree of Competition</li> </ul> <p align="center"><b>Organizational</b></p> <ul style="list-style-type: none"> <li>6 Export Divisions within the Firm</li> <li>7 Export Policies within the firm</li> <li>8 Sales Volume</li> <li>9 Number of Employees</li> </ul> <p align="center"><b>Managerial</b></p> <ul style="list-style-type: none"> <li>10 Growth Aspirations from Exporting</li> <li>11 Export Orientation: Marketing vs. Selling</li> <li>12 Commitment to Exporting</li> <li>13 Frequency of Foreign Market Visits</li> <li>14 Perception of Export Barriers</li> <li>15 Foreign Language Proficiency</li> </ul> | <p align="center"><b>Strategic</b></p> <ul style="list-style-type: none"> <li>16 Product and Packaging Adaptation</li> <li>17 Product Advantage</li> <li>18 Product Delivery Performance</li> <li>19 Pricing Practice in Foreign Markets</li> <li>20 Overseas Promotion</li> <li>21 Promotion Adaptation</li> </ul> <p align="center"><b>Functional</b></p> <ul style="list-style-type: none"> <li>22 Availability of Export Information</li> <li>23 Use of Export Marketing Research</li> <li>24 Existence and Adequacy of Export Market Plan</li> <li>25 Availability of Sources to Finance Exporting</li> </ul> |
|---|--|
- 

**Figure 3**  
**Artificial Neural Network Structure**



**Table 1**  
Selected Results from the Learning Phase

<b>Respondent</b>	<b>Outputs</b>	<b>M+</b>	<b>M-</b>	<b>S-</b>	<b>S+</b>
7	ANN	0.195584	0.001273	0.000000	0.000149
	True	0.200000	0.000000	0.000000	0.000000
25	ANN	0.000268	0.401587	0.001224	0.002570
	True	0.000000	0.400000	0.000000	0.000000
59	ANN	0.000746	0.002240	0.599643	0.000971
	True	0.000000	0.000000	0.600000	0.000000
90	ANN	0.000480	0.001129	0.000095	0.800551
	True	0.000000	0.000000	0.000000	0.800000

**Table 2**  
Validation Results from the Holdout Samples

<b>Respondent</b>	<b>Output</b>	<b>m+</b>	<b>m-</b>	<b>s-</b>	<b>s+</b>
<b>Holdout Respondent 1</b>	ANN	0.154125	0.001788	0.000000	0.000143
	True	0.200000	0.000000	0.000000	0.000000
<b>Holdout Respondent 2</b>	ANN	0.001542	0.427814	0.000000	0.000118
	True	0.000000	0.400000	0.000000	0.000000
<b>Holdout Respondent 3</b>	ANN	0.000745	0.002244	0.600614	0.000970
	True	0.000000	0.000000	0.600000	0.000000
<b>Holdout Respondent 4</b>	ANN	0.000515	0.000212	0.001344	0.793744
	True	0.000000	0.000000	0.000000	0.800000

**Table 3**  
**Determinant Weights Identified Through Feature Extraction**

<i>Category</i>	<b>Dominant</b>	<b>Moderate</b>	<b>Passive</b>
<b>Manufacturing – Successful (M+)</b>	5, 7, 8, 9, 12, 13, 15, 17	4, 11, 14, 16, 18, 19, 21, 24	1, 2, 3, 6, 10, 20, 22, 23, 25
<b>Manufacturing – Unsuccessful (M-)</b>	5, 9, 11, 13, 17, 18, 19	3, 7, 8, 12, 14, 15, 16, 22, 23, 24, 25	1, 2, 4, 6, 10, 20, 21
<b>Service – Unsuccessful (S-)</b>	5, 8, 9, 14, 19, 23, 25	2, 6, 10, 12, 17, 18, 20, 22	1, 3, 4, 7, 11, 13, 15, 16, 21, 24
<b>Service – Successful (S+)</b>	7, 9, 11, 12, 16, 18, 21, 22, 23	2, 3, 5, 8, 13, 15, 19, 20, 24	1, 4, 6, 9, 10, 14, 17, 25

**Dominant – greatly influence the dependent variable**

**Moderate – somewhat influence the dependent**

**Passive – minimally influence the dependent variable**

# **A Means-end Approach To Investigating The Influence Of Perceived Value On Consumers' Purchase Intentions**

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## **Introduction**

Customer value has become the focus of firm strategy in the 1990's (Chan and Marborgue 1997; Slater 1997). Managers can benefit by understanding of the confluence of price, quality, and value on customers' comparative judgments and intentions to repurchase. A thorough comprehension of these relationships would provide a sound basis for formulating operations and communications strategies (Vantrappen 1992). Recently, there has been a good deal of attention given to the use customer value (Band 1991; Gale 1994) in marketing, but there is still a need to examine the importance of customer value across industries. The purpose of this study is to investigate the influence of customer perceptions of price and quality on value, comparative judgments, and repurchase intentions using means-end theory (Gutman 1982; Reynolds and Gutman 1984) for hotel travel.

## **Background Literature**

The central thesis of means-end theory is that individuals are goal directed and use product attributes as a means to infer desired consequences or ends (Gardial, Clemons, Woodruff, Schumann, and Burns 1994; Gutman 1982). This implies that the benefit or value of a product or service for a traveler is determined by the extent to which the product or service helps the traveler achieve desired ends as well as the importance of these ends for the traveler. Zeithaml (1988) proposed a means-end model linking the constructs of perceived price, quality, and value. According to her model, people evaluate products on the basis of their perceptions of price, quality, and value, rather than objective attributes such as actual prices or actual quality. Bojanic (1996) attempted to empirically test the relationships implied by the means-end model using *Consumer Reports* data for major hotel chains. The unit of measurement was at the hotel level, representing aggregated evaluations of major hotel chains by consumers. The most important findings were that customers could perceive comparable value over various price levels and that value was significantly related to customer satisfaction.

## **Method**

We employed a structural equation modeling approach to investigate relationships between price, quality, and value, and their confluence on travelers' comparative judgments and intentions to revisit the property. The data for the study was based on the responses to a survey mailed to guests of an upscale hotel located in the northeastern part of the United States. The hotel was located in a major city in close proximity to businesses and tourist attractions. Guests rated their perceptions of the quality of the room, public areas, and staff and services during their most recent stay at the hotel. Respondents also recorded the overall value of their stay and rated the hotel in comparison to similar hotels. The final sample contained 396 observations from respondents who provided information for all of the variables included in the model.

## **Results**

The results of this study support the contention that perceived value can have a significant impact on consumers' evaluations of a service experience, and their intentions to repurchase. In this case, as the perceived value that hotel travelers' associate with the hotel increases, their comparative ratings of the hotel and likelihood of revisiting the hotel both increase. It is also important to note that while the quality ratings had some level of a direct impact on consumers' comparative ratings, consumers' intentions to revisit were only affected by quality ratings through their impact on perceived value and comparative ratings – not directly. This may support the notion that perceived value is a higher level construct than perceived quality (Zeithaml 1988).

## The Role of Customer Value in Arriving at an Assessment of Satisfaction - Results of an Causalanalytical Study

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### Abstract

The aim of this contribution is firstly to define the nature of the customer value construct and to make a contribution to the operationalization of this latent variable. Secondly, it was intended that the relationship between customer satisfaction and customer value should be subject to closer scrutiny. Third to show the relevance of the construct of interest an empirical study in the car retailing industry was conducted.

### Introduction

Very little attention has been paid to value as a determinant influencing purchasing decisions in the existing literature on marketing (Holbrook 1994; Woodruff 1997). A number of models for explaining the purchase decisions of consumers do take constructs such as quality and satisfaction with the purchased product or service into account. However very few researchers have devoted much attention (de Ruyter, Bloemer & Peeters 1997) to value which, in connection with services, is described by Zeithaml & Bitner as the "...key competitive factor defining the way services are bought and sold." (1996, p. 32). One established outcome of this work is that the term customer value represents a complex construct which is not amenable to direct observation but which influences purchasing behavior and which has very little in common with what we normally understand by value, that is a simple trade-off between quality and price (Rust & Oliver 1994).

In the following paper, the dimensionality and role of the customer value construct in the context of the decision for a particular product or service will be subject to detailed discussion in an attempt to close the research gap revealed by Sinha & DeSarbo (1998). The role played by the construct when use is made of a service as well as the effects of offering a value-creating service are the focus of an empirical study. The paper ends with a few concluding remarks and a summary of further possible research work.

### The Nature of Perceived Value

As suggested by many researchers, the value of a product or service as interpreted from the consumer's point of view is the product of the consumer's subjective judgment about the product or service offering (Zeithaml 1988). It is in this sense that Woodruff define customer value as "a customer perception of what they want to happen in a specific use situation, with the help of a product and service offering, in order to accomplish a desired purpose or goal." (1997). Along with numerous other authors they emphasize the value judgment which is the product of weighing up positive consequences (utility) and negative effects (costs). This research team has also demonstrated how the comparative process is influenced by the resulting customer value (Gale 1994). However this view is by no means universally accepted (Danaher & Mattsson 1994; DeRuyter et al. 1997). Reviewing the literature, Holbrook offers a far broader definition. He regards the term value as representing an "interactive relativistic consumption preference experience" (1994). Directing attention solely to the way in which utility and costs are weighed up is, in his opinion, a far too narrow approach to things. Much greater emphasis he believes should be placed on the process of arriving at a value judgment about an offered product or service in the context of the customer – manufacturer relationship. The value generated from this *interaction* can never be either entirely subjective or objective. Holbrook also takes the view that, for the consumer, the value-adding process is not limited to the use situation but is also determined by experiences during the pre-purchase and purchase phase. The consumer does not experience the value so much at the moment of purchasing a product or service as through the *consumption* of this product. This then expresses the doubly dynamic character of this construct. On the one hand, value is not limited to a particular phase of the purchasing process and, on the other hand, needs to be interpreted in the light of customers' changing desires during each phase of the purchasing process. Accordingly, value is based on preference, granting priority to a superior product or service (Holbrook 1994, p 39) as a result of its ability to better fulfill the individual desires of the would-be purchaser. Preference for a product or service on the other hand is the result of a *relative* comparison of appropriate utility criteria as these reflect individual appraisals and the situative context in which the judgment is made.

Given changing customer requirements and the fact that modifications to the product pallet may not necessarily satisfy new desires, consumers are not able to assume that products and services will continue to supply them with

value in the future. As a result, Sweeney et al. (1998) have added a further dimension to the definition proposed by Holbrook. In the view of this research team, the value of a product or service for the customer arises not only from a comparison of costs and utility across the entire process of purchasing and using the product or service. Rather, risks contingent on the realization of cost and utility components also need to be taken into account. Summarizing these individual aspects, customer value represents the cost and utility components as well as the risks associated with a product or service throughout the purchasing and utilization phases and is determined by the customer on a subjective, comparative basis.

The three factors utility, cost and risk are useful in operationalizing the construct under consideration. The utility gained by the consumer can be given more concrete form on the basis of the research work undertaken by Vershofen (1959). He developed a utility ladder based initially on the distinction between basic utility and additional utility. In this respect he believed that a differentiation of utility into its technical and functional components (basic utility) and intellectual and emotional components (additional utility) is only very broadly reflected in the actual integrated experience of consumers. In this respect this interrelated whole can only be broken down into successive or discrete components for purely analytical purposes. For our purposes however it is useful to subdivide utility into functional utility (practical components) (Holbrook 1994 and de Ruyter, et al. 1997b) and emotional additional utility (emotional components) (Danaher & Mattsson 1994).

Alongside utility the value of a product or service from the perspective of the customer is also characterized by the 'sacrifice' demanded of the latter (Hartman 1967, p. 310). This sacrifice, as Zeithaml (1988) has noted, not only includes out-of-pocket costs but also non-monetary costs such as time, transaction, search and other costs. These costs cannot however be determined in isolation from the product or service (logical components) (de Ruyter et al. 1997), in other words, these are costs which are weighted up against the outcome of the product or service in each of the phases of the purchasing process and in the use situation (Rust & Oliver 1994). The value construct thus is represented with emotional, practical, logical and risk components. The individual dimensions do not of course occur in isolation. Holbrook makes this clear when he states: "... (a) the dimensions of value are continua admitting large shaded or gray areas rather than providing sharp dichotomous distinctions, and (b) any one consumption experience is likely to *involve more than one type of value simultaneously*" (1994, p. 56). On the basis of our present state of knowledge the complex of interactions described evince several advantages in comparison with the operationalizations of customer value drawn on so far: Firstly, non-quality-related attributes or dimensions such as event uncertainty are taken into account. Secondly, the approach not only embraces logical components, i.e. a *cognitive* assessment or evaluation of the consumption situation, but also *affective* components (de Ruyter, et al. 1997).

Having discussed the operationalization of the construct in some detail, we now wish to know during which of the product or service provision phases value plays a role for the consumer. Simply to say that the customer is especially interested in value at the moment the product or service is provided is, given the complexity of the processes involved in creating products and services, a trivial statement which needs to be defined more closely. In order to arrive at a more precise statement it is initially necessary to distinguish each of the abstract levels of the process involved in creating a product or service. We should also note that, following the general elucidation of the theoretical and definitional groundwork thus far, we now turn our attention to the service sector as the empirical study relates to motor vehicle-related services.

## **Hypotheses**

Beginning with the assumption that the consumption of services can be characterized as a process, in Connor's view the consumer not only assesses the whole transaction, e.g. of a motor vehicle inspection, but also forms a satisfaction judgment about each of the constituent episodes, such as the process of agreeing a date for the vehicle inspection (de Ruyter et al. 1997). This consideration conforms with the view of Stauss & Seidel (1997) who likewise emphasize the fact that judgments are formed at several levels of abstraction. The relationship between both levels of judgement is described by Rust & Oliver: "...value, like quality, is an encounter-specific input to satisfaction", (1994, p. 10) a relationship which has been confirmed by empirical studies carried out by Danaher & Mattsson (1994) and de Ruyter et al. (1997). Bearing in mind that episodes may often prove to be very brief in character, consumers form judgments during this phase of the service process *on the basis of the perceived value*. The outcome of each evaluation determines the level of satisfaction with the transaction as a whole (*transaction satisfaction*), a consideration which has already been expressed in more general terms in above (Heskett et al. 1994). With regard to the component in which we are interested here, we thus propose the following hypothesis for examination:

(H1) Value has a positive influence on transaction satisfaction.

Compensational multi-attribute models can be used to explain how consumers aggregate individual judgments to an overall judgment. In this context a number of studies have shown that individual partial judgments differ in their impact on the overall judgment (Danaher, Mattsson 1994).

(H2) therefore states that: Each of the episodes influence transaction satisfaction to differing degrees.

Owing to the integration of the external factor in relation to the creation of the product or service, there is at least a partial need to establish contact between sellers and buyers, the intensity of which will vary depending on the process phase (Hentschel 1992). For this reason we would need to examine whether the specified value dimensions are expressed to differing degrees depending on the respective service phase.

(H3) therefore states that: Depending on the respective phase of the service process the value dimensions represent the episodes to varying degrees.

Given the service-oriented, multi-attributive conceptualization of the satisfaction concept and the necessity of subjecting the postulated hypotheses to empirical examination we are faced with three tasks. Firstly, we need to measure the value of each of the episodes during the course of the service transaction, in other words we need to determine value from a process perspective (Grönroos 1993). Secondly, determining the relevance of the individual value dimensions for each of the episodes plays a central role. A third point is the analysis of the relative importance of the episodes in bringing about transaction satisfaction.

## **An Empirical Study**

### **Survey design**

A process-oriented analysis of perceived value must begin with the development of a suitable survey instrument. The relevant questionnaire is generated following a detailed analysis of the customer process. In order to achieve this, a "blueprint" of a garage service was drawn up on the basis of customer observations, expert discussions with staff from the company involved, the customer's perspective being taken consistently into account throughout. Each process element then needed to be combined to form suitable *service components or episodes*. This resulted in six episodes: agreement of a service date by telephone, customer service reception, joint discussion about the vehicle with the qualified customer service mechanic, the accessories shop, payment when the vehicle is collected, and the transfer of the vehicle to the collection service. Four context-specific items reflecting the generic value dimensions as well as a statement about transaction satisfaction were formulated for each episode. The respondent thus supplied 6 (episodes) x 4 (value dimensions) value judgments. Eleven-step monopolar (de Ruyter et al. 1997b) rating scales were used to record consumer judgments. The survey took place in April 1999 among a number of authorized dealers for a German automobile manufacturer. Respondents were selected at random as they entered the motor vehicle service reception area. 200 people were given a questionnaire which had previously been put through several pre-trials to ensure that it was easily understandable. The return rate was 87%. 22 of the 174 questionnaires returned were invalid either because they had not been completed or because they had not been used correctly so that 152 questionnaires were available for analysis. In the case of 4 of the 152 questionnaires the first episode, "agreement of a service date by telephone", was not evaluated as the relevant informants arrived spontaneously without an appointment. Only 80 people visited the "accessories shop" as an optional episode in the customer service process. 72 respondents did not avail themselves of this service and were thus unable to form a judgement. All the other episodes were evaluated by 152 informants.

### **Results**

Initially a value-oriented dynamic process analysis must begin by considering where the individual service episodes are placed in relationship to the four dimensions. Emotional, practical, logical and risk-laden aspects specific to each episode all contribute to an assessment of the respective service process. The confirmatory factor analysis method is suitable for checking assumed relationships as the value-theoretical foundation of the postulated model means that we are less concerned with discovering than with examining or confirming a priori assumed relationships. In the present case, a 6-factor solution was postulated corresponding with the six episodes of the service process. These six (latent) factors are reflected in the observable episode-specific value dimensions so that a total of 24 indicator variables are subject to a confirmatory examination. The calculation is based on the covariance matrix generated from the data. The confirmatory factor analyses initially performed for each construct all confirm the quality of the indicators used. The global fit of the model, which using the customary indices (GFI, AGFI, NFI, CFI) was well above what is generally considered the minimal value of 0.9, was good enough to justify retaining the constructs. Owing to the optional character of the accessories shop and the associated reduction in the number of

responses an additional model with five factors was also calculated. This model demonstrates somewhat better fit values than the 6-factor model so that the "accessories shop" episode is not taken into further account. The examined 5-factor model also demonstrates substantially improved fit values compared with a model which only represents a single factor.

In addition the factor reliability and the average recorded variance were calculated for each factor. A threshold value of 0.6 was regarded as the minimum requirement for factor reliability. Average obtained variance on the other hand should equal a value of over 0.5. In order to check that the measurement is largely unaffected by random errors, use was also made of the Cronbachs Alpha reliability dimension, for which the figure 0.5 represents a lower limit. Account must however also be taken of the fact that the Cronbachs Alpha correlates positively with the number of indicators used (Vandenbosch 1996). For this reason where there are fewer items, fewer values should also be accepted. With regard to this degree of goodness too the results of the calculations are unambiguous. All the measurements arrived at fulfill the specified requirements. Neither do the classification results for either the analysis or validation samples deviate significantly from each other.

As it has become apparent that each of the episodes are reflected to varying degrees in the various value dimensions (H3), our interest now turns to whether (H1) and with what intensity (H2) the episode-specific value judgments determine transaction satisfaction.

Should the postulated causal relationship between value and satisfaction be confirmed, this would above all serve to bring about a more efficient allocation of resources. Because in order to guarantee efficient resource allocation of this sort, it is not only important to know which of the value dimensions are especially important in relationship to each of the episodes. It is also important to know which of the episodes contribute significantly to satisfaction or dissatisfaction in relationship to the overall transaction. The LISREL causal analysis approach can be used to examine the postulated relationships.

A logical examination of the coefficients confirms the assumed relationships: the value of an episode has, to varying degrees, a positive effect on transaction satisfaction. Hypothesis H1 is thus not refuted. In addition there is clearly a systematic relationship between the relative significance of individual episodes and their respective occurrence in the service process: The nearer an episode is to the end of the transaction, the greater its relative significance. This result supports the recency effects in the service process postulated by Parasuraman et al. (1994). The most recently experienced episodes are obviously retained longest and thus exercise the greatest influence on the final assessment of transaction satisfaction. Hypothesis H2 which proposes that each of the episodes have a different influence on transaction satisfaction can thus be rejected.

### **Concluding Remarks**

The aim of this discussion was firstly to define the nature of the customer value construct and to make a contribution to the adequate operationalization of this latent variable. Secondly, it was intended that the relationship between customer satisfaction and customer value should be subject to closer scrutiny. Despite its enormous theoretical and practical importance this relationship has seldom been subject to a detailed analysis. The paper has clearly demonstrated that this implies a loss of information and can thus lead to the wrong conclusions being drawn. Rather than summing up in detail we instead offer a brief summary in the form of three theses on the fundamental findings addressed above.

*Thesis 1: In order to analyze the relationship between customer value and customer satisfaction it is necessary that customer value is modeled as a multi-dimensional construct.*

*Thesis 2: The customer value construct is reflected across four dimensions - emotional, practical, logical and risk components.*

*Thesis 3: There is a positive correlation between customer value and customer satisfaction: the greater the perceived customer value, the greater the level of satisfaction with the product or service offered.*

The empirical results at which we have arrived are only offered as examples and represents a first step towards intensifying research into customer value. In our view more research needs to be carried out in particular on established relationships in other sectors. The postulated linear cause/effect relationship should also be subject to study as this may be more complex than assumed and may in fact be characterized by non-linear elements. Further studies ought also to focus not just on the functional form of the relationship but also on systematically measuring the influence of other moderating factors such as income, age, etc.

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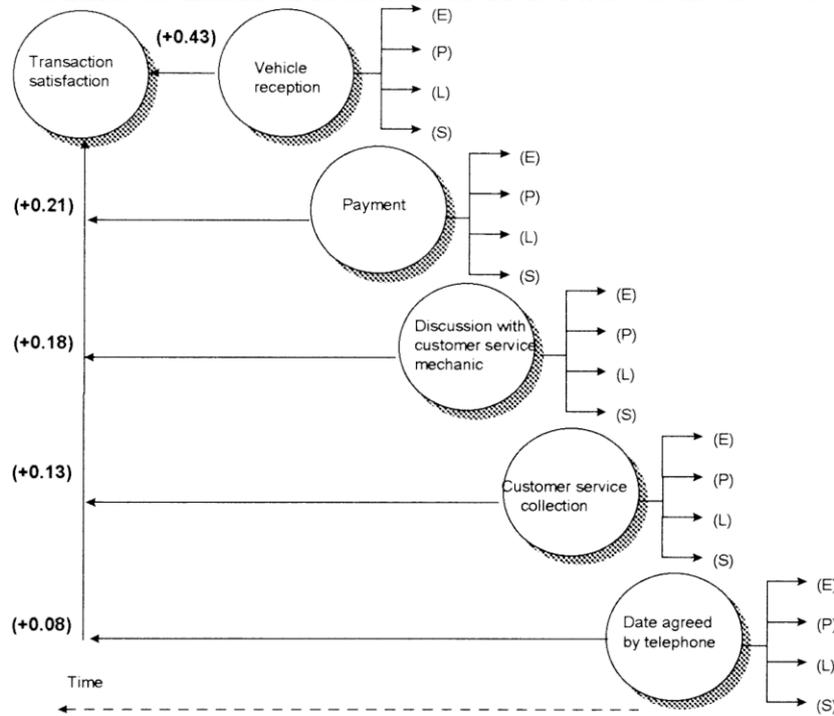
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**Table 1: An overview of the factor weightings for each of the value constructs**

Value dimension	Date agreed by telephone	Customer service reception	Discussion with qualified mechanic	Payment	Vehicle transfer
Emotional components	0.78**	0.88**	0.65**	0.74**	0.68**
Logical components	0.60**	0.63**	0.81**	0.74**	0.78**
Practical components	0.56**	0.76**	0.75**	0.63**	0.60**
Risk components	0.55**	0.65**	0.79**	0.71**	0.57**

Note:  $p < 0.05 = **$

**Fig. 1: Results of the LISREL estimation for the overall model**



## **Empowering The American Consumer: Generating Economic Quality Of Life**

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### **Abstract**

This article identifies a series of trends in the American economy that are undermining the consumers' economic power. Without which consumers' well being cannot be enhanced. The mainstream American consumer is being pressured by the financial community, by the increasing complexity of life, job insecurity, by the medical sector among others. These pressures are leading to increasing prices, decreasing quality, diminishing choice. Unless we improve the situation, American consumers will be the losers.

### **Mary Mary Quite Contrary How Does Your Economy Grow?**

Not by derailing the current American Markets; not by discrimination; not by allowing anarchy in the economy and not at all by being inactive in the socio-political and economic arenas. Mary your economy will grow if the consumers are empowered. If people are given equal opportunity to choose, to advance, to work and to accomplish, if competition in the economy is not undermined, if economic power is not allowed to concentrate in a few hands indiscriminately your economy will grow.

In a recent book Lester Thurow (1996) discussed the future of American capitalism. He posited that capitalism is not likely to implode as communism and other earlier economic systems did. Since it does not have a viable competitor, people will not be able to rush to another system if they are disappointed with the treatment they receive from capitalism. However, he claimed that it is not self-destruction or collapse but stagnation that is the danger. Stagnation here is related to declining competition. Moore (1996) pointed out that American competition is not what it used to be. It is changing in such a way that it is almost unrecognizable. Indeed, it is difficult to see if the way American competition is changing will be better for the American consumer. If the American consumer were to have a better quality of life and if American markets were to make progress, which they are so capable of doing, American competition must be enhanced, not changed drastically or allowed to deteriorate, and above all the American consumer must be empowered.

Empowerment, according to Blanchard, Carlos and Randolph (1996), is not giving power to people. It is releasing the knowledge, experience and motivation that people already have. However, this definition does not go far enough. Empowerment should also mean making sure that people have equal opportunity in this released knowledge, experience, and motivation. This article attempts to explore how the American consumer can be empowered so that the American society can reach a higher economic plateau.

### **The Role of The Economic System**

It does not matter if it is communism, naziism, socialism, or capitalism, the reason for existence of any economic-political system is to provide the populace with the best possible level of economic well being so that they can have a better than just a tolerable quality of life. This better than tolerable quality of life is related to how much freedom of choice the consumers have, and how much consumer education, consumer protection and consumer information exist in the society. In other words, consumers must have access to the freedom of choice which is primarily dependent on the level of competition in the economy. If the economy does not display an adequate level of competition, business and government sectors are not pressured into providing consumer education of consumer protection and consumer information.

Competition is the essence of consumer empowerment. It facilitates consumer information, consumer protection and consumer education. These, in turn, make it possible for the economic quality of life in the society to advance.

Despite all the mass media hype at the writing of this article American economy is not doing nearly as well as it could. It is necessary to look at it more critically. For instance: at this point in time the unemployment figures are the lowest they have been in two decades but no one asks: are these people all working full time (40 hours a week or more) or less than full time? Are they receiving a reasonable pay? What about those who have given up and yet are still at working age? And what about those who are on the streets? The street people concept is a relatively new phenomenon which emerged during the past thirty years or so. These are only a few of the questions that need to be raised.

In order to understand these concepts more clearly, first the two extremes regarding the American enterprise system needs to be articulated. The first states that the market is a national equilibrium and as such it is sacrosanct. If left alone it will perform perfectly well. It is a product of divine dispensation. Dugger (1989) points out that such beliefs lead to enabling myths. Sacrosanctity and perfectness of the market are myths but they enable the upper

strata in the society to maintain dominance over the lower strata. He further maintains that those who benefit from the institutionalized status quo (a critical conservative position), believe that they benefit because their personal gifts or efforts merit it. So, the status quo reflects a natural balance which is not to be interfered with.

The other point of view is, again, stated by Dugger (1989). He points out that the market is an instituted process. This proposition takes the market's sacrosanctity away. If the market is an instituted process then those who institute it can be held responsible. Further, the unchecked market does not remain the same. Those who have power gain more power and those who don't become somewhat desperate. The unchecked market does not provide opportunities to everyone, does not provide encouragement for those who are disadvantaged to begin with. This second position is taken in this article. The market needs certain strategic push and pulls in order to perform better for all.

### **The Prevailing Derailment of American Markets**

At this time, American economy appears to be alright. However, deep down there is a sinister derailment of American markets that is going on. This derailment is primarily based on the first point of view of the prevailing American markets, i.e., they are not only natural, but are almost sacrosanct. By not interfering with them and by letting them without outside interference, these markets will yield the best results. Thus a series of structural changes are taking place and representing a derailment process in American markets.

The derailment process that is mentioned above is likely to create a major dilemma for the American consumer in the short-run, and weaken the total industrial fabric of the society in the long-run. The following section explores the factors causing the derailment.

The following statements indicate how critical the situation is: Americans are paying far more for less choice; Americans are paying more for lesser quality service; Americans are allowing a run-away banking system that is using their money without paying almost no interest and charging them exorbitant fees; Americans are locked into a medical system in such a way that progressively they are paying more for less and less service; With the exception of top executives and certain other privilege few, Americans are not holding their own—Their job security is low, other options for horizontal or upward vertical moves are limited; as technological changes take place and jobs become more demanding, Americans cannot find time and do not have easy access to skill improvement opportunities.

Thus American consumers are not gaining any power. Instead, they are losing it steadily and systematically. The dilemma that American consumers are facing is caused by a number of underlying, far reaching and long lasting factors. Although many aspects of these factors need to be discussed in detail, in this review article only, a brief discussion of the exhibit will identify the underlying factors that are creating very difficult conditions for American consumers.

### **The Mainstream American Consumer**

About the middle two fifths of the American society is composed of the mainstream Americans. This is the middle class. They are reasonably well educated with white collar or specialized blue collar jobs, making around \$35-75 thousand a year. This group is pressured by the financial community, paying exorbitant interest rates on their credit cards, paying excessive fees to banks who are already using this group's money almost for free. Exorbitant professional insurance premiums, and premiums on cars and homes are all making life very difficult.

For this group a particularly important problem area is increasing complexity of life. The tax system, the communication system including TV, telephone and the internet, the shopping system including shopping centers and telemarketing, the environmental protection or greening of consumption systems are all contributing to this complexity.

Large proportions of mainstream Americans are lower or middle managers. With the constant threats of downsizing, merger and unfriendly takeovers, this sector is feeling very insecure. The mainstream Americans who are in this group feel as if they could lose their jobs any day. Such pressures are not conducive to creative-hard work and increasing productivity. Instead of devoting themselves to their work, they are quite busy with identifying alternative employment opportunities for themselves. This is taking up tremendous time and energy. Similarly, because they are forced to change jobs often, they are not becoming a part of synergistic groups that are productive as a total unit rather than numerous unconnected individuals. These pressures are causing much loss to American industrial fabric as well as to individuals.

As Americans live longer their medical bills are also becoming larger. The complexity of medical payments, the high costs of co-payments and profit driven medical service deliverers are all creating tremendous burden on particularly the mainstream Americans who have aging parents and less than adequate medical insurance. The

profit driven medical insurance companies are taking one third of all of the medical expenditures without delivering any medical service. This situation is making this group almost helpless since they have more difficulty taking care of aging parents as well as themselves. The medical service costs of this group are increasing faster than their incomes. Of course this is only part of the picture. At the point of writing this article an estimated 40 million Americans cannot even get medical insurance.

Closely related to their job situation, the mainstreams Americans are also facing constant change in their high-tech related job complexities. Pressures to learn new skills are offset by the pressures to work long and hard hours to keep their jobs. If they don't lose their jobs because of downsizing or takeovers they are losing them by becoming out of touch in their high tech jobs. Thus, the lack of opportunities to improve skills is creating a nightmarish situation. The mainstream Americans are losing power and status. This is what we typically coin as the middle class blue collar skilled workers. In real terms their income was stagnant over a 20 year period, from 1977 to 1997. The lowest fifth, which is composed of unskilled workers and other minimum wage earners, never had any power. They are experiencing ever worsening conditions.

### **The Big Is Not Beautiful**

#### **The impact of oligopolies**

Most of the dilemma factors discussed above are caused by a major development, concentration of economic power. During the past two decades there has been a considerable concentration of economic power leading to emergence of powerful oligopolies. The emergence of these oligopolies, is causing a major reduction in competition. Which, in turn, is leading to increasing prices, decreasing quality and decreasing choice. In fact it is possible to claim that all of the factors causing the dilemma of the mainstream consumers discussed in Exhibit 1 can be causally related to the oligopolistic tendencies of the American industry.

The outcome of the oligopolistic tendencies lead to a lack in economic progress since: Incomes of large masses are neglected in favor of a few CEOs; Competition is reduced and/or, in some cases, eliminated; Research and development activities are reduced so that the resources are used for buying out the competition; Human resource development efforts in companies have been reduced; Economic power spilled into political power in such a way that most progressive ideas are blocked in favor of status quo.

Thus, the big is not beautiful and perhaps must be stopped from getting bigger and a burden on the American society. American markets because of the tendency on the part of the big getting bigger are being moved steadily from survival of the fittest, to survival of the fattest. Much of this tendency and the resultant enlargement of major American firms can be traced to the prevailing merger mania.

#### **Merger mania and american markets**

As Marino(1997) states: "I predict that today's merger mania will be tomorrow's spinoff schizophrenia. It's astounding and confusing as the chief executive who asked his operating management to write a business plan for plumbing, the potential profits in Mississippi, without telling them whether he meant the state or the river!" The merger mania has been going on throughout the 90s and is accelerating. There was a time (approximately 50s and early 60s) when companies bought out other companies that are at the brink of bankruptcy and they operated these companies. In today's merger mania very large companies that are not efficient and not very profitable are buying off their leanest and meanest competitors to look good and to eliminate competition. Marino(1997) calls merger mania an exercise in self gratification. However, I take a different point of view. I believe it is an attempt to destroy the industrial fabric of the American society. These people ask the government to eliminate the regulatory burdens (Getty 1995) and then go ahead and buy out their competition. Hence, reduce or eliminate competition and become more ineffective and inefficient because of their obscene fatness. The old adage of if you cannot lick them you join them is revised as if you cannot lick them you buy them.

The companies that are heavily engaged in merger mania are becoming oligopolistic and causing major problems for consumers. In addition to their regular problems caused by oligopolistic conditions, i.e. being removed from consumers, being too large and inflexible, these companies are losing track of their core competencies and are becoming ineffective in the market place. Furthermore, they may discontinue some of their key products as they shift their focus to other products (Goldberg 1997). This would further cause problems for consumers by limiting their choice.

#### **Is piracy legal?**

Piracy is illegal anywhere else in the world, but is legal in Wall Street. Leveraged buy outs and unfriendly take overs attest to that. Unfortunately, the fat can freely buy out the lean and nothing can be done about it.

Empowerment of American consumers is dependent on how much power they have. By allowing the piracy to continue in Wall Street, the power of the consumer is minimized. This is the derailment of American markets.

### **Conclusion**

American markets are being derailed and American consumers are facing a constantly escalating dilemma. These problems are not quite so obvious to the naked eye when the economy is doing well. However, if and when there is a recession or a down cycle in the economy, the results will be devastating. American consumers are being pressured by: the financial community, increasing complexity of the society, job insecurities, the medical sector, and finally, the lack of opportunities to improve skills. Behind most of these problems is the unbelievable concentration of economic power in the hands of a few firms. These firms are creating oligopolistic pressures which are leading in the direction of increasing prices, decreasing quality and decreasing choice. These conditions do not allow the American markets to capitalize on their full potential. Hence, the economy does not grow satisfactorily. American consumers need not lose more power, on the contrary they need to be empowered in order for the economy to make progress.

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# Examining the Relationship Between Consumer Patronage and Selected Relationship Retailing Strategies

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## Abstract

This paper presents the results of an exploratory study on the relationship between three retailing strategies and consumer patronage. The results of the study indicate positive correlations between consumer patronage, retailer service and merchandise return policies. Also, contrary to expectations, there was no correlation between consumer patronage and preferred status programs.

## Introduction and Background

Relationship Marketing is at the forefront of marketing practice today. More and more businesses are recognizing the importance and need for establishing and maintaining longer term business relationships with their customers. Programs are designed to identify and attract potentially profitable customers, and to enhance their lifetime value to the organization. Lifetime value models (Dwyer 1997), however, focus on quantifiable and financial aspects of the consumer's business relationships with retail establishments. There may be other types of consumer responses, attitudinal and/or behavioral in nature, that must be examined before retailers understand the true value and potential of consumer patronage. Furthermore, the traditional marketing emphasis has been placed on identifying key customer product related needs, requirements and benefits. Once these needs are identified, the marketer strives to fulfill them. The result is the creation of a satisfied customer that is likely to become a repeat customer, who perhaps even spreads positive word of mouth enhancing the company's reputation. The concept of meeting or exceeding customer needs which leads to increased patronage behavior is firmly entrenched in the minds of most marketing scholars and practitioners. However, it is likely that consumers have other motivations, needs and values that are important drivers of their willingness to establish long term relationships with retailers.

Factors that impact store loyalty have been studied quite extensively in the marketing literature (e.g., Darden and Reynolds 1971, Westbrook and Black 1985, Baker, Grewal and Levy 1992, Sirohi, McLaughlin and Wittink 1998). These types of studies focus on issues such as: store location, image, product assortment, pricing policies, merchandise quality and service quality. However, these studies fail to differentiate between the motivations to engage in discrete shopping versus relationship shopping. Discrete shopping is characterized by making purchases solely to satisfy an immediate or short-term consumer need. Relationship shopping entails purchasing which, in the consumer's mind, helps to ensure a deeper, more long term relationship with the seller. To the best of our knowledge, this study is the first to explicitly ask consumers about the kinds of strategies they perceive would most effective in eliciting their long term patronage with retailers.

Unfortunately, there is little empirical research that addresses consumer motivations to engage in relationship shopping. Ellis, Lee and Beatty (1993) emphasize the need to examine customer motivations to better understand the relationship retailing concept. These authors also suggest that in forming relationships with retail businesses, the possibility exists that both economic factors (e.g., price levels, sales promotions) and non-economic factors (e.g., merchandise return policies, friendly atmosphere and customer service) will influence shoppers' perceptions of marketing values. Kwon (1992) suggests that customers' trust building and attachment behaviors (affective behavior) are important to the development of long term relationships. Two conceptual papers which appeared in a special issue of the *Journal of the Academy of Marketing Science* (1995) devoted to relationship marketing contend that non-product related needs such as a desire for reduced choice (Sheth and Parvatiyar 1995), or the human need to obey social norms (Bagozzi 1995) are essential features of marketing relationships. Patronage motivations due to social, or ethical concerns have been well documented in the literature (Stone 1954; Darden and Reynolds 1971). Czepiel (1990) also points out the importance of creating personal, economic and psychological bonds with customers and suggests looking at relationship marketing strategy issues from a social perspective. Lastly, Sheth and Sharma (1997) suggest that any relationship marketing offer must involve value for the customer that augments the firm's core products and services.

In this pilot study, we attempt to gain a better understanding of the concept of consumer patronage and its determinants in the relationship retailing context. Specifically, two research goals are pursued. The first goal is to develop a measure of the consumer patronage concept as an outcome of value creation through relationship retailing strategies. The second is to obtain a preliminary assessment of the strength of the relationship between consumer patronage and three selected relationship retailing strategies. It is expected that the strategies under study are positively related with long term consumer patronage. The three strategies are customer service offerings, liberal merchandise return policies and "preferred status" programs for customers. The results from this pilot study will

help to assess the relevance of each of these strategies to a retail program designed to encourage long term relationships with consumers.

## **Research Methodology**

### **Research design**

The research design was based on the problem solving approach (Ward and Robertson 1973). In the problem solving approach, specific consumer behavior issues are isolated and appropriate empirical data are brought to bear on the issue. This type of research design has been used to guide data collection for marketing decision making, for conceptualizing phenomena of interest and for hypothesis formulation.

Multiple methods were employed to generate information and collect data to resolve the research goals. First, a review of the marketing literature was undertaken to identify research related to consumer motivations to engage in long term relationships with retailers. Next, informal interviews with retail store managers were conducted to identify relationship retailing practices employed by retailers. Then, two focus groups with graduate students were completed

to help generate a list of indicators of patronage and relationship retailing tactics. Finally, a written questionnaire was administered to graduate students.

### **Sample and Data Collection**

Retail service businesses and MBA students were selected as the populations for the sample study. The incidence of relationship retailing has become very relevant in a retail context (Gummesson 1987), although its earlier origins can be traced to the business-to-business sector. Judging by the recent increase in creating customer incentives and relatively more targeted communications and direct mail that is currently received from retail service organizations, it seemed logical to focus on the relationships/patronage issues in the service sector. The use of MBA students was appropriate for this study for several reasons. First, the tasks required of the subjects were within the domain of their normal experience. The students have first-hand experience with the types of marketers and retail tactics used in this study. Second, the goal here was not generalization. The goal was to identify the domain of consumer patronage, and to test for a significant statistical relationship between one or more of a set of variables (customer service, return policy, preferred status, long term patronage) for future research. The extent to which the results generalize to a larger population will be determined by a future data collection. Finally, it was very convenient and efficient to use students for many phases of the study.

A total of 46 MBA students from a medium-sized college in the Northeast completed the questionnaire. The subjects were selected randomly at a central location at the college.

### **Research Instrument**

The research instrument contains a series of items that address patronage and relationship retailing practices. Basically, the subjects are asked to indicate the extent to which they agree or disagree as to how effective several variables (the relationship retailing tactics) that were listed on the questionnaire would be effective in attracting and maintaining their long term relationships with a variety of retail businesses. The subjects indicated their responses on seven point likert-type scales, each with seven possible values ranging from *not-at-all-effective* (1) to *very effective* (7). On the final page of the instrument, the subjects were asked to consider one of their favorite retail businesses with which they have had a long term association. The subjects then indicated the extent to which they either agreed or disagreed with five statements reflecting their patronage behavior with respect to their chosen favorite retail business establishment.

### **Validity and Reliability of Multi-Item Measures**

Principal Components Factor Analysis was performed to check the construct validity of the items measuring consumer patronage, as well as the items measuring the three relationship retailing strategies. Twenty-three items were included in the original factor analysis. Six items were dropped due to low factor loadings, or significant factor loadings ( $>.30$ ) on more than a single factor. After dropping these six items, a total of seventeen items remained. An exploratory factor analysis with varimax rotation was conducted on these seventeen items. The results of the factor analysis obtained a four factor solution, which explained 68% of the variance. All remaining items loaded cleanly onto the appropriate factors. Please see [Table 1](#) for the item factor loadings. Therefore, we have some confidence that the measures are each unidimensional, and distinct from each other. As an additional check on the criterion validity of the dependent variable (consumer patronage), a single item statement was included in the questionnaire which asked respondents to indicate if receiving sales calls or promotional material in the mail would be effective in attracting their business. There was a correlation of  $-.34$  between the consumer patronage measure and the single item. This suggests that those consumers whose patronage toward specific retailers is high

are less likely to be influenced by promotional incentives from other similar businesses. This is further support for the validity of the measure.

To assess the internal consistency (reliability) of the four multi-item scales, coefficient alphas were computed for each measure, with the exception of the merchandise return measure. The specific items used to measure the consumers' patronage (*Patron*), retailer's reputation for customer services (*Service*), merchandise return policies (*Returns*), and preferred customer status programs (*Prefstat*), along with their coefficient alpha levels, are shown in [Table 3](#). The measures' reliability levels range between .85, .81 and .88, for *Patron*, *Prefstat* and *Service*, respectively. The *Returns* measure consists of only two items, therefore a correlational test of reliability is most appropriate. The correlation between the two *Returns* items was +.54. This suggests that all four measures demonstrate adequate reliability (Nunnally 1978).

### Analysis

To examine the nature of the relationship between customer patronage and the *Service*, *Returns*, and *Prefstat* variables, Pearson correlation coefficients were computed. The results are reported in [Table 2](#). As shown in this table, only two of the key coefficients are positive and significant ( $\alpha = .05$ ). The correlation coefficient for *Prefstat* was not significant.

The strength of the relationship between consumer patronage and *Service* is moderate to strong, as indicated by the correlation coefficient of .40. The relationship between consumer patronage and *Returns* is also moderate to strong ( $r = .41$ ). The relationship between consumer patronage and *Prefstat* is in the expected direction (positive), but is not significant at any reasonable level of statistical significance.

### Discussion and Implications

An examination of the items that were generated from the focus group interviews with the MBA students and used to measure (long term) consumer patronage in this study ([Table 3](#)) reveals the following types of behavioral responses:

- The majority of the consumer's spending in that product category is bestowed upon this (long term relationship) retailer;
- The consumer is likely to spread positive word of mouth about his or her positive experiences with this retailer;
- The consumer is extremely loyal to their current retailers, and unwilling to switch to others to satisfy his or her product needs when they occur;
- When product-related needs do occur, the consumer automatically associates this retailer as the solution to these needs, and
- The consumer visits this retailer frequently.

These behavioral responses represent very significant benefits for the retailers. They should further strengthen retailers' motivations to solidify their relationships with profitable customers by pursuing appropriate relationship marketing strategies. This exploratory study also identifies three relationship-marketing strategies: developing preferred customer programs, building a reputation for customer services, and the offering of liberal merchandise return policies.

With a merchandise return policy, the consumer expects the retailer to stand behind the products sold and to protect customers' interests completely. A policy of guaranteeing customers their money back for returned merchandise without any reservation, should be an effective strategy for solidifying the consumer-retailer bond. The customer would perceive this retail strategy as promoting trustworthy and dependable business relationships.

In designing a retail customer service strategy, the retailer needs to incorporate several customer service dimensions in its strategy, which revolve around how to best respond to, and interact with customers. Retail personnel must be able to give prompt attention to consumer inquiries and complaints, and furthermore ensure that their sales and service personnel are friendly and pleasant to interact with. Cumulatively, the customer value created by both strategies (return policies and customer service) serve to strengthen the retailer's referent power, and the consumer's desire to associate with that retailer over the long term.

The relationship between patronage and preferred customer programs was statistically non-significant. This finding is surprising as many retailers that we interviewed during the preliminary stage of research believed in the importance of designing preferred customer status programs to attract and retain their customers. There are several logical explanations for the non-significant relationship between long term patronage and preferred customer programs. It could be that there is no significant relationship between the two variables. It seems just as likely, however, that this finding is unique to the convenience sample that we collected for the study in terms of their motivations and patronage behavior. Perhaps future research needs to examine the role of personality or psychographic variables which might explain why effectiveness of preferred status programs could vary across a

range of retail formats. For example, consumers who frequent establishments such as Saks Fifth Avenue, or Citibank may find preferred customer status programs to be more important than those that frequent Wal-Mart or CompUSA.

**Directions for Future Research**

This study is important for two reasons. First, it employs a somewhat novel approach by asking consumers explicitly about what would likely elicit long term relationships between consumers and retailers. Second, the study provides some insights to retailers regarding specific customer values they need to provide to forge durable business relationships with their customers. Because of the exploratory nature of the study's research design and goals, one cannot draw firm conclusions about consumer motivation factors or consumer patronage behaviors. The sample is neither representative of the average MBA student, nor of the average consumer in the U.S.

The results of this exploratory study are, however, certainly encouraging for developing this stream of research to assist retail service managers in enhancing the effectiveness of their relationship marketing goals. Secondly, the study is likely to stimulate research on a topic that is of current interest to industry practitioners, faculty members, and others involved with relationship marketing. In the future, research may focus on the following areas: First, the attention should focus on identifying several other consumer motivations related to the relationship marketing concept. Second, the scope of this research should be expanded to investigate the role of various factors that may account for the differences among various consumers in their responses to relationship marketing tactics. This future research should specifically examine differences by demographic variables, and psychographic profiles, including characteristics such as consumer brand consciousness, self image, price and service sensitivity, elasticity of market promotions, concern for product performance, etc. This research is likely to be fruitful to industry practitioners in selecting market segments to target and to position their relationship marketing programs and appeals.

**TABLE 1**

**Factor Analysis of All Scale Items (Factor loadings >.40 shown)**

Scale Items	Rotated Component Matrix: Factors 1-4			
	F1	F2	F3	F4
PATRON1	.81			
PATRON4	.80			
PATRON5	.77			
PATRON3	.73			
PATRON2	.70			
SERVICE4		.85		
SERVICE2		.84		
SERVICE3		.83		
SERVICE1		.76		
PREFSTAT4			.83	
PREFSTAT6			.80	
PREFSTAT5			.70	
PREFSTAT2			.69	
PREFSTAT1			.65	
PREFSTAT3			.61	
RETURNS1				.83
RETURNS2				.78

**TABLE 2**

**Pearson Correlations Between Consumer Patronage and Retail Strategy Measures**

Variable	Patronage	Service	Prefstat	Returns
Consumer Patronage	1	.40**	.07	.41**
Customer Service		1	.24*	.35**
Preferred Status			1	.01
Merchandise Returns				1

\* p-value < 0.10 (1-tailed)

\*\* p-value < 0.01 (1-tailed)

**TABLE 3**

**Multiple-Item Measures of Consumer Patronage and Types of Customer Motivations for Establishing Long-Term Relationships with Retail Business Establishments**

Scale	Cronbach's $\alpha$
<b>Consumer Patronage</b>	$\alpha = .85$
1) The majority of my total annual expenditures on this product/service is spent with this business with whom I have an established relationship.	
2) I have shared my positive experiences with the retail establishment with my friends, colleagues, and/or relatives.	
3) It would be extremely difficult for competing firms to persuade me to switch from this business establishment.	
4) I automatically associate this business establishment with the product or service they provide.	
5) I frequently deal with or visit this business establishment.	
<b>Customer Service</b>	$\alpha = .88$
1) Have a high level of trust with someone I've done business with before.	
2) Willingness of the service personnel to help customers with product/service complaints.	
3) Obtaining prompt attention to my product/service inquiries.	
4) Interaction with friendly sales and service personnel.	
<b>Preferred Customer Status</b>	$\alpha = .81$
1) Prestigious image and status of the business.	
2) Obtaining preferred customer status for my long term patronage to the business establishment.	
3) Automatic price protection on the merchandise bought.	
4) Opportunity to belong to a preferred customer club.	
5) Notification of new product uses and/or helpful new products.	
6) Being treated as a member of an exclusive group of customers.	
<b>Merchandise Return Policies</b>	$r = .54^*$
1) Liberal merchandise return policies.	
2) Guaranteed money-back merchandise return policy.	

Note: All items used 7-point Likert scales (1 = not at all effective 7 = very effective).

\* Pearson correlation.

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# Competition, Satisfaction and Loyalty As Determinants of the Profitability in the Car Retailing Industry - Results of An Empirical Study

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## Abstract

In the present study we propose and empirically test a framework which jointly examines the interrelationships between product, service and purchase satisfaction as well as service and dealer loyalty and relative effects on company success. Furthermore, by incorporating process-level measures for constructs such as product, purchase and service satisfaction, our research not only provides a richer understanding of the antecedents of loyalty but also practical implications for managers.

## Introduction

In an effort to understand and increase customer retention, several key variables have emerged. Foremost among these are the key concepts of *customer satisfaction* and *customer loyalty*. While various studies have clearly identified the important role of satisfaction and loyalty in producing customer retention and economic success, there are still remaining gaps in our knowledge. The goal of this paper is to identify the degree to which the various types of customer loyalty and satisfaction are major factors as well as the nature and intensity of competition in determining the success of a company. In particular, the following questions shall be addressed:

- To what extent are customer satisfaction or loyalty and the success of an enterprise interdependent?
- Are there any differences between individual dimensions of satisfaction or loyalty?
- To what extent are dealer-related dimensions of customer loyalty influenced by customer satisfaction constructs?
- Are there cross-over relationships between the service and the sales business area?
- What influence do central facets of the competition prevailing in the car retailing market have on satisfaction and the success of car dealers?

## Theoretical Background

As mentioned above, the central aim of the present study is to propose and empirically test a theoretical framework which identifies factors contributing to a company's economic success. Our framework (Figure 1) proposes the company success will be a function of three categories of variables: (1) satisfaction (which includes product, service, and purchase satisfaction), (2) loyalty (both dealer and service loyalty), and (3) the nature of competition (including intrabrand and interbrand competition).

## Generation of Hypotheses

Fornell et al. (1996) argue that the higher level of satisfaction in certain industries (product, service and retail) of ASCI in comparison to the SCSB and the German Kundenbarometer is a result of the greater competition in the US company. Where competition is high, as for example in the automotive industry, satisfaction ratings are high as well. The public agencies, which have a monopoly position, have low satisfaction ratings. The more concentrated the market, the lesser the degree of competition. According to the Structure-Conduct-Performance paradigm, market concentration is represented by the existence of only a few firms in the market, sharing relatively high market shares. These high market shares are believed to reflect monopoly power, which if exerted will hamper consumer welfare and increase firm performance. SCP supporters suggest that firms in relatively concentrated industries can 'afford' to lower the quality of their offerings and/or increase their prices, since they face an almost captive demand. By logical reasoning one could say, that this will result in a lower satisfaction rating of the consumers.

H<sub>1</sub>: The more intense competition is rated among house brand dealers, the more satisfied are the customers with the purchase, the product and the service.

H<sub>2</sub>: The more intense competition is rated with dealers of other brands, the more satisfied are the customers with the purchase, the product and the service.

A large number of studies have attributed great relevance to the intensity of competition among the factors influencing corporate success and it is beyond the scope of this paper to discuss these studies in detail. Rather we

shall limit our discussion to some of the more recent papers that deal with success factor studies in trade with a quantitative orientation. Porter (1995) assumes that the intensity of competition will have a negative effect on economic success.

H<sub>3</sub>: The more intense competition is rated among house brand dealers, the lower the economic success.

H<sub>4</sub>: The more intense competition is rated with dealers of other brands, the lower the economic success.

"Satisfaction" is a complex, theoretical phenomenon which is difficult to measure directly. To operationalize this construct, it must be subdivided into dimensions which can be quantified by means of directly observable indicators (Johnson & Fornell 1991). Further, one must differentiate between satisfaction with the purchase itself, with the customer service, and with the product (Morris 1941, pp. 136-137). According to Boulding et al. (1993) to gain a better understanding of satisfaction, transaction-specific and global evaluations must be integrated into a dynamic model of satisfaction (Singh 1991). At a time *n* (e.g., when evaluating the satisfaction with the purchase), perceived performance is compared with the consumer's active expectations. These evaluations influence not only the overall satisfaction with the product, but also evaluations of different stages in the after-sales process such as the satisfaction with customer service (Danaher & Mattsson 1994). A theoretical foundation for this phenomena comes from cognitive consistency theory (Abelson et al. 1968) and/or cognitive dissonance theory (Beckwith et al. 1978). Thus, if at time *n*, a person is satisfied with the consulting of his or her car dealer as well as with the price the dealer made, he or she is motivated to perceive subsequent consumption episodes such that they are consistent with the initial judgment.

H<sub>5</sub>: Purchasing satisfaction has a positive effect on product satisfaction and on service satisfaction.

H<sub>6</sub>: Satisfaction with the product has a positive effect on customer service satisfaction.

A number of previous studies have clearly identified the major importance of customer satisfaction as a factor determining customer loyalty (Anderson & Sullivan 1993; Johnson & Auh 1998). The results of these studies uniformly confirm the positive effect of customer satisfaction on customer loyalty, despite the fact that the extent of this connection varies considerably from industry to industry (Fornell 1992). Studies have also found that brand loyalty can be determined by: *purchasing satisfaction* (Bloemer & Lemmink 1992; Burmann 1991), *customer service satisfaction* (Bitner 1990), and *product satisfaction* (Bloemer & Lemmink 1992).

H<sub>7</sub>: Higher levels of purchasing satisfaction lead to stronger dealer loyalty.

H<sub>8</sub>: Higher levels of product satisfaction lead to higher levels of dealer loyalty.

H<sub>9</sub>: Higher levels of customer service satisfaction lead to higher levels of dealer loyalty.

It is interesting to note that most of the studies have focused on dealer loyalty despite the fact that *customer service after the purchase* can play a very key role in many product/service categories (including the car industry). In other words, there are many products which require some sort of servicing at later points in time and satisfaction with these services can generate loyalty as well. In support, based on an analysis of 369,117 car owners, Spengler (1987) found an increase of a service satisfaction index from 65 to 85 (max. 100) results in an intended increase of loyal service customers service of 12%. This leads to the following hypotheses:

H<sub>10</sub>: The greater customer service satisfaction, the greater customer service loyalty.

To justify the distinction between dealer and service loyalty Bloemer et al. (1990) can be quoted. They explicitly noticed, that this is a greatly overlooked fact in the literature. For them satisfaction with the purchase (sales) and the product were found to be determinants of service service (after-sales) loyalty. In particular, few studies have examined the nature of the relationship between product and purchasing satisfaction and customer service loyalty (Burmann 1991). However, it seems logical to conclude that higher levels of these variables could also positively impact on customer service loyalty.

H<sub>11</sub>: The greater the purchasing satisfaction, the greater is customer service loyalty.

H<sub>12</sub>: The greater the product satisfaction, the greater is customer service loyalty.

It is generally believed that customer satisfaction and loyalty will have a positive impact on the economic success of an enterprise. It is logically expected that satisfaction and loyalty will result in either increased sales or reduced costs (Kotler & Armstrong 1991). However, only a few studies have empirically examined this important assumption. Some studies have found that both dealer loyalty and customer service loyalty can lead to higher levels of economic success (Rust et al. 1994).

H<sub>13</sub>: The higher the level of dealer loyalty, the greater the economic success of the company.

H<sub>14</sub>: The higher the level of customer service loyalty, the greater the economic success of the company.

A remaining question, however, is whether customer satisfaction has a direct causal effect on corporate success in addition to its effect as an intermediary variable via the indirect link with loyalty. Anderson et al. (1994) postulate that there is an exclusive, direct functional relationship between customer satisfaction and ROI.

H<sub>15</sub>: The greater the purchasing satisfaction, the greater the economic success.

H<sub>16</sub>: The greater the customer service satisfaction, the greater the economic success.

Note that effects on company success cannot be hypothesized for product satisfaction. For example, a customer's willingness to recommend the brand in his or her social environment is related to *product satisfaction and primarily directed at the car manufacturer*. The increase in regular customers is to the benefit of the whole marketing organization and focuses on such distributors that render superior services in selling new cars and customer support. Therefore, only an indirect effect of product satisfaction on the economic success of a car dealer can be expected which works via an increase in purchasing and customer service loyalty.

## Study

### Data collection

The data was collected in writing at the end of 1997. This form of interview was chosen because the respondents were able to give some information only after checking business documents (short-term profit and loss account; results of the satisfaction and loyalty analysis). Satisfaction and loyalty ratings of customers were determined by a manufacturer-initiated written poll carried out by an automobile market research company. The company-related results are made available to authorized dealers of the manufacturer in a processed form several times a year was used to determine the satisfaction and loyalty ratings of customers. The population this study is based on was selected from all authorized dealers of one manufacturer in Germany. The answers of 328 dealers were received four weeks after sending out the 614 questionnaires (target sample), 316 out of which proved to be useful for data analysis (actual sample). With the help of isolated and simultaneous  $\chi^2$ -homogeneity tests we found that there are no significant differences between the population and the actual sample as regards the major attributes 'type of business' and 'region' at a significance level  $p = 0.05$ .

### Operationalization

The decision which indicators are used to operationalize these satisfaction components is mainly based on the study by Burmann (1991). All 11 of these measurement variables were measured on a 7- point scale ranging from "not at all satisfied" to "very satisfied". Loyalty is typically operationalized in auto industry studies in terms of univariate measurements. The indicators used here are either related to actual repurchasing behavior (Taylor & Baker 1994) or to a repurchasing intention (Anderson & Sullivan 1993). Although our loyalty measures are single-item scales too, there is considerable precedent for using these measures in the context of large-scale loyalty studies (Mittal, Kumar & Tsiros 1999). In this context the market research company, who carried out a written poll for this particular car manufacturer, asked the customers about their intention to rebuy another car (dealer loyalty) at the same dealer and the intention to bring the car for a service or repairing to the dealer (service loyalty). In accordance with Fritz (1996) we measured the intensity of competition. We therefore refrained from the using of structural variables in favor of direct interviews which focused on respondents' evaluations of their global competitive behavior. Note that the intensity of competition is measured by a direct query in the studies by Gaitanides & Westphal, (1990) and Fritz (1996). These items were collected using a 5 point rating scale ranging from 1 [= to a very small extent]] to 5 [= to a very great extent]]. We also generated indices to achieve a more precise record of competitive intensity with authorized dealers of the same brand (dealers, house brand) and of other brands. The respondents are asked to evaluate individually the competitive behavior of their 5 major competitors, distinguished by same brand as well as other brand dealers, on 5 point rating scale. The pretest showed that five competitors are considered adequate even by dealers located in congested urban areas. The two indexes were calculated as linear additive indices, divided by the number of major competitors belonging to the same distribution network (1££ n ££ 5). The success indicators (*Degree of goal attainment in the present with regard to sales and profitability*) were supplemented by two questions on future prospects in the two fields of activity. Respondents used a 5 point rating scale to answer the subjective items. A subjective success measurement based exclusively on rating judgements is in line with the procedure in a great number of success factor studies (Homburg 1995) and is supported by the fact that empirical studies value the validity of success ratings positively (Dess & Robinson 1984).

## Results

To evaluate the model fit, the Normed fit index, and the Comparative fit index give a good impression about the usefulness of the model. The values of .94 and .95 indicate a good model fit. Furthermore, a RMSR of .10 was found. All these diagnostics don't allow to reject the model. The calculation of the parameters was done by LISREL 8.3. **Figure 2** shows the significant results.

### Summary and Implications

Using customer and dealer related data, this article examined the relationship between the structure of the competition, satisfaction, loyalty and success of a dealer. Results show the following:

- Competition does not determine the satisfaction level significantly. But the inter-brand competition and not the intra-brand competition has an effect on the success of the new car sales.
- To get a deeper understanding of the cause-consequence chain, we analyzed the determinants of the loyalty in the sales and the service area separately. The results clarify the process by which satisfaction with different product components (core product itself, sales, service) influences different loyalty dimensions. Both, satisfaction with the product and the service, act as mediators for this link.
- Service and purchase satisfaction have an asymmetric cross-over effect in determining loyalty intentions toward the dealer.
- The interdependent relationship between customer satisfaction or loyalty determines the success. Surprisingly all loyalty dimension investigated, decrease the success of a dealer. This effects indirectly determines the consequences of a satisfied consumer.
- For both success areas (new car sales and service) it could be shown, that the more loyal the customers are to service of a dealer, the less the success. The opposite is true for the satisfaction with purchase of the car. The more the people are satisfied with this process, the higher is the success of a dealer.

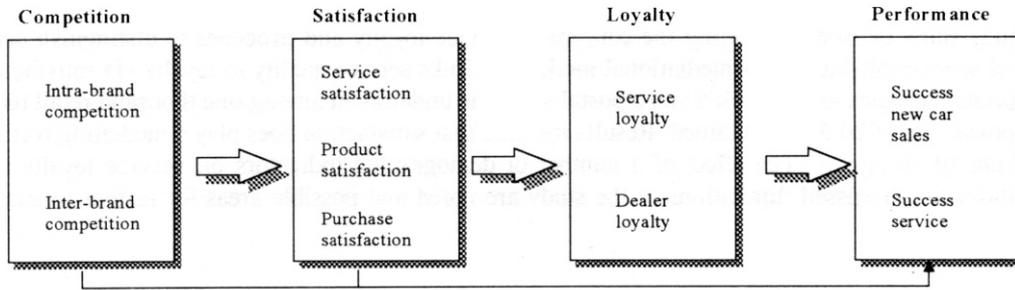
In summary, the results discussed apparently require a strategic reorientation of entrepreneurial target systems in favor of a stronger emphasis on developing customer satisfaction. This statement is based on the major finding that at least in the car industry, it is not customer loyalty but customer satisfaction which is the dominant pillar of business success. While an increase in customer satisfaction will be accompanied by an increase in the success, the results of the current study show that for loyalty this is not the case. Customer loyalty appears to simply be one instrumental factor in the complex relations determining success, that have to be taken into consideration for managing customer satisfaction. Thus, the marketing investments subject to the economic imperative should therefore be evaluated with a view to their presumptive effects on customer satisfaction. This study has confirmed the unimportant role of competition among dealers of the same brand for the unsatisfactory success situation in the car trading business. The manufacturers' strategy of thinning out overcrowded distribution channel systems therefore must not be continued. A great portion of service-satisfied customers in the customer portfolio are the dominant pillar of business success in the car trade. This main result of the study this paper puts the frequently neglected customer service management into the focus of marketing efforts. Service designers are as important as product designers. The cause-effect chain that starts with satisfaction and reaches via loyalty to success appears to be less stringent in the new car business. This newly gained knowledge first of all implies for success-oriented new car management not to forget about customer-winning marketing efforts besides efforts to bind customers.

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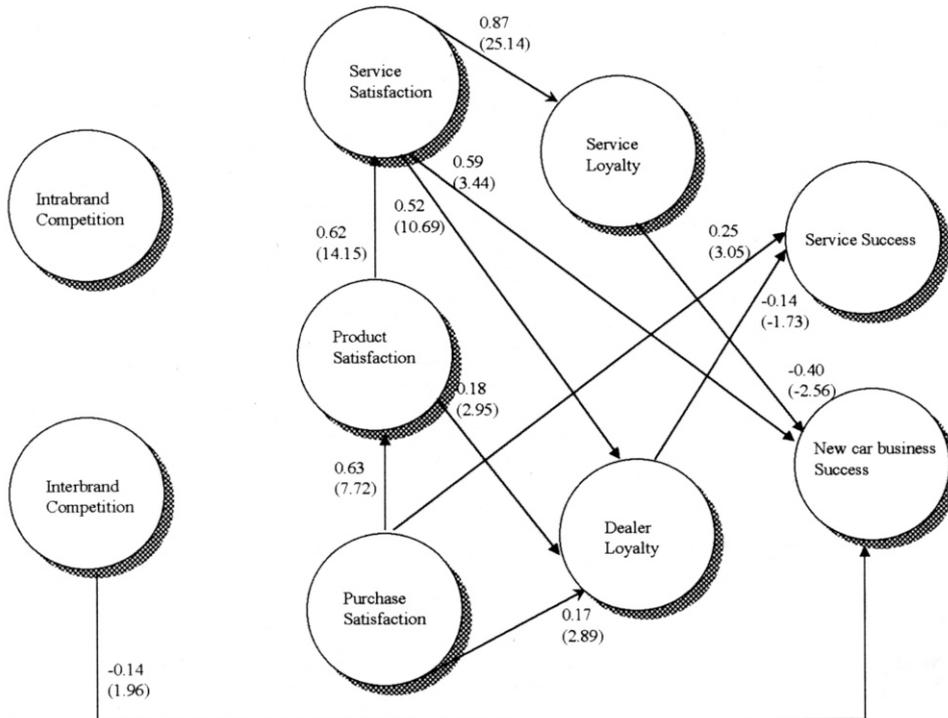
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**Figure 1: The framework for the study**



**Figure 2: The results of the study**



## **Satisfaction As A Mediator in The Link Between Service Quality And Service Loyalty**

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### **ABSTRACT**

Service loyalty with its final effect on repurchasing by customers appears to have received relatively little attention. This study starts by first delineating the concept of service loyalty and proceeds to distinguish between service quality and service satisfaction. A mediational model that links service quality to loyalty via satisfaction is proposed. Appropriate measures are identified and a postal survey is undertaken among one thousand retail banking customers. A response rate of 20.5% is obtained. Results indicate that satisfaction does play a mediating role in the effect of service quality on loyalty. The effect of a number of demographic indicators on service loyalty is also reported. Implications are discussed, limitations of the study are noted and possible areas for further research are indicated.

## **A Pedagogical Perspective for Creating Value Via a Better Understanding of Behavioral Demand--Abstract**

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This paper presents the argument that classical economic theory of demand is useful, but incomplete as the primary pedagogical method of instruction when developing the notion of demand. In addition, it offers an overview of some of the topics that could/should be presented when discussing the concept of demand. It is not the intention of this paper to offer a complete description of all the topics that should be presented for a thorough understudying of demand. Rather, this paper offers a sample of some of the topics that could be presented to augment economic theory of demand with a generally accepted marketing perspective of demand. What is needed is for these perspectives to be better integrated and presented in principles of marketing textbooks so that both the students and professors have a more complete understanding of the construct demand.

Consumers are attracted to buy when the perception of the product benefit exceeds the perceptions of the price to be paid. The perspective that demand is contingent on how consumers value the offering should be presented in both the textbooks used in class and the accompanying lectures. However, classical economic thought continues to dominate the explanation of consumer demand. However, the failure to recognize the limitations of classical economic theory and to introduce preferred marketing alternatives such as behavioral demand and demand placed on value, is a disservice to students. This paper makes a strong argument to de-emphasize the economic position that the quantity of a product that people will buy depends strictly on the price of that product and place more attention to the value-demand connection.

The economic perspective tends to be supported much more by the rational choice concept, while the psychological perspective has often been found in actual consumer behavior. Thus, the economic model with its assumptions of rational behavior model is useful in the prediction of consumer choice. The behavioral model of consumer choice is more concerned with the understanding and explanation of consumer choice. The concept of value in the exchange process focuses upon two marketing variables, namely product/service quality and price. The transaction between the marketer and the consumer should provide a balance of value for both parties. In this situation, value may be viewed as the overall goodness of the transaction as seen by each respective party. A marketer may be seeking to fulfill various goals such as profit, market share, image, industry, leadership, or simply survival, while the consumer generally wants to satisfy utilitarian, social, or psychological needs. If successful transactions between the seller and the buyer are to continue, the value for both parties must be fairly equivalent. Buyers' evaluation of purchases in terms of how the product's quality and price are viewed or framed, in terms of gains and losses, influence the attractiveness of a purchase.

## **Learning to Earning: Employer Desired Skills A Call for Action**

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### **Abstract**

Employers expect business graduates to possess functional skills that enable them to be productive. Criticism of business schools' ability to provide these skills continues in spite of substantial academic research and efforts to instill these skills. Methodological issues, implementation issues and employer relevance issues in the current literature are discussed. Given the Department of Labor's SCANS and O\*Net studies future research should be redirected toward skill assessment and teaching strategies.

### **Introduction**

The complaints are loud and clear: "Undergraduate business programs have been criticized for their inability to inculcate the skills most critical for business success." (McDaniel and White, 1993) Historically, this primary complaint levied on business schools has remained constant. Peters and Waterman (1982), Cheit (1985), Porter and McKibbin (1988), Chonko (1993) and Chonko and Roberts (1996) document and provide summarized complaints from over 200 hundred articles on the criticism of business schools insufficient attention to developing proper skills. "This lack of skills (real or perceived) is likely the reason why many marketing and business executives express a preference for graduates with a liberal arts backgrounds" (Chonko and Roberts, 1996).

Gene Koretz (Business Week, 1997) reports on 'The Sheepskin Paradox' a term he uses to describe the increase in demand for college graduates but only a modest growth in real wages for this labor market. The answer to this paradox is provided in a study conducted by Fredric Pryor and David Schaffer (forthcoming book "Who's Not Working And Why) that reveals possessing a college degree doesn't determine a graduate's employment or salary, its the functional skills they bring to the labor market that determines their success. "Many college graduates," says Pryor, "simply lack the reading, writing, and mathematical skills to solve problems that are suppose to go with a college education." Graduates without skills wound up with lower paying high school level jobs and those with qualified skills found high paying jobs which when viewed in aggregate creates the demand-wage paradox. Laura D'Andrea Tyson, dean of the Haas School of Business at the University of California Berkeley and former chief economic advisor to President Clinton explains the primary determinant of the growing wage gap in the United States is the increase in demand for workers with a high level of skills demanded by the Information Revolution. She states, "To use such technologies well requires high levels of initiative, analytical capability, and communication skills, characteristics that are unevenly distributed among individuals with the same formal education." (Business Week, 1998)

Dissatisfaction with current education along with new delivery technology and favorable demographic trends has turned the \$660 billion education industry into an emerging-growth industry that is becoming a prime target for the private, for-profit business sector. The total number college students is expected to grow to 3.2 million by 2004 and 44% of those students are working adults over the age of 24 that want technical skills (Business Week, 1999).

Within our traditional management education there has been movement toward ensuring business students possess needed skills as seen in AACSB The International Association For Management Education's requirement of educational objectives for each program and the required coverage of certain proficiencies. AACSB's mission driven accreditation guidelines suggest soliciting stakeholders input and incorporating the feedback into program improvements. Frequently this involves a process of surveying employers, recruiters and/or alumni requesting them to rank or rate lists of skills as to their importance and the schools performance on these skills.

The desired culminating experience for most of our business graduates is career placement. However, historically business curricula have focused attention on the acquisition of content knowledge and less emphasis on the development of skills sought by employers. Reasons for not emphasizing basic skills in the business major include - beliefs that general education is responsible for basic skill development, we don't have enough time to cover the content material and skills, too many students to work on presentation and writing skills, and basic skills are irrelevant to the knowledge they need from an upper level class (Shipp, Lamb, Mokwa 1993).

With over two decades of academic research and interest in employer desired skills why are the above complaints unanswered? The purpose of this paper is to present a review and critic of the literature on skills required of business majors, and provide a discussion of methodological issues, implementation issues and employer relevance issues that should be considered and addressed in future research.

## Literature Review

Numerous formal studies have surveyed key constituencies to quantify the importance of skills business majors should possess. These studies have surveyed a comprehensive cross section of employers – college recruiters (McDaniel and White 1993), personnel managers (Gaedeke, Tootelian and Schaffer 1983), vice presidents (Goldgehn 1989), middle managers (Arora and Stoner, 1992), practitioners (Hafer and Hoth 1981; Kimball 1998); advisory boards (Aiken, Martin, Paolillo 1994); alumni (Ursic and Hegstrom 1985); students (Borin and Watkins 1998) and faculty (Tanner, Totaro and Wilson 1998). Sample sizes range from in the teens to over five hundred (Kelly and Gaedeke 1990). Almost all studies requested the respondents to rate a list of skills/characteristics on 5 or 7 point ‘importance’ scales. The arithmetic mean was calculated for each item and used as the self-reported importance measure, which was then rank-ordered to indicate overall importance. This basic methodology has been extended by performing factor analysis (Lammes, Bennett, Olney, Lammers 1984) to reduce the number of items to fewer dimensions; by utilizing conjoint analysis (Boatwright, Stamps 1988) or regression analysis (Tomovick, Erffmeyer, Hietpas 1996) to derive the importance ratings; by testing difference among means with ANOVA (Leach, Sandall 1995); and by indirectly soliciting evaluations of skills with Policy Capturing techniques (Tomovick, Erffmeyer, Hietpas 1996).

After two decades of research on employer desired skills what have we learned? A universal conclusion from these studies (across time, respondents, sample sizes and methodologies) is that communication skills are relatively important for our business majors. Personality characteristics such as motivation, initiative and self confidence also rise to the top of the rankings while content specific knowledge tends toward the bottom of the lists. The type of position (Boatwright, Stamps 1988) and the company (Arora, Stoner 1992) can partially explain variation in importance rankings. These meager and intuitively obvious findings provide little direction for improving business school’s preparation of career ready graduates.

### Methodological Issues

The above methodologies and end results are analogous to much of the early customer satisfaction research conducted by researchers, criticized by academics and ignored by practitioners. Some limitations in the research on employer desired skills are:

1. Lack of documented and thorough qualitative research to define terms and develop taxonomy of skills. Without clearly defined terms and taxonomies the selection of skills that impact hiring and career success end up with lists of items that appear to have face validity but preclude the scientific assessment of construct validity, reliability and generalizability that allow for advancement in knowledge of the research stream. ‘A Prior’ (Hafer and Hoth 1981; Tomkovick et al 1996; Chonko and Roberts 1996) and ‘Post Hoc’ (Lammers et al 1984; Boatwright and Stamps 1988; Arors and Stoner 1992) attempts have been made to create categories of skills, however, follow up studies have not built upon nor seem to accept these taxonomies as general starting points.
2. No distinction among self-reported importance, derived absolute importance and derived relative importance ratings and which is more appropriate for what kinds of decisions. Self-reported importance measures have face validity, however, they assume the respondent understands why they like something, add length to the survey, and can be biased by scale usage effects and halo effects. Derived importance measures reduce survey length and don’t require the respondent to understand their behavior; however, a greater level of statistical knowledge is required for interpreting the data.
3. Broad aggregate level of analysis, which washes out discipline-specific and industry-specific results.
4. Sample selection needs to be matched to specific decisions - surveying on-campus recruiters implies their evaluation of all students; recruiters at a company implies an evaluation of prescreened students; managers evaluate prescreened and job qualified students.
5. Univariate analysis analyzes each attribute separately losing the overlap among items and relative effects after accounting for the other variables.
6. Lacks the emotional components and the situational components in the hiring process (knowing someone in the company, etc.).

### Implementation Issues

Whereas the above limitations do need to be addressed perhaps they are overshadowed with a larger more pressing need of making the results actionable by faculty and students. Schmalensee and Lesh (1999) argue that the lack of actionability has been, and continues to be, the most important problem facing market research. Researchers may be more concerned with measuring rather than managing performance of skill acquisition.

Schmalensee and Lesh (1999) present a seven-step flow chart of how research is connected to action. They argue that communication at each step is critical for the successful implementation of change. When researchers or managers see only their part of the process or skip steps in the process the research frequently ends up sitting on the shelf and no action is taken. Based on their seven-steps the following suggestions are provided to make employer desired skills research more actionable.

1. Clearly define objectives and verify commitment to action with all key decision-makers before doing the research. Involve curriculum committees, department chairs, and faculty teaching the relevant classes that may be effected by the results and generate a consensus on the objectives of the study and possible actions.
2. Design research with action in mind by asking specific questions and including benchmark or comparative questions. Create specific questions that can be directly related to taking specific actions and avoid general 'importance' questions where everything turns out to be highly important.
3. Report results in a clear concise manner tailored to the audience. Use the 'KISS' principle and emphasize what the research says can be done to improve the curriculum.
4. Create effective plans by matching the research and the decision timing, and involving stakeholders in the planning. Conduct the study with curriculum change dates and catalog copy dates in mind.
5. Involve and motivate employees by aligning plans and incentives. Recognize and reward individual efforts to achieve improvements in developing the targeted skills and the scholarly activity that can surround teaching pedagogy and assessment.
6. Support people involved in implementation by helping to interpret the data and making them the heroes. Clearly communicate why the data is suggesting particular actions and put the focus of attention on the people acting on the results not the research itself.
7. Track the impact of action and communicate the results. Develop up-front plans for assessing and tracking changes and communicate the actions and results as often as possible to faculty, students and employers.

### **Employer Relevancy Issues**

Thomas Bailey (1998) argues that academic and industrial skill standards have been largely developed independently of each other with academic standards often lacking relevance to work and industry standards failing to specify required levels of achievement on academic skills. Bailey provides the following recommendations for bridging the gap between academic and industry skill standards.

1. Promote collaboration among employers and academic educators in the development and use of standards.
2. Improve the definition and measurement of the levels of academic skills.
3. Develop academic standards so that meeting those standards will indicate individuals' ability to apply the relevant academic skills outside the classroom.
4. Systematically experiment with different approaches to coordination of the two sets of standards.
5. Focus on developing appropriate teaching strategies and associated curricula.

From the academic side AACSB business accreditation standards require an understanding of perspectives (ethical and global issues; influence of political, social, legal & regulatory, environmental, technological issues; impact of demographic diversity on organizations), foundation knowledge (accounting, behavioral science, economics, math and statistics) and communications (written and oral). With the exception of communication skills the accreditation standards provide little assistance in guiding students and/or faculty in areas of employer desired skill development. Nor does AACSB provide measurable standards that indicate individuals' ability to apply the relevant academic skills outside the classroom.

The Secretary of Labor, working with Industry, appointed The Secretary's Commission to Achieve Necessary Skills (SCANS) who published Learning a Living: A Blueprint for High Performance (1992) which provides the foundation of skills and competencies (SCANS SKILLS) required by the workplace. These skills (basic skills, thinking skills, personal skills) and competencies (effectively use - interpersonal skills, resources, information, systems, technology) are the basis for both School-To-Work planning and for graduation standards at the state and local level. In addition the Department of Labor's Employment and Training Administration has developed a very comprehensive database (O\*NET) that identifies, defines and describes job requirements, worker attributes, and the content of 1,100

occupations. The O\*NET database is developed from a skills-based model that focuses on six content areas (experience requirements, occupation requirements, occupation specific information, occupational characteristics, worker characteristics, worker requirements) of occupations. O\*NET provides standardized descriptions of occupations, skills, characteristics, and requirements that can help improve communication and bridge the gap between industry and academics.

### **A Call For Action**

Faculty and students must be made aware of employers' strong desire for highly skilled employees and the wage and career consequences of lacking those skills. SCANS and O\*NET provide a tremendous wealth of information for defining and identifying skills relevant to specific jobs. These data sources can provide the foundation and direction for designing curriculum for career specific majors. Given O\*NET's extensive knowledge of necessary skills for specific jobs academic research's greatest opportunity for significant contribution maybe developing skill standards and assessment techniques for our majors career specific skills. Academic research should also focus on developing appropriate teaching strategies that are consistent with the different kinds of knowledge and skills required by our majors.

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## **eEducation: Adding Value by Integrating the Curriculum**

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### **Abstract**

This paper proposes that an interdisciplinary approach to integrating technology into the curriculum is superior to simply using technology as a tool. The rationale draws upon cognitive psychology to explain that the acquisition of knowledge involves schema change. It also looks to constructionist theory for ways of providing the active learning environment that facilitates meaningful knowledge acquisition.

### **Introduction**

The world of e-business is percolating so far up into every field, said General Motors Vice President and CIO Ralph Szygenda, that he expects every graduate that walks into his office looking for a job to have e-commerce knowledge—both about the nuts and bolts of the technology and the business understanding to go along with it (Vaas 1999, p. 69). This paper presents the framework we used in implementing “Marketing on the Web,” an interdisciplinary course which integrates marketing and technology strategies. The course is co-taught by two faculty: one from CIS and one from marketing. We have grounded our approach in cognitive psychology (Piaget 1967, 1970; Rumelhart and Norman 1978) and in constructionist theory (Papert 1980, 1993, 1996). Accordingly, the class provides a unique opportunity for students to build on and integrate the concepts and skills acquired in prior semesters. Experimenting, creating, revising, discussing, publishing and reflecting on works of their own, they understand theory through action and experience the business value of technology through its application. Students quickly discover that the Web is more than just the latest presentation tool, like PowerPoint. Instead, the Web presents a unique opportunity to design a controlled environment with which the customer interacts—an environment constrained not only by marketing considerations but also by available technology and techniques. In an environment made possible only through an interdisciplinary approach students are getting an eEducation

### **Conceptual Foundation**

In 1980 Seymour Papert championed the superiority of “learning by doing” in *Mindstorms*, which laid out a conceptual framework for how computers could be used in education. He termed his approach *constructionism*. These ideas were later expanded in *The Children's Machine* (1993) and *The Connected Family* (1996). Papert's thesis is that “old” ways of learning were artifices of the available technology—books, teachers to lecture, paper and pencil. Computers, he suggests, allow people to learn in a more innate fashion. He argues that this internally driven learning, in which people learn “what they need to know in order to carry things out,” is a superior educational process. Following this model, the role of the teacher is to create the conditions for discovery rather than to provide ready-made knowledge.

Papert articulated the concept in a 1983 speech in which he draws a distinction between teaching and learning. Teaching denotes a kind of fluidic theory of learning in which litres of knowledge fluid are transferred from the teacher vessel to a student vessel. We have this notion of the student being filled up from the wise container known as the teacher. I always like the [term] learning because [it] denotes the process that is happening in the learner. I think what we really want to happen in education is to get that process energized and going because then the learners can function as they must for most of their life without depending on an explicit teacher (Harper 1989, p. 62).

Active learning is the hallmark of Papert's constructivist theory. It also is a recognized goal within the educational community. Marketing faculty have tried various approaches to experiential learning including the use of creative questioning techniques (Hallgren 1982), data collection and analysis projects (McCorkle, et al. 1992), participatory examinations (Graham, Graham and Whiting 1997), as well as case analyses and research projects. While these are effective improvements to a straight lecture/discussion format, none provides the constructivist learning environment advocated by Papert.

### **Instructional Strategy**

Papert's model was based largely on the work of Jean Piaget (Harper 1989) who coined the phrase, “to understand is to invent” (Papert 1996). More formally, he postulated that learning occurs as individuals adapt to their environment

(Piaget 1967, 1970). Through the process of assimilation new information is fitted into existing schemata. Through the process of accommodation, new schemata are formed and existing schemata are rearranged to adjust to the new information. Learning, therefore, requires cognitive effort to add to, adapt, and build knowledge structures (Rumelhart and Norman 1978).

Papert's and Piaget's ideas have been extended by other researchers interested in learning and curriculum design. Marzano's (1992) "dimensions of learning" and Reid, Forrester and Cook's (1989) phases of collaboration echo these ideas. Marzano employed constructivism as a basis for developing curriculum planning principles; Reid, Forrester and Cook were interested in articulating the phases of successful collaborative learning projects. **Table 1** presents these approaches side-by-side. Taken together, they provided the theoretical backbone for the active learning component of Marketing on the Web, as the following five sections explain.

### **Motivation: The Engagement Phase**

When the consumer looks at a Web page or a banner, the information that is presented there is processed by the human mind in several separate stages. Each of these stages is like a gateway. If the information does not make it past a stage, it is lost and the consumer has not been impacted by it... The stages are 1) exposure, 2) attention, 3) comprehension ... (Hofacker 2000, p. 47).

The perception process (outlined by Hofacker above) employed by marketers and communication experts applies equally well to the learning process. Exposing students to a problem is not enough; you also have to get their attention. For students to engage in active learning they must be inspired to solve a problem. Students may view problems as engaging because they are novel, difficult, paradoxical, relevant, and the like. The opportunity to display their results on a Web page may in itself provide the required motivation (Abita 1999, Batty-Hotz 1999). But not everyone finds the same issue compelling. How does one choose problems that will appeal to each member of an entire class?

Following the Piagetian model, we have found that allocating some portion of the problem domain to the students themselves, greatly enhances the probability of each student finding it compelling. We recently gave students the task of developing a Web site for a small candy producer. One group centered on the sexy, romantic image associated with the exchange of candy, while another focused on the stereotypical busy executive whose main concern is minimizing the time required to schedule the reliable delivery of candy for special occasions. Both groups presented their problem statement with zeal. Each had taken ownership of a problem it wanted to solve.

It is worth noting that students, for the most part, do not seek out easy problems. As Papert points out, "Most dislike of school work comes from finding it boring, the exact opposite of finding it too difficult. *Children, like everyone else, don't want 'easy'—they want 'challenging' and 'interesting'—and this implies 'hard'.*" (1996, p. 52; emphasis in the original).

### **Acquiring and Integrating Knowledge: The Exploration Phase**

Schema change is at the root of all significant learning.... [It] involves a change in the way an individual perceives and organizes data and information (Stapleton, Murkison and Stapleton 1996). Having explored the *problem* domain students begin to explore the *solution* space. To select a solution strategy they need information about the target market, its desires and habits. Students also consider how a decision made in one area will affect other areas. If they design the site to enable direct sales, for example, they have to consider the technological requirements and logistical implications as well as the impact on dealer networks. Knowledge becomes active. Students seek out the information they need to solve the problem they defined.

As students begin to view business problems from a broader enterprise perspective, they also begin modifying their existing schema. It is here that the value of an interdisciplinary course is most conspicuous. CIS majors add marketing insights to their technological expertise; marketing majors learn to incorporate technology strategies into their planning processes.

This schema modification is not easy. Students have to make the conscious effort to create cognitive space for the new material. If one's knowledge network is organized around marketing concepts, for example, then one has to realign the schemata to include CIS concepts and vice versa. If accomplished successfully, the end result is a more sophisticated perspective. As Anderson suggests, "Schema change is the 'sine qua non' of the acquisition of knowledge as opposed to the mere aggregation of information" (1977, p. 430).

### **Extending and Refining Knowledge: The Transformation Phase**

When elaborated and richly integrated, the new knowledge becomes meaningful and useful. Knowledge can be called "meaningful" only after it is richly interconnected with related knowledge. Knowledge can be called "useful"

only if you can access it under appropriate circumstances (Gross 1996).

Simply developing more sophisticated intellectual structures, however, does not satisfy the criterion of being able to use the knowledge. In this stage, students transform the theories into reality, applying their knowledge to new situations and in new ways. Following the Piagetian model, the best place for this transformation to take place is an intellectual playground, a responsive learning environment they can explore and extend. The microworld of a Web site provides this environment. It furnishes a set of primitives (text, graphics, sounds, data, bandwidth) and a set of constructs for organizing and acting on those primitives (html, pages, tables, hypertext links, animations, forms). To this we add a set of marketing constructs. Students use these elements to create (invent) environments uniquely their own. Their success depends largely on the interplay between CIS and marketing concepts. Students constantly have to ask themselves questions such as, "What other techniques and technologies might we use in constructing this web site?" "How will the target market react to a site which requires them first to download and install a Shockwave Plug-In?"

Throughout the course each Web site is always a work in progress. As students are exposed to new concepts and techniques, they revise and extend their microworld to incorporate the new elements now at their disposal, thereby completing the constructivist loop. Feedback is ultimately provided at several levels. In this phase it is provided by the Web directly to the individual or group developing the site—does the site look and behave the way the student wants it to?

### **Using Knowledge Meaningfully: The Presentation Phase**

Cognition is an active, recursive, integrated process by which we continuously model the world and continuously modify the model (Gross 1996).

Students are now ready to test their knowledge with a wider audience. "Every professor knows that a good way to learn a subject is by teaching a course on it" (Papert 1993, p. 162). This same principle applies in a constructivist classroom. Students not only need to expand and modify their knowledge structures, but they also have to be able to *communicate* that knowledge. Additionally, there is some evidence that the modification of knowledge structures entails a dialectical process (Anderson 1977). To recognize the limitations of their current schemata and develop an appreciation for the efficacy of alternatives, students need a classroom environment which encourages the questioning of ideas, the generation of new ideas, and, then reanalysis.

We facilitate this dialectical process by developing a critical ethic in the class, providing a second level of feedback. From the first week, students critique each other's work orally. To discuss and comment on the effectiveness of their work, students must reflect on the criteria and standards of good marketing and good Web design. What is the apparent target market for the site? Does the intended message agree with the apparent one? Do animated gifs enhance or detract from the site's purpose?

A third level of feedback comes from the instructors. We function as coaches, suggesting other areas the team may want to consider and helping students with difficult concepts. As much as possible, however, we try to avoid a fixation on getting the "right" answer. We have adopted Papert's (1993) approach of helping students get it "vaguely right" the first time, so that there is room for them to redirect their efforts. The microworld of the Web site greatly facilitates this process. Students can rather easily try out different approaches, make changes and alterations—even completely change directions—in response to their own ideas and the critiques of classmates.

### **Productive Habits of Mind: The Reflection Phase**

The constructivist philosophy is attractive because it engenders learning independence in students. As they take responsibility for their own education, they are also developing what Marzano refers to as productive habits of mind, mental processes which should stay with them throughout their lives, such as critical thinking skills, an appreciation for learning strategies, and team skills.

The interdisciplinary nature of "Marketing on the Web" naturally leads to an environment that promotes the development of these processes. Reid, Forrestal and Cook (1989) suggest that successful collaborative learning assignments must be complex enough so that a group with multiple perspectives and multiple knowledge sets is perceived to be better equipped to solve the problem than a group without these resources. Small group communication experts (Fisher 1980, Jensen and Chilberg 1991) explain why this is so. A diverse group brings different perspectives to bear on an issue. If group members are motivated to express their ideas and to listen to others, the result is a fuller consideration of a problem's complexities and alternative resolutions, thereby resulting in higher quality decisions.

A complex interdisciplinary problem would be of little value, however, if we were to allow the formation of homogeneous teams. We engender cross-fertilization by purposely balancing team membership so that neither CIS

nor marketing majors dominate. Additionally, requiring that marketing majors explain the technology strategy and that CIS majors explain the marketing strategy during class presentations and critiques further engenders the exploration of alternative schema.

We would also submit that an interdisciplinary course by its very nature adds an important collaborative layer: the interplay between the disciplines—in this instance marketing and CIS. We have found it helpful, for example, for the CIS professor to express the importance of supporting a Web site's development strategy with good marketing theory. CIS students seem to perceive his admonition not to overdo the whiz-bang of technology as more valid than when the same comment comes from the marketing professor.

### **The Obvious Question**

At this point, the reader may be thinking, "If I divert class time to teach Web development (marketing), won't I have to cut out some of the marketing (Web development) content I cover?" The answer is, "No," for two reasons. First, marketing and computer information systems are not necessarily separate and distinct disciplines. In the real world of enterprise development there is considerable overlap. The second reason relates to the economic theory of roundabout production proposed by Böhm-Bawerk (1932) and Richard Ely (1902)—if your economics class had been constructivist-based you'd remember them! Consider two tailors in the 1850's about the time of Elias Howe, A. B. Wilson and Isaac Singer. One decides to forego some current production and invest time and resources in one of those new fangled sewing machines (roundabout production); the other doesn't. The tailors quickly discover that he who invests in and applies the best tools wins. As the chair of the Utah Strategic Planning Commission observed in 1988, "Throughout history, every significant increase in human productivity has involved the better use of tools" (Thomas and Knezek 1995).

Does this principle apply to education as well as economics? There is evidence that it does. Cutting (1990) provides an apt example. He was teaching Prolog programming to undergraduates who had no prior computer experience. To do useful work with Prolog, students had to understand the concept of *recursion*. Recursion is a difficult concept and a significant number of students were unable to master it in the allotted time. While Prolog relies on recursive techniques, it is not a particularly good tool for teaching them. Logo, on the other hand, is an excellent tool for teaching recursion. Cutting found that students who first learned Logo, followed by Prolog, were able to do more with Prolog than students who spent comparable total time on Prolog alone. By investing time to learn Logo he was able to cover more material, not less.

We suggest that the same principle applies to integrating Web development with marketing. Marketing provides a context rich environment ideal for understanding how Web development theory and techniques can be applied in a business setting. Rather than simply developing a "cool" web site, students develop an appreciation for how technological expertise can add value to an organization's marketing strategy. Each discipline serves as an effective tool for understanding the other.

### **Conclusion**

John Dewey (1916) once said that the goal of education is not just to acquire information, but to be able to apply it. His thoughts echo almost a century later in the comments of General Motors Vice President and CIO Ralph Szygenda in our introductory quotation. We suggest that if Dewey were alive today, he would very much favor an interdisciplinary eEducation.

An environment that motivates students to take an active role in the learning process, allows them to apply their new found knowledge to real problems, and encourages them to push the limits of their understanding certainly is one that enhances education. Seymour Papert championed the idea almost twenty years ago. A decade ago Tim Berners-Lee developed a revolutionary new system for the exchange of information throughout the scientific community, the World Wide Web. In the process, he gave us not only a new medium for marketing but also a new environment, a technological playground for marketing theory, which makes it possible for us to realize Dewey's dream and meet Szygenda's expectations.

We are not alone in promoting the benefits of incorporating the Internet into the classroom. What is different about our approach, however, is its interdisciplinary focus in which the technology is more than just a tool. Students learn the importance of developing a technology strategy consonant with an organization's marketing strategy.

### **Limitations and Areas for Further Research**

This paper presents the framework we used in implementing our interdisciplinary Marketing on the Web course. It also presents our reflections on the learning that takes place in the course. Evidence for the viability of this approach,

of course, is limited to our own experiences. The next step is to develop a theoretical model which could be tested on a broader scale.

Another area of fruitful enquiry might also come from incorporating an interdisciplinary approach earlier in the business school curriculum. Many college degree programs include a senior-level capstone course that ties everything together. At some liberal arts institutions, seniors also take a final integrative general education course. It is our contention, however, that students would be well served if they encountered this integration from the outset of their education, rather than waiting until the end. If true understanding comes from building complex intellectual structures with many associative links among concepts, then students would benefit from being introduced to this process early in their educational careers.

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Table 1  
Constructivist Theory and Two Applications

Piaget/ Papert	Marzano (1992) Dimensions of Learning	Reid, et al. (1989) Collaborative Learning Phases
	Attitudes and Perceptions About Learning (Motivation)	Engagement
Planning and Estimation	Acquiring and Integrating Knowledge	Exploration
Interaction	Extending and Refining Knowledge	Transformation
Experience	Using Knowledge Meaningfully	Presentation
Revision and Extension	Productive Habits of Mind	Reflection

## **The Use of Decision Support Systems in the Classroom: Maps in Teaching International Marketing**

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### **Abstract**

The concepts and tools of artificial intelligence (AI) have been applied in many areas of business education, including international marketing. This paper describes the use of a decision support program, Market Access Planning System (MAPS) in the classroom environment. MAPS is an expert system that provides decision support to companies considering foreign market expansion. MAPS assists in this effort by presenting to the user an overall evaluation of the company, its target products and markets, and a ranked list of potential entry strategies into foreign markets. This presentation discusses the system and its modifications and how it can be used as an adjunct to case analyses in international business and marketing classes.

### **Introduction**

One of the most significant business and economic trends of the late 20<sup>th</sup> century is the stateless corporation. Global companies conduct research whenever necessary, develop products in several countries and promote key executives regardless of nationality. The fall of the former communist block in favor of a more democratic political structure and a more market-based economy, together with a rapid movement toward deregulation, privatization, and the reduction of international barriers to trade in more traditional economies, have combined to create a highly competitive market environment. These developments have opened challenges, opportunities and uncertainties that require businesses and business schools to think differently and to make sound decisions quickly, with little margin for error.

This paper evaluates the potential of expert systems (ES) in research, training, and decision support in marketing by describing our experience in developing and testing MAPS, an expert system developed to help businesses prepare for international market expansion. Expert systems are being widely deployed throughout industry, government, and other types of institutions. Many organizations have now developed hundreds of ESs to assist in a wide variety of areas. With the changing global environment, a new type of support systems, transnational decision support system (DSS), will play vital roles in the complex decision making processes at multinational corporations. The development of an expert system for international market entry raises several interesting questions: Is it possible to represent expertise in an area such as international marketing in computer systems? What are the opportunities and difficulties associated with developing such a system? More generally, what steps are to be followed in developing an international marketing expert system? What role, if any, can such systems have in the generation, transmission, and use of marketing knowledge?

### **Learning From Expert Systems**

Although expert systems have to be devised on a case-by-case basis, some general principles can be applied to all uses. Logical frameworks, or shells, are readily available in the market. The challenge facing a user is constructing a knowledge base. Systems that draw on existing expertise rely on human experts, who must be in agreement on key points. Many times, experts are not aware of how they apply their knowledge to a problem, so codifying the knowledge to a strict logical process for the computer to undertake is a substantial task. It often becomes apparent that gaps and inconsistencies exist in the knowledge. These must be filled or resolved. Many times, human experts do not have the necessary knowledge, or data have not analyzed the available data to arrive at general principles. Here, the power of adaptive learning is brought into play. The data provided to the system now might call for different forms than those used by humans, so new techniques for data gathering have to be devised.

Using a self-learning system often reveals relationships unrecognized by human experts. Despite the power of automatic rule generation, in almost all cases, human judgements need to be made before the adaptive system can operate on its own. The needs of the user are important considerations of system design. They are highly variable and depend on the nature of the problem and the user's skills.

The most valuable expert systems, those that have a fixed knowledge base, are subject to limited use and a short life. Though they might have advantages over books or tables in search speed, the development effort they require can be justified only if they have a large number of users. Expert systems will improve productivity in the processes of information handling. Artificial intelligence will find its way into these processes and will come to be looked on less

as a distinct science or technology and more as a convenient tool the computer has made possible.

The Internet in combination with various information system technologies has drastically changed the global exchange of information. These powerful information exchange tools are changing the ways in which companies do business. Using these tools, companies and individuals can get relevant information quickly and make decisions more rapidly. Expert systems can help investors analyze the abundance of information and target certain markets. The use of these expert systems allows for rapid feedback on any particular query.

### **Use of Expert Systems in International Marketing**

International marketing is an area where there is little established theory (Cavusgil, 1997). Expert knowledge is extremely scarce and fragmented in this field. Decision makers in international marketing are faced with many challenges as a result of the complex and uncertain environment in which they operate. Expert systems applications in various areas of international marketing help reduce the complexity and overcome these barriers significantly as educational or training tools. Through interacting with such systems and accessing their knowledge base, the users can obtain a comprehensive view of the decision areas and criteria to use, thereby enhancing their decision making. MAPS is an expert system designed to address the major decisions a manager must undertake when internationalizing his or her marketing operations. The most pressing strategic issues in international market entry planning involve "where to market" and "how to market". "Where to market" refers to selecting the best countries and/or regions in which to concentrate. "How to market" involves selecting the best mode of entry; that is whether to export, license, franchise, set up a foreign manufacturing facility, and a myriad of other options. Often the "where" and "how" issues are dependent on each other, with each decision influencing and/or constraining the options of the other. For example, if exporting, one needs to be cautious of countries with high tariff levels. Conversely, if one wants to market in a high-tariff country, the entry mode chosen should usually be something other than export.

There are several characteristics of the international market entry decision that make an ideal candidate for an expert system application. First, the decision is highly unstructured and requires the incorporation of managerial expertise and experience. Planning experts need to use both quantitative data and their qualitative judgements in making their decisions. Expert systems, unlike conventional mathematical models, can deal with both quantitative (numerical) and qualitative (logical) relationships. Secondly, the expertise required to screen entry modes for international markets is scarce, and usually available with only a few members within the organization. Expert systems allow the firm to develop a knowledge bank, which will be in place, even if the experts decide to leave the organization. Finally, expert systems routinize the decision making process, and ensure that the decision makers do not overlook any critical factors. They can reduce the time and effort required to make the decision, thus improving resource efficiency.

### **Students' Interaction Interface in Maps**

MAPS is a multi-dimensional learning tool. At the very least, students increase their knowledge of globalization and their need to better educate themselves about it. The main objective of MAPS is to assist students in learning "which aspects need to be considered in taking a company global". In some questions, students need to use their "mind's knowledge". They also need to motivate themselves to recall concepts they have not used. The system also gives the explanation of concepts refreshing the current or past knowledge of the student. It incorporates lessons learned in accounting, finance, economics, marketing and management. Students need to find information for such questions as the education level of a country, so this makes them more productive in doing research. The learner is constantly and cognitively involved in questioning and thinking. With this system, they can go over their answers and view any input errors that they have made, browse various outputs such as entry modes, and interpret them with confidence.

The aim is to educate students at three levels: awareness, understanding and competency of concepts. They develop an awareness of the complexity in going global; then they delve into the understanding of the nature, functions, strategies and systems of global companies; finally, they achieve competency by practicing their skills and knowledge via the expert system. A feedback report is required from students to understand how they liked the program, what to change about the program, and what they have learned.

### **An Overview of Maps**

Typically, the use of MAPS in an instructional environment involves presenting the student with either a case study describing a fictional or real company and the product or service that the company provides, together with one or more potential target countries to which the company may want to market its product or services. The case is be

written in such a way that the characteristics of the company and its product can be found by careful reading of the text. It includes the information on target market countries for which a significant amount of information is available from the school's library system or other accessible resources.

After a careful reading of the case, the student runs the MAPS system and starts to answer questions related to MAPS' S.W.O.T. analysis (see below). As a result of the S.W.O.T. analysis, MAPS will present an overall evaluation of the company, its product, and the target market in question. Then, MAPS will produce a ranked list of potential strategies for entering the target market (entry modes) based on the results of the S.W.O.T. analysis. Students can then review these entry modes in order to learn what they involve and the reasons that these may be appropriate or inappropriate given the company and the target market of interest.

The MAPS results can then be collected in digital or hardcopy form and turned into the instructor for review and evaluation. In addition, different students' (or teams') results can be compared to illustrate the commonalities and/or differences in their assessments of the company and the target market.

### **CEVAL - The Foundation of MAPS**

MAPS is based upon an expert system shell called CEVAL for Candidate Evaluator (Mitri, 1995), which combines a hierarchical weighted linear model, noncompensatory and nonlinear reasoning capabilities, and AI-based knowledge representations to provide both quantitative and qualitative measurements of evaluation criteria and candidate performance. CEVAL's components are the following:

#### **1. Evaluation criteria:**

Evaluation criteria are arranged hierarchically and weighted by importance. For instance, a criterion in the S.W.O.T. analysis might be company characteristics. A lower (more detailed) level of hierarchy might be the availability of resources, and below that company size. The hierarchy of evaluation criteria for the MAPS system is composed of company, target market and production/marketing characteristics, and forms the basis for the S.W.O.T. analysis (See [Figure 1](#)).

#### **2. Evaluative questions:**

These are multiple choice questions associated with particular evaluation criteria whose answers are mapped onto scores that assess the candidates on a particular criterion. For instance, while evaluating the company's commitment and risk tolerance (an evaluation criterion), the system would ask several questions of the user. The answers to the questions enable the MAPS system to compute a quantitative criteria score and associated qualitative ratings to evaluate each criterion, thus forming a basis for the ranking that constitutes the output of the program. Recognizing that not all information is of equal value, the system allows the users to omit questions as "unknown", or to add qualitative comments that explain the basis upon which the evaluations were made.

#### **3. Interpretation fragments:**

These are text paragraphs evoked by the qualitative criteria ratings mentioned in our discussion of evaluative questions. The system combines these to translate the qualitative statements that combine to form a report of recommendations to the user.

#### **4. Plans:**

A plan is a decision alternative for a particular candidate. Plans are ranked from least to most promising, based on the answers users give to the evaluative criteria questions, together with an analysis of the reasons for the evaluations. Licensing is one example of a MAPS plan. For companies with low resources and low desire for control (as established by the evaluation criteria and evaluative questions), licensing would rank as a promising plan because licensing gives the company a low level of control, but it is relatively inexpensive, thus making it more appropriate for companies with low levels of resources.

#### **5. Hypertext tutorials:**

These are tutorials that can provide a glossary of terms related to international marketing which users can link to when answering the evaluative questions.

### **S.W.O.T. Analysis (Strengths, Weaknesses, Opportunities, and Threats) in MAPS**

The S.W.O.T. analysis phase provides input needed for selection of the appropriate entry modes for the company. It guides the user through a series of multiple-choice questions regarding the major factors relevant for international market entry. The S.W.O.T. analysis is founded on the *linear model*, with non-linear reasoning handled via context questions and interpretation fragments triggers.

Major factors include company, target market, and product and marketing characteristics interacting with each other in the global environment. Each of these is a CEVAL evaluation criterion, and is composed of other sub-criteria.

The Company, Target Market, and Product and Marketing Characteristics are divided into five, twelve, and three characteristics respectively, as displayed below. Thus, MAPS presents students with a structured set of overall market entry conditions relevant for selecting an appropriate foreign-market entry mode (see [Figure 2](#)).

### **Entry Mode Selection**

Along with assessing the strengths and weaknesses of the company, and the opportunities and threats in the target market, the S.W.O.T. serves as input for establishing the most appropriate strategy for entering the target market, known as entry mode selection. The different entry modes are implemented via CEVAL's plan and plan type features with the main plan type being the Entry mode. These entry modes (plans) include various export types (through trading intermediaries, distributors, or directly to customers), licensing, franchising, or contracting, various partnership arrangements (e.g. joint ventures), or wholly-owned subsidiaries or manufacturing facilities. Each of these entry modes has certain factors that *support* it as an option and other factors that *refute* it as an option. Based on these supporting and refuting factors, the entry modes are scored and ranked from most promising to least promising, and then presented to the user. The user can select one of the entry modes in order to get a description of that play. In addition, the user can obtain details regarding the factors that support and/or refute any particular entry mode.

### **Maps and its Modifications**

MAPS can be extended into new areas of international entry decisions. These techniques are most applicable to such domains as product adaptation in the foreign country, joint venture operations, selection of distributors in the target market, foreign country franchising, logistics planning systems and many more. Our experiences in developing MAPS suggest that these techniques can be employed to build useful models in these areas of marketing. In fact, this was conducted in the international marketing class. Students were given the task of developing new MAPS modes and expand its use into other contexts. They developed MAPS variants for all the areas listed above in addition to MAPS in service industries such as hotel services, banking, and advertising.

### **Summary and Conclusions**

MAPS helps students identify promising entry strategies given firm characteristics and target conditions. It also educates the user through context specific tutorials and describes the relationships between concepts through hypertext links. MAPS makes students research data that is relevant to their target market and/or marketing program. The type of search that students undertake include searching the web, the media, libraries, and of course, company data.

The use of expert systems allows for rapid feedback to the student or researcher. This is a new tool that investors use to analyze target markets. This type of information technology can also be shared on the Internet. For example, a user in Europe could log into a web page where the MAPS program is located and analyze the market for a target country in Asia. Success depends upon the ability to integrate what has been learned in previous course work. MAPS will also allow students to learn relevant international business terms, their importance and their relation to their environment. This teaches students to understand what kind of information they need for an investment in a new country.

One important aspect of globalization is teamwork. Students learn that a team must function as a cohesive unit. MAPS allows students to work in teams so that they can break apart a huge problem and solve it by parts as a team. Teamwork teaches students to brainstorm and focus on the problem, using the individual strengths of the team members. This system internationalizes the thinking of future managers. In order to be successful, future managers need to personally experience the role and significance of cultures in determining their own and others' behavior. Although living and traveling abroad are the most realistic ways to experience a culture, they are the most expensive and inconvenient ways as well. MAPS has a great value in this respect because the user needs to answer many questions about the country of interest.

Students have a chance to differentiate confusing terms like corporate and country culture with MAPS. Both cultures play crucial roles in the crafting of a company's strategies. It is critical that students of international business understand the differences among countries and the skills required to function in a multi-cultural environment. Corporate culture can aid or hinder the development of a sustainable competitive advantage, but it can also be a key obstacle to successful change.

MAPS can be used not only by faculty and students, but also by small-businesses, companies and individual managers and international business assistance agencies to improve their decision-making in foreign market entry. It gives the users the benefit of having expert analysis at their fingertips. This type of information technology tool is an example of a global application. In the future, this computer-based support system, along with particular case studies

using specific corporations, will be available to universities all over the world.

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**Figure 1 -** The hierarchy of evaluation criteria for the MAPS system is composed of Company, Target Market, and Production/Marketing characteristics, and forms the basis for the S.W.O.T. analysis.

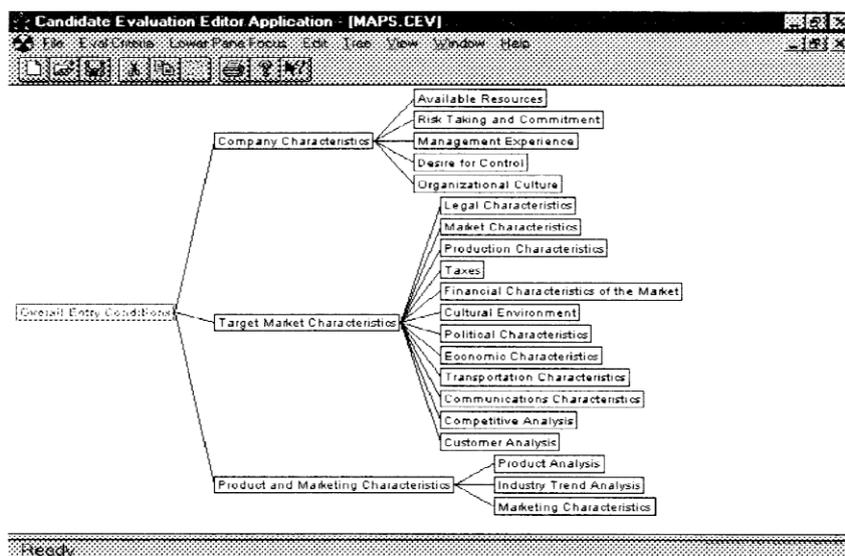
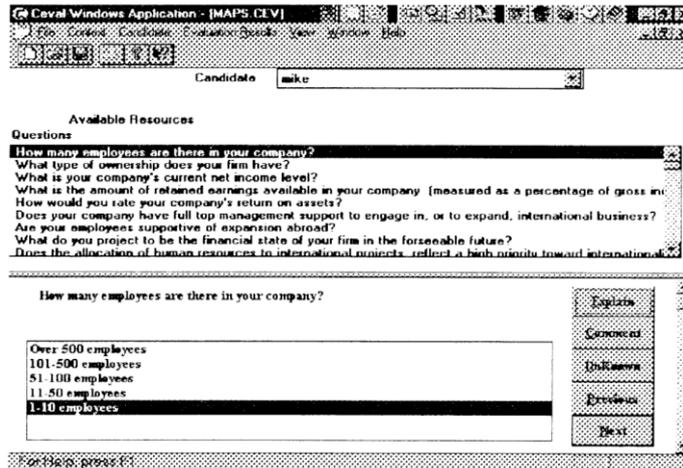


Figure 2 - The student user is presented with a series of evaluative questions in multiple-choice format. These questions provide the basis by which the S.W.O.T. analysis evaluates the criteria for international market entry.



## **The At-Risk On-line Gambler: A Global Issue With Local Implications**

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### **Abstract**

The boom in on-line gambling represents a billion-dollar industry. Yet, little is known about behaviors of on-line gamblers. The purpose of this study is to investigate similarities and differences between traditional and on-line gambling behaviors. Data from 220 adult consumers show that people of all ages gamble on-line and men are more likely than women to currently bet on the Internet. Consumers experience similar levels of economic motivations for gambling on-line; however, they derive greater hedonic and symbolic value from traditional gambling sources.

### **Introduction**

An important aspect of social marketing is its contributions to disordered or problematic consumer behavior tendencies that impact public policy concerns and social welfare. One such area is pathological (or compulsive) gambling which both the American Psychiatric Association and the American Medical Association recognize as a mental disorder. Pathological gambling ranks as the fastest growing addiction in the United States (Horn 1997). The National Gambling Impact Study (1999) reports that over 5 million Americans are pathological gamblers and an additional 15 million are at risk of becoming problem gamblers. International studies corroborate that over one percent of the adult general population in many countries worldwide are problem gamblers (Australian Council of Social Service 1997, New Zealand Business Roundtable 1996, Shaffer 1998). The recent growth of readily accessible, unregulated on-line casinos may exacerbate the problem. Given the potential global economic and social impact of consumer access to on-line gambling unfettered by most laws, Internet gambling is an important topic for social marketing researchers. Currently on-line gambling is prohibited in many countries including the United States. However, any consumer with a personal computer and a modem can gamble on-line because the Internet provides instant access to overseas sites. Worldwide consumers wagered \$1 billion in 1997 and the sum is estimated to surpass \$7.9 billion by the year 2001 (Bell 1998).

This study was conducted in Australia where on-line gambling is sanctioned. The purpose of this article is to investigate the motivational and behavioral similarities and differences between on-line and traditional (non-on-line) gamblers in order to identify vulnerable target groups who are at risk of becoming on-line pathological gamblers. These preliminary findings offer a necessary first step in the development of a program designed to reduce the risk of pathological gambling fostered by the easy access to on-line gambling facilities. These findings should be of interest to social scientists and policymakers worldwide who need to evaluate how the phenomenal growth of the Internet may impact with a potential corresponding increase in problematic gambling behavior.

### **Background And Hypotheses**

Gambling is a broad term used to describe any form of lawful placement of wager or bet on the outcome of a future uncertain event (Australian Council of Social Service 1997). Gambling includes an element of chance where a person risks anything of value in the hope of profit (Arnold 1978). Out-of-control gaming radically disrupts the lives of pathological gamblers (Holden 1998).

### **Motivations for Gambling**

Most researchers reject the belief that the acquisition of wealth is the primary motivation for gambling (Chantal and Vallerand 1996, Kusyszyn 1984). Extant gambling motivation theories emphasize various aspects of amusement and excitement resulting in changes of arousal levels that enable consumers to avoid or escape stress and anxiety or exercise personality dimensions such as impulsiveness and propensity for risk taking (Ladouceur and Walker 1997). These theories have been amalgamated into three general categories: economic motives, symbolic motives and hedonic motives (Cotte 1997).

For economically motivated gamblers money acts as an incentive heightening the importance and involvement of the act of gambling (Kusyszyn 1984). These gamblers value money they expect to win more highly than the money they have already lost (Wagenaar 1988). Given that both traditional and on-line gambling provide people with opportunities to win money it is hypothesized that:

*H1a: There is no significant difference between the amount of economic value derived from traditional gambling and on-line gambling.*

Some consumers gamble to maintain a symbolic sense of control over their destiny (Cotte 1997). These people are motivated by the risk element inherent in gambling (Taylor 1974) and the satisfaction gained through their risk-taking features prominently in literature concerning gambling behaviors. They may escape from personal problems and relieve the boredom of their daily lives as they submit to risk and perform under pressure (Cotte 1997). Given that some degree of risk taking is inherent in both traditional and on-line gambling behavior it is hypothesized that:

*H1b: There is no significant difference between the amount of symbolic value derived from traditional gambling and on-line gambling.*

Research suggests that gambling is pursued for purely hedonic reasons including pure pleasure-seeking or play, novelty seeking, socializing with friends, excitement, self-esteem and positive personal reinforcement (Custer 1982). Hedonically motivated consumers regard gambling as an intrinsically rewarding, voluntary, pleasurable, and absorbing form of entertainment (Burrus-Bammel 1982). This motivation may explain why casinos are often considered tourist attractions. Casino owners attempt to provide facilities that include restaurant dining, entertainment and sightseeing. Given that Internet casinos lack the excitement and ambience of traditional casinos, it is hypothesized that:

*H1c: Traditional gambling provides significantly more hedonic value than on-line gambling.*

### **Diffusion and Adoption of On-line Gambling**

Although diffusion of technologically based innovations is largely unpredictable (Hirschman 1980) consumers who are more informed about the innovations are more apt to be among the first users (Rogers and Shoemaker 1971). Taylor (1977) reports a significant, positive relationship between usage of a product class and time of adoption. Consequently it is assumed that consumers who use the Internet regularly are more aware of on-line gambling sites and therefore more likely to gamble on-line than consumers who use the Internet rarely. Thus it is hypothesized that:

*H2: There is a positive and significant association between the amount of time spent on the Internet and the propensity to gamble on-line.*

Research suggests a strong relationship between prior experience with a product class and acceptance of a related new product (Hirschman 1980). Designers of on-line gambling sites carefully construct games that are similar to traditional forms of gambling in order to make on-line games easier to understand and to conform with existing values and past experiences of traditional versions. Because heavy gamblers possess greater prior gambling experience it is hypothesized that:

*H3: Heavy users of traditional gambling methods are significantly more likely to experiment with on-line gambling than light users of traditional gambling methods*

In a study conducted by Generalis, Greer, Miazga, O'Connell, and Stubbs (1998), United States gambling consultants Christiansen/Cummings suggest the Internet gambler profile mirrors the Internet population as a whole. Given the increasing demographic similarities between Internet users and the general population (Tenth GVU Web Survey 1999), the demographic profile of traditional gamblers may provide some insight into on-line gamblers. Specifically, Boreham, Dickerson and Harley (1996) find that young adults under the age of 25 years and men of all ages are disproportionately likely to be players of traditional gambling. Thus it is hypothesized that:

*H4: Individuals under the age of 25 years are significantly more likely to gamble on the Internet than older consumers.*

*H5: Men are significantly more likely to gamble on the Internet than women.*

### **Method**

#### **Sample**

The sample was drawn from shoppers at a large mall in a major city in Queensland, Australia. Respondents were approached by the researcher who described the subject of the study. The researcher administered the questionnaire to those who agreed to participate. Given the nature of this study, the mall intercept data gathering method was suitable because it increased the rate of participation, offered a high degree of flexibility, and enabled the researcher to clarify misunderstandings and probe for additional information (Aaker, Kumar and Day 1995). The questionnaire required less than 10 minutes to complete. Over four days, 230 people agreed to participate and completed questionnaires were obtained from 220.

The data may represent a demographically diverse group of potential gamblers because all the demographic categories included at least some respondents. The respondents consisted of 119 men and 101 women with a median

age of 36 years. Eighty-nine percent of the sample previously had participated in gambling activities and 62.7% were Internet users. Forty-five per cent of the Internet users had previously participated in on-line gambling activities. The gambling activities of the respondents are shown in [Table 1](#). While not a random sample, the goal of this study was to test hypotheses derived from the literature (Calder, Phillips, and Tybout 1981). Consequently, convenience sampling is an appropriate method because all adult consumers are potential respondents (Aaker, Kumar, and Day 1995).

### Questionnaire

The questionnaire contained seven sections. The first section identified previous gambling behaviors. The second section measured general attitudes toward traditional gambling of the respondents while the third section gathered data relating to their motives for traditional gambling. Internet usage, attitudes toward on-line gambling and motivation for on-line gambling were obtained in sections four to six, respectively. Demographic information was gathered in the final section.

### Motivation Measures

A 14-item scale was developed to measure the economic, hedonic, and symbolic motivations that drive gambling behavior based on extant literature. Items relating to social outings, excitement and glamour, personal interest and confidence, social interaction, thrills and excitement measured Hedonic Motivation. Symbolic Motivation items related to luck, risk taking, entertainment, escaping personal problems, killing time, avoiding boredom and loneliness. Economic Motivation measured the importance of winning money. Subjects used a 5-point Likert scale ranging from 1 (not very important) to 5 (very important) to rate how importantly each of these items contributed to their personal decision whether to gamble. This scale was used to measure motives for gambling in general (e.g. I gamble to win money) and on-line (eg. I gamble on the Internet to win money).

### Results

The bivariate correlations among the summated variables comprising economic, symbolic and hedonic motivations for traditional gambling and on-line gambling are presented in [Table 2](#). There were predictable positive, significant correlations between symbolic and hedonic motives for both traditional gambling and on-line gambling. However, there were no significant relationships between the economic motives and symbolic motives, or economic and hedonic motives. Similarly, there were no significant correlations between economic motives and symbolic or hedonic motives for on-line gambling. The economic motivation to win money that drives gambling also appears to influence on-line gambling behavior. Economic motives for traditional gambling and on-line gambling were positively and significantly correlated. Interestingly, a significant negative relationship between symbolic motives for gambling and economic motives for on-line gambling was found.

Hypotheses 1a and 1b proposed no significant economic and symbolic value differences between traditional and on-line gambling methods while Hypothesis 1c stated that traditional gambling provides significantly more hedonic value than on-line gambling. The results of t-tests of the paired motivation categories (economic/on-line economic, hedonic/on-line hedonic, symbolic/on-line symbolic) appear in [Table 3](#). On-line gambling provides respondents with no significant difference in amount of economic value but provides significantly less symbolic and hedonic value than the amounts derived from traditional gambling. As a result, Hypothesis 1a is supported, 1b is not supported, and 1c is supported.

Hypothesis 2 proposed a significant and positive association between time on the Internet and propensity to gamble on-line. A 2 x 4 (on-line gambler or not an on-line gambler x 3 hours or less, 4-7 hours, 8-11 hours or 12+ hours weekly on Internet) ANOVA was conducted to evaluate whether the propensity to gamble on-line was influenced by amount of time respondents spend engaged in general Internet activities. As predicted the percentage of on-line gambling behavior increased with the amount of time spent on the Internet. Only 17.5% of respondents (N = 40) who reported less than three hours weekly on the Internet also reported on-line gambling activities. The percentage of on-line gambling increased to 43% (N = 46) for subjects spending 4-7 hours weekly, 48% (N = 33) for 8-11 hours weekly, and 79% (N = 24) for respondents who spent at least 12 hours weekly on the Internet. The on-line gambling behavior of subjects was significantly and positively affected by the amount of time spent on the Internet,  $F(3, 143) = 9.239, p < .001$ . The results supported Hypothesis 2.

Hypothesis 3 stated that heavy users of traditional gambling methods are significantly more likely to experiment with on-line gambling than light users of traditional gambling methods. To analyze the data the sample was divided into two groups, 24 (or 18.1%) heavy users and 108 (or 81.9%) light users, based on how they responded to the

question asking how frequently they gambled. Respondents who indicated “daily” were designated as heavy users and those who responded “weekly”, “fortnightly”, “monthly”, “semi-annually” and “annually” were designated as light users. This distribution closely approximates the distribution of heavy users described by the 80/20 rule. A cross tabulation of heavy and light gamblers across whether they gamble on-line revealed that 66.6% (n=16) of heavy users gamble on-line compared with 42.5% (n=46) of light users. A Chi-Square test of user behavior was significant ( $p=.03$ ). Thus, hypothesis 3 was supported.

To investigate age effects on gambling behavior, respondents were divided into two groups, subjects under 25 years and subjects 25 years and over. Eighty-one percent of the younger group (38 of 47 respondents) reported previous gambling behavior compared with 91% (157 of 173 respondents) in the older age group. A significant difference in gambling behavior was not found based on the age of respondents,  $F(1, 220) = 3.623, p = .058$  ns. Similarly, age did not significantly affect whether respondents used the Internet,  $F(1, 220) = 1.429, p = .233$  ns. Hypothesis 4 stated that young consumers are significantly more likely to gamble on the Internet than older consumers. To check the likelihood of gambling on-line based on the age of subjects, a  $2 \times 2$  (age under 25 years or 25+ years  $\times$  gamble on-line or not gamble on-line) analysis of variance was performed. A significant main effect was not found,  $F(1, 143) = .387, p = .54$  ns. Therefore, Hypothesis 4 was not supported.

Hypothesis 5 stated that males are significantly more likely to gamble on the Internet than females. A significant main effect was found,  $F(1, 143) = 9.078, p = .003$ . In addition, male respondents are significantly more likely to gamble on-line during the next 12 months ( $p = .003$ ). Therefore, Hypothesis 5 was supported. This result is especially interesting because no significant gender effect was found for traditional gambling behavior,  $F(1, 220) = .394, p = .53$  ns nor for Internet usage,  $F(1, 143) = .347, p = .23$  ns.

### Discussion

Supporters and critics debate whether the economic benefits associated with the growth of legalized gambling outweigh its social costs. Supporters argue that legalized gambling boosts local economies and increases government revenue without raising taxes. Opponents hold that gambling targets vulnerable groups and costs taxpayers an estimated \$5 billion annually to treat addiction and related maladies such as domestic violence and job loss (Cohen 1999). The borderless nature of on-line gambling may shift the balance of these economic and social costs arguments because when consumers are able to conveniently lodge bets anywhere in the world the expenses associated with compulsive gambling remain within local economies while revenues used to offset local social costs are lost.

The results of this pilot study suggest that on-line gambling may exacerbate the problems associated with pathological gambling by increasing accessibility for compulsive gamblers and introducing a steadily growing potential at-risk group, frequent Internet users, to this behavior. Of particular interest is the finding that on-line gambling delivers comparable levels of economic value but fails to match the symbolic and hedonic values derived from traditional gambling. Economically motivated consumers gamble to win money. They consider the potential of future winnings as more important than the experiences and amount of previous losses. Without the countervailing influences derived from symbolic and hedonic motivations, on-line gamblers may be more vulnerable than traditional gamblers. Any pathological gambling tendencies may remain undetected and untreated until advanced stages of the problem.

Policy makers and social researchers should note the relationship found between on-line gambling and increased general Internet usage. This finding corroborates predictions that on-line gambling may dwarf all other industries on the Internet (Freedman 1998). Certainly within the exponentially broadening base of Internet users is a correspondingly increasing core of at-risk consumers who may be drawn to on-line gambling activities although they abstain from traditional gambling.

This pilot study initiates investigation into on-line gambling behavior and its conclusions are tempered by the limitations. In particular, the findings drawn from a single convenience sample may not be generalizable across global markets. Various samples (e.g. rural, international, or truly random), different methodologies (e.g. qualitative, focus groups, or Internet surveys) and cultural factors might lead to different results. Future research is necessary to internationally replicate and extend the findings of this exploratory study.

On-line gambling is a new, important and fertile area for social marketing researchers. Subsequent research should address public policy issues, legal and regulatory topics, marketing ethics and corporate responsibility, macromarketing (e.g., economic development, quality of life), international consumer policy, and consumer interest studies.

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**Table 1**  
**Frequency of Gambling Activities**

	Traditional Gambling N = 195		On-line Gambling N = 62	
	% Playing	Ranked Favourite	% Playing	Ranked Favourite
Bingo	21.0	2.1	4.8	4.8
Card Games	37.9	10.8	40.3	24.2
Electronic Games	34.4	8.7		
Keno	36.4	11.8	8.1	4.8
Lotto	60.0	15.9	4.8	4.8
Raffle	35.9	2.1		
Scratchies	61.0	16.4		
Basketball	3.6	2.1		
Car Racing	1.5	0.0		
Dog Racing	7.7	0.5	0.0	0.0
Horse Racing	29.7	9.7	41.9	25.8
Melbourne Cup	44.1	7.7		
Football	16.4	5.1	21.0	8.1
Soccer	21.5	8.2	37.1	27.4
Tennis	2.1	0.0		

**Table 2**  
**Gambling Motivations and On-line Gambling Motivations**

	Tradition al Gambling	Economi c	Hedonic	Symboli c	On-Line Gamblin g	Economi c	Hedonic	Symboli c
Tradition al Gambling	1.000							
Economic	.141*	1.000						
Hedonic	.869**	-.055	1.000					
Symbolic	.864**	.034	.538**	1.000				
On-Line Gambling	.689**	-.033	.461**	.745**	1.000			
Economic	-.130	.797**	-.154	-.272*	-.071	1.000		
Hedonic	.526**	-.103	.476**	.468**	.729**	-.208	1.000	
Symbolic	.612**	-.174	.348**	.768**	.876**	-.256*	.76**	1.000

\* Correlation is significant at the 0.05 level (2-tailed).

\*\* Correlation is significant at the 0.01 level (2-tailed)

**Table 3**  
**Differences Between Gambling Motivation  
and On-line Gambling Motivation**

	Traditional Gambling		On-line Gambling		t	p	r
	M	SD	M	SD			
Economic	3.71	1.18	3.71	1.16	0.00	1.00	.80
Symbolic	16.18	4.70	15.29	3.89	-2.30	.02	.77
Hedonic	20.90	4.81	18.55	2.58	4.37	0.00	.48
Total	40.79	8.30	37.55	5.21	4.22	0.00	.69

$p < .05$

# Macro Environment Analysis of Youth At Risk

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## Abstract

This paper draws on social science and marketing literature to establish a model for the collection, organisation, interpretation and qualification of macro and micro environmental data. The model evolved during ethnographic and action research with youth at risk in Queensland.

## Introduction

### The exploratory study and emerging research question

In 1992 the researcher guided health workers from twelve regions of Queensland in the analysis of data of youth at risk patterns, specifically youth suicide and drug abuse, in rural and regional communities. During three days of exercises in mapping cause and effect relationships, the focus group determined that isolation, socio-economic challenges and dysfunctional families could be attributed as reasons for the high rate of suicides. One unexpected outcome of the health workers' findings, however, projected a correlation between self-destructive behaviour of youth and a national performing arts competition. Volunteers worked with the youth for six months in after school hours preparing youth for the auditions and performances. The perceived cause for self destructive behaviour in this youth segment revolved around the dissolution of self-image of rural and regional youth and their perceived inability to compete against urban youth performers. The issue was perceived to be an inequity in opportunities to develop performance skills rather than a dichotomy in talent between rural and urban youth.

The findings of this study had been shadowed in earlier research in youth arts activities (Arnold, UNESCO-INTERCALL 1980; Arnold 1979, 1986a, 1986b); but had not been corroborated in interviews with the festival directors in the United Kingdom, nor by directors of other youth festivals in Canada and the United States. In 1993, the researcher undertook an exploratory study, conducting interviews with school leaders, community youth workers and health providers in 23 communities within eight of the regions that hosted the festival competition. To access the views of regional youth, the researcher resided with festival families or arts providers in each community for an extended weekend, conducting performing arts critiques for young performers in each community. This informal discovery process, in seeking plausible explanations for the youth at risk issues in regional Queensland, determined the perceived correlation between suicides and the festival as superficial. The process confirmed the youth were talented, did not have equitable access to arts training and did not develop the same level of presentation skills as other contenders. Evidence gained, however, suggested youth vulnerability to depression, rather than their reaction to festival activities held greater potential as being the cause of suicide and drug addiction. Their depression appeared to align with economic stress rural families and their communities were experiencing due to an extended period of drought in the arable lands. The plausible explanation suggested that pre-occupation with economic recovery had reduced community endeavours in the social and cultural development needs of their youth.

In response to the initial findings in 1993, many parents and community organisation leaders in the regions sought to increase festival activities to retain youth and their families and to consider building tourism as a new industry and employment outlet for youth. Paralleling the socio-cultural interest was a perception of economic benefits aligned with tourism development and investment. A research question emerges: Would festival training tourism, as requested wittingly or unwittingly by the parents, be able to address the social isolation and economic challenges placing rural youth at risk? A review of literature demonstrates that festival tourism can and has served for many centuries as a change agent, helping communities restore their economies, value add to their industries, market their technologies and expand their cultural life (Arnold 1979 and 2000); McNeill 1973; Arnold 1997, 1999, 2000; Laws, Faulkner and Moscardo 1998). Festival tourism technology in the introduction of ideas and production systems introduces any number of internal change agents such as inspirational artists, international markets, media, sponsorships and start up capital. A review of literature also confirms, however, tourism development in regional communities confronts socio-cultural and economic development challenges (Arnold 1999).

Whether or not the rural and regional communities in question would seek to change their existing socio-cultural patterns; accept festival tourism as a change agent, or attempt to transform their diminishing sense of community remained unresolved questions. In 1994, the researcher continued researching the question serving as chair of the cultural committee for the Queensland Olympic Task Force and as lead researcher of a two-year Commonwealth study. The combined research effort attempted to determine economic and cultural indicators in support of sport, arts and tourism development in regional Queensland (Arnold & Thompson 1995). The research team undertook public hearings on arts, sport, culture and tourism development challenges and interests in each major town in eight regions. Following the two-hour sessions, the researcher undertook three days of focus group meetings and site tours with community leaders. The findings from each community were then reviewed by a team of tourism, arts, sports, economic

development and business development specialists, who later toured with the researcher. Views of the specialist teams were recorded and consensus was reached on development potential following each regional analysis. The research design and approach attempted to determine the values, interests and attributes of each regions and to confirm whether or not the communities' cultural values and lifestyle interests were held in common with targeted international markets.

While confirming New Zealand, Japanese, European and North American market interests, and thereby a potential for tourism product and experience development, the study raised several questions regarding the motivations and capabilities of the regional and rural communities. Could and would communities reach beyond their routines to seek out, attract and respond to visitor market interests (Arnold and Thompson 1995). For example, research determined hospitality services, if they existed, were operated by families on a casual basis. There were no state or national tourism or hospitality training standards or frameworks (Sanderson 2000). Marketing and development firms were non-existent in regional towns, industry and business. Executive leadership resided as absentee landlords, in Melbourne, Sydney or Brisbane; and local council leadership comprised male volunteers, many of whom had retired or relied on payments per meeting as their sole source of income. The arts and tourism industries were operated by non-profit organisations or retired people who had invested their retirement funds into start up bed and breakfast or hobby tourism projects. Although youth sought festival tourism development, and were supported by some parents, community leaders, and artists in public hearings, council leaders did not table for discussion the community interests in these new industries. Despite their public commitment, councillors viewed arts and youth issues as low on the agenda of community challenges; festivals and tourism were considered neither core nor viable business development options (Arnold 1993; Arnold and Thompson 1995). The lack of community leadership to act on commitments or seek new economic development options provided cause for the researcher to reflect again on the challenges confronting regional communities and their youth. Was the reluctance for change due to macro level challenges within the economic and natural environments, or were regional community leaders unable or not willing to meet change demands and implement transformational concepts initiated by specific segments of their community?

#### **Determining Methods for Exploring the Macro Environments: Literature Review**

Utilising ethnographic methodology (Arnold 1999 and 2000), the researcher began to explore potential linkages between the macro and micro environmental issues affecting rural community transformation. The research methodology required the design of a system both to establish historical macro environmental influences on community evolution in these regions, and to record macro level changes and their impact on the communities and their industries. Initially three tasks were necessary. The first challenge involved the garnering of information on the six environments. The second and third tasks sought to determine patterns of interaction between the environments and then to establish perceived or actual macro level effects on the communities. A fourth task, rising from the youth at risk study, was added using action research methodology (Arnold 1999). The design revolved around learning processes that would enable the research to collect and analyse information reflecting the communities' capabilities to re-organise to respond to the macro level challenges. Three sequential action research programs were introduced into the ethnography to determine whether or not the communities would take steps to transform given economic development support, business training and international market outlets afforded in festival tourism (Arnold 1997, 1999, and 2000).

A scan of contemporary literature related to macro and micro environmental analysis uncovered a divergent path between the social sciences and math sciences which began to merge in the 1960's as business increased the disciplinary input. Campbell (1965), Vayda (1969) and Vayda and Rappaport (1968) disclosed their anthropological approaches to macro environmental linkages, drawing on ethnographic methodologies using an observer in the field. Organisation change researcher, Golembiewski recognised United States Constitution input from John Adams. In reflecting on human commitments and passions, Adams stated "Self-interest, private avidity, ambition, and avarice will exist in every state of society and under every form of government" (Golembiewski 1967 p 24). Accepting this perceived reality, Golembiewski uses collage building methodologies in his attempts to decipher macro level complexity and micro level responses. His approach enabled independent research teams to collect and describe data and explain events that appeared to establish cause and effect relationships between macro and micro environments.

In the next two decades of literature Fischer and Merrill (1976) opened the social science door for media recording of events and journalistic treatment of perceptions of cause and effect. Social science, communication and business methodologies began a partnership superimposing and linking layers of change agents. Collage and mapping exercises were subject to multiple interpretation and thereby their credibility was debated. Samovar, Porter (R.), and Jain (1981) reflected on cultural complexity in interpretation, introducing obstacles of trust. Their discourse recognised the diversity in research methods and data interpretation. Focusing on inter-cultural environmental links, they pointed to diverse perspective of the same event even within one environment and thereby recognised the importance of interdisciplinary input to expand understanding of differences in perceptions, expressions, and practices. The complexity increased in cross-cultural analysis leading Terpstra and David (1985) to merge social science with business

analysis in defining inter-relationships between the economic, government/political and socio-cultural environments, and the evolution of transnational business, corporate and communication practice. Language, conceptual development and methods of presentation become the basis of analysis. Changes in original language patterns were perceived to reflect the effects of regionalization of business practice. Despite business and corporate language patterns designed to establish transnational communication, cultural differences still linked companies to communities and regions. Their approach to macro level analysis followed a temporal pattern with multiple disciplines contributing to the interpretation of what was occurring within the macro environment. Kotler (1999) expanded the environmental analysis challenge into five areas of macro level change, and mid-decade added technology as an independent as well as linking component during inter-macro environmental mapping exercises.

These authors approaches to macro analysis influenced the researcher in the design of collage elements that could be used by focus groups within each community to describe their perceptions of what was occurring. Focus group perceptions, gained through consensus in building macro environment collages, should provide an overview of the challenges and perhaps even establish macro level patterns that were effecting communities, specifically in the arable lands that were attempting to re-establish sustainable, economic infrastructures. Three marketing and social science authors, publishing at the time of the initial youth at risk study, influenced the author in preparing for the final step, designing a research process that would explore, describe and explain the communities' response to macro level change.

First, Hunt (1991 p10-11) who, in discussing the challenges of measuring cause and effect relationships through positive and normative analysis, had neither rejected nor condoned collage and modelling methods in modern theories designed for marketing sciences. During the initial and extended macro analysis, temporal and associative variation, as outlined by Hunt (1991 p 87-89), dominated the researcher's perception of linkages between environmental factors and the affect of change on the community. The researcher was not confident, however, about generalising these perceptions. The compounding of environmental challenges confronting rural Queensland appeared to be unique to the setting. Data from other conference, media and government sources, however, suggested the macro level challenges as national, corroborating the Queensland research findings (Bush Problems-Bush Solutions 1991; Perry with Robinson Seabrook 1993). While presenting her findings at an international conference on internationalisation of communities (McMillan 1995), the researcher found regional community transformation to macro level environmental change, to be an international challenge. The researcher perceived the validation of the linkages to be lawlike generalisations in line with Hunt's (1991 p. 119) final qualifier of cause and effect analysis.

Second, Marsden, Oakley and Pratt (1994 p 3-4) in recognising complexity of research within the social environment, provided nine steps for interpretative evaluation of social development. The guidelines merged social and business research methods. Fourth generation evaluation opened the door for reflective and projective as well as normative and positive analysis of Hunt's initial work (1994 p 30). Participatory evaluation was also introduced which allowed for experimental and action research through which the researcher could not only witness change but could also record participant observation of changes as they either witnessed or introduced change agents (1994 p.31). Third, Black (1993) outlined challenges to avoid in social science research methodologies within action research settings. Of specific interest were levels of merit that can be attached to case study processes and ways to improve quality of the research output through trained observers. In all of these authors contributions to the literature, logical inference and logical deductions of Wallace (1978) as quoted in Black (1993 p 9) had been upheld. Collage and modelling processes could be used by the research and focus groups to sort through the complexity of issues. Consensus building exercises, required in focus group collages, would explain positive behaviours and establish points of difference. Consensus building exercises with business and tourism professionals, given the macro level information and consensus on regional normative behaviours, should describe establish normative behaviours that would make a difference in helping communities respond to macro level change.

Paralleling the research period, four sets of authors also delved into modelling practice as methodology that confirms and explains complexity. All of the authors combined social science and business research interests. Tidd, Bessant and Pavitt (1997) discussed methodologies that integrate technology, markets and organisational change. The focus of their research recognised the drive of creativity and the organised outcome as innovation. Direct linkages appeared between internal environments and their effect on innovative response of internal players to meet and act upon macro level change. Dyson and O'Brien (1998) presented the views of researchers who found value in projective techniques, scenario building, mapping and model building as means for understanding complexity. Biswas (1997) continued the dialogue of modelling practice to endorse economic and math approaches that assist decision-making under uncertainty. Elsmore (2000) found that computerised systems, drawing correlations between words and meanings, potentially eliminate some of the subjectivity in social science research. He conceded, however, that the depth of understanding and the quality of the linkages still rely on appropriate recording methods and understanding of the cultural context of the language used and the response. Magala (1998) and Nystrom (1998) in recognising disparity between assumptions and presentations of truth, endorsed post modern theory allowing for flexibility in determining differences in perceptions of reality. They recommended triangulation in social science research process.

In the Queensland study, the researcher had recorded disparities between political and personal positions related to new industry development, community change and recognition of initiators of transformation. A deepened analysis of the social structures, processes and personalities was obtained by collecting views from three different sources, specifically the public, the leadership and the experts. Each time information from the three sources was taken back to the focus group for clarification. Consensus building exercises clarified patterns of difference in perception of cause and effect linkages between macro level environment and micro level responses of the various segments within the community. Ethnographic research enabled the researcher to explore the sources and rational behind the differing social, cultural and political opinions offered in written documents and in community voices recorded and unrecorded. The action field studies, however, allowed the researcher to access voices rarely heard in the communities (youth, artists and volunteer groups) and to explore in-depth the sources and rational behind their dissenting opinions. Action research also enabled the researcher and the focus groups to determine the level of the communities' commitment to the positions for or against, in this case, tourism development. By triangulating both research processes and information sources, the researcher was better able to determine the plausibility of cause and effect considerations.

### **Developing a Framework for Macro and Micro Environmental Analysis**

The initial macro analysis, describing what was occurring in the environments, was undertaken from 1992 through 1994 (Arnold and Thompson 1995). Long term drought within the natural environment had begun to affect other environments surrounding communities. The result introduced dimensional and dynamic changes in arable land communities adding to the complexity of data collection and interpretation. The research program was extended to study the effects of these changes and to project their impact on community transformation and industry development. In order to sort through the complexity, the researcher designed a conceptual framework focusing on the macro environments outlined by Terpstra and David (1985) and Kotler (1994) to guide the writing of a description of macro environment changes. The framework (Figure I) enabled the researcher and focus group in each community to sort through the complexity of issues and to map the perceived changes within the environment enabling the focus groups to describe perceived cause and effect of those changes on communities. Media, journalistic recording, demographic information and government records added specifics to the macro environmental map. These reports were used to describe external perceptions of links between changes in the macro environment and the effects of change on the micro environment elements such as the market, the communities, their industries and affiliate public and professional services (Fischer and Merrill 1976, Golembiewski 1967, Hunt 1991, Marsden, Oakley and Pratt 1994). The conceptual construct was used also to train observers (Black 1993), initially the focus groups in each community and later the teams of professionals from 50 countries who participated in the action projects. Specific questions were incorporated into the construct to record focus group descriptions and their perceptions of cause and effect linkages. The collages were then used to integrate through focus group consensus.

During the six years of ethnographic study, the researcher explored, described and explained the decision-making personalities, structures and processes undertaken within the communities as the environmental challenges became more complex (Arnold 1999 and Arnold 2000). Figure III represents the collages used to organise data collected from focus groups and experts during observations of community response to macro environmental challenges. In this instance, since festival tourism was the industry being introduced as value adding and marketing practice for regional communities and their industries, the chart concentrated on analysing community and industry use of nine-business development and marketing processes.

### **Summary of Key Findings and Conclusions on the Macro Analysis:**

The geographical area and summary conclusions of the macro environmental analysis are noted in Figure IV. The natural environment's long term drought had begun to extend beyond the anticipated four-year period into six years. The compounding effect of long term drought on the economic environment, witnessed in arable lands, was filtering through to ocean front holiday camps and resorts formerly frequented by arable land families. As the drought continued, pricing wars in wool and beef compounded the economic plight in arable lands. The extent of the economic challenge was not determined until 1998 (McClymont 1999 and Rural Development Queensland Survey 1998). The research data from the Rural Development Queensland Survey of 1998 showed the level of debt increasing at double the rate of gross value of rural properties in the period 1994-1997. McClymont (1999), in calculating average debt to earning capacity in the regions, determined that only three of the regions' earning capacity marginally surpassed their debt. The remaining nine regions were operating within a range from 42% to 83% of capability to meet their debt.

Commonwealth, state and regional governments had initiated the devolution of community governance and had begun an economic restructuring process establishing a profusion of new and overlapping government and political process reporting systems (Perry 1992). Both the Commonwealth and the State had their own regional boundaries and departments for emergency services, education, health services, economic development, parks, transportation and other services. The Commonwealth region of this study had been divided by the state into three independent regions. Some

of the towns on the borders of multiple regions lost a sense of identity as they were either courted or ignored during public decision-making processes. Socio-political, economic, and cultural issues were noted in a number of economic development studies, specifically those that monitored the introduction of new technologies in rural Australia (Arnold 1995; Small Business and Employment Skills in Rural Australia 1994; and McGovern 1995).

Major demographic changes had occurred over a four-decade period as construction teams were introduced to build major dams, mines, and roads. Commercial services, hotels and leisure areas were built to accommodate the growth. Twelve different socio-cultural groups emerged in the communities that had previously only established three dominant lifestyles revolving around graziers, wheat/cotton properties and indigenous people. The introduction of plurality in lifestyles changed the culture and power structures of communities. The complexity was heightened as many of the senior residents and construction workers appeared only on a seasonal basis. As the towns expanded and contracted with fluctuating levels of economic sustainability, the schools and cultural centres were also effected (Bush Problems-Bush Solutions 1991; Perry with Robinson & Seabrook 1993; McMillan 1996). By mid decade, however, construction and production crews began to retrench, replaced by computerised technology or redundancy arrangements. These workers and their commercial services that had initially expanded the towns, in withdrawing, left the towns to retiring seniors. The compounding effect of the natural and economic challenges forced many properties to fold. Government re-settlement projects began subdividing extended agricultural strips into 20-50 acre plot farms introducing new residents and their experimental crops, exotic meats and wools. The demographics began to change again and, during the five-year period, twelve socially diverse cultural clusters began to disappear with the towns. Three socio-cultural groups remained. This time they include people without economic or political strength, specifically the retiring seniors, small plot farmers and indigenous communities.

The cultural environment in the rural areas, unlike the city that was cosmopolitan with 144 diverse cultural clusters, comprised the lifestyle patterns and interests of only a few cultures. An exception to this finding appeared in one town within the arable land in which indigenous people from 24 different original nations had been re-established. All the other towns had evolved from European explorer-pioneer settlements or from post World I and II immigration patterns. In most towns one or two national cultures, for example German, Polish, Irish, Scottish or English, were recognised and celebrated as the dominant culture of the community. During the last decade immigrants from the Philippines established conclave communities in one region and Japanese companies had acquired a number of the faltering abattoirs or rural industry plants. The Japanese managers, however, did not reside in the regions. Over time sub cultures and cultural clusters had emerged to diversify values and lifestyles which revolved around original people, major land holders who had experienced wealth generation, small plot farmers from urban centres, couples in retirement and women who had, due to economic necessity, established themselves in rural villages. Younger families resided in rural towns that supported schools. More distant property families sent their youth to boarding school in the regional centres or in Brisbane. Men dominated political life and business; women established social life, health, education and the arts. Religious institutions held a strong influence on social lifestyle patterns. During the six years of ethnographic and macro environmental analysis, a social-cultural dichotomy was perceived to exist between the indigenous communities and European settlements and towns. A second dichotomy appeared between the small plot farmers, many of whom were new settlers from urban centres, and longer-term property owners. A third dichotomy appeared between seniors and youth.

Although some of the rural industries had been advanced through technology and were operating in global and international markets, many of the communities continued to be isolated not only by distance but also by the lack of communication technology and transportation support systems. Good road infrastructures linked towns. The lack of services such as buses, hire cars and other means of transportation increased the sense of distance and the challenge of festival tourism development. Communication technology comprised radio and portable telephone linkages. Telephone services were available in the townships.

The researcher concluded that the compounding of challenges at the macro level had profound effect on youth. For example, worsening economic conditions had reduced spendable income. Youths' social outlets, specifically summer holidays at the beach had been reduced from nine weeks most years to five-ten days every other year. Trips to regional towns were limited to emergencies, stock sales and acquisition. Without communication technology to keep in touch with each other and without the socio-political forum that youth clubs, festivals and events provide, youth were losing their sense of place, identity and future. The festival competition, orchestrated through the schools, was one of the only social-cultural and socio-political outlets remaining for many youth, particularly those interested in cultural activities. Accordingly, the festival youth had been bundling their social life and career expectations around the youth festival. The researcher also concluded that unless addressed, the socio-cultural problem for youth would worsen. Beyond the immediate challenge, the youth had acquired a six-year experience with drought and a downward turning economy. They did not have a more positive era of experience in their memory that would support the concept of a dynamic future. Their fears of continued isolation were confirmed, first by the continuing population migration flow of teenage youth and young families from rural communities to ocean front properties or urban centres (Arnold 1993).

Secondly, even as the rural youth undertook festival training experiences that introduced new ideas, visions, and images of the future, their immediate festival predecessors and role models were also giving up on the rural future and leaving. Finally, the macro charting exercise in the arable lands, in placing the average age of the farmer between 72-79 years depending on region, verified not only the evacuation pattern but also few opportunities to recover the economy and lifestyle of an earlier era. The youth's festival technology, ideas and visions of the future did not meld with the core values and concerns of those seeking to survive on the land, in this instance, with the senior residents and the elders who were leaders of the councils.

#### **Summary of Key Conclusions on the Micro Analysis (Phase I:1992-1994):**

At the close of the first phase of the exploratory research in 1994, the researcher perceived that many of the communities were not transforming to meet the macro level changes, but were instead waiting for a change in the weather pattern that would restore their fortune. Community leaders provided a rationale for not changing, specifically, many rural communities had lived in anticipation of extended drought. Drought was a part of the Queensland rural experience. In addition, the rural and regional communities had been founded in a history of early frontier explorers, pioneers, settlers, and then post war settlements. People on the land supported themselves and had developed a sense of pride in this independence. They had taken pride in feeding the 80% of the population that lived in coastal towns. As their coast markets became cosmopolitan, rural industries had to compete and to adapt their products to suite diversity in taste and lifestyle.

Rural and regional industries had a long history of government support and had not learned to compete for market share or to establish value-adding practices, specifically in personalised services. Previously assured of the Australian market, regional enterprises had not established enterprise networks, or international alliances or multi-cultural negotiators who could serve as intermediaries on their behalf overseas. Accordingly, even as the cities internationalised, many of the rural and regional communities did not. Their executive leadership and professional services directed the industries from corporate headquarters in Sydney or Melbourne. In efforts to sustain their sense of community, many of the rural councils and community social activities, organised by senior volunteers focused on the cultural activities of the past, specifically those celebrating the war efforts and the building of icons that were now historic in presence and use. The communities were not bridging their past. A dichotomy in cultural experience was forming between the youth in the contemporary festival experiences and those of the continuing community festive activities. The youth, with reduced outlet for interaction between their own cultural and social corridor of friends, were fast being rendered voiceless, powerless to execute their ideas or to sustain a system that provided stimuli for their sense of progression. In viewing their stoic stance, the researcher realised that the communities, despite their heroic efforts to save their lands and sense of history, had not anticipated the effects of compounding changes within their macro environment. Nor had they considered the profound effect of their stance on the youth.

#### **The Action Research.**

Action research was introduced into the ethnographic process. Over another 18 months period three series of festival tourism and new industry development training projects were undertaken linking the 11 arable land communities to Brisbane and to the ocean front resorts (Arnold 1997, 1999 and 2000. Each series focused on developing natural attraction leisure tour packages, rural industry conference and tour packages, and festival arts and entertainment programs and services. The action research projects tested the plausibility of introducing new ideas and markets to the arable land communities and then analysing who accepted the leadership potential. The findings of the research confirmed significant socio-cultural and economic challenges within the communities, not unlike those witnessed in the literature. The extended research process determined that those communities, accepting change, took at least five years of adaptation before transforming from "inward focused living" into "outward or community outreach living." Two unexpected outcomes of the research lead the researcher to form a hypothesis about initiators, detractors and implementers of community transformation. In both instances the people involved were voiceless (without access to decision-making processes) and faceless (without recognition as a valued member of the community or without a presence gained from prior position in the community).

For example, in the communities that experienced considerable stress in embracing transformational processes, new rather than long-term residents elected to guide tourism development. These individuals, either did not wish to see their recently acquired community changed or they sought to control, without success, the economic benefits inherent in tourism and their newly acquired political process status afforded as leaders in the new industry. In all instances, the instigators of the transformation were the youth, artists and women who had been both faceless and voiceless. Upon accessing festival tourism training experiences, these cultural clusters found both presence and voice and became leaders of either a counter culture revolution or a successful community transformational process. In these instances communities took roughly five years to adjust their community festival self interests to accommodate or incorporate visitor interests, needs and demands.

### **Conclusion of Ethnographic and Action Research:**

The ethnographic and action research undertaken in Queensland during the last decade witnessed the difficulty of community transformation process, especially in those regional communities that had experienced catastrophic change as they sought or rejected tourism as a new industry and as a stimulus for economic development. A parallel review of the literature (Arnold 1999, 2000) confirmed social and economic challenges inherent in tourism development (Britton 1977, Britten and Clarke 1987, Brohman 1997, Ladki 1993). The focus of most of the tourism studies involved tourism development aligned with urban areas. The regional studies did recognise the introduction of social dichotomies with the introduction of tourism into regional communities. Catastrophic change within the macro environment was not part of the scenario in any of the studies. No ethnographic studies had been undertaken at the time. accordingly the length of time for evolving tourism as an industry had not been researched. The effects of festival tourism on youth or lead by youth did not garner attention in the discourse between tourism authors.

In research, coinciding over the decade this regional Queensland study, the author continued to track, independently and then with the Four Winds Foundation, the evolving youth centred festivals within indigenous cultures in the continents of North and South America, Australia and Africa. Indigenous communities within regional areas in south east Asia, China, Taiwan, Japan and New Zealand were also incorporated in the study. What emerged from this continuing study, which paralleled the research in regional Queensland, corroborated the reflections of the researcher in Queensland. Many youth, given exposure to media and communication technology were extending their sense of community and transforming their perception from community culture to global culture opportunities. For example, in the 1980's the North American youth expressions evolved into ethnic versions of original culture (Arnold 1979; 1986). By mid 1990 these expressions transformed into global conscious festivals based on contemporary expressions that were ground in indigenous culture values and beliefs. The transformation process between traditional expressions and contemporary expressions of cultural was witnessed in the emergence of the Clan Destine company recordings and performances in the United States. During their performances for the (Queensland) Soil of Flame Festival of 1997, their music and dance expressions of global insight, although contemporary in style, were founded in indigenous heritage. The continuing research found, that by 1999, Indigenous Cultural Festivals in the western states of the continent of North America, were attracting audiences of 80,000-500,000 over a five-day period. The theme merged cultural and community transformation. Youth took the role of initiators of the transformational drive.

The implications for community transformation are significant and raise the questions Who is playing leader in the community? Who holds potential for initiation of community transformation? Who structures and participates in the decision making processes that implement or retrograde the sparks of imagination that initiate change and the self actualisation drives that enable a community to transform? These questions are the focus of the series of papers on Culture and Power (Elsmore 2000, Arnold 1995, 1997, 1999 (a and b), 2000 and Elsmore and Arnold 2000).

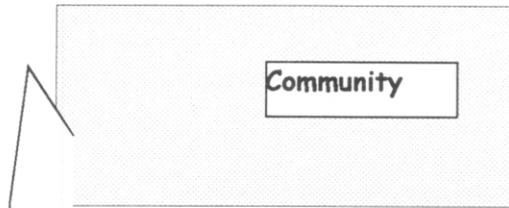
### **Summary and Conclusions**

The researcher undertook a macro environmental analysis to map a number of socio-economic, cultural and governance challenges in the rural communities that potentially were undermining the youth's economic support system, social outlets and their sense of community. At the time, the research concluded that the dissolution of youth's sense of place was perceived to be the reason for the increase in youth suicides, other destructive behaviours and migration pattern to urban centres. Both forms of problem resolution undertaken by youth and their families had been recognised previously as a global challenge (UNESCO-INTERCALL 1980). As the researcher undertook six years of ethnographic, experimental and action research projects in the regions, however, unexpected outcomes of the continuing research led the researcher to reconsider the original findings. The researcher determined that the reason for the destructive and evacuation behaviour of youth, rather than being a result of the dissolution of the power of self image and sense of place within their community, aligned more with the youth's sense of power to effect change within their perception of community. The difference in the two perceptions of power is subtle, one being self sense (esteem) and self image gained from a sense of place within a community and the other recognising the power of self actualisation through effecting change within a sense of place.

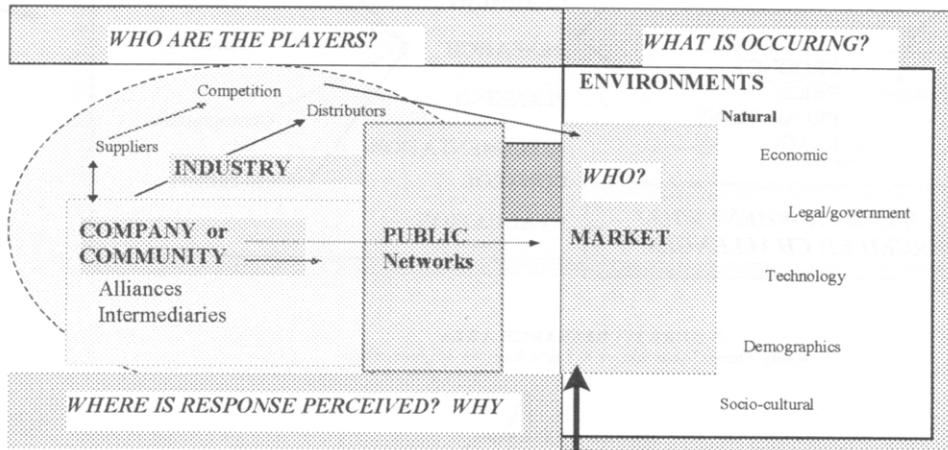
The researcher drew this conclusion only after incorporating action research into an ethnographic exploration, description and explanation of interactions between seven environmental factors, their effect on regional communities, and the communities' capabilities to respond to changing conditions. The conclusion was reinforced as the researcher sought evidence of actions of youth at risk in other countries. These studies, paralleling with youth at risk research undertaken over four decades, bind culture and power as inseparable and witness youth cultures as incapable of remaining in a state of stasis. When forced into a state of stasis, without opportunity to progress their capabilities and approach to a self-constructed future, the youth sought routes of escape. These routes did place youth at risk. Their drive to be part of or to be initiators of a dynamic sense of community was profound.

**FIGURE I**

**MACRO ENVIRONMENTAL ANALYSIS**  
**Describing What is Occurring in the Environments**  
**Where, Why, and Who is Affected**



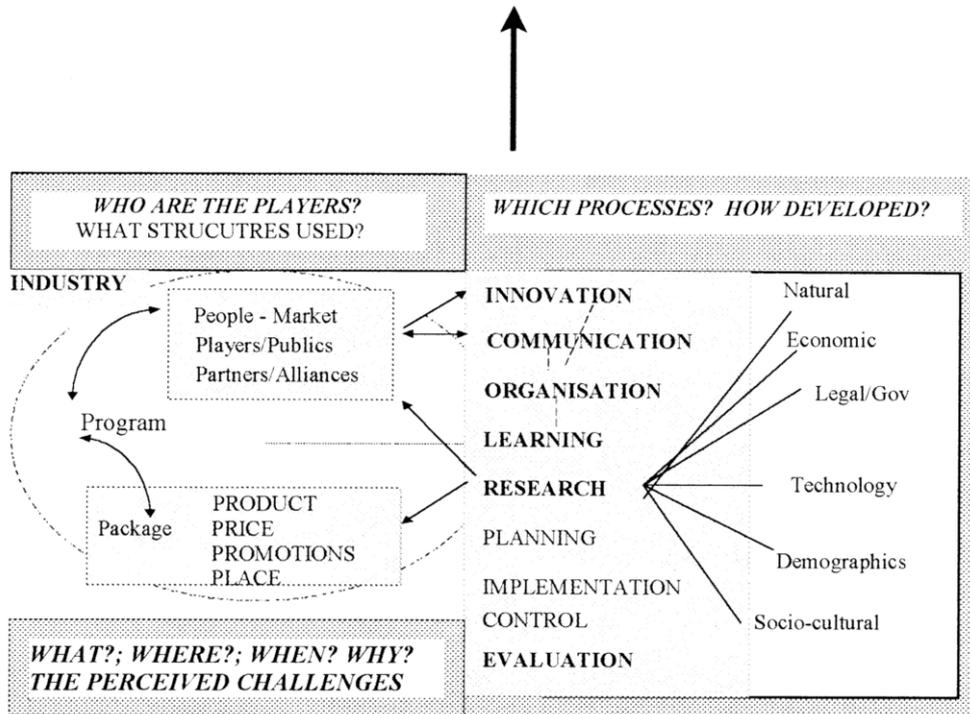
**FIGURE II**  
**THE MACRO ENVIRONMENT DICHOTOMY**  
**Determining the Transformation Challenge**



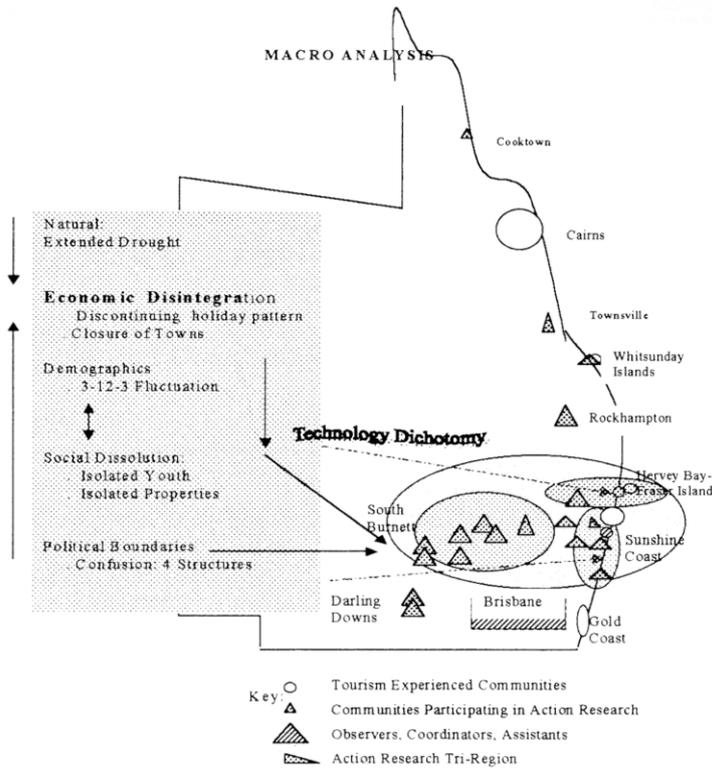
**COMMUNITY CULTURE & INSTITUTIONS**  
Bridging Perceptions, Core Values, Beliefs

**FIGURE III**

- 1 ENVIRONMENTAL ANALYSIS
- 1 ining Responsive or Required
- 1 on Making Personalities, Structures and Processes



**FIGURE IV: RESEARCH AREA**  
Twenty Three Communities in Eight Regions of Queensland



**FIGURE II: RESEARCH MAP**

*MACRO: This collage represents the components that were used to trace cause and effect linkages between environments, and to determine their effect on market segments, the company/community, the industry, public services, and the players within the industry and those aligned with the company/community such as the alliances and intermediaries.*

*FIGURE III: RESEARCH MAP MICRO: The third collage identifies the products, services and technologies the community developed and was used to determine what business and marketing processes regional communities were using in response to challenges identified in each component of the macro environment. All components of the macro map fold into the micro map.*

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## **Consumer Protection Issues and Non-government Organizations (NGOs) in a Developing Market**

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### **Abstract**

This study proposes a conceptual model delineating the process of transition from corporate opportunism to the consumerism mind set in an emerging market. This model suggests that Non-Government Organizations (NGOs) play a crucial role in this evolutionary process of consumerism and consumer protection. In addition, several contingency variables are examined in the context of this model. The arguments used in this paper are based on historical accounts of corporate behavior and consumer reactions in mainstream media and business periodicals.

### **Introduction**

The recent globalization of world markets and the sweeping ideological shifts in geopolitics have created an environment where any critical analysis of the impact of liberalization of economies in emerging nations is viewed with suspicion, if not alarm. Indeed, market liberalization has been extolled as a cure for a wide variety of problems endemic in transitional economies, including those in the political, social, and economic arenas. In the recent decades, many nations have embraced the market-driven economic principles and undertaken bold steps toward restructuring of their internal markets. Western media has been quick to report the successes and, with lesser fanfare, some of the failures of these endeavors. This purpose of this paper is not to laud the virtues or embellish the vices of the market-driven economic reforms. Instead, it takes a critical look at some of the appurtenant (and often unintended) consequences of the rapid imposition of free market economic policies in some transitional economies.

Typically, consumers in emergent economies greet market liberalization with vigor and jubilation that result from the unbridling of years of pent-up wants. Like new converts to an order that promises eradication of all social evils, consumers embrace the new found freedom with a vengeance, often opening themselves to the possibility of exploitation. Historical precedents from the emerging markets of Asia, Russia and Eastern Europe lend support to this phenomenon. Does this frenzy eventually reach a balance? Is there a more balanced power difference between buyers and sellers? In the American context, many social scientists have observed that during the early and mid-1990s, consumers were beginning to show their disapproval of the opulence and waste which characterized 1980s, e.g., rise in activism against billboards, offensive advertising content, and new consumer protection laws. The reasons for this shift could very well be economic recession, the aging of baby boomers, or the rise in fundamentalism. Despite the reasons, this reaction against the consumption-oriented societal values is an echo of a stronger, more organized movement labeled consumerism that germinated in the USA in the early 1960s. Consumerism refers to an organized movement of citizens and Government agencies to improve the rights and power of buyers in relation to sellers (Kotler 1999, p. 615). In later years, the forces of consumerism had extended beyond the US and this paper will attempt to explore it in one particular emerging economy.

If we presume that there are similarities in the way human beings respond to situations across the world, one could extrapolate that the materialistic orientations will eventually slow down even in the newly emerging and developing economies. However, some unanswered questions remain. How will this movement toward consumerism be achieved? Who will initiate and facilitate this movement? Where will this consumerism lead? In the American context, Non-Government Organizations (NGOs) and consumer advocates like Ralph Nader and Consumer Union assumed critical leadership positions. Will NGOs emerge as protectors of exploited consumers and help shape the laws in emerging economies as well? The focal nation of this paper is India - a large, emerging market that has recently begun embracing free market economic principles. With its economic policies changing and media opening up, India features prominently on the list (U.S. Department of Commerce) of ten big emerging markets (BEMs). There has been an increased incursion of multinational firms into India, along with a proliferation of Indian firms and joint ventures. Given the staggering size of the Indian middle class, most of the entrants are targeting the consumer products markets, such as cosmetics and toiletries, apparel, electronics, automobiles, and household appliances, among many others. Consumer spending has risen dramatically and the use credit cards have burgeoned. All these make India an ideal and interesting object of this investigation.

## **Consumerism and Emerging Markets**

Consumerism is a recent phenomenon. It began taking on a distinct significance during the early 60s with its associations with Ralph Nader's auto safety investigations and President Kennedy's proclamation of consumers' rights: to safety, be informed, choose, and be heard. Day and Aaker (1997) suggest that the notion of consumerism is an evolving one and it focuses on the direct relationship between the individual consumer and the firm. Ede and Calcich (1999) suggest that consumerism is the concerted effort of individuals and groups to solve consumer problems in not only the economic arena but social issues as well. Despite the dynamic scope of the term, the fundamental objective of consumerism involves the protection of consumers from deleterious practices of business and government (Day and Aaker 1970, 1997) or maximization consumer welfare from the marketplace (Asher 1998). According to Aaker and Day (1997), "Consumerism is, at least partially, a reflection of many social problems that are certain to persist, and perhaps be magnified in future. This diagnosis suggests that consumerism activity will not decline significantly in the future; the unanswered questions concern the rate of increase in this activity and the areas of greatest sensitivity". Consumerism is also posited to encompass issues such as economic inequities in societies, environmentalism, and other inequities in social areas to name a few. Some social scientists argue that market-driven economic reforms do not necessarily lead to responsible marketing practices, especially in an emerging marketplace. The principles of the Marketing Concept are often supplanted by expedient corporate behavior. This results in short term gains through less than desirable marketing practices, e.g., deceptive advertising, high-pressure selling, shoddy or unsafe products, planned obsolescence, and poor service to disadvantaged customers to name a few. At the societal level, the rapid onset of liberalization has been associated with an explosion in materialistic values, abandoning of traditional mores, conventions, and ethics. This is often coupled with the fact that transitional economies normally do not have the social, political or cultural structure to deal with the many vices accompanying the sudden free-markets.

Based on these arguments, we contend that the need for consumerism activities will be felt much more in the developing or emerging economies, or in economies outside USA. In the Indian context, Sarkar (1989) contends that consumers indeed need protection in many areas, such as price escalation, adulteration, malpractice, environmental protection and even in mundane day to day in activities. Likewise, Ho (1997) and Tong (1998) contend that with an abundance of supply and more disposable income, Chinese consumers are likely to demand more. The consumer power is likely to grow in China and so will the momentum of consumerism. Pan (1994) enumerates the effects of consumer protection laws passed by Taiwan's Legislative Yuan in January 1994. Not surprisingly, the Encyclopedia of the Consumer Movement (1997) lists forty-one instances of consumer movements in countries such as Albania, the Czech Republic, Russia, and China at one end of the development spectrum and with Germany, France, and UK at the other. Based on these studies and reports gleaned from mainstream media, one can surmise that as previously closed markets open their arms to the free market mantra, a sudden influx of foreign investment follows very quickly. In addition, many local entrepreneurs jump in the fray. The situation in India, Russia, ex-Eastern-block countries, and China support this contention resoundingly.

In the Indian context, we find that the world-renowned giant multinationals have entered virtually every sector of the country's economy. Some examples are - power generation and distribution (Enron), hospitality industry (Holiday Inn and Days Inn), computers and telecommunication (IBM, Texas Instruments, Hewlett Packard, Lucent), consulting (the big six accounting firms and others such as Mackenzie & Mackenzie), the automotive industry (Ford, Mercedes, Honda, Kawasaki, Suzuki, Opel, Fiat, Mercedes), airlines industry (Lufthansa), apparel industry (Levi, Arrow, Hathaway, Coats), household appliances (Whirlpool, Bosch), an already crowded consumer product industry (Pepsi, Coke, Proctor & Gamble), and the fast food market (McDonalds, Burger King, Wimpy's, TGIF, and Baskin Robbins). Evidently, the number of alternatives available to Indian consumers is exploding. Indian consumers, especially in the urban, middle to upper classes, who have always had a keen appreciation for western tastes in consumer goods, did not hesitate to plunge into the consumer lifestyle that they had so far only observed in western films and television programs. However, this is where the potential danger lurks. Given this ever increasing buying frenzy and the apparent immensity of the opportunity for the new entrants in the marketplace, firms have engaged in means fair and foul to aggressively positioned themselves in the Indian market. Coca Cola and Pepsi have engaged in a fierce and spectacular battle for turf involving aggressive advertising campaigns, voracious acquisitions, and dominating local channels by overpowering the entrepreneurs, local and regional businesses, and even national firms with sheer fiscal might. On occasion, conflicts also emerged between end consumers and firms when communication was disrupted or divergent expectations were not fulfilled. When these issues do not get resolved in a constructive manner, they have precipitated extreme acts such as the vandalization of KFC stores in Bangalore.

## **Emerging Markets, Consumerism, and NGOs**

While Indian businesses do not quite match up to the western multinationals in terms of fiscal muscle or corporate finesse, Indian consumers are not necessarily helpless victims. India does have consumer protection laws and other related trade laws that are not unlike those in the USA. The Consumer protection Act was enacted by the Parliament of India in 1986. Since then, several voluntary organizations have emerged to help in the implementation of these laws. In addition, many trade organizations have voluntarily set goals to formulate and enforce codes of conduct for their own members. Clearly, the idea of consumerism and consumer movement is well on its way in India. However, it is incontrovertible that Indian consumers are far removed from their western counterparts in terms of preparedness and market savvy. We propose that this process of moving from a passive consumer mind set to a stage where consumers are cognizant of their rights and are willing to exercise their rights require the help of an internal catalyst. This is where the Non-Government Agencies assume a significant role (Middleton 1998). They act as stimulants through their activities, and generate a certain ferment that leads to a more sophisticated, perceptive, and demanding consumer.

The beginnings of collective consumer movement in India can be traced to the 50s with the establishment of Passenger and Tariff Relief Association (PATRA) in 1915, Women Graduate Union (WGU) in 1915, and the Indian Association of Consumers (IAC) in 1956. This movement really took roots in the 1960s. Enactment of Consumer Bill of Rights was enacted in the US gave a boost and provide support for consumer protection movements across the world. In the Indian marketplace, the first case of consumers asserting themselves was recorded in West Bengal. In the late 1960s, the price of fish rose beyond the common man's reach. When all else failed, consumers resorted to their last weapon - a boycott. The refusal to buy campaign was successfully launched and within several days, the sellers were compelled to lower the prices. This decade also saw the birth of several consumer organizations of which Consumer Guidance Society of India (CGSI) became an internationally known entity. The 1970s saw the emergence of two consumer organizations. The first one (formed in 1970) was Karnataka Consumer Services Society (KCSS) which gave its consumer movement a political clout when one of its cofounders was elected to the Karnataka Legislative Council. In 1978 Consumer Education and Research Center (CERC) was started in Ahmedabad. It made a significant contribution by adding "teeth of law" (according to Prof. Shah – CERC Series 1992a) to the consumer movement. CERC took several business firms to court and many key judgments were won. In addition, CERC ventured into alternate forms of intervention such as representation and administrative advocacy, association with specialist committees, research and education campaigns, and setting up of product testing laboratory in Ahmedabad.

The 1980s saw a burgeoning of consumer protection organizations; about 60-70% of existing NGOs were established during the 1980s. Some of these were set by opportunistic people and politicians for additional source of income, exploiting gullible vote banks and for pursuing their own personal agenda (Consumer Education Series 1992a). However, in addition to the emergence of some very sincere activist organizations, this decade also witnessed the enactment of Consumer Protection Act, 1986 despite strong opposition from parties with vested interests. The 1980s and 1990s also saw these Non-Government Organizations establishing contacts with international consumer protection organizations (e.g., International Organization of Consumer Union (IOCU) and even UN bodies through IOCU) in order to bring know-how, much needed funds, legitimacy, and strength through numbers. Advances were also made in the area of incorporating consumerism in educational programs. Television was used to educate masses about their rights and options available to them. In this current decade, consumer members also began demanding accountability from their local NGOs. The 1980s and 1990s also saw some important changes in business vis-à-vis consumer welfare. Increasingly, larger firms started setting up consumer grievance cells with a difference. These cells were independent units and did not report to the profit center managers. Several business associations began moving in the direction of self-regulation, e.g., the Advertising Standard Council of India (ASCI), the Confederation of Indian Industry, and the Federation of Indian Chamber of Commerce and Industry (FICCI) developed codes of ethics for their respective fields and constituent members. Around this time, the Indian marketplace also saw environmental protection becoming an integral part of consumer protection movement resulting in the development of a framework for allocating eco-labeling to products/brands. The underlying belief was that the harm on account of air pollution by an industry is comparable to, if not more injurious than, dishonest marketing practices by firms. It is not very difficult to see that the scopes of environmentalism and consumerism do overlap. However, this expanded notion of consumerism-environmentalism is beyond the scope of this paper. In summary, we can postulate that emerging markets have a greater potential for consumer exploitation. This exploitation is likely to result in consumerism activities in conjunction with consumer protection Laws and this process will be aided by Non-Government Organization (NGOs).

## Contingency Factors

The discussion so far seems to suggest that NGOs are likely to become a permanent entity in a society, rallying to the cause and taking up the cudgel whenever there is exploitation. However, if NGOs do become institutionalized, then the consumer socialization process falls short of reaching the status of a true consumer society where the market forces in the form of consumers' will and actions eventually provide for checks and balances against corporate opportunism. Eventually, it is the consumers who must protect themselves. Asher (1998) suggests that ultimately the driving force behind consumer protection must shift from Government intervention to one propelled by market-oriented competition with the final objective remaining same - to maximize consumer welfare in the marketplace. The method of achieving this goal must change from institutions, personalities, and champions to educated consumers and firms. However, this transition from consumerism to market-based consumer protection is contingent upon several factors. Some key contingent factors include time, consumers' past experience, level of intervention by external bodies (NGOs and Government), culture, and environmental munificence.

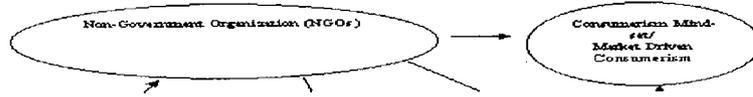
A look at the free market experiences of Russia, India, China and other emerging economies suggest that because consumers had led a very cloistered decision making existence in the past, it has not been easy for them to assume active decision making roles. With most decisions made for them, consumer expectations in pre-liberalization eras were low and the notion of questioning the provider of the product or service was unrealistic or insignificant or both. The idea of questioning the Indian Railways (or for that matter the railway authorities in, say, Russia or China) used to be a ludicrous one. Often, the only choice that consumers in pre-liberalized economies had was to grin and bear whatever came their way. The providers of products and services sometimes believed that they were actually doing the consumers a favor by making simply these products and services available to the consumers. Characteristically, these providers in these socialist-type economies were able to get away with it because quite often they were part of the government. Even if the providers were not directly associated with the government, the consumers often perceived them as a part of immensely powerful machinery. For instance, the multinationals in India were (and are perhaps to some extent even today) associated with the rulers of the bygone era. The officials of these multinational corporations B through their demeanor and behavior B often confirmed that myth. This shift from passive acceptance to proactive questioning of the provider requires maturation over time - to gather courage to question, to experience the feeling that questioning will not bring retribution from the provider, to internalize the feeling of power to question, and eventually to acquire a mind set of maximize benefits for oneself. Past experiences must necessarily be obliterated from the consumer's mind and be replaced with a new sense of empowerment.

Culture constitutes another significant contingency factor. How could one expect consumers to start thinking about the *self* when one has lived a life time in an environment where maximizing benefits for one's own self was either considered a social evil or unfeasible or both? Clearly, consumers in collectivist societal settings would find it difficult to engage in activities purely driven by the motivation of maximizing self-benefits. It is far easier for these individuals to empathize with causes that promise to produce the greatest good for the largest number of people. The consumers' journey toward activism that champions individual benefits over social welfare (at least on the surface) is likely to be tempered by the dimensions of culture (cf., Hofstede) and ethical principles (deontological and teleological) embedded within the society. The last contingent factor is environmental munificence. In an environment of shortages, it is difficult for people to question the propriety or quality of a product offering than in a setting characterized by abundance. Instead, the movements - when they do arise - take on a much more solemn and sacrificial aura about them. The refusal to buy fish, for instance, was somewhat akin to a holy cause and a movement, similar in spirit, if not in the magnitude of its significance, to the women's suffrage and civil rights movements in the United States. These conditions foster the charisma of leaders, personalities, causes and heroes. Clearly, increased competition, and level of economic well being of a society are factors that influence the perception of societal munificence. The model capturing this process of consumer exploitation to the consumerism mind-set in an emerging economy, along with the contingent factors is presented in the [Figure](#).

## Concluding Remarks

This conceptual framework relies mainly on historical accounts from mainstream business periodicals. To that extent, we plead guilty to naive positivism. However, we believe that this framework has the potential to provide impetus for further exploration of the movement of a consumption society (buy what is available and consume) to a *consumerist* society (where consumers' benefits are maximized). We hope that this framework draws debate, empirical support and/or rebuttal, and refinement, to better our understanding of ourselves in the context of an evolving, global marketplace.

**Figure: Process of Developing Consumerism Mind-set**



**Contingency Factors:**  
Emergent Stage/Condition of Markets Culture Environmental Maturity

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## **Involve Me and I Will Understand—Abstract**

Thomas E. Muller, Griffith University

My teaching philosophy embodies the thinking of Confucius, who said something like this: *Tell me and I will forget; show me and I will remember; involve me and I will understand.* Everything I do in the classroom, and outside, is guided by the principle of involving the student in the learning process. Here, I summarize four of the nine strategies I use to achieve this learning goal.

### **Design and Planning of Teaching**

I start a course by showing students what today's executive manager must be like, as a leader, communicator, team worker, technician, analyst, and thinker—given the global competition and rapid technological change they will confront when they graduate. I then present the 3 pedagogical objectives for the course: basic grasp of concepts; applying that understanding to business problems; and developing communication skills. These are achieved when the student undergoes *a natural sequence of five learning steps*—technical training; understanding; information analysis; problem solution; written/verbal expression. The entire course content and evaluation rationale are designed to ensure that the student has a good chance of undergoing these 5 learning steps. I then reinforce my *promise* to students that every item of evaluation and everything they say or present in class will be evaluated by me, personally, with those 3 learning goals in mind. Their attention is redirected to these 3 objectives and 5 steps throughout the semester and before an evaluation item is due.

### **Conduct or Process of Teaching**

To involve students in the learning process, I take a standard lecture slot and milk it to the hilt by dividing the allotted time into learning modules, e.g. (1) a short lecture on the topic of the week, relying on prior student preparation but adding new material; (2) in-depth analysis of videotaped vignettes of consumers in action; (3) in-class experiments to test a theory; (4) in-depth probing of a student volunteer's decision-making; (5) group analysis of a volunteer's underlying motives; (6) role-plays; (7) ad-hoc team problem-solving sessions on an assigned marketing task, followed by each group's presentation of its solution (groups compete against one another). To stimulate curiosity, evaluation items are designed to encourage introspection, so that students can examine their own motives for their behaviors in the marketplace. To build interest in the topic, they are encouraged to think of concepts in terms of their own experiences/interactions with humans as they absorb the theory, air their thoughts, voice their dissension, and test their ideas in the classroom, and outside.

### **Evaluating Students**

I use at least 5 items for evaluating student performance in a course. These are designed to offer constant feedback on their emergent skills, over the term. There is no such thing as a late assignment. This agreed-upon rule puts responsibility on the student to plan ahead; simulates the business environment students will eventually enter; and introduces fairness to all. I tend to use two mid-semester exams in place of a final exam. Students are given a lot of time (up to three hours), but very little writing space (16 to 24 blank lines, directly

below a question). The responsibility of constructing a convincing answer is on the student: instead of allowing lots of writing, I allow lots of thinking. Each question is a microcosm of a realistic business problem. They are encouraged to think deeply and broadly about each question and gradually build a solution to the problem. To reinforce students' responsibility for their own learning, they engage in weekly, in-class, small-group problem-solving sessions which end with a formal, 5-minute presentation of a group's solution (marked by me, on the spot). For the best end-of-term presentation assignment by a student (based on classmates' and professor's combined evaluations), I offer an award which includes a signed certificate for framing.

### **Measuring Learning Outcomes**

When a novel or complex concept is introduced, I transform it into an extensive in-class exercise, and then test students' mastery of the topic. I develop a post-experience questionnaire specifically for this concept, and administer it, in class, to (1) measure the level of understanding; (2) assess its usefulness to the student; and (3) solicit any needed improvements in content or pedagogy. There is also the longer-term measure of learning outcomes. Though I have no control over this, my former students' unsolicited communications to me after the course has ended (sometimes e-mails or letters are received years later!) provide a post-experience check on mastery of the course material.

## **Using Technology to Implement the "Seven Principles for Good Practice" in Marketing Education—Abstract**

David J. Urban, Virginia Commonwealth University

The "Seven Principles for Good Practice in Undergraduate Education" have existed for several years, but they still provide important guidance to faculty who want to improve their students' learning. In marketing, these principles are especially critical in course/program redesign, given the changes in marketing as a subject area and the impact of technology on college teaching. The use of advancements in educational technology can help marketing faculty to become closer to their students, increase the time students spend on their academic courses, provide faster, more comprehensive performance feedback, and achieve other positive learning outcomes implied by the Seven Principles.

### **The Seven Principles for Good Practice**

In 1987, the American Association for Higher Education (AAHE) first promulgated its "Seven Principles for Good Practice in Undergraduate Education." These seven principles distilled findings from decades of research on the undergraduate experience. The Seven Principles are:

1. Good Practice Encourages Contacts Between Students and Faculty
2. Good Practice Develops Reciprocity and Cooperation Among Students
3. Good Practice Uses Active Learning Techniques
4. Good Practice Gives Prompt Feedback
5. Good Practice Emphasizes Time on Task
6. Good Practice Communicates High Expectations
7. Good Practice Respects Diverse Talents and Ways of Learning

The AAHE has also developed several tools based on the Seven Principles, including a Faculty Inventory, an Institutional Inventory, and a Student Inventory. Faculty and administrators can use these tools to assess the implementation and use of the Seven Principles in their institutions. The Seven Principles are applicable to teaching in virtually any academic discipline, including marketing.

### **Impact of the Seven Principles on Marketing Education**

As marketing faculty know well, the content of our marketing courses is evolving rapidly. Topics such as globalization, database marketing, e-commerce, relationship marketing, and marketing ethics, along with a renewed interest in customer service, have changed the makeup of marketing as an academic subject.

Moreover, the technological revolution in higher education is dramatically changing the ways in which faculty teach and students learn.

In light of all these changes, it is important for marketing faculty to keep the Seven Principles in mind when evaluating their individual teaching efforts or their overall marketing curricula. Indeed, the Seven Principles provide a framework that can help marketing faculty to implement technology, not merely as a convenient administrative device, but as a tool that can positively enhance learning outcomes (Chickering and Ehrmann 1996).

Marketing faculty can achieve several positive learning outcomes linked to the Seven Principles by using various types of educational technology, including the World Wide Web. Among these outcomes are: a.) increased student access to faculty and to other students; b.) cooperative learning among students; c.) more active student involvement in class activities; d.) faster, more comprehensive performance feedback; e.) increased "time on task" for students; f.) student involvement in more powerful learning challenges; and g.) accommodation of different student learning styles through the use of text, graphics, video, and audio in course delivery.

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## **My Perspective on Effective Teaching**

Seungoog Weun, University of North Carolina-Wilmington

### **Introduction**

While I have employed a number of diverse approaches in my teaching methodology, my teaching philosophy has remained unchanged: *dedication and commitment to excellence in teaching*. Specifically, my philosophy is composed of the following four key issues.

### **Service Quality Paradigm**

I have built my teaching philosophy around a policy of “service quality excellence,” which traditionally has been emphasized by the corporate world. In this paradigm, it is my belief that teachers are mainly responsible for *successfully disseminating* their marketing knowledge to students. To achieve this goal, I have placed a high priority on motivating my students to learn. I believe that students are greatly motivated when I demonstrate enthusiasm in *every* class, along with my willingness to learn from my own students and my personalized attention to each student.

### **Relationship Paradigm**

Marketing scholars have addressed the benefits of relationalism that accrue to both firms and customers. I believe that the concept of relationalism should also be utilized in a teacher-student relationship. Developing an atmosphere of trust is a critical aspect of education. I have witnessed that trust created between a teacher and students acts like an *invisible medicine* which opens students’ minds. While developing and maintaining trust is an ongoing process, fundamental things I do to achieve this goal include memorizing students’ names and background information (e.g., work/business experience and personal academic issues), monitoring their academic performance, and counseling them outside class hours. When my students see that I am genuinely concerned about them, they become more receptive to my lectures, show more interest in learning, participate more actively in the classroom, and, hence, they learn marketing concepts better.

### **Real World Paradigm**

I do not believe that all theories discussed in the classroom can be equally applied to real-world situations. However, it has always been my philosophy that marketing teachers should help students prepare for the reality of the business world. I *simulate* the business environment in the classroom by assigning practical class projects. For example, each group in my Services Marketing class is required to develop a new service (e.g., water taxi for surfers) as a future business idea. “Marketability” of a new business idea is the most important factor they must assess. Such a project also fosters analytical thinking which is a “must-have” in today’s competitive business world.

Since today’s economy has been globalizing at a rapid pace, I have attempted to *capitalize on my strengths as a foreign instructor*. Rather than simply preaching the importance of internationalism, my own business experiences in a foreign country and insightful stories about foreign companies are live examples to my students. In doing so, I help them break away from a myopic, ethnocentric view of business in developing and implementing marketing strategies.

### **Execution or Great Philosophy, Which Matters?**

It is not difficult to imagine that most, if not all, teachers have nice teaching philosophies. In reality, however, a significant number of teachers with great philosophies often turn out to be “less-than-satisfactory” teachers. It is my belief that a great philosophy alone does not make one a good teacher. One’s philosophy becomes a powerful tool to further the education of students only when it is *well executed*.

## **Portals and e-Supply Chains: An Exploratory Essay–Abstract**

Andreij Horn, Graduate School of Business

Deon Nel Graduate School of Business

Mike Page Graduate School of Business

Portals have garnered more attention than virtually any other Internet technology over the past year—partly because of Wall Street’s mania over Excite, Infoseek, Lycos, and Yahoo. Some have gone so far as to call portals the next generation of desktop computing, saying that portals will do for global knowledge-work what the railroad did for the industrial revolution.

But there is more to the portal story. As we saw with the Internet itself, the real value for providers and consumers lies well behind the firewall. It is no secret that the baseline of corporate value has shifted from bricks and mortar to intellectual capital. The promise offered by the corporate portal to capture and share knowledge is very alluring, and today an increasing number of organisations in all industries are beginning to use Information Technology (IT) as a tool to achieve a competitive advantage.

Parallel to this trend is the changing way in which the supply chains in industry are being managed. As they are becoming more reliant on real-time information, IT has become an integral part of their management.

This paper explores the emerging supply chain trend, and what exactly portals are. It looks at who the stakeholders are and roles they will play in the future supply chains. It offers two examples of portals in specific industries. Finally, it concludes with an attempt to apply the new competitive forces to try and determine the effect the new network economy has on corporate strategy formulation in terms of supply chain management.

## **Antecedents of Information Acquisition among Exporting Firms:**

### **The Role of Ability and Motivation to Search—Abstract**

Poh-Lin Yeoh, Bentley College

Researchers (e.g., Radford 1978) have long stressed the importance of good environmental information. As noted by Keegan (1974, p.411) “how organizations obtain relevant information is crucial to the development of an empirical theory of organizations.” While some descriptive empirical studies exist on this topic in the exporting literature (e.g., Reid 1984, Pineda, Lerner, Miller, and Philips 1998), no clear determinants of scanning behavior have been found. Thus, there does not exist a clear theoretical framework that exporting managers and providers of export assistance can use to develop a strategy for environmental scanning. Given this gap in the literature, the purpose of this paper is to develop such a framework. In particular, this study attempts to offer an integrated theoretical framework for understanding exporting firms’ information acquisition behavior, particularly the antecedents which affect firms’ scanning behaviors of their exporting environment. Identifying the determinants of information search behavior among exporting companies will facilitate a better understanding of the search process, and subsequently of the processes involved in sound decision-making. Drawing upon the earlier definitions of Beatty and Smith (1987) and Bloch et al. (1986), this paper defines external information search as the degree of attention, perception, and effort directed toward obtaining environmental information for both instrumental and conceptual use. Given the lack of research on information search activity in the exporting literature, studies from other research areas are employed to draw insights into this phenomenon. Specifically, within the consumer behavior literature, two well-established theoretical approaches -- psychological/motivational and economics -- have been used to understand the mediating impact of environment, situational variables, and consumer characteristics on the individual’s information search process (Schmidt and Spreng 1996). The psychological/motivational approach argues that information search is dependent on the individual’s ability and motivation, and both factors are necessary to acquire information via effortful search (Bettman and Park 1980).

Although the behavioral perspective provides excellent descriptions of the psychological processes that accompany search, the individual which is the primary unit of analysis in the consumer behavior literature is inappropriate when extended to the exporting context given information acquisition is driven by both managerial (e.g., Cooper, Folta, and Woo 1995) and firm-specific factors (e.g., Belich and Dubinsky 1995). Given this shortcoming, the resource-based theory of the firm will be used to explain information search behaviors of exporting managers with respect to their ability and motivation to search. The resource-based theory conceives a firm as a unique bundle of both tangible and intangible resources (assets, capabilities, firm attributes, information, knowledge, etc.) that are controlled by the firm to gain a sustained competitive advantage in the marketplace through value-creating strategies (Barney 1991). Capabilities, in contrast, refers to a firm’s capacity to deploy resources, usually in combination, using organizational processes, to effect a desired end. As noted by Amit and Schoemaker (1993, p.35), “[capabilities] are information-based, tangible or intangible processes that are firm-specific and are developed over time through complex interactions among the firm’s resources.” Therefore, the extent to which exporting firms develop the capabilities in terms of their motivation and ability to search for information will be dependent on their ability to deploy strategic resources to achieve economic rent.

**NOTE:** For the rest of this paper, please contact the author.

## Network Effects, Path Dependence or Quality:

### What Drives The Success of New High-Tech Products?

Eden Yin, University of Southern California

Gerard Tellis, University of Southern California

This study examines the key drivers of the success of new high-tech products. High-tech products refer to products that 1) involve extensive know-how to produce and substantial know-how to use; 2) experience rapid and fundamental technological changes. The conventional wisdom is that *network effects* and *path dependence* are the primary factors that determine the success of a new high-tech product. I argue, however, that the critical force driving its success is the product's intrinsic *quality*. Success is defined as the initial mass adoption of a new high-tech product, namely, its "takeoff" and the switch in market leadership from the existing product to the new product.

This study shows that superior quality will first lead to a consensus of expert opinions on the quality of the product. This consensus triggers the takeoff of the new high-tech product. Takeoff marks the beginning of the mass adoption of a new product. A rapid takeoff is a strong signal of the future success of a new high-tech product, namely, the replacement of the existing product as the market leader by the new entrant. The eventual switch in market leadership and an establishment of a solid market position is driven by continuous product updating. Therefore, quality is the key driver of the new product's takeoff and its subsequent acquisition of market leadership. Network effects and path dependence are inconsequential in this process.

The central thesis examined in this study is whether network effects or quality drives the success of new high-tech products. In particular, this study seeks to answer the following questions:

What drives the initial success (the takeoff) of a new high-tech product, quality or network effects?

How long on average do new high-tech products take to experience a takeoff?

Can we predict the takeoff of new high-tech products?

How frequently do switches in market leadership occur in high-tech markets?

How is the switch in market leadership related to the switch in quality level?

This study adopts an interdisciplinary perspective to answer these questions. It integrates theories from marketing, economics and technology management to throw new light on these issues, and tests hypotheses from this theory using novel data and measures.

The current study is important for several reasons. First, it has managerial implications. In high-tech industries, rapid shifts in technology and intense competition make establishing their products as market leaders a key to survival and enduring success for high-tech firms. The current inquiry can offer high-tech managers useful insights into how to better design their competitive tactics and product strategy.

Second, the current study has important policy implications. Policy makers have been concerned about the potential monopoly power that comes with the successful establishment of certain technologies as market leaders. In particular, they question if the market behaves efficiently when choosing the right leaders. If not, the entire market may be locked into an inferior product controlled by a monopoly, even when superior alternatives are available but not adopted. The current study addresses these issues.

Third, this study has research implications for marketing. The establishment of market leader in high-tech industries is intrinsically linked to a firm's innovation endeavors which play a critical role in marketing management. Marketing research on innovation in the high-tech industry is sparse. This study will enhance our understanding of this issue.

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# **The Impact of Brand, Attribute Strength and Country-of-origin on Product Evaluation: a Web Survey**

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## **Abstract**

This study examines the viability of a dual branding strategy as a transition to a global branding strategy. Philips of the Netherlands has tried to move its Magnavox brand in the U.S. to Philips through the transitional Philips/Magnavox brand. The results based on a web survey of Australian student sample show some promise for this transitional global branding strategy.

## **Introduction**

What do Whirlpool in the U.S. and Philips of the Netherlands have in common? Both have attempted to enter the global market through acquisitions. Whirlpool, an appliance manufacturer in the U.S. with a well established consumer franchise for its brand in the U.S. had acquired the European appliance division from Philips of the Netherlands just a few years ago. Whereas Whirlpool enjoys a strong brand reputation in the U.S., the brand is relatively unknown in Europe. Philips, on the other hand, acquired a U.S. manufacturer of electronics products about two decades ago. The same brand name: Magnavox has been used in the U.S. ever since. Unfortunately, Magnavox brand does not possess a strong brand equity among U.S. consumers and its products tend to be offered at lower retail prices vis-a-vis its competitors such as Sony and Zenith. Both companies face a challenge of how to establish a brand in countries different than their own.

In order to establish Whirlpool's brand reputation in Europe, the company introduced a dual branding strategy tying Whirlpool to Philips in its promotional campaign in hope that European consumers will develop a strong affiliation for its brand in the long run. The Philips brand association will then be dropped when consumer franchise for Whirlpool brand has been established. Therefore, in Europe, Whirlpool's dryers and washers have been introduced as Whirlpool/Philips. Philips' desire to pursue a similar strategy here in the U.S. is evident through its recent retail ads highlighting a dual branding strategy in which the Magnavox brand of electronic products is shown as Philips/Magnavox rather than just Magnavox.

As an increasing number of companies seeks to enter the global market place, global branding has become an important strategic issue. Besides branding decisions, firms are also increasingly allocating productive resources to other countries around the world to take advantage of production rationalization. Firms employing such production strategies often have cost reductions and operating efficiencies as their major considerations.

The country-of-origin (COO) literature provides some useful insights regarding the potential impacts of these strategic decisions from a marketing perspective. Specifically, the focus of these studies is on consumer evaluations of products made in a variety of countries, an important factor when firms evaluate global production and branding decisions. Quite a number of studies in recent years have utilized multiple cues to address several substantive COO issues raised by some researchers (Bilkey and Nes 1982; Samiee 1994). These studies have been designed to overcome one major weakness associated with earlier COO studies which tend to rely on one single COO cue in the research designs. A variety of intrinsic and extrinsic cues have been reported to be important moderators of COO effects. Some of these cues include product warranty (Schooler, Wildt and Jones 1987; Thorelli, Lim and Ye 1989), material contents of a product (Ettenson, Wagner and Gaeth 1988), and store image (Chao 1989a,b, Davis, Kern and Sternquist 1990), etc.

Of particular interest in this study, however, is the global branding issue. Notwithstanding the result reported by Leclerc, Schmitt, and Dubé (1994) that brand did not show differential impacts on consumer evaluations of several products when indicated as produced in two different countries, various studies have reported that brand dilution can occur if a well established brand is indicated as produced in a less developed country (Seaton and Vogel 1985;

Johansson and Nebenzahl 1986; Cordell 1992; Nebenzahl and Jeffe 1996). Caution, however, needs to be exercised in interpreting the results reported by Leclerc, etc. (1994) who used U.S. and France as the two countries in their study. Other studies showing brand dilution effects tend to use both developed and developing countries in the research designs.

It has been reported by Erickson, Johansson and Chao (1984) and Tse and Lee (1993) that the COO information can affect attribute beliefs and consumer attribute evaluations of a product. However, with the exception of Zhang (1997), who reports that product attribute information can moderate the COO effect, scanty attention has been paid to the issue of whether specific product attribute information can moderate the brand or COO effects. The multi-attribute attitude model suggests that consumers rely on product attribute information to form attitudes and product perceptions.

### **Study Objectives**

Whereas a variety of studies designed to address the brand and COO effects have been reported in the COO literature, no study has been reported on the relative efficacy of a dual branding strategy utilized by the Philips of the Netherlands in the U.S. or the Whirlpool in Europe. Since the dual branding strategy is intended to be part of a global branding strategy for both companies, it is important that the efficacy of this strategy be tested across several countries. This study reports the preliminary results obtained in one country: Australia with more to follow.

Based on the preceding literature review, one should expect the brand effect to be moderated by the COO effect. Similarly, product attribute information should also be expected to moderate the COO effect. There are, therefore, three-fold objectives in this study:

1. Can Philips of the Netherlands use the dual branding strategy to successfully establish Philip as a global brand?
2. Can the COO information affect the relative efficacy of this dual branding strategy?
3. Can specific product attribute information affect the relative efficacy of this dual branding strategy?

### **Methodology**

A 2x2x3 full factorial between-subjects design was used in this study incorporating two levels of COO: Holland and China, two levels of product attribute strengths: strong product attributes and weak product attributes and three levels of branding : Magnavox, Philips/Magnavox, and Philips. In order to test the efficacy of the dual branding strategy in the global context, twelve color ads were created showing a picture of a tv set and the corresponding treatment manipulations. These ads were placed on twelve web sites to allow global access to the survey instruments.

A pilot study was conducted in the U.S., Austria, Denmark and Australia in which a list of 16 attributes of a TV set were presented to a small group of 40 student respondents in each country. They were asked to indicate on a scale from 1 to 7 (1-not important at all, 7-very important) the extent to which they viewed each attribute to be an important feature in a television set. They were also encouraged to add other features which were not included in the list of 16 attributes. Based on their responses, a set of five strong attributes and 5 weak attributes were selected for the study. The mean score for each of the five strong attributes was higher than 4 and the mean score for each of the five weak attributes was lower than 4. A list of the strong and weak attributes are shown in [Table 1](#).

The preliminary data of this study were collected from Australia. Student subjects in a mid-sized university in the eastern part of Australia were randomly assigned to each of the 12 web sites dedicated to this study. Students were instructed to examine the ad carefully on the web site before responding to a series of questions pertaining to the ad. The advantages of a web survey is that it allows students to respond to the survey at their own pace and at any time during the day or evening. A student sample is considered a relevant sample since they are familiar with the product class and often are purchasers of the product. Furthermore, a meta analysis confirmed that there was no statistically significant difference in the country effect sizes between studies which utilized student samples and consumer samples reported in the COO literature (Liefeld 1993).

They were asked to evaluate the product by responding to four types of questions which served as the dependent variables: quality, attitude-toward-the-product, purchase intention and perceived expensiveness of the product. The quality perception was measured by four 7-point scales: poor workmanship (1) - excellent workmanship (7), poor durability (1) - excellent durability (7), poor reliability (1) - excellent reliability (7) and poor quality (1) - excellent quality (7). Since the reliability coefficient for these four scales was quite high (0.90), the mean scores were averaged before an ANOVA analysis was performed. The attitude-toward-the-product was measured by asking the respondents to indicate how they felt about the product on three 7-point scales: bad (1) - good (7), unsatisfactory (1) - satisfactory (7) and unfavorable (1) - favorable (7). The reliability coefficient for the three attitude scales was also quite high (0.93). The mean scores were averaged before an ANOVA analysis was performed. The purchase intention was measured by asking the respondent to indicate on a 7-point scale how likely they were to purchase the TV set shown in the ad: not likely at all (1) - very likely (7). The perceived expensiveness of the TV set was measured by asking the respondents to indicate on a 7-point scale how they perceived the price of the TV set: very inexpensive (1) - very expensive (7). The students were also asked to indicate in an open-ended question what they thought the purpose of the study was. Very few students were able to guess correctly the true purposes of the study, but those who did were removed from the data. Several incomplete answers were also eliminated from the data set.

## Results

Four separate ANOVA tests were conducted on the four dependent variables. The results are shown in [Table 2](#). Only results that were found to be significant are reported. In all four cases, only significant main effects were detected without any significant two-way or three-way interactions. [Table 2](#) shows that the COO effect is significant on perceived product quality with the TV set indicated as produced in Holland receiving a higher quality rating than one indicated as produced in China ( $q_H = 4.87$ ,  $q_C = 4.49$ ). The brand effect is also significant on quality perception with the Philips brand receiving the highest quality rating ( $q_P = 4.90$ ), followed by Philips/Magnavox ( $q_{PM} = 4.68$ ) and Magnavox ( $q_M = 4.45$ ). This result appears to show that the dual branding strategy seems to be an effective and viable strategy. However, the absence of any interaction effect seems to indicate that a strong brand cannot be used to circumvent a weak COO cue nor can any strong COO cue be used to overcome a weak brand on product quality perception.

[Table 2](#) shows that the COO and brand effects are significant on consumer product attitude. Again, the effects are in the expected direction. A TV set indicated as produced in Holland received a higher mean attitude score ( $\bar{A}_H = 4.99$ ) than one indicated as produced in China ( $\bar{A}_C = 4.58$ ). The Philips brand received the highest mean attitude score ( $\bar{A}_P = 5.02$ ), followed by the Philips/Magnavox brand ( $\bar{A}_{PM} = 4.77$ ) and Magnavox ( $\bar{A}_M = 4.57$ ). Again, this result seems to suggest the viability of the dual branding strategy. No significant two-way or three-way interactions was detected. This again suggests that a strong brand cannot compensate for a weak COO cue. Similarly, a strong COO cue cannot compensate for a weak brand.

A similar pattern was observed for purchase intention. Intention to purchase was stronger for Holland ( $IP_H = 4.47$ ) than China ( $IP_C = 4.11$ ). Mean purchase intention was the highest for the Philips brand ( $IP_P = 4.55$ ) followed by Philips/Magnavox ( $IP_{PM} = 4.21$ ) and the Magnavox brand ( $IP_M = 4.11$ ). No significant two-way or three-way interactions was detected. The result again points to the relative efficacy of the dual branding strategy. However, the inability of a strong brand to compensate for a weak COO cue and the inability of a strong COO cue to compensate for a weak brand remain.

The COO effect on perceived expensiveness of the TV set is significant with the set indicated as produced in Holland as more expensive ( $\bar{E}_H = 4.61$ ) than one produced in China ( $\bar{E}_C = 4.27$ ). No other significant main or interaction effects was detected.

### **Discussion and Conclusions**

The results show that the Philips dual branding strategy is a viable strategy at least in Australia. The Philips/Magnavox brand can serve as a transitional brand strategy. The student sample perceived the product quality to be the highest for the Philips brand, but rated the Philips/Magnavox to be the second highest. The same pattern appears to hold when asked about their attitude-toward-the-product and purchase intention. They also preferred the TV set to be produced in Holland rather than in China. Even though they perceived the set made in Holland to be more expensive, purchase intention was higher for the TV set made in Holland than China.

### **Managerial Implications**

If the Philips/Magnavox dual branding strategy can be validated in countries other than Australia, the dual branding strategy to be used as a transitional branding strategy may very well prove to be a successful strategy which can be used by many multinational companies when introducing a relatively unknown brand to a different country market. Currently data are being collected in the U.S., Austria, and Canada in a continuing effort to confirm the reliability of this result.

As Australian students prefer to buy TV sets made in Holland even though they perceive TV sets made in Holland to be more expensive, multinational companies should consider maintaining manufacturing facilities in both high and low cost countries as some consumers still perceive TV sets made in a more industrialized country to be of a higher quality. Cautions need to be exercised, however, since there may be a price point beyond which they may be willing to sacrifice quality in favor of a lower price. This study did not examine the price differential beyond which they would be willing to give up the preferred quality in exchange for a lower price.

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Table 1

**Strong and Weak Attributes**

<u>Strong Attributes</u>	<u>Weak Attributes</u>
*crisp clear picture	*sleep and alarm timer
*high quality stereo	*light weight design
*full function remoter control	*close-caption (teletext)
*automatic sound level from channel to channel	*choice of a variety of exterior color
*one year warranty	*jacks for head sets

Table 2

**ANOVA Results**

Dependent Variable	Independent Variable	F	d.f.	Prob.
Quality	COO	16.904	1	0.000
	Brand	7.823	1	0.000
Attitude	COO	14.057	1	0.000
	Brand	5.543	1	0.004
Purchase Intention	COO	7.480	1	0.006
	Brand	4.104	1	0.017
Perceived Expensiveness	COO	10.227	1	0.001

## **A Books Reading Pattern Based on Economic and Psycho-Sociological Factors**

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### **Abstract**

This article examines the relative influence of socio-economic variables versus attitudes as regards to consumer behavior towards book reading as a leisure activity. This study is based on a field research conducted upon a French population sample. We isolate four fundamental dimensions of the reading activity that act as intermediate variables to predict consumer behavior towards this leisure activity. A threshold of involvement is identified, below which individuals appear to feel unconcerned by reading, should they have discretionary time available or not.

### **Introduction**

Reading, as a leisure activity, has received little research attention. For many years, studies of consumer behavior have insisted on regarding the time disposed of by consumers as a constraint upon their free activities. Whether from a purely economic point of view (Becker 1965) or a sociological one (Dupuy 1975; Linder 1970), time appears to act as a fundamental element in a consumer's action; the individual has a certain amount of time that can be allocated to a certain number of activities. The use of units of time as units of activity also depends on specific social and psychological factors such as personal life framework and goals (Bergadaà, 1990).

Given that reading is at the same time an obligatory activity (when studying and frequently when working) and a leisure occupation, the question considered in this study is what are the most predictive variables in an individual's behavior with regard to this activity. Individual behavior with regard to books has already been examined (Janssen, Leemans 1988) but no specific research appears to have been carried out on reading activity. Now, going beyond specific behavior towards the "book" object, a study of the activity raises many questions (Bergadaà and Nyeck, 1995). What relationship does it bear towards an individual's available time, discretionary leisure time and personal attitude towards reading?

The traditional economic approach opposes two notions, obligatory time and discretionary time. In this perspective, time is a commodity limited in quantity (24 hours per day) which cannot be stored. Discretionary time is the time remaining free after the obligatory time for work has been taken up. This discretionary time breaks down into a large number of activities, such as the necessary household activities (meal preparation, shopping, etc.) or leisure activities. According to this approach, the time that an individual devotes to a particular leisure activity is directly related to the overall discretionary time that one disposes of. An imbalance exists between individuals, however, as one part of the population works and feels a lack of free time, while another part is unemployed and has too much free time at its disposal (Sue, 1982). In order to take into account different perceptions of an activity such as reading, it is necessary to make a distinction between "leisure time" (as opposed to "work time") and "free time" (as opposed to "obligatory time"). The objectively free time of the jobless individual does not appear to him, neither is it experienced, as time he disposes of for relaxation or personal improvement. If we consider that reading is a leisure activity, the economic approach suggests that the amount of time spent reading should be directly and positively related to the amount of discretionary time available. Individual allocation to different activities is also, however, influenced by environmental factors such as marital status (Ferber and Birnbaum, 1977), and work situation (Arndt and Gronmo, 1977).

On the other hand, Becker, with his theory of human capital, (1965) raised doubts about this mechanistic short term and objective view of discretionary time. In his theory, time is a resource and individuals produce their own satisfaction. Time and values are the elements of the process and individuals seek the greatest satisfaction by producing the final values they wish, such as health, culture, etc. These final values are themselves made up of time-vectors and activity-vectors, since a quantity of values and time enter into their composition. For example, "culture" can be made up of a large number of interchangeable "sub-activities", such as reading, cinema, television, etc., according to the psychological make-up of the person. Thus, this approach introduces some subjectivity concerning the final values of the intermediary activities sought after by the individual. For example, individuals who consider themselves master of their destiny and who make projects adopt an active attitude towards the objects in their environment, which they endow with a value of personal enhancement. Individuals who, on the contrary, make no projects and think that they are subject to the shifts of fortune are more aware of the recreational value of the objects that surround them (Bergadaà, 1988).

The antecedent variables in the behavior of individuals with regard to reading are numerous. Linder (1970) notes that in our societies, individuals have less and less free discretionary time at their disposal. Dupuy (1975) considers

that the competition of many objects (e.g. television, radio, cassette recorder, etc.) tends to limit the quantity of time allotted to each activity. For their part, Hendrix, Kinnear and Taylor (1979) emphasize that so-called "leisure" activities contain elements of obligation and discretion which depend on many intermediate variables, as for example the pleasure felt during the activity, other people's allocation of time, the accessibility of activities, the role played by the individual, etc. Thus, the activity needs to be examined in the context of the individual relationship with one's surroundings. Lastly, it should be observed that the authors implicitly propose the hypothesis that the service rendered by a resource increases in proportion to the quantity consumed. However, it is difficult to accept that the same resource provides the same "service" to all individuals. To become involved in reading, consumers must be able to derive a certain satisfaction from this activity. Research of phenomenologist psychologists into reading have revealed the existence of pleasure in the success of the actual fact of reading and that not all individuals, for various reasons, have necessarily acquired a sufficient proficiency in reading to achieve such a pleasure. Moreover, cognitive psychology suggests that a real disgust with reading can result from failure when learning (e.g. Denhières, 1988). The mastery of reading implies many intellectual reflexes such as deciphering, but also committing to memory (Schank and Abelson, 1977). The question for our research is therefore: is there a threshold of involvement below which reading is simply an effort for the individual and how does this threshold relate to the allocation of time to reading?

Denhières (1988) distinguishes different goals that are sought after during reading once the individual has passed the simple level of comprehension. He says that reading serves multiple purposes, notably "as a distraction, to communicate with others, to resolve a problem, etc." Bassy (1979) defines the book as being an object with an attached social sign ("the prime and the most basic index of cultural level") as well as a symbolic one ("it only acquires its true meaning when it meets the individual trajectory of each reader"). According to both these authors, individuals appear to have attitudes with regard to reading based mainly on the following functions: social, personal, reflective and recreational. It would be interesting to answer the following question: what are the dimensions of reading as an activity?

### **Research Objectives**

To provide answers to these questions, we developed an empirical survey based on a literature review and in-depth interviews on the topic. Tests and analyses were made in order to reveal the main features of individual attitudes regarding reading and the way these intermediate variables affect consumers' time allocated to reading and their organization of this activity.

Because of the content of the study, an enquiry based on written surveys would have been inadequate and likely to cause selection biases. The questionnaire was thus submitted orally to a convenience sample based on the method of quotas concerning the following criteria: age, sex, level of education and profession. We made sure that all professional (8), age (4) and level of education (4) categories were represented. However, a social bias may have been introduced as no one claimed that they actually disliked reading!

Unfortunately, we could not directly measure the amount of time spent reading and the allocation of discretionary time to reading activities. We considered measuring time spent reading formally, for instance through the use of "time-budgets" but decided against this approach. This type of data has been shown to have numerous problems, notably those linked to the memory of the individual concerning time spent on different activities (time seems longer if the activity is unpleasant), and the inter-individual subjectivity (certain individuals read much faster than others and it is thus hard to define the exact amount of time spent reading). For these reasons, time spent reading was measured indirectly by using the criteria defined by Didelot (1979): three categories were defined (infrequent readers: less than one book read a month, moderate readers: one to two books read a month, frequent readers: more than two books read a month).

The organization of reading time by the individual measured the extent to which individuals take discretionary time for reading or only read when their discretionary time is not taken up by other activities and they have free time imposed by their environment. Two categories applied to this notion: those who take every opportunity to read and those who read solely during holidays, weekends, or in public transportation. To capture the notion of threshold of involvement, we combined these two variables and defined "non-involved" individuals as those who read little (less than one book per month) and who do not read when they do not have to. We also measured a number of socio-economical variables such as age (4 categories: 15-25, 26-35, 36-50 and over 50), marital status (living as a couple or not), number of children (3 categories: no children, 1 or 2 children, more than 2 children), occupation (with or without a job outside the home), and education (4 categories: 9 years or bellow, 9 to13 years, 14 to 15 years, and more than 15). We also measured the propensity to make plans (3 categories: respondents say they make plans, give no indication, or state they make no plans) and the belief in destiny (3 categories: no belief in destiny, indifference, or belief that destiny plays an important role).

Finally, we developed a scale that measures the attitude structure of consumers towards the activity of reading. A preliminary content analysis of in-depth interviews of a small group of individuals made it possible to induce the existence of a first factor, which is the effort felt while reading, together with two attitude axes: relaxation-education and social-personal. On the basis of this content analysis, a 15-item multidimensional scale was then assembled with 5-point Likert items. The five dimensions measured were effort (e.g. "I do not like books that require a mental effort"), personal improvement (e.g. "Good books ought to encourage me to ask questions"), social improvement (e.g. "I cannot understand how it is possible not to have read the great classics"), personal distraction (e.g. "A book enables you to visualize for yourself"), and social distraction (e.g. "I enjoy comparing my impressions on a book with those around me").

## **Results**

### **Antecedent variables and involvement in reading**

We first tested the relationship between the socio-demographic variables and reading intensity, organization of the activity, and involvement (in the form of a component of the two foregoing variables; before bringing together these two variables, a Chi-2 test was performed which showed a significant relationship (Chi-2 = 36.45; sig. = 0.0000) between them). The intensity of reading was measured on an ordinal scale and a Kruskal-Wallis test was then used to test the relationship of this variable with the antecedent variables. No direct significant relationship emerged. The organization of the activity was measured on a nominal scale and the Chi-2 test was used. No significant relationship was found here. As involvement in the activity was measured with a nominal scale, Chi-2 tests were done. We found a significant positive relationship of educational level with this measurement of involvement (Chi-2 = 16.26; sig. = 0.001). More than 40 % of non-involved persons had less than 9 years of education.

In accordance with Denhières' results (1988), where the activity is considered in the light of the learning process of the individual, we also note that this result can only be demonstrated by creating a measurement of involvement, and not by a simple economic-type measurement concerned with the quantity of books read or with the leisure time devoted to the activity. However this measure of involvement is in itself far too simple for a full comprehension of the phenomenon, and the following analyses will deal with the different facets covered by this involvement, that is, the individual's varying attitudes towards reading.

### **Attitudes towards Reading**

A principal component analysis was performed on the attitude scale developed earlier. The results indicates that the attitude structure of consumers towards reading breaks down into the following five dimensions: effort, personal improvement, social improvement, personal distraction, and social distraction. Although the overall variation accounted for was fairly low if one considers the number of factors, the latter were clearly differentiated from each other (only two items were linked to more than one factor), and the reliabilities were acceptable. As a consequence, these factors were re-processed in the form of a linear combination of their participant variables, in order to produce five independent measures of attitudes towards reading (measured on ordinal scales of five points).

### **Antecedent variables**

Bivariate tests were carried out to relate the five variables of attitudes to reading to the antecedent socio-demographic variables. These tests produced the following results. Education had a significant connection with effort; effort increased in inverse proportion with the level of education. However, people with only a brevet or sub-brevet level were the ones who demanded more easy reading than those in other groups (Duncan test: F. ratio = 2.59;  $p = 0.05$ ). Also, the individuals who stated that they believed in destiny and refused to make projects looked for books requiring little effort (Pearson corr  $p = 0.002$  and  $0.007$  respectively). For the Personal improvement dimension, a significant positive relationship was found with the wish to make projects (Pearson corr.  $p = 0.003$ ). Women were more sensitive to the social improvement dimension than men (t-value = -2.85, D.F = 172.43,  $p = 0.005$ ); the 55-plus age group was also significantly more sensitive than the others to this dimension (Duncan test: F. ratio = 2.87;  $p = 0.04$ ); and people living alone were more sensitive than couples (F. ratio = 7.99;  $p = 0.005$ ). Wishing to make projects was negatively related to the personal distraction dimension (Pearson corr.  $p = 0.045$ ). Finally, the group with more than 15 years of education was more favorable to the social distraction dimension than those of other educational levels (Duncan test: ratio = 3.02;  $p = 0.03$ ).

We observe that individuals only wanting to read "easy" or "entertaining" books were strongly marked by their lower educational level, their belief in destiny and their refusal to make projects. It would seem that it is only beyond this stage of "reaction" to reading that consumers are able to consider the other facets of reading. For example, those wishing to make projects looked for self-improvement through reading, and not for distraction.

### **Attitudes towards Reading and Involvement**

Complementary tests gave the following results. The "effort" dimension was negatively linked with involvement in reading (sig.=0.002). The "personal improvement", "social improvement" and "social distraction" dimensions were positively linked with intensity (respectively, sig. = 0.002, sig. = 0.007, and sig. = 0.010). A discriminant analysis was performed with involvement as a dependent variable and reading attitudes as independent variables. The discriminant analysis increased the efficiency of a classification, otherwise random, by 34 %. Certainly this result is fairly low, but it must be remembered that in this question the attitudes of individuals to reading were more predictive than the antecedent socio-demographic variables in terms of the involvement or non-involvement of the individuals.

### **Discussion**

The first important result of this study is that no link could be established between the number of books read or the organization of reading and the variables which are assumed to be antecedent on account of their influence on discretionary time (work, number of children, living alone or in a couple). Thus, socio-demographic variables do not seem to influence the allocation of time to reading, contrary to some of Becker's ideas. Nonetheless, the involvement variable, which was created on the basis of the two preceding ones, appeared to be linked with educational level. We could therefore observe that the historical relationship established by the individual with the activity was more predictive of his/her involvement, or more exactly of his/her non-involvement, than the variables of economic connotation introduced beforehand.

In fact, only individuals who did not look for easy reading seemed able to perceive different facets of reading and to adopt a position in relation to the different attitudes of "personal improvement", "personal distraction", "social improvement" and "social distraction". Educational level, attitude towards destiny, and propensity to make projects seemed predictive of a capacity or an incapacity to go beyond this threshold of involvement. A final result relates to the fact that while the socio-demographic variables (except education) were not predictive of involvement with reading, they were far more predictive of individual attitudes towards this activity, and this network of attitudes was itself fairly predictive of involvement. Thus the knowledge of individual structure of attitudes towards reading appears to be a crucial intermediary for a better account of reading behavior.

In spite of these encouraging exploratory results, some of the limitations of this study indicate the need to continue research in reading behavior. For instance, although a measurement of involvement was obtained, no direct measurement of the amount of time actually devoted to reading was taken. It would be desirable to investigate whether such a measurement could be envisaged. The rather small size of the sample (n = 178) also made it impossible to differentiate between categories of consumers. For example, those reading during the weekends might not necessarily behave in the same way towards reading than those reading only during holidays or in public transportation. Also, while different attitudes towards reading were uncovered, involvement with the "book" as an object could be measured more formally (for instance using the Laurent and Kapferer involvement scale (1985)).

Finally, the results of this study suggest the need for further investigation in reader behavior. Further studies could for instance focus on the types of books read (novels, short stories, or informative reading for instance) or strive to understand the activity as complementing and/or replacing other leisure activities (cinema, theater, sport, etc.).

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## Why They Won't Buy Online: Part Two of an Exploratory Study of Consumer Attitudes Toward Online Buying

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### Abstract

This paper explores why consumers do or do not adopt online shopping. Respondents' recommendations to a character in a scenario about car buying revealed groups at various stages of the Rogers Innovation-Decision Process. Marketers can develop strategies that provide the information or models each group requires to move toward adoption.

### Introduction

While the Internet and Worldwide Web (Web) are growing rapidly and in commercial importance (Hamel and Sampler 1998), the majority of consumers continue to avoid the Web for shopping (Crockett 1999). Many do so because they do not yet have access to the Internet, or have access only at work, but even among those who do have access, online shopping is not yet universally adopted.

Many researchers have sought to better understand who does and does not adopt the Internet for shopping and other purposes. Marketing research organizations have developed classification schemes for Internet usage, which help marketers segment Web users. However, they don't tell a lot about the underlying reasons that consumers do or do not shop online. In diffusion of innovation terms: they don't really explain why consumers adopt online shopping or not?

Simply asking consumers why they shop online or not is often not particularly revealing. In order to probe more deeply, the authors opted for qualitative research techniques, in particular, the projective technique of story completion. How the story is completed should reveal the consumer's deeper motives.

### Diffusion of Innovation

Rogers, in *Diffusion of Innovation*, proposes a five-stage model of the innovation decision (1995). The Innovation-Decision Process defines the stages as follows:

1. Knowledge When a decision-making unit is exposed to and begins to understand an innovation.
2. Persuasion When a decision-making unit forms an attitude (positive or negative) toward an innovation.
3. Decision When a decision-making unit adopts or rejects an innovation.
4. Implementation When a decision-making unit puts an innovation to use.
5. Confirmation When a decision-making unit seeks reinforcement for or reverses its decision to adopt or reject an innovation.

(Rogers 1995, p. 162.) Different segments of the population are clearly at different stages in this process with regard to online shopping. Why some decide to adopt and some do not is the question at issue.

Rogers also identifies five sets of variables that determine the rate of adoption of an innovation. These variables include: perceived attributes of the innovation, type of innovation-decision, communication channels, nature of the social system, and the extent of change agents' promotion efforts (Rogers 1995, p. 207).

While all of these factors will affect the rate of adoption of Internet shopping, the attributes of the innovation itself seem most important in the context of the current research. These attributes are:

1. Compatibility Is it compatible with a consumer's lifestyle and beliefs?
2. Complexity How easy is it to understand and learn?
3. Relative Advantage How much better off will the consumer be if she adopts it?
4. Trialability How easy is it to obtain a trial usage of the innovation?
5. Observability Can the consumer observe others' adoption outcomes?

(Rogers 1995, p. 207.)

The other variables appear to affect the rate of adoption at least in part through their impact on the consumer's perception of the attributes of the innovation. For example, the appropriateness of the communications channels will affect whether consumers can readily observe the outcomes of others' adoption decisions and understand the innovation and its

relative advantage. As is discussed below, the current set of research subjects is such that several of the other variables are at least informally controlled for. With subjects who are all students in a management and technology masters program, the authors assumed that the communications channels, social system and extent of change agents' efforts will be at least somewhat similar across the group.

Therefore, adoption of Internet shopping will be subject to the same attributes as other innovations. To the extent that consumers perceive that it is compatible with their lifestyle and beliefs, understand it and perceive it as easy to learn, perceive that it offers high relative advantage, can try it easily, and can observe others' outcomes readily, then consumers will be more likely to shop on the Internet.

### **Methodology**

As noted above, when asked outright why they buy or not on the Internet, consumers' answers are often not particularly enlightening. For example, concerns about security on the Internet are well known. To get beyond standard answers, market researchers have developed qualitative techniques, such as, projective techniques (Schiffman and Kanuk 1994). Although not high technology and not subject to "proof" to high levels of significance, projective techniques have a long helped marketers understand the motives underlying consumer behavior. The rationale underlying projective techniques is that when asked to describe someone else's motivations or values, respondents will in fact reveal their own.

In this instance, the authors presented graduate management students with a written scenario about the purchase of a car. Fifty-nine scenarios were collected, of which 58 had usable data. Although this is a small convenience sample, this group is quite similar to the average "netizen" with regard to age, education, income and access (Crockett 1999, Ziff-Davis 1998). Also, in this study, the authors were seeking to identify avenues for deeper exploration rather than to draw definitive conclusions.

In the scenario below, one friend of the scenario's protagonist had used the Internet to buy a car while another had bought the same car at a local dealer. The respondent was then asked to write about what they would tell still another friend who was planning to buy the same car.

*Your friend Elaine has decided to buy a new car. She is interested in the same car that your friends Kathy and Jennifer both recently bought. As it happens, Kathy bought hers from the local dealer while Jennifer bought hers through an Internet car broker.*

*Elaine asks for your advice about how she should buy her car. What would you tell her?*

Respondents' recommendations to their friend should reveal as yet unarticulated reasons that consumers are willing or unwilling to buy products on the Internet. Similarly, analysis of these recommendations should begin to reveal consumers' perceptions about Internet shopping in general on the various innovation attributes.

Respondents were also asked to provide some demographic data (age, sex, job title) about themselves and about their computer and Internet access and experience. They were also asked whether they had ever bought something online and, if so, in what product categories.

The completed scenarios were read through and summarized. The summaries were reviewed to identify comments that recurred across the completed scenarios. The scenarios were then reread and coded for the presence of the various comments. A complete list of the comments identified as they were coded is given in [Table 1](#). They included both specific recommendations or statements made by respondents, such as, get price information from the Internet to use in negotiating with a local dealer. Also identified were broader issues, such as, concerns about trust or how transactions would be executed.

A categorization scheme for the scenarios was also developed. The completed scenarios fell into five broad groups, which are discussed in detail in the next section.

Since this is an exploratory study using a small convenience sample and qualitative techniques, the various statistical techniques were used only to uncover possible relationships. The current data do not support any definitive conclusions about causation.

### **Data Analysis**

A holistic reading of each response led to a categorization scheme with five groups. Members of Group 1 recommended using the Internet in particular to gather information to use in negotiating with the local dealer. As did other groups, this group gave lots of general car buying advice and expressed concerns about sources of service, inability to have a test drive and the loss of human interaction if a car is bought online. Group 2 recommended a wide range of information sources about cars and also gave general car buying advice. Although they made no explicit

recommendation about what to do with that information as did Group 1, this group did not support buying on the Internet. They expressed concerns about where to get service, where to get a test drive and about the loss of human contact generally when buying on the Internet. Group 3 recommended buying on the Internet if the price there is lower. Members of this group did express some concern about service and other dealer-related issues, but seemed to find the economics compelling. As did the members of other groups, many members of this group provided general car buying advice. Group 4 also found the economic issue of importance and recommended considering buying on the Internet if the price there is lower. They suggested using the Internet if a person felt comfortable with it. Many members of this group provided general car buying advice and expressed concerns about service and other dealer-related issues. Group 5, only 10% of respondents, said not to buy on the Internet. They were concerned about being sure about what they are getting: wanting to test drive and check the car out in person. They make no reference to sources of information like the Internet or *Consumer Reports*. They want to talk to a trusted dealer or get advice from a knowledgeable friend. They are also concerned about developing a relationship for after-sale service.

Although these groups are distinct, there are a number of issues that recur across all groups. These recurring issues reflect the fact that the car buying decision is complex for most people. While a car's primary function is to provide transportation, the social and psychological aspects of car ownership enter into most people's car selections.

Even if a consumer focuses only on the functional aspects of a car, the decision remains complex. Cost factors are critical for the vast majority of consumers, but even within a given price range, the consumer will have to decide about many different vehicle characteristics. The consumer must also try to find financing and an honest and reliable vendor. After the purchase, the consumer must be concerned about finding a source for vehicle maintenance. In short, even the consumer who focuses solely on the functional aspects of a vehicle, still has a complex decision to make.

The complexity of the task is reflected in the concerns noted by members of all groups. Even members of the groups that favor buying online note concerns about how to get service and test drives. Respondents in all groups noted the risk in buying something so expensive without having an opportunity to examine it in person. Several respondents also commented that a car was an emotional purchase, and as such, it would difficult to evaluate its appropriateness sight unseen, or without smelling that lovely new car aroma.

### **Group Stage in the Innovation-Decision Process**

The groups can be classified according to how they view the innovation's attributes and where they are on the Innovation-Decision Process. The results are summarized in [Tables 3](#) and [4](#).

Groups 1 and 2 are alike in that they suggest getting information before buying a car. Members of Group 1 focus on the Internet as an information source and explicitly recommend using that information in negotiations. Like Group 2, Group 1 still has concerns about actually buying a car online. Buying a car online is not yet compatible with their lifestyles and values. They seem to understand the process and have probably observed it, at least through the media. However, they are not yet convinced that the relative advantage either exists or would be sufficient to offset the risks associated with a trial purchase of a multi-thousand dollar product.

It is interesting to note that [Table 4](#) indicates that 40% of Group 1 and 64% of Group 2 have made an online purchase. This supports the idea that these people understand the online buying process at least from a general perspective and many have experienced its outcomes and advantages in other product categories. The variation between the groups in online buying experience suggests that Group 1 see the Internet primarily as an information source whereas Group 2 sees it as an important purchasing resource at least for some products. These two groups are forming an attitude toward online buying, putting them at the persuasion stage. At the moment it is a negative attitude.

Groups 3 and 4 are also similar, but they have decided that buying on the Internet should be seriously considered. More than 60% of respondents in these groups have made an online purchase, so they have at least a general understanding of how Internet buying works. Online buying in general, and cars in particular, is compatible with their lifestyles. They understand the relative advantages. Both groups have identified price as a critical advantage of buying on the Internet. Their willingness to consider online buying suggests that they have had some opportunity to observe others', whether within their own circle of friends and acquaintances or through the media, experiences buying a car on-

line. They have observed their own outcomes in other product categories. Saying, "buy online" suggests that these groups would not be intimidated by the prospect of making a trial Internet purchase of a multi-thousand dollar product.

It is interesting to note that Group 3, which says unequivocally to buy online if the price is lower, has less experience with online buying in other products categories than does Group 4 (buy online if the price is right and you're comfortable with it) and in some instances Group 2 (get lots of information, buy from the dealer). The only category in which Group 3 has more experience is clothing. Does this have to do with the non-functional aspects of buying in

these two product categories? Their comfort buying clothes online may reflect an ability to easily visualize how something will look on, or it may reflect a lack of concern with how it does look. Further research might reveal if this (the ability to handle issues of style) is a key distinction between Group 3 and Groups 2 and 4 who have more experience with products like computers and books which have a minimal style component. Why Group 2's greater online buying experience leads it to a negative attitude toward online car buying is another area for future research.

Both Groups 3 and 4 are at least at the decision stage. Since no one in either group indicates having bought a car online, both groups would be at the decision stage. Group 3 has decided to adopt the innovation. Group 4 has decided to adopt provisionally.

Group 5 clearly does not find buying online compatible with their lifestyle and values. Only a third of this group has made any kind of online purchase. While it might be argued that they have decided to reject online car buying, they don't really seem to understand how Internet buying might work. It is extremely unlikely that they have observed any others' outcomes. It will be difficult to convince them that the relative advantage of online buying offsets the high perceived risk of trying such a purchase. They are barely at the knowledge stage.

### **Conclusions**

Online shopping is like other innovations in that it is being adopted over time by an increasing number of segments of the population. While a (slim) majority of our respondents have bought something online, they remain leery of buying something as complex and expensive as a car online. On the other hand, the value of the Internet as a source of information for use in the car buying process is widely acknowledged by respondents.

The data suggest that there are three general groups or segments that car, or any other marketers, must address. First, there is a group that doesn't really understand the process of buying online or what advantages buying online may offer. It is simply not in accord with their view of themselves. To bring this group to online (car) buying, marketers will have to develop offers that have obvious advantages for the consumer. Marketers should prompt existing customers to act as opinion leaders. A friend's positive outcome is a powerful demonstration of the advantages of online buying and how it might fit into someone's lifestyle.

The group that will consider online buying for cars sees online (car) buying as compatible with their lifestyle and values and understands the advantages that online buying can provide. Most critical to getting them from positive decision to implementation will be reducing the perceived risk of a trial purchase. Online car merchants might look to direct marketers who reassure consumers with no questions asked money back guarantees.

The group that views the Internet as an excellent source of information provides perhaps the most critical challenge.

At least for information gathering, they find it compatible with their self-image. They have seen the many opportunities for buying online and may have purchased other product categories. They have probably heard about others' experiences. Still, something is keeping them from actually making an online car purchase. Something about cars seems incompatible with online purchasing. And, the price differential is not enough to offset the risks associated with making such a big purchase online. For this group reducing the risk of a trial purchase will be critical, but it may also be necessary to examine the compatibility issue further. In short, it may be necessary to examine the car buying process in general much more closely to understand how online buying might be made to conform to the more general pattern. It may also be helpful to do depth interviews with those who have bought cars online to examine in detail how they made the shift from the traditional approach. Are they strict functionalists who don't care about style and decided solely on the basis of cost and function, as the data suggest? Or, are they able to visualize themselves in a suggestcar so vividly that they need not enter a showroom? Finally, it is also necessary to begin to determine if the patterns uncovered here would apply to the population at large. Repeating this research with a broader sample population will be critical.

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**Table 1: Comments and Coding**

<i>Comments</i>	<i>Coded As</i>
Amount of information	AMTINFO
Credibility of information	CREDINFO
Need for human interaction in transactions	HUMAN
Product specific characteristics	PRODSPEC
Accuracy/reliability of execution of transaction	TRANSEXE
Trust	TRUST
Buyer competence	BUYERCOM
Cost factors	COSTS
Speak with Kathy and/or Jennifer	KJ
Get price information from the Internet	PRICENET
Use Internet (price) information to negotiate with dealer	NEGODEAL
Who provides service if you buy on Internet	SERV
Get information from advertising	GENLADV
Dealer has information	DEALINFO
Compare local dealer and Internet (price)	COMPARE
Use the Internet to gather information	INFONET
Buy from the dealer	BUYDEAL
If the price is better, consider buying on the Internet	BUYNET
Can you trust buying on this Internet?	TRUSTNET
Get information from <i>Consumer Reports</i> , etc.	CR
Dealer is more convenient	DEALCONV
Save money by buying on the Internet	SAVENET
Take a test drive	TESTDRIVE

**Table 2: The Five Groups**

Group	Size	Recommendation
1	20	Get information on the Internet and use it in negotiating with dealer
2	14	Where to get information; not explicit about what to do with that info
3	10	If the price is lower, buy online
4	11	If the price is lower, consider buying online, if you're comfortable
5	3	Don't buy online

**Table 3: Groups and the Attributes of the Innovation**

Group	Compatibility	Understand	Relative Advantage	Observes	
				Easy to Try	Others
1	No	Yes	Maybe	No	Maybe
2	No	Yes	Maybe	No	Maybe
3	Yes	Yes	Yes	Yes	Likely
4	Yes?	Yes	Yes	Yes?	Likely
5	No	No	No	No	No

**Table 4: Group Stage in the Innovation-Decision Model**

Group	Description	Stage	Percent Who Have Bought Online
1	Use Internet information in negotiation	Persuasion	40%
2	Get lots of information	Persuasion	64%
3	If price is lower, buy on Internet	Decision	60%
4	If price is lower, consider buying on Internet	Decision	70%
5	Too big and emotional, human interaction needed	Knowledge	33%

**Table 5: Group Online Buying Experience by Product Category**

Group	Computers	Stocks	Clothes	Food	Books	Appliances	Cars	Travel	Other
1	25%	15%	5%	10%	25%	0%	0%	20%	5%
2	36%	14%	36%	7%	43%	14%	7%	43%	14%
3	20%	20%	50%	0%	2%	0%	0%	30%	0%
4	27%	27%	36%	9%	36%	18%	0%	36%	9%
5	33%	0%	0%	0%	0%	0%	0%	0%	33%

## **Polychrons and Monochrons: How Do They Watch and Use Television**

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### **Abstract**

Project focus was to better understand the behavior of polychronic/monochronic consumers as they view and use television. Objectives were to develop and test a scale to measure this tendency and to develop a regression equation using television viewing and use behaviors to predict placement on the tendency scale. The Television Polychronic Attitude Index (TVPAI) was developed and tested ( $\text{Alpha} = 0.77$ ) and the exploratory regression equation explained 42 percent of the variance in TVPAI.

### **Introduction**

Does the individual who enjoys doing two or more activities at the same time and frequently changes from one activity to another in most situations "watch" television differently than his or her one-activity-at-a-time, stay-on-schedule counterpart? Do such people also "use" television differently? Further, what strategies and tactics should marketers employ to reach television viewers?

### **Polychronic/Monochronic Tendencies and Measurement**

Polychronic time use (polychronicity, p-time) occurs when an individual carries out two or more activities during the same "time block" or "clock block" (Bluedorn and Denhardt 1988; Hall 1959; Kaufman, Lane and Lindquist 1991a). Such behavior occurs in work, leisure, home, education, travel and other settings. Recognition of such behavior

is reflected in the development and design of products such as in-home computers with telephone receivers, microwave ovens and clothes dryers with signal devices to alert users that tasks are done, portable radios, CD players and phones allowing for use while people are engaged in other activities at different locations. People with a strong polychronic tendency are called "polychrons" and those at the other end of the spectrum are named "monochrons" (Kaufman-Scarborough and Lindquist 1999b). Polychrons do more than one thing at a time and enjoy it; they shift often from one activity to another in all types of situations and are more comfortable when interruptions occur than monochrons; they have a sense that they work better under pressure than monochrons; they also appear to feel they attain daily goals more often than monochrons (Kaufman, Lane and Lindquist 1991a; Kaufman, Lane and Lindquist 1991b; Kaufman-Scarborough and Lindquist 1999a; Slocombe and Bluedorn 1999). Monochrons generally do one thing at a time and prefer that behavior; they do not like to be interrupted; they enjoy following a schedule and planning things in advance though they report having a harder time than polychrons organizing the things they have to do; they do have a greater tendency to put things off until later than the polychrons; they report changing activities much less often than their polychronic peers and prefer to behave this way. The subjective or perceptual view of time is different for polychrons and monochrons. "Time structure" is a good area for comparison (Settle, Alreck and Glasheen 1972). The polychron sees time as continuous and smooth a flowing substance with a "take it as it comes" attitude. Monochrons, on the other hand view time primarily as a "discrete commodity" which is neatly packaged into units that are linear in relationship to one another. Hence time units, such as minutes, hours and days are more controlling for monochrons than for polychrons (Settle, Alreck and Glasheen 1972; Kaufman-Scarborough and Lindquist 1999b). These two time use patterns are singly neither "good" or "bad." At times one pattern is preferable to the other and people with either tendency may strengthen or weaken that tendency as they adjust.

Can people with these two tendencies be identified? Kaufman, Lane and Lindquist (1991a) proposed and preliminarily validated what was termed the "Polychronic Attitude Index (PAI)." This was a four item scale, using a five-point Likert-type approach. The items were: 1) "I do not like to juggle several activities at the same time.," 2) "People should not try to do many things at once.," 3) "When I sit down at my desk, I work on one project at a time." and 4) "I am comfortable doing several things at the same time." The Coefficient Alpha for the scale was 0.79. Polychronic tendency respondents were identifiable as were their monochronic peers. Later a successful attempt to improve the reliability of the scale by eliminating the "at my desk" item was done (Kaufman-Scarborough and Lindquist 1999a). Named "PAI3" its Coefficient Alpha was improvement to 0.82. Another approach to polychronic tendency

measurement, with particular focus in the workplace, was suggested and tested (Kaufman-Scarborough and Lindquist 1999b). A factor analysis followed by a step-wise regression procedure were used. Variables from the "F-A-S-T Scale" (Settle, Alreck and Glasheen 1972), the "Time Structure Questionnaire (TSQ)" (Bond and Feather 1988), the "PAI3" (Kaufman-Scarborough and Lindquist 1999b) and others were used. The objective was to construct a regression equation containing relevant independent variables to predict the PAI3 score. The resulting equation had a multiple correlation coefficient of 0.76 and an adjusted coefficient of determination of 0.542 meaning that 54.2 percent of the variance in PAI3 was explained. The independent variables and their meanings were: UPSET ("Changes in my schedule upset me."), FUN ("It is more fun to take one thing at a time than to plan my day in advance."), PLAN ("I like to plan my daily activities so I know when to do each thing."), PRESSURE ("I feel that I perform best under pressure."), HARDORG ("Sometimes I have a hard time organizing the things I have to do."), CHANGE ("I often change from one activity to another during the day."), RECHGOAL ("I reach the goals that I have planned each day.") and PUTOFF ("I put things off which can be done at a later time.").

### **Polychronic/Monochronic Tendencies and Television Viewing and Use/Media Gratification Findings**

If polychronic tendency carries over into television viewing and use the following would be expected: Polychrons: 1) would watch more than one program at time, 2) would switch channels more frequently than monochrons, 3) would not plan viewing schedule for the time allotted or farther out, 4) would not use formal viewing guides as much as monochrons, 5) would "zap" (switch channels) commercials, channels and programs more frequently than monochrons and 6) would more likely feel they reached their viewing goals for the time allotted than monochrons. Polychrons will also more likely engage in other activities while the television set is on and will not mind being interrupted while viewing. Monochrons: 1) would be more likely to watch one program at a time, 2) would not switch channels as frequently as polychrons, 3) would plan their viewing, 4) would be more likely to use formal viewing guides than polychrons, 5) would not "zap" as much as polychrons and 6) would feel they had not reached their personally set viewing goals. Monochrons will more likely not be doing other activities while watching television and will be more upset if interrupted while viewing. Considering gratification, audience media use has been found to be tied to a set of "psychosocial motives." These motives drive members of an audience to look for certain media and specific media content in a purposeful way. The purpose is to find choices that will help meet certain psychological needs (Blumler 1979; Katz, Blumler and Gurevitch 1974; Lin 1999). Polychronic and monochronic tendencies are reflective of particular psychological needs. Handling single or multiple content and paying varying levels of attention seems consistent with the gratification findings. Hence polychrons and monochrons are likely expressing needs through their media-related behavior. Rubin (1983) has stated that television viewing motives such as personal identity, entertainment, escape, surveillance and companionship have been tied in the literature to specific "channel-selection" and "viewing content" choices. Television being a "companion" to some people is also feasible.

### **Zappers': Television Viewing and Use Behaviors**

Television "zapping" is the changing of channels, typically using a remote control device, triggered by program content or advertising messages. "Grazing" occurs when a viewer moves from channel to channel on some sort of regular or irregular basis thereby "watching" a number of programs at the same time. A reevaluation may be occurring during program viewing that leads to such behaviors (Heeter and Greenberg 1985). Men "zap" more than women and younger adults (in their 30's) more than older adults (in mid 40's). Heeter and Greenberg (1985) found that Zappers: 1) are more likely to be people "of chance" than "of habit," 2) are less likely to watch the same shows on a regular basis, 3) are more likely to change channels before deciding what to watch, 4) check more channels before deciding what to watch, 5) are "channel checkers" from the time they turn the set on, 6) are less likely to watch a show from start to finish, 7) are more likely to watch and follow more than one show at a time and 8) can follow two story lines simultaneously and are more prone than others to do this if commercial break times are different for the two shows.

All of these findings point to zappers as being more polychronic than other television viewers. Further, zappers pay less attention, use it more than non zappers for background sound and, often have it on without sound. It's used as an accompaniment to other household activities. Finally, Heeter and Greenberg (1985) see a systematic set of behaviors among zappers that seem to fit together in their approach to viewing and use which is tied to a "broader orientation to television." Krugman, Cameron and White (1995) assert that those who watch the programming (more intently) are more likely to watch the commercials. Waldrop (1993) reported that during commercials less than 25 percent of television watchers stay in their seats, about 33 percent talk to others in the room rather than pay attention to the advertising, 25 percent switch to another channel and approximately 14 percent turn the sound down. Only 37

percent of those 60 and older leave the room versus about half of those under 30.

The objectives of this exploratory research project are 1) to develop and test a measure of polychronic tendency for people watching and using television and 2) to construct a regression equation whose independent variables are various television viewing and use behaviors that may predict which individuals have this tendency.

### **Methodology and Results**

Survey items were of the five-point Likert-type design and dealt with viewing and use behaviors, remote control use, ad viewing, etc. Items from the PAI3 Scale (Kaufman-Scarborough and Lindquist 1999a) were included. A systematic sampling procedure was used at locations near a university in the northeastern US. Ages ranged from 18 to 85. A total of 580 persons, approximately evenly divided between men and women participated. The number of usable instruments for the factor analysis was 448 and 462 for the step-wise regression. The data were factor analyzed and a preliminary eight-factor solution was found using a principle-components approach with Varimax rotation. This was an exploratory analysis to get feel for potentially contributing tv uses and behaviors. No attempt to achieve a more parsimonious solution was carried out and neither was a confirmatory factor analysis to refine the scales. A Television Polychronic Attitude Index (TVPAI) had been constructed with the three items from PAI3 and two that bore directly on polychronic viewing behavior. The solution explained 57 percent of the variance. The factors were: Factor 1 - Television PAI (as noted above), Factor 2 - Television as Companion, Factor 3 - Program Absorbed, Factor 4 - Commercial Avoidance, Factor 5 - Television Absorbed, Factor 6 - "Unnamed" (single variable, tv helps person relax and go to sleep), Factor 7 - "Unnamed" (two variables: tv shows without commercials are annoying ..., and use commercial time to do other tasks) and Factor 8 - "Unnamed" (single variable, prefer to watch tv when there is nothing else going on). Factors 6, 7 and 8 were not considered useful for further analysis as scale variables because they were either single items or had very low Alphas or both. Internal consistency reliability tests were run on the scale items combined for Factors 1 through 5. The Alphas and number of variables in parentheses were as follows: Factor 1 - 0.77 (5), Factor 2 - 0.66 (2), Factor 3 - 0.65 (3), Factor 4 - 0.46 (2), Factor 5 - 0.51 (2).

The five item television polychronic attitude index similar to the overall index of polychronicity (PAI3) shows an Alpha of 0.77. The items are: "I do not like to juggle several activities at the same time," "People should not try to do many things at once," "I am comfortable doing several things at the same time," "People should not try to do other things while watching television" and "I am comfortable watching television while doing several things at the same time." Factor 2, with Alpha of 0.66 consists of two items, "Sometimes I leave the television on to keep me company" and "I like to have the television on when I am doing things." This shows that television is likely used as a companion by certain members of the viewing public. This is a polychronic use of television. Factor 3, with Alpha of 0.65 has three

items, "You are viewing a show which you find particularly interesting. A commercial break occurs. You stay tuned to that station until the program resumes," "When I sit down to watch television, I watch one show at a time" and "As soon as I see a commercial, I zap to another channel to avoid it" (this was a -0.7 loading). These individuals tune to a

program and tend to stay with it. This is a monochronic way to watch television. The third item does not seem to fit well here. Factor 4, with Alpha of 0.46 has two items, "I tend to talk when the commercials come on" and "It is convenient to go to the bathroom when commercials come on." This avoidance of exposure to commercials on some peoples' part and then doing something else is polychronic behavior. Factor 5, with Alpha of 0.51 has two items, "I do not like to be bothered by phone calls when the television is on" and "I do not like to watch television shows which someone else has chosen." These respondents indicate absorption in television itself and responses do not point toward either monochronic or polychronic behavior. Other than Factor 1 the Alphas are too low. However, by adding additional variables in the future that bear on these dimensions stronger measures could likely be produced. Only those 18 items, in combination or singly, that loaded on the eight factors were included in the step-wise regression analysis. Factor 1, TVPAI, was accepted as a satisfactory overall measure of polychronic television viewing and use for this exploratory project. So it was designated the dependent variable. Factors 2, 3 and 5 each became independent scales with their two, three and two items, respectively, summed into three independent variables. Because the Alpha for Factor 4 was less than 0.5 it was not treated as a single scale variable. Its two variables and the individual variables from

Factors 6, 7 and 8 were put into the analysis as separate independents. The independent variables that entered the equation at each of the steps were as follows: Step 1 - WATCHONE, Step 2 - PROGABS, Step 3 - TVCOMP and Step 4 - DOELSE. The resulting regression equation had a multiple correlation coefficient of 0.6503. The adjusted coefficient of determination was 0.4179, meaning that approximately 41.8 percent of the variance in TVPAI was

explained by the equation.

$$\text{TVPAI} = 15.6284 - 0.4823 \text{ WATCHONE} - 0.3604 \text{ PROGABS} + 0.2395 \text{ TVCOMP} + 0.0961 \text{ DOELSE}$$

	DF	Sum of Squares	Mean Square
Regression	4	1108.905	277.226
Residual	457	1513.184	3.311

F = 83.726; significance of F = 0.000

The sign for WATCHONE, a monochronic tendency, is properly negative. The same can be said for PROGABS which is an indicator that people watch one show at a time and stay with it during commercials. The sign for TVCOMP where television is a companion is proper at "+". The positive sign for DOELSE also illustrates, a bit more weakly because of the low beta coefficient, the polychronic activity approach during commercials.

## Discussion

The results of this exploratory research project are encouraging. The first objective established was to develop and test a measure of television viewing and use that would identify individuals with polychronic (or monochronic) tendencies directly associated with this activity. The Television Polychronic Attitude Index does this with an internal consistency reliability value of 0.77. Certainly there is room for improvement. The scale could be lengthened and tests for additional or replacement relevant variables carried out to increase this value. The second objective was to develop a regression equation whose independent variables were television behaviors predictive of polychronic (or monochronic)

tendency. This was done. Improvement in variance explained by such an equation from the approximately 42 percent level found would be a worthy goal. However, the independent variables that surfaced are in line with expectations for

monochrons and polychrons when they watch and use television. Polychrons like to watch television while engaged in other activities and monochrons do not feel this way. Being absorbed in a single program was a predicted behavior for monochrons whereas polychrons will be switching from one program to another. Using television as a companion is a polychronic activity since he or she is likely to be engaged in something else while the television "acts as friend." Using commercial time to complete other tasks also is weakly polychronic. The question as to why zapping did not appear is not clear since three zapping-related items were offered to the respondents. The challenge for advertisers on

television is to capture those consumers who have stronger polychronic tendencies; a difficult task because of the level of moving around the television landscape that they engage in. Commercial blocking where the same ads are shown at the same time on a number of channels might help. However, the burden of reaching the polychron might better fall

on other media. Encouraging to advertisers is the fact that especially older consumers, seem to be more monochronic with respect to their television watching and use. Also, there is a pool of viewers who are monochronic in their television behavior and should be more easily reached. The distribution of individuals along the monochronic - polychronic television index scale in the study population it is near "normal" but slightly downward skewed. Close to

two-thirds of respondents were within plus or minus one standard deviation.

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## **Impact of Household Characteristics on Insurance Portfolios**

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### **Abstract**

This study examines the simultaneous relationships of age, income, number of earners, family size, and marital status with expenditures of life, home, health, and vehicle insurance. Married households with higher incomes purchased greater amounts of vehicle, home, and life insurance. Age had a positive relationship with health insurance for married and not married households but a negative relationship with vehicle insurance for married households. Number of earners was negatively related to health insurance for married households.

### **Introduction**

Household characteristics have changed drastically over the past forty years. Dual-income earning households, single parent households, having children later in life, fewer children and blended families are prevalent in today's society (US Bureau of the Census 1996). Changes in household characteristics are compelling forces that change household purchases, including insurance purchases. In choosing how much to spend on insurance, households must consider the different types of insurance. When families purchase insurance, they tend to purchase a portfolio of insurance types to fulfill their needs (Showers and Shotick 1994). Mayers and Smith (1983) note that households have asset portfolios which include insurance contracts. Families purchase one or more of these different types of insurance based on their needs which stem from their household characteristics (Hammond, Houston, and Melander 1967). However, the research has not examined the simultaneous influence of marital status and other household characteristics on the demand for various insurance products.

The purpose of this study is to examine the relationship between household characteristics and expenditures on four major types of insurance and accounting for marital status. This research extends the extant literature by analyzing the impact of changes in household characteristics on the purchase of different types of insurance simultaneously rather than individually or aggregated.

### **Household Insurance Demand**

Consumers fear the loss of their income stream, property or health that may be caused by a natural disaster, wrongful death, or accident. The impact of these unforeseen events depends upon household characteristics. Changes in household characteristics affect consumer risk aversion and subsequently, the need for different types of insurance (Murphy and Staples 1979). As household characteristics change, a family's aversion to risk changes. For example, an additional member to the family may tend to heighten the household's risk aversion. This can also be evidenced when risk averse consumers purchase additional types of insurance when they make an initial purchase (Mayers and Smith 1983). It appears that the purchase of one type of insurance may also be correlated with the purchase of other types.

The literature has addressed issues about the forces that affect expenditures of insurance. A major force influencing purchases is household characteristics. Household characteristics, such as family size, stage of family life cycle, family income, and marital status are important variables in studying consumer behavior. Hammond, Houston and Melander (1967) and Burnett and Palmer (1994) found significant positive relationships between the amount of expenditures on life insurance and income, number of children, age, and net worth holdings. Duker (1969) found that single-earner households spent more on life insurance than dual-earner households, whereas Showers and Shotick (1994) found that the number of earners in a household was positively related to expenditures for all insurance premiums. The difference in results implies that there may be an interrelated effect that influenced households to insure the second income earner's life.

These studies isolate specific household characteristics to see how they impact insurance expenditures. There are no empirical studies on the interdependent nature of several household characteristics simultaneously influencing demand for different types of insurance. This research fills that void by providing empirical evidence of Mayers and Smith's (1983) portfolio insurance theory and extends the literature on influences on insurance expenditures by considering interdependent relationships between these household characteristics and demands for auto, health, homeowners, and life insurance

## Method

As Showers and Shotick (1994) indicated, insurance is purchased as a compilation of different types of insurance rather than as independent items. To examine the interrelationship of the different types of insurance, the dependent variable is the set of premiums for the four major types of personal insurance that a household would purchase to reduce risk of financial loss. These consist of life, health, home, and vehicle insurance. The independent variables consist of income, number of earners, family size, and age of the head of the household. These variables are useful to insurance agents because they can be easily identified and measured, thus making the results of this study beneficial to the insurance practitioner.

Past research found that family size has a positive influence on life insurance expenditures (Hammond, Houston, and Melander 1967). It is uncertain, however, if this relationship exists between family size and other types of insurance. It would seem apparent that expenditures for health insurance would also be positively related to family size; and vehicle insurance and home insurance may also be correlated with family size. Age of the head of household has been found to be significantly related to the purchase of insurance. Based on Showers and Shotick (1994) approach of aggregating insurance purchases, age was positively related to expenditures for insurance. As the head of the household ages, the need for health insurance and life insurance would increase. However, it is not known how age will impact vehicle or home insurance.

The data used for this study were obtained from the Consumer Expenditure Survey (CES) 1995. Only those respondents who reported insurance expenditures during the one year period in which the CES gathered the data were included in the analysis. This procedure resulted in a sample size of 1750, representing 76% of the total survey respondents. The sample was divided based on marital status as suggested by findings of Childers and Ferrell (1981) and Skinner and Dubinsky (1984), resulting in 1069 married households and 681 not married households.

One approach to exploring the simultaneous impacts of household characteristics on expenditures for different types of insurance involves canonical correlation analysis. This statistical technique calculates weights for two sets of variables so the resulting linear combinations of the two functions have the highest possible correlation with another (Dunteman 1984). Canonical correlation identifies the interrelationships among one set of variables (expenditures for types of insurance) and a second set of variables (household characteristics).

## Results

The descriptive statistics are displayed in [Table 1](#). The average annual income for the married households is almost twice that of not married households. Average annual expenditures by married households for each of the four different types of insurance were nearly double that of not married households. However, married households spent nearly three times what not married households spent on life insurance. The highest expenditure was for health insurance for both married and not married households.

The results of the canonical correlation test are found in [Table 2](#). Using a Chi-square test based on a Bartlett (1947) transformation, the four canonical variates were significantly different from zero at the .05 significance level. This would suggest that changes in any of the independent variables affect the amount of insurance purchased for all four types of insurance and that expenditures for one type of insurance may influence expenditures for the other types.

### Married households

Referring to function  $Z_1$  for the married group, all dependent and independent variables are positively correlated with one another. This would suggest that increases in age, family size number of earners, or income will increase expenditures on any of the four types of insurance. Similarly, there is a strong likelihood that if a household increased its expenditures on one type of insurance, it would spend more on the other types of insurance. The hypothesized positive relationship between income and all types of insurance was evidenced in these results. Income had the highest coefficient implying that it has the strongest correlation with expenditures for insurance, but particularly for vehicle, home and life insurance. Higher income allows for greater consumption of normal goods, such as cars and houses. More expensive items require higher insurance premiums for replacement in times of disaster. So not only do consumers buy more insurance because they can afford to do so, they must pay higher premiums to protect the loss of more valuable property.

For the second function on the married group,  $Z_2$ , a different pattern exists. Family size, number of earners, and income have positive signs on their coefficients. Age, on the other hand, has a negative sign and has the largest coefficient value. Of the dependent insurance variables, health, home, and life insurance have negative signs, with

health having the greatest coefficient. This condition would suggest that married households, who were growing older, would spend more on health insurance than other types of insurance. For this aging group, health insurance had the greatest coefficient which would confirm the notion that older households are concerned with increasing health care costs. The older, married households spent less on vehicle insurance. This situation is in accordance with the hypothesized negative relationship between age and vehicle. As people in households grow older, they may incur sight impairment or other physical limitations that may prevent them from driving, thus influencing them to own fewer cars or not at all. Number of earners has a strong, negative relationship with health insurance, but positive with vehicle insurance for married households. This would suggest that more households are acquiring health insurance for their family members through their own employment rather than exclusively from the primary income-earner in the household.

### **Not Married Households**

The first function on the not married group,  $Z_3$ , is similar to the married group in that all variables, except age, carry a positive sign and income has the largest coefficient for the independent variables. Vehicle and home have the greatest coefficient for the different types of insurance. This suggests that higher income levels, regardless of marital status, influence consumers to buy insurance to protect their vehicles and homes. However, life insurance had a strong positive relationship with income for married households but a weak relationship for the not married households. Due to few or no dependents, not married households may not purchase more life insurance when their income level increases.

The results for the second function for the not married group,  $Z_4$ , is similar to the second function for the married group in that age has the largest coefficient of the independent variables. Again, health insurance had the greatest coefficient value and is positively correlated with age. This supports the idea that health is the major concern to those households who do not have a spouse. The issue over health insurance for mature Americans has been debated for several years. As the concern over Medicare funding continues, policymakers must consider the effect on the growing population of older households.

### **Conclusions**

Niche marketing is an important strategy for any business, including the insurance industry. By identifying specific needs of customers, insurance agents can tailor a portfolio of insurance coverage just right for that household. When households evaluate their need for health, life, vehicle, and home insurance, household characteristics of age, family size, number of earners, and income significantly influence expenditures for the different types of insurance. They also recognize that there are trade-offs regarding the allocation of income to various types of insurance. Although both groups purchase more life insurance at the higher income level, insurance agents need to be sensitive to married households' concern for vehicle, home and life insurance and not married households' emphasis on vehicle and home insurance.

Income was found to be the highest correlated independent variable to all the insurance types. Married households with higher incomes are more likely to purchase greater amounts of vehicle, home and life insurance than lower income households. Not married households with higher incomes spent more on vehicle and home insurance than lower income households, but not necessarily on life. Although both groups purchase more life insurance at the higher income level, insurance agents need to be sensitive to married households' concern for vehicle, home and life insurance and not married households' emphasis on vehicle and home insurance.

Age was found to be strongly correlated with the insurance types on the second function for both groups. A weak negative relationship exists between age and expenditures for vehicle insurance for not married households, but this relationship was much stronger for the married group. For both groups, age was positively correlated with health insurance. One prime targeted segment of the population is the aging baby boomers. It can be conjectured that as the head of the household grows older, the household may be willing to spend more on health insurance due to sophisticated medical treatment that allows patients to live longer. Therefore, the insurance agent should suggest an insurance portfolio that maximizes vehicle and life coverage for young households, but minimizes expenditures for vehicle and life insurance and maximizes health insurance for aging households.

Finally, multiple earner households are more likely to spend money for vehicle insurance but less for health insurance than single earner households for married households. This implies that multiple earner households may receive health insurance from their employers. If employers reduce their health care coverage, as many are choosing to do, this segment of the population will be in need of additional health insurance. Insurance agents need to be aware

insurance portfolio that maximizes vehicle and life coverage for young households, but minimizes expenditures for vehicle and life insurance and maximizes health insurance for aging households.

Finally, multiple earner households are more likely to spend money for vehicle insurance but less for health insurance than single earner households for married households. This implies that multiple earner households may receive health insurance from their employers. If employers reduce their health care coverage, as many are choosing to do, this segment of the population will be in need of additional health insurance. Insurance agents need to be aware of which companies are opting to reduce their health insurance coverage and provide affordable health insurance to the employees of those companies.

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**Table 1**  
**Descriptive Statistics of Household Characteristics and Expenditures on Insurance by Marital Status**

Variables	Married Households		Not Married Households	
	Means	Standard Deviations	Means	Standard Deviations
AGE	48.86	15.32	51.25	18.88
NUMBER OF EARNERS	1.69	1.02	0.90	0.82
FAMILY SIZE	3.23	1.36	1.76	1.27
INCOME	\$39,092	\$24,797	\$20,756	\$13,378
HOME EXPENDITURES <sup>1</sup>	\$319.89	\$529.42	\$171.47	\$298.32
HEALTH EXPENDITURES <sup>1</sup>	\$1155.63	\$1183.24	\$665.69	\$780.67
LIFE EXPENDITURES <sup>1</sup>	\$577.66	\$1148.06	\$174.55	\$389.04
VEHICLE EXPENDITURES <sup>1</sup>	\$952.74	\$873.70	\$503.30	\$578.17
Sample size	1069		681	

<sup>1</sup>T-tests for differences for insurance expenditures between married and not married households were statistically significant at the .01 level.

**Table 2**  
**Canonical correlation results for the insurance expenditure model by marital status**

Insurance types	Married Households		Not Married Households	
	Z <sub>1</sub>	Z <sub>2</sub>	Z <sub>3</sub>	Z <sub>4</sub>
HOME	.639	-.226	.519	-.376
VEHICLE	.689	.492	.888	.084
HEALTH	.208	-.788	.014	-.948
LIFE	.594	-.107	.380	-.070
<b>Household Characteristics</b>	V <sub>1</sub>	V <sub>2</sub>	V <sub>1</sub>	V <sub>2</sub>
AGE	.009	-.866	-.382	-.910
FAMILY SIZE	.152	.432	.362	.166
NUMBER OF EARNERS	.428	.780	.676	.336
INCOME	.955	.125	.975	-.102
r <sub>Z<sub>i</sub>V<sub>i</sub></sub>	.303	.187	.355	.301

## Breakdowns in Ad Agency/charity Client Relationships: an Agency Perspective

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### Abstract

Executives in 121 UK advertising agencies completed mail questionnaires designed to explore their attitudes and behaviour towards charity sector clients. Two major clusters of agencies emerged: those exhibiting a commercial approach to the management of charity accounts, and those displaying a more philanthropic orientation.

### Introduction

The collapse of a relationship between an advertising agency and a client imposes substantial costs on both parties (Buchanan and Michell 1991; Griffin *et al.* 1998; Murphy and Maynard 1996). Financial losses accrue to the agency, while the client incurs the expense and inconvenience of having to search for, induct, and develop an affinity with a fresh partner. Moreover there exists the possibility that the client's current campaigns will be disrupted while the changeover takes place. Michell, Cataquet and Hague (1992), Durden, Orsman and Michell (1997), Griffin *et al.* (1998) and others have suggested that the main factors in relationship breakdown concern client dissatisfaction with agency performance, redeployments of management personnel within the partner firms, and shifts in client or agency policies. Particular difficulties seemingly arise *vis-à-vis* poor client perceptions of an agency's creative competence, concerns over the calibre of the advice given on campaign planning, allegations of unfair charging, lack of teamwork and feelings that an agency is "too distant" from the client's business. This paper examines the question of whether similar variables contribute to problems in relationships between advertising agencies and their *non-profit* (charity) as opposed to their conventional commercial clients.

Such matters have been explored from the charity viewpoint (see Bennett 1998 and 1999) though not from the agency perspective. As regards charities' perceptions of advertising agencies, Bennett's (1998) survey of marketing managers in 103 medium-sized UK charities revealed that some, but not all, of the factors known to influence interactions between agencies and their business clients were equally relevant to agency dealings with charities. The strongest determinants of charities' levels of satisfaction with their agencies were agency competence at media planning and the creative design of advertisements, trust in the agency, and the agency's willingness to work as a member of a team. Agency experience of the charity sector and empathy with charitable aims, ideals and philosophies were highly valued qualities, although they did not significantly affect agency termination decisions. On the other hand, assistance with market research and public relations and the capacity to offer extensive ancillary services (issues known to be extremely important in commercial settings) did not exert substantial influence. Decisions by charities to terminate their agencies' contracts were found (see Bennett 1999) to depend crucially on dissatisfaction with agencies' creative inputs and on the failure of agency-inspired advertisements to generate additional income. "Market-orientated" charities appeared more likely to switch their agencies within a given period than others, especially charities which benchmarked and experimented with promotional activities and whose marketing personnel exerted a heavy influence on the charity's organisation and management. The current work extends this prior research *via* an empirical study of sources of friction in relationships between advertising agencies and their charity clients, as seen from the agency point of view.

A major objective of the work was to assess whether agencies applied different criteria to the management of charity accounts compared to those of commercial clients; specifically whether agencies adopted a philanthropic approach to their dealings with charities. Philanthropic orientations are characterised by the absence of any expectation of financial reward. Activities are undertaken in order to do good and to create a better world, irrespective of pecuniary factors. Such motives might be triggered by individual executives' feelings of sympathy towards certain good causes, in conjunction with the belief that the use of the firm's resources for philanthropic purposes will provide genuine relief (Betancourt 1990). Indeed, philanthropic behaviour might even cause managers to feel good personally, i.e., to experience a sense of calmness and enhanced self-worth (Williamson and Clark 1989). Arguably, an advertising agency's overt association with a charity client represents a useful publicity device with consequent benefits for the agency. The association might endow the agency's image with qualities that are difficult to acquire by other means: moral credibility, benevolence, compassion and social responsibility. Moreover, the knowledge that the

agency is engaging in philanthropic activity could improve employee morale, motivation and commitment to the agency.

### Research Method

In order to investigate these matters a mail questionnaire was developed consequent to (i) a review of the academic literature in the fields of agency-client relationships, charity marketing and corporate philanthropy, and (ii) discussions with two senior executives in two large advertising agencies serving charity clients. The sampling frame for the investigation comprised all 417 agencies listed in the 1999 edition of the *Advertisers' Annual* (Hollis Ltd.) as having an interest in the non-profit sector. After a follow up, 121 completed questionnaires were returned (29% of the total sampling frame). The questionnaire itself comprised five main sections, the first of which concerned possible criticisms of charity clients (cf. Marchand and Lavoie 1998) scored using a 5-point scale: 5 = strongly agree; 1 = strongly disagree. This was followed by a section on the supposed benefits of servicing charity clients and a third section about attitudes towards and management of charity accounts. Items for the second section were derived from the corporate philanthropy literature (see Bennett 1997 for details). Section 3 items were based on a review of literature in the general charity marketing field. The fourth section (which was adapted from previous studies concerning relationship problems involving agencies and their *commercial* clients) explored possible sources of friction and conflict between agencies and charities (5 = very frequently causes friction; 1 = never causes friction). The final section enquired about agency size, functions, and experience of and involvement with the charity sector. Means and standard deviations were calculated for each questionnaire item and the responses then subjected to a cluster analysis using agencies' self-reported philanthropic and commercial orientations towards charity clients as the discriminating variables. This enabled the categorisation of agencies into groups exhibiting (i) high philanthropic tendency in conjunction with low concern for bottom-line considerations, (ii) the reverse situation, and (iii) various intermediate positions. Clusters were obtained using the K-Means Cluster facility available on SPSS. (The latter is a non-hierarchical technique with the advantage of computing Euclidean distances between groups rather than all pairs of cases.) Various numbers of clusters were prespecified iteratively and the outcomes compared.

### Results

Two-thirds of the sample firms employed more than 50 people; 35% were specialist agencies. Fifteen per cent of the respondents stated that charities represented a major source of business; 40% that charities were a "useful but not major" source; and 45% that they were a minor source of business. Similar proportions applied to whether the sample agencies had "extensive", "some", or "little" experience of the charity sector. Respondent agencies were clustered according to their levels of "commercial" as opposed to "philanthropic" orientation. These constructs were measured as composites of an agency's replies to relevant questionnaire items ( $R=0.88$  and  $0.89$  respectively). A 3-cluster model generated the best outcome ( $F[2, 118] = 11.4$  for the philanthropic orientation composite and  $9.77$  for the commercial orientation composite,  $p < .000$ ). Cluster 1 ( $N=57$ ) comprised agencies that were relatively high on commercial orientation and low on philanthropic orientation. The reverse situation applied to the second cluster ( $N=44$ ). Cluster 3 contained 20 agencies occupying an intermediate position. It emerged that commercially orientated agencies believed that servicing charity clients (i) created opportunities for promoting the agency, and (ii) encouraged loyalty among non-charity clients, to a significantly greater extent than philanthropically orientated agencies. Also they expected charity accounts to make clear and definite contributions to profits, and applied the same objectives to charity as to commercial accounts. Agencies in all three clusters saw charities as not wanting to spend money on pretesting or evaluating campaigns, as being less commercially astute than businesses, and as not recognising that agencies have to earn a living. Also they claimed that charities expect agencies to be very knowledgeable about a charity's operations. These findings parallel those of Marchand and Lavoie's (1998) study of non-profit clients in Canada. There was however a general recognition of the positive benefits of servicing charity accounts. Accordingly, the nine items of Section 2 were composited (Cronbach's  $\alpha = 0.89$ ) into a single "benefits" variable for use in subsequent analysis. Major sources of friction and conflict between agencies and charities, as seen from the agency perspective, involved (i) disagreements over the creative design of advertisements, (ii) disagreements over campaign or media planning and campaign objectives, (iii) communications problems, (iv) changes in personnel, and (v) client concerns that advertisements are not generating extra income.

**Table 1** displays the results of a multinomial logistic regression designed to classify agencies into the three categories defined by a questionnaire item “has experienced many/some/few problems with charity clients”. (The reference category for the dependent variable was “has experienced some problems”). A stepwise procedure was used to select independent variables. It can be seen from **Table 1** that six variables significantly contributed to the classification of agencies into groupings for those experiencing “very few” problems with charity clients (N=66) and those reporting “many” problems (N=21). Hence, for example, the odds that an agency will have reported experiencing many problems (relative to experiencing “some” problems) increase by 2.49 times for each increment in the (5-point) perception that charities are loath to spend money on pre-testing or campaign evaluation. This same variable exerts a significantly negative effect on the odds that a charity will have experienced few problems (relative to some problems). (Odds ratios below unity in a polytomous multiple regression indicate inverse relationships, i.e., reductions in the odds that an outcome will occur.) Three variables significantly reduced the odds of an agency experiencing many problems with charities, while increasing the odds of it having few problems: the establishment of separate arrangements for managing charity accounts; agency executives’ feelings of a moral obligation towards the charity sector; and the agency’s experience of the charity sector. The reverse situation applied *vis-à-vis* reported disagreements concerning creativity and campaign or media planning.

Next a least-squares regression was run to predict agencies’ overall levels of satisfaction with their relationships with charities. The same exploratory stepwise procedure as was used for the logistic regression was adopted to determine the independent variables. It emerged that relationship satisfaction depended positively and significantly on (i) the perception that servicing charity accounts was accompanied by many practical benefits, and (ii) the provision of separate arrangements for managing charity accounts. Significant negative influences arose from disagreements over campaign or media planning; from charity complaints that advertisements were not generating additional income, and from perceptions that charities demanded more assistance than did commercial clients and that they sometimes forgot that agencies need to earn a living.

### Conclusion

There was a clear distinction between agencies which adopted a philanthropic approach to the servicing of charity clients and those which applied a more commercial approach. Agencies in the former group gave favourable treatment to charity accounts, had lower expectations that the latter would contribute to profits, and specified different objectives for the accounts of charity clients. They also tended to have separate arrangements for the management of charity accounts. The provision of separate arrangements was moreover a highly significant predictor of both overall agency satisfaction with charity client relationships and the probability that few problems would be experienced when servicing charity clients. Relationship satisfaction also depended on the perceived level of benefits obtained from holding charity accounts, and from clients’ recognition of (i) the agency’s need to earn a profit and (ii) the value of its contributions to campaign and media planning. Agencies reporting that they had experienced many problems with charity clients were mainly those with little experience of the charity sector, which argued with clients over creativity and campaign planning, and which regarded charities as reluctant to spend on advertisement pre-testing and campaign evaluation.

Four main implications emerge from the study. Firstly, there is an obvious need for agencies to clarify *in detail* their roles and responsibilities *vis-à-vis* the creative design of advertisements and the development of campaign strategies. Potential problems and pitfalls must be specified at the beginning of a relationship. The fact that possibilities for fresh income generation could be limited have to be made clear from the outset. Secondly, the finding that many agencies encounter substantial problems when seeking to communicate with charity personnel suggests that charity organisation structures may not be conducive to easy and effective interactions with the commercial sector. It follows that carefully defined communication routes and the precise specification of contact points are necessary. Thirdly, agencies’ complaints that charities are reluctant to spend money on pre-testing and evaluation and that charity advertising budgets are inadequate imply the failure of agencies to recognise that charity advertising budgets are frequently constrained as much by internal politics as by financial considerations. Hence, agencies need to accept that charity marketing managers may well be under extreme pressure from non-marketing colleagues not to be seen to be spending too much on advertising. Finally (and critically) the finding that agencies with separate arrangements for handling charity accounts enjoyed greater relationship satisfaction and had fewer problems with charity clients than others. This suggests strongly that *any* agency seriously interested in developing charity-sector business should earnestly consider this option.

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**TABLE 1: MULTINOMIAL LOGISTIC REGRESSION**

**Dependent variable: This agency has experienced many/some/few problems with charity clients**

Independent Variables		Many Problems		Few Problems	
		Odds	P	Odds	P
(a)	Perception that charity clients do not want to spend money on advertisement pre-testing or campaign evaluation	2.49	0.03	0.92	0.03
(b)	Feelings of moral obligation to charity clients	0.96	0.05	1.28	0.05
(c)	Separate arrangements to manage charity accounts	0.92	0.02	6.36	0.001
(d)	Disagreements over the creative design of advertisements	3.15	0.02	1.05	0.41
(e)	Disagreements over campaign or media planning	3.09	0.02	1.01	0.58
(f)	Experience of the charity sector	0.88	0.001	3.77	0.001

Pearson Model Chi-square (6df) = 32.48,  $p < .001$ . Cox and Snell statistic = 0.633.  
 - 2LL ratio = 106.91. Nagel Kerke R-square = 0.852

**TABLE 2: REGRESSION TO PREDICT OVERALL RELATIONSHIP SATISFACTION**

Independent Variables		Beta
(a)	Benefits composite (questionnaire section 2)	0.612 (3.147)**
(b)	Perception that charity clients tend to forget that agencies are businesses that need to earn a living	-0.109 (2.012)*
(c)	Experience of the charity sector	0.388 (1.747)
(d)	Perception that charities demand more help and advice than commercial clients	-0.123 (2.094)*
(e)	Separate arrangements to manage charity accounts	0.544 (3.929)**
(f)	Charity concerns that advertisements are not generating additional income	-0.102 (1.989)*
(g)	Disagreements over campaign or media planning	-0.346 (2.981)*
Regression correlation coefficient = 0.687		

T- values in parentheses

\* indicates significance at the 0.05 level.

\*\* indicates significance at the 0.005 level.

# **Integrating Social And Economic Orientated Marketing: a Study of Retail Management**

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## **Abstract**

This paper argues that social marketing initiatives in retailing need to be part of the institutional orientation of the firm, focused on a product familiar to both employees and consumers and integrated with human resource management practices of the firm in order to provide a distinct competitive advantage.

## **Introduction**

The integration of a social marketing dimension within traditional marketing strategies is promoted in the academic (e.g. Brown and Dacin, 1997; Handelman and Arnold, 1999) and professional (e.g. Khan, 1998; Adkins, 1999) press as both a sound business strategy and a socially desirable form of aligning private with public interests (Smith, 1994). Many companies, however, become involved in cause-related marketing without a clear vision of what the program should accomplish (Lorge, 1998), how it links with their core business and image, and how it impacts on their customers and employees.

Organizations are now aware of the beneficial outcomes that effective social marketing can deliver. Evidence exists to support the observation that the socially oriented organization, together with its products, will be held in higher regard by consumers (Brown and Dacin, 1997) and employees. Projected results of a recent survey of US consumers indicate that, when there is no price difference, up to 130 million Americans are likely to switch to a retailer associated with a good cause and be loyal to that brand (Fox, 1999). In the UK, the results of consumer surveys were similar: "61% agreed that they would change retail outlet for the same reason" (Adkins, 1999: 21). A firm's involvement with its local communities and their problems and activities is often considered an important part of its overall function by both customers and employees (Lorge, 1998). It has been argued that "employees don't want to work for companies which have no social conscience" (Parkel, 1991) and that a demonstrated humanistic orientation can improve employee retention (Lorge, 1998). There is, indeed, strong empirical evidence that employees' 'moral comfort', the feeling that their organisational environment is in accord with their sense of right and wrong, is positively related to job satisfaction and increased length of service in the organisation (Zarkada-Fraser and Skitmore, 1997; Fraser, 1999). In the Cone/Roper Cause Related Trends Report it is reported that, in the United States approximately 90 percent of employees who work for companies involved with a cause feel proud of their company's values and have a strong sense of loyalty to their companies (Fox, 1999).

This paper considers three key aspects to social marketing in the retail environment. First, the institutional orientation of the organization is examined under the light of corporate social responsibility principles. Then, the interface between core performative actions and institutional actions as it is demonstrated through the successful focusing of the social marketing program on existing, and familiar to consumers and employees, product ranges is examined. Finally, the significant human resource management issues pertaining to successful social marketing are discussed. Case studies of Australian retailers' programs are used to illustrate the application of theoretical constructs to the analysis of firm level behaviors. A new type of organisation, a socially integrated one, is proposed as the corporate model of the future.

## **Institutional Orientation**

Institutional theory posits that within a given socially constructed value and belief system, a firm will seek legitimisation through actions that are perceived as proper and desirable (Suchman, 1995). Using its resources and engaging in profit generating activities in compliance with rules and regulations (Friedman, 1982) the firm achieves pragmatic legitimacy (Suchman, 1995; Handelman and Arnold, 1999). Even though it has been argued that functional legitimacy is the only requirement that should be placed on corporations (Fieser, 1996; Danley, 1998), not many authors in the business and society field would agree to that. Experimental results have demonstrated that there is a minimum acceptable level of 'institutional actions', which include socially orientated marketing and are targeted towards creating social legitimacy for the organisation, that stakeholders expect from firms. When the institutional performance falls below this level, then the effectiveness of the firm's performative actions, their task and economic-

oriented ones, is hindered significantly (Handelman and Arnold, 1999). The achievement of social or moral legitimacy involves compliance with the higher standards of regional or supra national bodies (Wartick and Wood, 1998), adherence to ethical principles and returning something back to the community the firm operates in (Wood, 1991).

In the ethical domain, a number of food retailers, for example, have addressed the issue of product safety by imposing handling and processing standards higher than those required by law. McDonald's, the fast food chain, claim on their web-site that not only their own, but their suppliers' standards exceed government requirements. Franklins, a discount supermarket chain, have implemented independently accredited Hazard Analysis and Critical Control Point based Food Safety Plans and part of their web-site dedicate to instructions on safe shopping. Their policies can be seen as institutional actions, but are strictly directed at firm level, internal operations. Interested parties can easily access information about them, but the firms are not really addressing any social issue; they are just protecting themselves from the possibility of being held accountable for food borne illness their customers might suffer.

McDonalds, even though not required by law, have produced a little card and a page on their web-site that provides dietary information on everything they sell. The cards are not prominently displayed in the store, and the web-page is difficult to navigate. Moreover, they provide no interpretation of the information, for example they do not show what percentage of a child's daily fat intake is covered by a McDonalds meal, or what the health implications of a high sugar content in soft drinks are. In terms of achieving some level of moral legitimacy, these policies represent minimum commitment in the sense that the company is taking a step further than what they are legally required to do and is showing respect for the moral principle of honesty and consumer access to information. It is not however assuming any responsibility for the use of their products and is not getting involved in addressing some of the problems they might be creating or contributing to.

Most major retailers in Australia are trying to show their discretionary citizenship by donating money or organising activities that generate profits, part of which are returned to their communities. There are numerous examples of such activities: Red Rooster, a fast food chain, raise money for the Muscular Dystrophy Association; Officeworks, an office supply chain, donates money and ruffles presents to kindergartens, schools, Rotary and Lions clubs; most retailers participate in the Red Nose Day appeal (SIDS) or the Daffodil Day (cancer research). Supporting local sports clubs is also a common form of involvement. All these programs and activities are aiming at creating a level of social legitimacy and they conform to philanthropic models of involvement. A higher order principle (for a discussion of the relationship between the three principles see Wood, 1991:702) is the assumption of public responsibility for the use of the products sold by the firm in the ethical domain, and the investment of firm resources into addressing social problems related to the firm's involvement with society in the discretionary citizenship domain (Wood, 1991).

Food retailers, for example, are assuming some responsibility for educating end-users on the best utilization of their products. Woolworths, the supermarket chain, have a major part of their web-site dedicated to food safety, instructions of handling and cooking food and dietary advise. They also distribute recipe and information leaflets. Their involvement ends with the provision of information and advice. They do not actively pursue a strategy of behaviour modification – changing consumer habits that could be detrimental to their health and safety.

K-Mart voluntarily assume "responsibility to contribute to the community" (quotes from their web-site). They support nine different charities, four of which can be seen as related to their core business in various degrees. They sell badges, flowers or calendars to raise money for a children's hospital, cancer research or grief counselling services for parents that have lost a baby, for example. They also run programs that are aligned with their performative activities, such as the Wishing Tree - through which customers can select a needy person to buy a Christmas gift for - or the 'Tiny Trolleys' - where parents donate money that goes to various local community groups every time their children use a small shopping cart in the store. Using the firm's resources in a manner aligned to their general function or characteristic aspects of their operations can be seen as lying in the discretionary domain, under the public responsibility principle.

All the examples used above, illustrate the observation that in the retailing world, the public responsibility principle is partially addressed. Some effort is directed towards addressing and sometimes "helping to solve problems and social issues related to their business operations" (Wood, 1991: 697). Not much, however is being done to assume the responsibility of "solving problems that they have caused" (Wood, 1991: 697). For certain industries, like mining or manufacturing, the problems they cause are clearly identifiable and some times more visible than their contributions to society through demonstrations of functional legitimacy in the economic or legal domains. In the case of retailing,

however, the lines of responsibility can be interpreted as blurred. Can Australian supermarkets be held responsible for heart disease resulting from high fat intake in one's diet or smoking-related cancer just because they sell butter, sausages and cigarettes?

### **Interface of Institutional And Performative Actions**

The managerial discretion principle requires that the principal moral agents in the firm, the individual managers, exercise their discretion in ways that make sound business sense whilst being socially responsible. The principle has been articulated as not just providing but targeting product information to encourage specific positive behaviours from consumers, in the ethical domain, and charitable activities that "pay off in problem solving" in the discretionary one (Wood, 1991: 710).

In Australia, Coles supermarkets have been strongly promoting the "7-a-day campaign". Their core business being food retailing, Coles are, in partnership with the Dietitians Association of Australia, promoting "eating better and living better". The initiative is not aimed at raising funds for charity; instead it is targeting a major social problem, poor nutrition and its associated health risks, at its root, the family grocery shopping habits. The supermarket chain is actively promoting a significant change in consumer behaviour by encouraging its customers to eat 7 serves of fruit and vegetables a day. The campaign includes large point-of-sale displays, reminders on the brochures that are regularly distributed to households, recipe and dietary information leaflets next to the product lines. Whilst they have not discontinued product lines that might prove harmful when consumed in large quantities, the main promotional thrust in the shops is targeted towards fruits and vegetables which are intensively promoted as good choices for snacks and quick and easy to prepare meals or additions to school lunch-boxes.

When a firm demonstrates a "sincere, long-term commitment that is aligned with its objectives" then it is more likely to enjoy increased volume of sales or brand recognition (Lorge, 1998: 72) and loyalty resulting from a feeling that the company and customer share similar values (Meyer, 1999). Many firms have focused their social marketing activities on issues that provide customers with strong mental associations between the firm and the cause, thus facilitating brand loyalty or switching. Norwich Union, an insurance company whose brand positioning is centred around the slogan "better protection", funds first-aid courses for the general public in partnership with St John's Ambulance; British Telecom links with charities that aid communication, such as Winston's Wish that amongst other things encourages bereaved children to talk about their feelings; British Gas helps to cut the number of elderly people dying from cold during the winter. Activities of such a nature indicate an advanced approach to the ethical and discretionary responsibilities by organisations where managerial discretion is exercised in a way that brings profits and solves problems (Adkins, 1999; Murphy, 1999).

### **Human Resource Management Issues**

Social marketing activities have been shown to produce internal benefits for the organisation, in the way they act as catalysts for the strengthening and diffusion of corporate on multiple organisational levels. The value of rallying human resources under a good cause as a team building exercise, especially in large and geographically dispersed retail organisations, has been highly praised (Murphy, 1999).

An issue that has received little attention, however is the reverse side of the coin – the role human resources and their system of management can play in the success or failure of attempts to integrate institutional with mainstream performative actions in the organisation. For socially orientated marketing initiatives, the rules are the same as with any other business decision: it is important to have the right team in place not only to create but also to implement it (Lorge, 1998). The task of staffing retail organisations, however, is particularly complex because of the inherent nature of the retail trade: the need for flexibility; seasonality of demand; availability of full and part-time employees; pay and working conditions and the endemic high employee turnover (Davidson et al., 1988). Yet, the success of a social marketing program that is related to product lines in store or the firms' core business requires accurate and enthusiastic communication to the customer via the store staff, the principal interface between the consumer and the retail organisation – and the only human one.

"Companies must ensure that the sentiments behind a CRM initiative are held at a deeper level". (Murphy, 1999) The Body Shop, for example, is frequently cited in textbooks for the use of human resource selection procedures aimed to identify applicants' sympathy for the institutional orientation of the organisation. The use of such a system of pre-employment evaluation could inform recruitment decisions in order to ensure that the high recruitment and training

costs are recouped by the organisation and that, often unacceptable, wastage level (Sparks, 1992) is controlled. Retail organisations, however, also need to be able to retain, as well as develop and promote the right people. Training has been used as one of the means employed by retailers to ensure that valuable staff are attracted and retained in the organisation by ensuring that they are equipped to perform at high professional levels (Sparks, 1992). Before embarking on development programs, however, a systematic and detailed analysis of the managers' skill needs and potential is needed.

The measurement of employee performance is a significant aspect of an integrated, effective human resources administration system that can support organisational performance planning. From the perspective of the store staff themselves, the lack of performance feedback is the most often cited barrier to career progression (Broadbridge, 1996). This could be particularly true in areas of performance associated with low tangibility of outcomes, such as in the case of social marketing initiatives. Fraser and Zarkada-Fraser (2000) presented the development of a multifaceted managerial performance measurement system, specifically designed for the retailing industry, that included –amongst other qualitative outcomes - social marketing activities and the employees' involvement in community service. The study measured perceptions of the relative importance of 50 performance elements by polling 144 decision-makers in 24 retail organisations in Australia and Singapore. Although cross culture comparisons revealed significant differences on the importance of a number of variables in the two countries, there was a general agreement that social marketing activities are an important aspect of the retail manager's job. Within the current context, the use of change in product sales as an indicator of program effectiveness makes the evaluation task more manageable, and can easily be integrated as individual staff members performance elements used for their own personal evaluation. Finally, if employees have sympathy with the social marketing program, they will perhaps experience a greater bonding with the organization leading to a number of directly measurable HRM benefits such as increased motivation, productivity and decreased turnover.

### **Conclusion - The Socially Integrated Organisation**

“Choose a charity that is related to your company's business. Gain support from upper management for a long-term commitment to the cause.” (Lorge, 1998: 72) Companies are now recognising that it is the holistic management and appreciation of all stakeholder relationships that will support the development of successful organizations in the future. CRM can provide a high-profile and a positive way for brand owners to strengthen these stakeholder relationships with not only customers, but with employees, distributors, suppliers, politicians, shareholders, opinion-formers and the wider community. (Adkins, 1999) One of the ways in which firms can achieve a balance of pragmatic and functional legitimacy is through their systems for attracting, socialising and retaining its human resources (Amit and Belcourt, 1999). Store employees form the principal interface with the consumer in cases where the focal point of the campaign is the product, and hence the program can have a direct, short-term positive impact on sales revenue. Bloom et al (1995) argue that when social marketing programs and product sales are not strongly integrated, corporations may not realise any direct short-term impact whatsoever through increase in sales.

“As the concept of corporate social responsibility grows and receives more attention, with leading companies developing sophisticated approaches, and as relationships in marketing are increasingly formed with a growing number of stakeholders on many different levels, cause-related marketing will become a more dominant feature. It can help build relationships internally across departments and externally through the supply chain and beyond. The challenge is for marketers and fundraisers to release this potential” (Adkins, 1999). From this theoretical perspective it is suggested that there may be three fundamental elements to a successful social marketing program for retail organizations. Firstly, the optimal level of institution orientation has to be established. Then the social marketing initiative should as much as possible focus on the company's product, thus ensuring clear identity with both employees and consumers. Finally, the social marketing tasks required of store staff should be integrated into their individual performance evaluation, and given a level of importance commensurate with the degree of institutional orientation.

In order for this to be achieved, a tool will be required to be developed by which organizations can gauge the equilibrium point at which integrated institutional and operational activity maximise effective performance. Having established the desired point of integrated activity, a method for evaluation of the organization's core competencies may be developed, and the societal implications of these explored. Finally the desired activity can be operationalised at store level and monitored through a performance evaluation tool fully integrating institutional and operational activity.

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## **Nonprofit-business Alliances: Formation and Outcomes–Abstract**

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Alliances between nonprofit organizations and businesses have shown tremendous growth in recent years and demonstrate the potential to grow at an even faster rate. By synthesizing the different types of relationships that comprise nonprofit-business alliances (NBA) into a conceptual framework, further analysis of its components can be enhanced. Hence, the purposes of this article are to: (1) present a conceptual model of the formation of NBA's, (2) identify and describe various factors that affect alliance formation, (3) identify factors that affect the success of NBA's, (4) explain the outcomes for both firms, and (5) provide cohesion and direction for future research.

The NBA model consists of three major parts: (1) organizational motivations for alliance, (2) formation of the alliance, and (3) consequences or outcomes of alliances. The motivations are modeled from the perspective of the firms in the alliance, the formation considers both types of partners (businesses and nonprofit organizations) and the consequences will be modeled from a consumer perspective.

There are a number of factors that motivate nonprofit firms and businesses to form NBA's. The primary motives for nonprofit firms include financial considerations, increasing awareness, and gaining access to a larger audience. Faced with declining contributions from government and the general public, nonprofit firms need the support of businesses to fulfill their objectives. Also, the wider exposure they are able to obtain through businesses is an attractive consideration and motivating factor. For businesses, the prime motives to engage in NBA's are improving awareness, image, and employee attitude towards company. An alliance with a nonprofit firm can lead to higher levels of awareness, improved image, and more positive employee attitude towards the company. For-profit firms could also be interested in supporting specific nonprofit organizations/causes, especially those in which the top management have an interest.

There are different factors that influence alliance formation and partner selection. While perceived similarity with the partner firm is a common criteria, financial contribution, commitment, and reputation are key variables that influence the selection of a partner by nonprofit firms. Both nonprofit and for-profit firms can benefit when the perceived similarity is higher. Nonprofit firms would also evaluate the current and future contributions and commitment by for-profit firms when deciding on a partner. Also, the reputation of the for-profit firm is another key consideration for the nonprofit firm. The specific cause/mission and reputation of the nonprofit firm will influence the selection of a partner by the for-profit firm.

There are a number of important outcomes that needs to be examined in the context of a NBA. The outcomes can be measured in terms of how well the objectives have been met for the nonprofit and for the business. It is also possible to examine the outcomes from a consumer perspective when they are exposed to communication about the alliance. This is extremely important as the full benefits of the alliance will only be obtained if there is a change in consumer perceptions about the two partners. One of the important factors that will influence consumer perception is the perceived fit between the nonprofit firm and the business. A second key factor is the degree of dominance by either of the firms in the communication. When both firms have equal weight, consumers would evaluate the communication positively while dominance by either of the firms could lead to negative evaluations. A third key factor that would influence consumer evaluations is the type of message. While informational messages would lead to positive attitudes, request for action messages would lead to less positive attitudes.

## **A Cross-cultural Analysis of the Values of Materialism—Abstract**

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Given the increasing importance of international business, marketers with an understanding of the values associated with materialism across cultures would operate with a significant competitive advantage. The current study explores the values affiliated with materialism held by respondents in four countries: Australia, France, Mexico and the United States.

### **Introduction**

Marketers certainly have a special interest in any group of consumers for which the acquisition, use and preservation of possessions are particularly important – i.e., high materialists. Nevertheless, there remains a general paucity of international research on materialism. Given the globalization of the world economies and pressures toward standardization, the identification of common values associated with materialism could enhance international marketing efforts. The purpose of this research, therefore, was to test the proposition that materialism is associated with fundamental values and thereby differs between culturally-distinct countries.

### **Hypotheses and Methodology**

Three hypotheses were investigated. Hypothesis 1: External values (e.g., being well-respected, a sense of belonging, and security) will be more important to high materialists than to low materialists. Hypothesis 2: “Security” will be a more important value for high materialists than for low materialists, especially for respondents living in individualistic cultures. Hypothesis 3: There will be country differences among Australia, France, Mexico and the US in materialism. Specifically, (3a) Australian and US consumers will display more materialistic tendencies than French and Mexican consumers; (3b) French consumers will display more materialistic tendencies than Mexican consumers.

Questionnaires were administered to 1,080 students in Australia, France, Mexico and the United States. Materialism was measured using the Richins (1987) 6-item scale. Values were measured using the List of Values (LOV) developed by Kahle (1983).

### **Results**

Analysis of the findings reveals partial support for all three hypotheses. High materialists generally rated external values as more important than low materialists, though this finding was not consistent across all four countries (Hypothesis 1). Consistent with Hypothesis 2, “security” was more important for Australian and US high materialists than for low materialists; this was not the case for French or Mexican respondents, however. Finally, there was partial support for Hypothesis 3, since the mean materialism score for Mexican respondents was significantly lower than the mean materialism score for Australian and U.S. respondents. The mean materialism score for French respondents, however, was the highest of the four groups.

### **Implications**

The paper concludes with a discussion of some of the potential implications for international marketers.

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## **A Preliminary Investigation of the Reliability and Validity of Hofstede's Cross Cultural Dimensions**

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### **Background**

The concept of culture is very important for all fields of social and behavioral science. As firms expand globally, a greater understanding of the effects of culture becomes increasingly important. Countries throughout the world have different cultural standards and values. For example, what is acceptable in one culture may not be considered legal or even ethical in another culture. Insider trading, bribery, marketing tobacco products, green marketing, and intellectual property rights are examples of issues that are viewed differently among countries (Blodgett, Lu, Rose and Vitell, 2000).

The concept of culture has been studied across a variety of disciplines (e.g., Anderson, 1999; Realo and Allik, 1999). Similarly, culture's influence, utilizing Hofstede's dimensions, has often been examined in marketing studies (e.g., McCarty and Hattwick, 1992; Vitell, Nwachukwu, and Barnes, 1993). Hofstede (1980, p. 21) defines culture as "the collective programming of the mind which distinguishes the members of one human group from another." Based upon previous research, it is generally thought that culture may consist of several dimensions including individualism/collectivism, masculinity/femininity, uncertainty avoidance, power distance, and Confucian dynamism.

Researchers have often relied on scales developed by Hofstede to measure the various dimensions of culture. The adoption of a universal scale of culture is advantageous due to its ease in interpreting and merging findings across disciplines. Such a scale, however, must be both reliable and valid. However, to date, very little attention has been focused on assessing the reliability and validity of Hofstede's dimensions. One reason for this is that many studies have utilized only a subset of the five dimensions. In doing so, it has not been possible to fully assess the reliability and validity of the constructs (Cook and Campbell, 1979). Studies that have looked at all five dimensions indicate that there may be serious concerns about their conceptualization and measurement. The present study attempts to refine Hofstede's scale so that culture's effect on marketing concepts such as consumer behavior and ethics can be more accurately measured and examined. Thus, the objective of the present study is to begin to assess the reliability and validity of Hofstede's scales, leading to the eventual improvement of their reliability and validity.

### **Methodology**

The domain of the constructs were identified based on Hofstede's (1980) definitions of the four dimensions: individualism/collectivism (I/C), masculinity/femininity (M/F), uncertainty avoidance (UA), and power distance (PD). The domain of the construct Confucian Dynamism (CD) was based on The Chinese Culture Connection's (1987) conceptualization, which Hofstede (1991) adopted as his fifth dimension. The I/C, M/F, PD, UA dimensions were measured using items from his original study. Additional items were adapted from other studies to better capture the complete domain of the constructs (e.g., Gordon's 1976; Norton, 1975; Budner, 1962; Voich, 1995; Triandis, Bontempo, Villareal, Asai, and Lucca, 1988; Yamaguchi, 1994, Schwartz, 1992).

The study was conducted at a major southern university. The questionnaire sessions were announced through e-mail and flyers that were left in graduate students' mailboxes and also through a newsletter directed at International graduate students. The total sample size was 70 graduate students. Of the 70 participants, in-depth interviews were conducted with a random sub-sample of ten to identify the reasons why respondents might have classified the items in a particular way. A \$5 gift certificate was given to the participants of the study that could be used in the bookstore and/or food services on campus.

Of the 70 respondents, 56% of the respondents were between 22-30 years old and 44.1% of the respondents were between 30-59 years old. Approximately, 48% of the respondents were female and 52% of the respondents were male. Of all the respondents, 25.7% were from North America and 74.3% of the respondents were from other countries (e.g., Eastern Europe, Central Europe, Pacific Rim, Middle East, Asia, South America). Of the international students, 43.1% indicated that they have been in the United States for at least 4 years.

Respondents were provided with a cover page containing a definition of the five dimensions. Respondents were asked to read these over thoroughly and were allowed to refer to the definitions as needed. They were then given a list of items arranged in a random order. Respondents were asked to read each item and to classify each as to which dimension it represented. After the classification task was completed, in-depth interviews were conducted with ten randomly selected respondents to identify the reasons why they might have classified the items in a particular way.

Respondents were presented with the following definition for the individualism/collectivism (I/C) construct: Individualism stands for a preference for a loosely knit social framework in society. In individualistic cultures, individualists believe that it is their responsibility to care only for themselves and their immediate families (e.g., wife, husband, and children). People are more independent, achievement oriented, and value individual rights with a minimum of interference. They tend to be emotionally independent from the organizations to which they belong. People tend to give more importance to freedom and challenge in jobs. Autonomy is valued. Individual decisions are considered better than group decisions. Collectivism stands for a preference for a tightly knit social framework in which individuals can expect their relatives, clan, or other in-group to look after them, in exchange for unquestioning loyalty. In Collectivistic cultures, people expect protection from their in-group and thus tend to be more emotionally dependent on their in-group. They emphasize group success as opposed to personal achievement. People are expected to look after their relatives (e.g., taking care of mother, father or other older relatives), their in-group or others in the community and to provide support for them. Job security is valued more highly than autonomy. Group decisions are considered better than individual decisions. (Hofstede, 1980). The ten items that were used to represent I/C are shown in [Table 1](#). These items were taken from Hofstede (1980); Voich, (1995); Yamaguchi, (1994).

The following description of the masculinity/femininity (M/F) dimension was presented to the respondents: Masculinity stands for a preference for achievement at work, heroism, assertiveness, and material success. In masculine societies, men are expected to be assertive and competitive whereas women are expected to play a supportive role in the family. Sex roles in the society should be clearly differentiated. For the most part, the father is used as a role model by boys, and the mother is used as a role model by girls. People tend to be money and things oriented. Material success and independence is highly valued. Job performance is important. Achievement is defined in terms of recognition and wealth. Femininity stands for a preference for relationships, modesty, caring for the weak, and an emphasis on quality of work life and nurturance. In feminine societies men need not be highly assertive but can also take on a more caring role. Quality of life and environment are more important than individual achievement or material success. Interdependence and service is the norm. Achievement is defined in terms of human contacts and living environment (Hofstede, 1980). The eight items that were taken from Hofstede to represent M/F are shown in [Table 2](#). Respondents were provided with the following description of the power distance (PD) dimension: Power Distance is the extent to which the members of a society accept that “power in institutions and organizations is distributed unequally.” It is a measure of interpersonal power between boss and subordinate as perceived by the least powerful of the two, that is the subordinate. In a high power distance culture, people are more willing to accept power inequality and to think of inequality as normal. Employees expect directions from their boss at work. If their boss does not consult them when making decisions employees do not get offended. The boss expects the employees to comply without questioning the nature of the orders. Employees do not question what their boss is doing and tend to be afraid of disagreeing with their boss. In a low power distance culture, employees feel more comfortable asking questions of their boss. Employees expect their boss to consult them when making decisions. When the boss asks employees for support or advice, he (or she) is not considered weak or incompetent. Employees tend to be less afraid of disagreeing with their boss and are not afraid to “speak their mind” (Hofstede, 1980). The nine PD items included from Hofstede (1980) are shown in [Table 3](#).

The following definition was presented to the respondents for uncertainty avoidance (UA): Uncertainty Avoidance is the degree to which the members of a society feel uncomfortable with ambiguous situations and thus prefer well-defined rules, procedures or regulations to maintain institutional conformity. In high uncertainty avoidance cultures, people demand a higher degree of employment stability. Employees tend to have a lower propensity to leave the organization. They are less likely to take risks, and have a greater need for job security. People desire clear requirements and instructions, and rely more on written rules. They believe that the absence of rules leads to anxiety and stress. They tend to have a strong need for consensus. People believe that conflict and competition can unleash aggression and should therefore be avoided. In low uncertainty avoidance cultures, people are more willing to take risks and have less need for job security. They tend to have less anxiety and lower stress. People believe that conflict and competition can be contained at a fair level and can be used constructively. They believe that there should be as few rules as possible and they also believe that if rules cannot be kept, people should change them. Thus, uncertainty

in life is more easily accepted and each day is taken as it comes (Hofstede, 1980). Six UA items were included from Budner (1962), Norton (1975), Hofstede (1980), and Voich (1995). See [Table 4](#).

The following definition was presented to the respondents for Confucian dynamism (CD): Confucian Dynamism is an orientation that values thrift, persistence, ordering relationships and having a sense of shame. Father/son; older brother/younger brother; employer/employee; husband/wife; older friend/younger friend are examples of ordering relationships. In these relationships, for example; son is subordinate to father and younger friend is subordinate to older friend. These relationships suggest that subordinate individuals obey, respect and give loyalty to the higher-ranking individuals in return for their protection and consideration. A sense of shame is the feeling of guilt resulting from disobeying social norms. People who have a strong sense of shame are very conscious of what is improper or disgraceful, and avoid behaving improperly. They conform to rules of behaviors in order to avoid any shameful situation. Cultures that are lower in Confucian Dynamism still have the same values (thrift, persistence, shame), however, the degree to which these principles guide their everyday behavior is lower. Also, cultures that are lower in Confucian Dynamism generally are not characterized by complex sets of ordering relationships. Although individuals may be respectful of the other individuals, they are not necessarily expected to subordinate themselves to others (Chinese Culture Connection, 1987). The seven CD items included, based on items from The Chinese Culture Connection (1987), are shown in [Table 5](#).

## Conclusions

The results of the study indicate that respondents had some difficulty classifying the items into Hofstede's (1980) five dimensions. Uncertainty avoidance had the highest correct classification rate among all the dimensions. Respondents clearly grasped the desire for stable clearly defined work roles, expectations, and explicit guidelines among uncertainty avoiding individuals. Uncertainty avoidance appears to be both operationally and conceptually reliable, and distinct from Hofstede's other dimensions.

For power distance, respondents grasped the concepts of consultation, or lack thereof, by their supervisors in their decisions and believing that superiors who ask opinions too often of subordinates are weak or incompetent as central to this construct. As a whole, the majority of power distance items were correctly classified. Some problems, however, did occur with some specific items. Two of the nine power distance items were frequently confused with individualism/collectivism and two were frequently confused with uncertainty avoidance. Although some operational difficulties were found, the heart of this dimension – the extent to which a society accepts that power in institutions and organizations is distributed unequally – appeared clear to respondents and distinct from the other dimensions. Future research, however, should further evaluate and potentially modify some of the specific items utilized to operationalize power distance.

Masculinity/Femininity was especially problematic and was frequently confused with individualism/collectivism. Respondents grasped the concept of a group orientation, or lack thereof, as being central to the distinction between individualism and collectivism. Although the majority of individualism/collectivism items were correctly classified, others were often classified as either masculinity/femininity or power distance. Several masculinity/femininity items also explicitly mention the relationship of an individual to others (e.g., "It is more important to help others than to succeed personally") and these items were frequently misclassified as individualism/collectivism. In short, there appears to be a great deal of operational (and in our opinion conceptual) overlap between the dimensions of individualism/collectivism and masculinity/femininity. Future research should further untangle these constructs and better define and operationalize masculinity/femininity.

Feeling guilty in case of behaving improperly, honoring and respecting the elderly, and having a strong sense of shame were found central to the dimension of Confucian Dynamism. Other items were frequently classified as individualism/collectivism, masculinity/femininity, or uncertainty avoidance. Substantial confusion appears to exist for three of the seven Confucian dynamism items, with misclassification rates exceeding 50%. As a whole, Confucian dynamism is a complex "bi-polar" construct (The Chinese Cultural Connection 1987). Further research is needed to fully assess the operationalization of this conceptually complex dimension.

Future research is clearly needed to refine and potentially reconceptualize Hofstede's (1980) dimensions. Additional research could develop, refine, and revise the items utilized in this study. At present, some researchers frequently adopt and/or adapt the measures utilized by Hofstede (1980) or take Hofstede's scores, among IBM employees in the late 1970s, as a given, in their discussion and/or operationalization of cultural differences. Our findings indicate problems in the measurement of these dimensions. Substantial programmatic future research is needed to further evaluate the major dimensions of culture. Our hope is that the preliminary results presented here provide the first step in the long journey toward a usable, reliable and valid set of measures.

**TABLE 1: CLASSIFICATION OF INDIVIDUALISM / COLLECTIVISM ITEMS**

I/C Items	Sample Size	I/C	CD	M/F	PD	UA	Undecided
I/C1	70	90%	4.3%		1.4%	4.3%	
I/C2	70	97.1%		1.4%		1.4%	
I/C3	70	75.7%	8.6%	8.6%	2.9%	4.3%	
I/C4	70	84.3%	5.7%	5.7%		2.9%	1.4%
I/C5	70	48.6%	1.4%	8.6%	28.6%	11.4%	1.4%
I/C6	70	48.6%	5.7%	38.6%	2.9%	4.3%	
I/C7	70	91.4%	4.3%	1.4%		2.9%	
I/C8	70	90%	2.9%	2.9%	1.4%	1.4%	1.4%
I/C9	69	68.1%	5.8%	13%	4.3%	5.8%	2.9%
I/C10	70	88.6%	7.1%	2.9%	1.4%		

**Individualism / Collectivism Items****IND/COL1:** I stick with my group even through difficulties.**IND/COL2:** My personal accomplishment is more important for me than group success.**IND/COL3:** I do not support my group when I feel they are wrong.**IND/COL4:** If the group is slowing me down, it is better to leave and work alone.**IND/COL5:** It is important for me that I have considerable freedom to adopt my own approach to the job.**IND/COL6:** It is important for me that a job leaves sufficient time for my personal or family life.**IND/COL7:** It is better to work in a group than alone.**IND/COL8:** Groups make better decisions than individuals.**IND/COL9:** I prefer to be responsible for my own decisions.**IND/COL10:** Contributing to the group is the most important aspect of work.**TABLE 2: CLASSIFICATION OF MASCULINITY / FEMININITY ITEMS**

M/F Items	Sample Size	M/F	CD	I/C	PD	UA	Undecided
M/F1	70	28.6%	21.4%	34.3%	1.4%	11.4%	2.9%
M/F2	70	24.3%	11.4%	62.9%			1.4%
M/F3	70	25.7%	7.1%	64.3%	1.4%		1.4%
M/F4	70	58.6%	4.3%	27.1%	4.3%	4.3%	1.4%
M/F5	70	45.7%	4.3%	30%	4.3%	14.3%	1.4%
M/F6	70	64.3%	2.9%	22.9%	4.3%	4.3%	1.4%
M/F7	70	54.3%		37.1%	4.3%	2.9%	1.4%
M/F8	70	24.3%	2.9%	65.7%	4.3%	1.4%	1.4%

**Masculinity / Femininity Items****MAS/FEM1:** It is important for me to have positive relationships with others.**MAS/FEM2:** It is more important to help others than to succeed personally.**MAS/FEM3:** It is important to help others in the job.**MAS/FEM4:** It is important for me to have job that provides an opportunity for advancement.**MAS/FEM5:** It is important for me to work in a prestigious and successful company or organization.**MAS/FEM6:** It is important for me to have a job which has an opportunity for high earnings.**MAS/FEM7:** It is important that I outperform others in my company.**MAS/FEM8:** It is important for me to work with people who cooperate well with one another.

**TABLE 3: CLASSIFICATION OF POWER DISTANCE ITEMS**

PD Items	Sample Size	PD	CD	I/C	M/F	UA	Undecided
PD1	70	75.7%	4.3%	8.6%	2.9%	7.1%	1.4%
PD2	70	35.7%	2.9%	37.1%	8.6%	12.9%	2.9%
PD3	70	31.4%	4.3%	1.4%	1.4%	60%	1.4%
PD4	70	77.1%	5.7%	4.3%	1.4%	11.4%	
PD5	70	67.1%	21.4%	2.9%		7.1%	1.4%
PD6	70	75.7%	5.7%	7.1%	7.1%	4.3%	
PD7	70	60%	18.6%	1.4%		17.1%	2.9%
PD8	70	62.9%	11.4%	1.4%	2.9%	17.1%	4.3%
PD9	70	62.9%	21.4%	5.7%	2.9%	4.3%	2.9%

**Power Distance Items**

**PD1:** I enjoy being consulted by my direct superior in his/her decisions.

**PD2:** I enjoy being free to make my own decisions at work.

**PD3:** I prefer working under a superior who gives detailed instructions.

**PD4:** My superiors should make most decisions without consulting me.

**PD5:** I always conform to my superiors' wishes.

**PD6:** I believe that those superiors who ask opinions too often of subordinates are weak or incompetent.

**PD7:** I tend to avoid any potential arguments with my superior.

**PD8:** I am always afraid to disagree with my superior.

**PD9:** I believe superiors are entitled to special privileges.

**TABLE 4: CLASSIFICATION OF UNCERTAINTY AVOIDANCE ITEMS**

UA Items	Sample Size	UA	CD	I/C	M/F	PD	Undecided
UA1	70	81.4%	2.9%	5.7%		10%	
UA2	70	74.3%	1.4%	11.4%	7.1%	5.7%	
UA3	70	71.4%	4.3%	1.4%	2.9%	20%	
UA4	70	85.7%	5.7%	4.3%		4.3%	
UA5	70	74.3%	10%	2.9%	5.7%	7.1%	
UA6	70	84.3%	8.6%	2.9%	2.9%	1.4%	

**Uncertainty Avoidance Items**

**UA1:** I like to work in a well-defined job where the requirements are clear.

**UA2:** It is important for me to work for a company that provides high employment stability.

**UA3:** Clear and detailed rules/regulations are needed so workers know what is expected of them.

**UA4:** If I am uncertain about the responsibilities of a job, I get very anxious.

**UA5:** In a situation in which other people evaluate me, I feel that clear and explicit guidelines should be used.

**UA6:** What we are used to is always preferable to what is unfamiliar.

**TABLE 5: CLASSIFICATION OF CONFUCIAN DYNAMISM ITEMS**

CD Items	Sample Size	CD	I/C	M/F	PD	UA	Undecided
CONF1	70	4.3%	35.7%	45.7%	1.4%	2.9%	
CONF2	70	17.1%	21.4%	50%	4.3%	5.7%	1.4%
CONF3	70	67.1%	1.4%	4.3%		27.1%	
CONF4	70	48.6%	15.7%	7.1%	4.3%	20%	4.3%
CONF5	70	84.3%	1.4%	5.7%		8.6%	
CONF6	70	78.6%	5.7%	7.1%	4.3%	1.4%	2.9%
CONF7	70	85.7%	2.9%	4.3%	1.4%	5.7%	

**Confucian Dynamism Items**

**CONF1:** I am tenacious in the pursuit of my goals.

**CONF2:** I usually stick my goals even through difficulties.

**CONF3:** I am always careful to avoid doing what is improper.

**CONF4:** I avoid offending others.

**CONF5:** I feel guilty if I behave improperly.

**CONF6:** I honor and respect elderly.

**CONF7:** I have a strong sense of shame.

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## **The Impact of Cultural Dimensions on Ethical Judgments, Intentions, And Behaviors—Abstract**

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Given today's turbulent global business environment, how do decision-makers solve problems with ethical content? This study addresses a gap in the cross-cultural ethics literature by proposing improved measurement for and application of national cultural dimensions as determinants of ethical judgment and behavior. To accomplish this, four steps are taken.

First, we draw on institutional theory to show the prominence environment plays in forming an organization's ethical framework and how an organization develops a corporate culture and work climate to control and shape their environment. Thus, we provide a solid foundation for both the ubiquity of ethical decision-making and the substantial performance consequences of ethical decisions. Second, we review influential ethical decision-making models and choose one that specifically acknowledges the importance of national culture as a moderator in the ethical decision-making process. Third, we define culture and examine the construct's underlying dimensions. Fourth, we suggest propositions for how particular cultural dimensions impact various components of a selected ethical decision-making model. We close by suggesting future research and managerial implications.

In applying the enhanced measurements of culture we propose additional relationships between culture and components of the Hunt and Vitell (1986) general theory of marketing ethics model will surface. The academic contribution of the present research arises from the improved operationalization of culture, a recognized antecedent to ethical decision-making (Davis, Johnson and Ohmer 1998; Enderle 1997; Hampden-Turner and Trompenaars 1993; Hunt and Vitell 1986; Vitell, Nwachukwu and Barnes 1993). Once the model is tested, the findings can be incorporated into ethics training programs for managers operating cross-culturally. An increased awareness of how culture affects ethical perceptions, judgments, intentions, and behaviors can sensitize marketing managers to potential unethical actions of competitors, co-workers, and subordinates in the global business environment. This increased understanding of the associations between ethics and culture serves international marketers in the fiercely competitive arena of global marketing.

## **Product Perceptions in a Free Trade Context: a Before–after U.s.–canada Comparison**

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### **Abstract**

The paper examines American and Canadian consumer views toward each other's products before and after the NAFTA. In spite of growing trade between them, the image of domestic products has improved in both countries at the expense of goods from the other – and Japanese products continue to be rated as best. Implications for practice and research are discussed.

### **Introduction**

The United States and Canada share the world's longest undefended border as well as its largest bilateral trade relationship. Growing trade between the two countries, and the threat of protectionism in other markets through the formation of such trade blocs as the European Union (EU), led to agreements between them to eliminate trade barriers first through the U.S.-Canada Free Trade Area (FTA) of 1989 and then through the expanded North American Free Trade Area (NAFTA), which includes Mexico, as of 1993.

Issues arising from the evolution and growth of free trade blocs such as the NAFTA have been examined in a voluminous literature from the public policy and business viewpoints. Conversely, and somewhat surprisingly, the consumer perspective has not attracted much research attention. This paper presents findings from studies carried out in the U.S. and Canada in the late 1980s, just before the original FTA between the two countries, and in the late 1990s, following the formation of the NAFTA. Its main objectives are to examine the comparative views of consumers in each country about their own products versus those of their neighbor at the two points in time, and how these may have shifted over time.

These views are important since consumers, as the ultimate arbiters in the marketplace, can play a significant role in the development of business strategies and public policies aimed at capitalizing on the formation of a trade bloc or minimizing negative implications from it. Their views of products made in their country versus those imported from a free trade partner or third countries can help to determine, among others, the extent to which efforts to expand intra-bloc trade may succeed, the success or failure of standardized regional strategies, the potential effects of production shifts to a neighboring country as a result of rationalization, and the type of public policies that might be most effective in protecting weak domestic industries when tariffs disappear. While this investigation is limited to the U.S.-Canada relationship, the findings provide insights that may be useful in the context of other trade blocs where similar relationships between larger and smaller nations exist, such as within the EU or the Latin American Integration Association (LAIA).

### **Background and Literature Review**

The U.S. and Canada are, respectively, the world's first- and seventh-largest exporting nations. Although Canada's economy and population are approximately one-tenth the size of those of the U.S., it exports one-third as much as its neighbor and is, therefore, more heavily dependent on exports overall. Bilateral trade is more important to Canada than to the U.S. as well, but it also represents a significant portion of the U.S. economy. As can be seen in [Table 1](#), the two countries are each other's largest trade partners, with Canada accounting for about one-fifth of American exports and imports, and the U.S. accounting for about two-thirds of Canada's imports and over four-fifths of its exports. Trade between them has been growing throughout this century and especially after World War II, as Canada gradually reduced its ties to Great Britain and as tariff levels decreased as a result of general GATT rules and bilateral sectoral treaties.

Because of the geographic proximity and size differences between the two countries, the relationship between them has traditionally attracted more public attention in Canada than in the U.S. However, American manufacturers and public policy makers, being in a better position than the general public to assess the potential implications of free trade, and also being cognizant of an on-going imbalance in the bilateral relationship (a \$40 billion trade deficit for the U.S. in 1997), have also been nervous about free trade, albeit perhaps not as much as their counterparts north of the border. As a result, as discussed by Heslop and Wall (1993), a number of attempts to negotiate free trade failed over the years,

and until recently the small handful of successfully negotiated treaties were either abrogated soon after implementation (e.g., the 1854 Reciprocity Treaty became defunct in 1866) or were defeated before implementation (e.g., the free trade pacts of 1911 and 1947).

The first major successful bilateral accord was the Auto Pact of 1965, whose main provision was that major American manufacturers must produce one car in Canada for every one that they export to it from the U.S. This serves to underscore two key concerns of both countries over the years: *protecting domestic employment while securing access to each other's market*. At base, the same motivations, coupled with fear of protectionism in other regions, were behind the successful conclusion of the FTA and NAFTA agreements.

Issues arising from the formation of free trade blocs such as the NAFTA are typically analyzed from a broad range of perspectives, often within the realms of politics (e.g., impact of economic integration on political autonomy), economics (e.g., potential effects on employment), industrial structure (e.g., rationalization of production), public policy (e.g., protection of weak domestic sectors), or business and marketing strategy (e.g., cross-border standardization). As noted in the introduction, the consumer perspective has not attracted much research attention. The main field where some relevant studies may be found is the literature on country-of-origin or product-country images (PCI).

PCI, or the "place" identity with which a product may be associated by marketers and/or consumers, is an extrinsic cue whose influence on behavior has been studied extensively. This research has been reviewed by Bilkey and Nes (1982), and a number of integrative works have been published more recently, including meta-analyses of PCI findings (Liefeld 1993, Peterson and Jolibert 1995) and a taxonomy of PCI effects (Nebenzahl, Jaffe, and Lampert 1997). The main conclusions are that origin images are powerful stereotypes that influence consumers, often more so than other extrinsic cues such as brand name or price (e.g., Tse and Gorn 1993, Nebenzahl and Jaffe 1996), as well as industrial buyers (e.g., Johansson, Ronkainen, and Czinkota 1994, Nes and Ghauri 1998) and retail buyers (Alpert et al. 1996, Nadeau, Heslop, and Papadopoulos 1999). The importance of PCIs is growing (Johansson 1993) as consumers use extrinsic cues increasingly to cope with cognitive overload in complex markets, and marketers use them to differentiate their products in the face of intense global competition (Papadopoulos, Heslop, and Bamossy 1990).

Concerning the U.S.-Canada relationship, American consumers have been studied in more PCI studies but rarely about their views of Canadian products, while the reverse is true for Canadian consumers – there is less research in Canada, but this has typically included the U.S. as an origin for assessment. Early studies in the U.S. reported strong support for domestic products versus those from foreign origins, both generally and for various specific product categories (Reierson 1966; Dornoff, Tankersley and White 1974; Narayana 1981). However, subsequent studies began reporting a softening of this preference as products from Japan, Germany, and other advanced countries began making significant inroads into the U.S. market (e.g., ASQC 1980, Cattin, Jolibert and Lohnes 1982, Niffenegger and Odlin 1983, Dornoff, Tankersley and White 1974, Nebenzahl and Jaffe 1996). The small number of studies that included Canada as an origin for evaluation by American consumers were carried out primarily in the 1980s, and reported Canadian products as being rated consistently lower than domestic ones on most attributes (e.g., Reierson 1966, Hester and Yuen 1986, Papadopoulos, Heslop, and Bamossy 1990).

Studies of in Canada have generally found that Canadians have very mixed feelings about domestic versus foreign products: they tend to perceive the former as similar in overall quality to those from such major developed countries as the U.S. and Japan, and to indicate a fairly strong willingness to buy them – but also rate them somewhat lower on such specific attributes as workmanship, technical sophistication, and innovativeness (Wall and Heslop 1987, Gallup 1985, Barker and Robinson 1987, Heslop and Papadopoulos 1993, Labrie, Propeck, and Arellano 1994, Ahmed, d' Astous and Lemire 1997). This mixed view is perhaps a function of their perceived need to protect the domestic economy, which is considered to be particularly vulnerable to competition from the U.S. (Wall and Heslop 1987, Papadopoulos, Heslop, and Bamossy 1994). However, McDougall and Rawlings (1979) and others have argued that "patriotism" may be a poor motivator at the checkout and is not likely to be an salient attitude in product selection. An interesting finding from most of these studies is that consumers have systematically reported difficulty in being able to identify products as Canadian-made, pointing to the broader availability of more recognizable brands by American, Japanese, and other manufacturers in their own home market.

In summary, therefore, past research indicates that consumers in the U.S. perceive their domestic products as significantly stronger than Canadian ones on most dimensions, with perhaps some softening of the absolute level of domestic product preference during the 1980s. Conversely, Canadians have been reported to be more skeptical about domestic goods and to acknowledge the superiority of American products on many important product dimensions. The present paper examines the views of American and Canadian consumers toward their domestic products and those from the other's country, using studies from two points in time to investigate whether any shift in these may have occurred in the pre- and post-free trade environment in North America.

## Method

This paper reports on findings from a larger study which was carried out in several countries over the past two years and replicated similar research from ten years ago. The methodology was identical in all core respects across countries within each study. Certain design improvements in the new research, introduced to capitalize on new knowledge since the original study, were designed carefully to preserve comparability. Although this study focuses on the U.S. and Canada, the findings are informed where necessary by those in the additional countries that were sampled (the total samples were 2,247 in eight countries ten years ago and 6,094 in 15 countries in the new study).

As part of the design of the larger study, the data that is reported here was collected in Seattle, Washington, and Ottawa, Ontario. Both cities are major urban centres near the other country's border (respectively, to British Columbia and New York State), and past research shows that their residents often visit the other country for tourism, shopping, business, or other purposes (e.g., Buchanan 1990). Respondents were asked to assess each other's country (the focus of this paper) plus Japan, Sweden, and Great Britain. A common self-administered questionnaire was used, containing, among others, a section for assessing the products from each origin on a 7-point semantic differential scale. The research instrument was designed to obtain global evaluations of products from the origin countries, since our interest was not limited to any one sector and past research clearly shows that country association effects are common across product categories and even individual brands (e.g., Andaleeb 1995, Dzever and Quester 1999). The original study used 21 scale items and the new study 20, with 15 being common among the two studies. The positive and negative ends of the items were randomly assigned to the left or right ends of the scales to prevent response routinization.

Area probability sampling was the main sampling method in all cases, and the drop-off/pick-up approach was used for the fieldwork. The number of usable responses was 299 and 300 in the original and new Canadian studies, and 265 and 338 in the respective studies in the U.S. The response rates were approximately 75% in all cases except in the new U.S. study, where apparent survey fatigue in the population led to a response rate of 50% and the need to supplement a portion of the sample with respondents from selected work environments. This did not affect the sampling materially, as indicated by the fact that the demographic profiles were very similar across both samples in the original and new studies. The gender split was practically equal (males in original and new studies – U.S. 51% and 50%, Canada 53% and 55%), the median age was 30-39 years in all cases, and the samples were slightly upscale in education and income compared to the corresponding populations. In the original study, 52% of American and Canadian respondents had taken at least one trip abroad in the previous year, and the corresponding percentages in the new research were 62% and 73%. Notwithstanding the small differences from the overall populations, these characteristics may be seen as an advantage in the marketing research context, since the respondents are urban opinion leaders who generally know more about foreign products and influence the views of others.

## Findings

**Table 2** shows an overview of the findings from the original and new studies (the scales were unscrambled after data entry so that 1=poor and 7=good in all cases). As can be seen, U.S. respondents view Japanese products as essentially equal to domestic ones, followed by Canadian, Swedish, and British goods. Both Japanese and U.S. products were rated higher in the new study, while the ratings of the other three countries remained essentially unchanged, suggesting a potentially significant shift in American consumer perceptions over time for the world's two largest exporters. In Canada, respondents had rated domestic goods in third place in the first study, behind Japan and the U.S. and ahead of Sweden and Great Britain, but rated them considerably higher (5.5 vs. 5.0 on the 7-point scale) in the new research, in a tie for first place with Japan. These findings are generally in line with those of the other countries we sampled in the larger studies, where Japanese goods have been rated consistently high, with American products often being rated in the second place.

To obtain a more detailed perspective on the findings and examine the cognitive structure of consumer evaluations, the data was analyzed using principal components analysis (varimax rotation) with a minimum eigenvalue of one for identifying significant factors. The results from the new study are shown in **Table 3** and are highly similar to those from the original research (not shown due to lack of space), notwithstanding the slight differences in scale composition. The table shows a remarkable consistency across the two samples for both origins. This consistency also extends to virtually all of the other 13 countries that were sampled in the new research.

A group of variables representing product attributes, such as workmanship, innovativeness, and quality, load together in the first factor in all cases and explain approximately 20% of the variance. A second group comprises variables that reflect the presence of a country's products in the market (e.g., recognizable brands, ease of finding). A third group contains response variables that load either together (Canadian sample for the U.S. origin) or in two

factors (remaining three cases). The price variable appears in a factor by itself in most cases. Coupled with the findings from the other countries in the larger study, this pattern points to a four-dimensional structure, comprising the product, price, presence, and response constructs, as providing a good representation of the underlying pattern in consumer product evaluations.

Reliability analyses (Cronbach's alpha) were run on the complete scale and the individual constructs (except the single-variable "price") to assess their internal consistency, and the results are shown in [Table 4](#). This analysis helps to confirm the factor analysis results and also points to significant improvements in the scale construction between the original and new studies. All coefficients for the complete scales are above .75, and those for the scale in the new study approach .90. Likewise, all coefficients for the constructs in the new study are higher than .70. The improvement from the original study is virtually universal, and particularly so in the "presence" construct. In conclusion, it would appear that consumers in both countries assess products from both domestic and foreign origins along the lines of the four constructs identified and that their views are adequately captured in the research instruments that were used.

To examine the respondents' views for the two origins over time, the data for the 15 variables that were common between the original and new studies is summarized in [Table 5](#). Before proceeding, a clarification concerning two variables is in order, "willingness to buy" and "price". Concerning the first, at the time of the original study PCI research was still in its infancy, the majority of research instruments were designed to capture perceptions and attitudes, and researchers were not as concerned with establishing a direct link between attitudes and behavior. The assumption that the former are a good predictor of the latter, while theoretically valid, was later challenged (e.g., Liefeld 1993) and led to the inclusion of explicit measures of behavioral intent, usually in the form of a "willingness to buy" variable. In an early attempt to address this issue, in the original study we had included the variable "normally buy a few / a lot of products from --". In the new study we retained this variable but also added "willingness to buy". In addition to improving the research instrument as such, this led to a shift in the loading pattern of "normally buy", from the "response" construct in the original study to its more natural home, the "presence" construct (given that it emphasizes consumer experience with the products in question), in the new research. This shift also helped to improve the internal consistency of both constructs. Although the "willingness to buy" variable was not included in the original study, its means are shown in [Table 5](#) since they enable a comparison of the two origins within each sample in the contemporary environment.

Concerning the second variable, "price", we coded it such that 7=expensive=good and 1=inexpensive=poor. We opted for this approach based both on general marketing theory, which supports the notion of price as a surrogate for quality, as well as on PCI-specific findings from earlier research, which support this view (Papadopoulos, Heslop, and Bamossy 1990). Readers preferring the alternative interpretation that "inexpensive=good", which also has obvious merit, may obtain the appropriate obverse ratings by subtracting those shown from 8.0 (the coding direction does not, of course, affect the variable's loading pattern as such in the factor analysis).

[Table 5](#) shows the mean ratings from the two samples for the two origins in the two studies. Repeated measures doubly multivariate analysis of variance (MANOVA) was used to identify interaction effects between the two origins and time points (origin time, within- and between-subjects) and origin main effects, and general MANOVA to identify time main effects (original to new study, between subjects) where no interaction effects were observed. The significance level was adjusted to 0.003 in all cases to account for the number of repeated tests (Stevens 1992). All MANOVA models were highly significant overall at 0.000.

The table shows that six variables accounted for interaction effects within the U.S. sample (columns a and b) – workmanship, reliability, value, price level, know, and easy to find. In all of these cases except price, there was significant improvement in perceptions of U.S. products (columns c and d) while those for Canada improved less dramatically (workmanship) or not at all (remaining five variables; columns e and f).

The exception of "price" is partly a function of our coding. For the U.S., therefore, the mean ratings represent consumer views that their domestic products have become significantly *less* expensive over time, a perception underscored by the significantly higher ratings for "value". This may be seen as a "good thing", or, if coupled with the slightly lower ratings on innovativeness and technical advancement, as reflecting a view that American products are now less advanced and "cheaper" than before. Our analysis of the data from the other countries in the larger study supports the latter interpretation.

Lastly, although there were no interaction effects on the "quality" and "normally buy" variables, the between-subjects MANOVA showed that there have also been significant improvements here as well for American products. The comparison between the two origins (columns g and h) clearly shows universally higher ratings for American than for Canadian products among U.S. consumers. Still, in the original research, the two countries had been rated equally

on three variables (reliability, quality, value) and Canada scored significantly higher on “workmanship”. In the current environment reflected in the new study, U.S. consumers rate their domestic goods higher than Canadian ones on all items.

Turning to the Canadian sample, the overall MANOVA was also significant at 0.000 but the number of variables where interaction effects were observed (10, columns a and i) was considerably larger than in the U.S.. Examination of the Canadian respondents’ views reveals a pattern that differs materially from that of the U.S. respondents. First, there has been significant improvement for Canadian products on all but one (reliability) of the product variables. This, coupled with lower U.S. ratings on reliability, innovativeness, and advancement, and with less improvement on workmanship, results in six of the seven interaction effects within the product construct being in favor of Canadian products. The reverse is the case for the “presence” construct, where the U.S. image has improved on all three of the variables where interaction effects were observed, while Canadian products have remained static, resulting in an even stronger comparative showing for American products in Canada today than 10 years ago.

In addition, the separate MANOVA tests for time effects (columns j-k and l-m) show improved perceptions by Canadians for their domestic goods on “service” and “variety”. The general between-subjects MANOVA points to a clear change in the perceptions of Canadian consumers: although the U.S. is still rated higher on three variables in the “presence” construct (variety, recognizable brands, easy to find) and the two countries are considered equal on another four variables, overall Canada was rated higher on eight variables in the new study (as well as on “willingness to buy”, with a significant difference of a full scale point) versus only five in the original research in the late 1980s.

### **Implications and Research Directions**

In summary, the image of domestic products has improved in both countries at the expense of goods from the other. Considering the timing of the surveys, before and after implementation of the free trade agreements, at first glance this appears to be a counterintuitive finding.

As noted in the background section, Canada has increased its exports to the U.S. over the past ten years, likely as a result of free trade. While its share of U.S. imports has remained the same as before, the *volume* of products reaching that market has increased dramatically. As well, there has been a noticeable shift away from resources and in favor of end products in the composition of Canadian exports. Yet American consumers gave Canadian products essentially identical ratings as before. Conversely, for Canadian consumers the perceived presence of U.S. goods in Canada has increased significantly, as might have been a predicted result of free trade, but at the same time perceptions of Canadian products as such have turned strongly in favor of domestic goods. The willingness to buy each other’s products is a mirror opposite across the two samples, with Americans preferring domestic (6.2) to Canadian goods (5.3) and Canadians indicating the reverse preference (6.6 and 5.6 for domestic and U.S. goods respectively).

Closer examination of the research timing helps to interpret these findings. In the late 1980s, American industry was still recovering from the long period of inertia that was highlighted in the seminal study of the American Society for Quality Control (ASQC 1980); the “Crafted With Pride in America” campaign was still new; and many were predicting the coming “Century of Japan”. By the late 1990s, U.S. industry is perceived to have recovered its earlier strength, Japan had begun to show signs of weakness (the data collection was completed before the Asian crisis of August 1998), and communism had collapsed leaving the U.S. as the winner of the Cold War. Combined, these factors may suggest a resurgence of confidence in domestic goods by U.S. consumers. Conversely, free trade and the increase in imports from Canada do not seem to have made a dent in these consumers’ knowledge and rate of purchase of Canadian products, since all of the “presence” variables have remained at identical levels between the two studies.

As noted earlier, the situation in Canada is quite different. First, the global issues that may have affected perceptions of American products within the U.S., such as the influx of Japanese goods during the 1980s or the collapse of the Soviet Union, did not affect Canada as much as its southern neighbor and do not appear to have influenced the results. On the other hand, the recession of the late 1980s and early 1990s affected Canada deeply and helped to awaken Canadian industry to the need to enhance its international competitiveness, as evidenced by the increase of Canada’s exports to GDP ratio from 24% to 40% over the past ten years. At the same time, national campaigns (e.g., “Think Canadian”) similar to those in the U.S., intended to promote domestic industry, coupled with the emergence of a strong technology sector and other factors, appear to have tilted the balance in favor of domestic goods within the Canadian market.

The results have several implications for business, public policy makers, and research. The establishment of the FTA and then the NAFTA do not seem to have eased the way for Canadian exporters wishing to increase their presence in the U.S. market. While their exports have increased, Americans still know very little about Canadian products

(means of 3.0 and 3.1 in the original and new studies) and rarely buy them (2.7 and 2.9), pointing to the negative effects from the absence of widely known branded products. At the same time, American exporters to Canada may be faced with stiffer resistance as Canadian buyers develop greater confidence in their domestic goods. For exporters from both countries, it would appear that the marketing environment in the “other” country may in fact be tougher today than before. The practices of some major U.S. companies that entered Canada by taking advantage of free trade provisions, such as Wall-Mart, who make a point of stressing their “Canadian” identity in advertising that emphasizes Canadian procurement where possible, are an indication that country-specific strategies may work better than standardized ones even in the context of a free trade regime.

Although the data do not allow us to speculate on the potential effects of “buy domestic” campaigns on consumer attitudes, the strengthening of preference for domestic goods in both countries may provide some comfort to policy makers concerned with protecting domestic markets. At the same time, the findings point to areas where consumer preferences are not as strong as might have been expected, and therefore to potential strategies that may help to further improve the performance of domestic industries both at home and abroad. For example, the “softening” of the U.S. image on innovativeness and technical advancement, observed in both the U.S. and Canada (as well as in the majority of other countries we surveyed as part of the larger study), should be a cause of concern in the U.S. Conversely, the perceived lack of “presence” of Canadian goods in Canada, coupled with the higher ratings for American goods and the fact that these ratings actually increased between the two studies, should be a concern in Canada. It would seem that policies targeted at improving consumer awareness of U.S. technological strengths, and at encouraging the development of recognizable brands and stronger distribution by Canadian firms, could be effective in reversing the countries’ respective weaknesses.

For researchers, the study provides a large amount of data in an area that has not received much attention to date. The findings point to the usefulness of PCI studies within trade blocs and/or concerning trader partner countries with strong bilateral relationships, as well as to the need for more studies to test the validity of the scales used and the four constructs identified through the factor and reliability analysis. At the same time, the data also points to the need for more cross-national and longitudinal research given the differences that were observed both between the two countries sampled in this study and across the two time points involved.

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Table 1. Comparative U.S. and Canadian Trade Statistics

Trade measures		Total exports (billion US\$)	Percent of world exports	Exports- to-GDP ratio	Exports to Canada / U.S. as % of total	Share of Canadian / U.S. imports
U.S.	late 1980s*	\$220	12%	9%	20%	68%
	late 1990s*	\$580	12%	12%	22%	70%
Canada	late 1980s*	\$95	4%	24%	76%	18%
	late 1990s*	\$200	4%	40%	83%	19%

\* Approximate averages for 1986-1988 and 1996-1998

Table 2. American and Canadian Ratings of Products from Five Origins

Sample:	U.S.				Canada			
	original (n=265)		new (n=338)		original (n=299)		new (n=300)	
Study:	mean	rank	mean	rank	mean	rank	mean	rank
Origin								
Japan	5.3	1	5.6	1	5.2	1	5.5	1
United States	5.2	2	5.6	1	5.1	2	5.2	3
Canada	4.1	4	4.1	4	5.0	3	5.5	1
Sweden	4.2	3	4.2	3	4.2	4	4.4	4
Great Britain	3.9	5	4.1	4	4.3	5	4.2	5

Table 3. Factor Analysis of Product Scale (new study)

Sample:	U.S.										Canada							
Origin:	U.S.				Canada						U.S.					Canada		
Factor:	1	2	3	4	1	2	3	4	5	1	2	3	4	5	1	2	3	4
Workmanship	0.74				0.77					0.81					0.80			
Reliability	0.62				0.67					0.78					0.73			
Quality	0.83				0.82					0.79					0.78			
Service	0.73				0.66					0.66					0.55			
Good products	0.49				0.53					0.58					0.54			
Appearance	0.53				0.57					0.44					0.61			
Value	0.63				0.60					0.65					0.45			
Innovative	0.61				0.44					0.47					0.63			
Tech. adv'd			0.64												0.44			
Price level				0.69					-0.71					0.92				0.89
Variety		0.81				0.73						0.85				0.76		
Recog. brands		0.76				0.78						0.85				0.62		
Easy to find		0.51				0.48	0.56						0.78			0.73		
Know a lot		0.64				0.74						0.49	0.46			0.69		
Normally buy		0.71				0.80						0.61				0.69		
What I like			0.78				0.61				0.66					0.50		
Right for me			0.72				0.71				0.77						0.66	
Satisfied			0.54				0.62			0.53	0.50				0.41			
Proud to own				0.61				0.79			0.72						0.86	
Willing to buy		0.51		0.48				0.85			0.72						0.87	
% of variance	19.2	16.3	14.5	8.3	19.1	15.8	10.0	9.8	5.6	20.9	14.7	13.4	7.2	5.7	20.4	19.0	13.4	5.8
Total variance				58.4					60.4					61.9				58.7

Table 4. Reliability Coefficients

Study:	New				Original			
	Seattle		Ottawa		Seattle		Ottawa	
	Canada	U.S.	Canada	U.S.	Canada	U.S.	Canada	U.S.
Complete scale	.87	.88	.87	.88	.75	.75	.80	.75
Constructs: product	.85	.86	.87	.84	.74	.74	.81	.81
presence	.74	.80	.80	.76	.53	.45	.58	.65
response	.75	.76	.72	.83	.64	.75	.76	.73

Table 5. American and Canadian Views of the U.S. and Canada Over Time

Sample:	U.S.							Canada						
	Origin:	U.S.		Canada		U.S. vs. CA		Origin:	U.S.		Canada		U.S. vs. CA	
		Orig.	New	Orig.	New	Orig.	New		Orig.	New	Orig.	New	Orig.	New
Study:	b	c	d	e	f	g	h	i	j	k	l	m	n	o
Workmanship	*	3.7	<u>5.3</u>	4.3	<u>4.8</u>	CA	US	*	4.1	<u>4.7</u>	4.3	<u>5.8</u>		CA
Reliability	*	4.8	<u>5.2</u>	4.8	4.7		US	*	<u>4.9</u>	4.6	5.4	<u>5.7</u>	CA	CA
Quality		4.9	<u>5.3</u>	4.7	4.8		US	*	4.9	4.8	5.0	<u>5.7</u>		CA
Innovativeness		5.6	5.4	3.9	3.9	US	US	*	<u>5.7</u>	4.7	4.2	<u>4.9</u>	US	
Tech. advanced		5.9	5.6	4.1	4.0	US	US	*	<u>5.9</u>	5.5	4.8	<u>5.3</u>	US	
Value for money	*	4.0	<u>5.1</u>	4.3	4.4		US	*	4.6	4.9	4.2	<u>5.4</u>	US	CA
Service		5.0	5.3	4.2	4.3	US	US		4.8	4.8	5.1	<u>5.5</u>		CA
Price level	*	<u>5.3</u>	4.4	4.3	4.1	US	US		<u>4.6</u>	4.2	4.5	4.5		CA
Variety		5.9	6.2	3.8	3.7	US	US		6.0	<u>6.3</u>	4.6	<u>5.3</u>	US	US
Recog. brands		6.1	6.1	3.8	3.5	US	US		5.9	6.1	5.4	<u>5.3</u>	US	US
Know a lot	*	5.2	<u>5.8</u>	3.0	3.1	US	US	*	4.7	<u>5.5</u>	5.3	5.6	CA	
Easy to find	*	5.8	<u>6.3</u>	3.8	3.7	US	US	*	5.5	<u>6.6</u>	5.3	5.3		US
Normally buy		5.5	<u>6.0</u>	2.7	2.9	US	US	*	4.5	<u>5.5</u>	5.8	5.7	CA	
Satisfaction		5.4	5.4	4.6	4.6	US	US		<u>5.3</u>	5.0	5.6	<u>5.5</u>	CA	CA
Proud to own		5.6	5.8	4.6	4.6	US	US	*	4.7	4.6	5.9	<u>6.4</u>	CA	CA
Willing to buy		n.a.	6.2	n.a.	5.3	n.a.	US		n.a.	5.6	n.a.	6.6	n.a.	CA

\* Significant interaction effect at <0.003, in the U.S. and/or Canadian sample.

Underlined means: significant time main effect, at <0.003 (original-to-new study increased or decreased rating for the U.S. or Canada within either of the countries sampled).

U.S. vs. CA columns: significant origin main effect, at <0.003 (origin rated higher than the other by a sample in the original or new study).

## **Marketization Through Systems of Laws: People's Republic of China**

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### **Abstract**

Since 1978, the standing Committee Congress of People's Republic of China has adopted an unprecedented number of laws improving China's legal structure to put Democracy in the form of a system of laws with in the framework of monolithic Communist control. These legal structures enacted when the process of the Marketization stipulates such laws.

### **Introduction**

During the late 1978 the third plenum under the leadership of Deng Xiaoping and his "Practice Group" set in motion a series of major reforms by improving China's legal structure to put Democracy in the form of a system of laws with in the framework of monolithic Communist control. These legal structures are considered to be the turning point in the history of the People's Republic of China toward Marketization of the economy.

### **Research Objective**

This article specifically examines the significance of the development of the system of laws in which Marketized China's Soviet-Style Planned economy. Section I, examines the significance of the development of these regulations and laws specifically in: (1) the transformation of China's economy from a Soviet style planned economy to a more productive market economy, and (2) their contributions to GDP, and economic growth of China. Section II will look at the growth of the economy and volume of trade since 1978. Section III will examine trade policy, foreign investments, and foreign trading firms. Section IV examines the market reforms and the development of the legal system in different sectors of the economy, especially in the foreign trade sector, since 1978.

### **An Overview of The China's Economy**

China is the world's largest country after Russia and Canada, 9,596,960Km, slightly larger than the United States. The estimated population is 1,246,871,951 (22% of the world's population) with an estimated growth rate of .77% in 1999. In 1998 the Central Intelligence Agency estimated that the labor force was 696,000,000 (almost twice the size of the population of the United States and Canada combined). Of which 50% in agriculture and forestry (100 times larger than the United State's counterpart), 24% in industry, and 26% in services. China has 478,220Km irrigated land, self sufficient in food, and agriculture accounts for 19%, industry 40% and services 32% of GDP. Official unemployment rate in urban areas is 3% and 8%-10% in rural areas (World Factbook 1999). In 1990, 74% of women were economically active (Shwu-Eng and Webb 1993a) and according to a census 75% of women worked in agriculture (American Embassy 1992-1993). (Table-1)

Due to international trade and "open door" policy, China's GDP and Per Capita Income in 1988 had nearly doubled since 1979. The Value of estimated Real Gross Domestic Product of US\$121 billion in 1975, has increased to an impressive level of US\$960.90 billion in 1999. The real GDP growth of 6.1% in 1979, 11.2% in 1988, and 4.0% in 1989 (approximately one third of the rate of growth of 1988 GDP), due to the government's austerity policies to curb the increasingly dangerous more than 27% annual growth rate of inflation in urban areas (Central Intelligence Agency 1990). And 7.0% Real GDP growth in 1991, 12.8% in 1992, the highest rate of growth of GDP in the world (an increase of 20.8% in the value of industrial output), (American Embassy 1992-1993), and 7.3% in 1998 (State Statistical Bureau 1993-1999).

China in 1992 was the 11th largest trading nation in the world, up from 15th in 1991. China's global exports increased from US\$7,130 million in 1975 to US\$47.5 billion in 1988, US\$71.90 Billion in 1991, and US\$ 183.8 billion in 1998. The global imports increased from US\$5,580 million in 1975 (Central Intelligence Agency 1990) to US\$55.2 billion in 1988, US\$63.8 billion in 1991, and US\$140.2 billion in 1998. The U.S. firms share of the import market in China was estimated to be 7% in 1992 (Jonathan 1993). The trade share of GDP increased from 9% in 1978 to 36% in 1991 (Shwu-Eng and Webb 1993a) China has been running a global trade surplus specially with the United States. The trade surplus with the United States from 1988 to 1993 more than tripled, and in 1998 US\$56.9 billion.

China's economy is the world's third largest behind the United States and Japan, according to the Washington-based U.S.-China Business Council "China's economy may be the world's largest by the year 2010," (Miller 1993)

## Foreign Trade And Investment

In 1978 China's policy of opening the door to foreign trade, led to a nearly unrestricted export and highly restricted import policy. In early 1980 there were nearly 1000 and by the mid 1980 there were approximately 6000 foreign trading companies, according to the People's Republic of China (PRC) Trade Official an unmanageable number which includes many firms unable or unwilling to conduct business. In late the 1980's the numbers were reduced to about 3000 essentially State Foreign Trading Corporations (American Embassy 1993). In 1989 Beijing's economic goal was to control inflation which had reached 19% overall and nearly 30% in urban areas the highest in 40 years. To curb inflation, price control measures for production materials were reestablished, and monopoly power and controls over the raw material were increased. During this year, the State investment projects were cut by 20% also the number of corporations authorized to import certain products. Further China imposed greater control over trade, the imports of selected consumer goods and industrial inputs were banned, and the number of exported products subject to licenses, quotas, and bans were increased. About 70% of China's trade both export and imports are subject to either mandatory or guidance plans set by government officials (Central Intelligence Agency 1989).

After the Tiananmen Square incident the number of new investment commitments decreased by 65% to 70%, nearly 1000 U.S. investors pulled out of China (Laifman 1988; Denny 1990). Beijing undertook several measures to increase investors confidence among which, pledged not to nationalize or expropriate Sino-foreign enterprises<sup>ii</sup> (Siegel 1985). In 1991 when Beijing relaxed its austerity policies (Denny 1990), more than 25,000 foreign owned firms were reported to have contracts to invest in China, about 12,000 were in operation, all engaged in assembly of imported parts and components for export (Orr 1991-1992). In December 31, 1992 China phased out all its non tariff barriers (U.S. firms often cite China's foreign exchange controls and non convertibility of the China's currency as the most significant non tariff barriers to trade and investment), (U.S. Department of State 1993). Licenses are no longer required to import 3,000 kinds of goods. And reduced tariffs on certain imports, 3,371 items that were raised to a prohibitive level during the economic retrenchment program in late 1988, and will continue, (U.S. International Trade Commission 1994). In July 1993 there were nearly 4,000 Chinese Foreign Trading Corporations, large and medium enterprises, and Research Institutions with trading rights. (In 1950 there were only a few, by late 1960's and early 1970's as the economy grew, increased the demand for imports and production of export goods, the trade was handled through a dozen or so Soviet style State Foreign Trade Corporations for most major industrial groups and sectors). As more economic sectors developed export capability, resulted in creation of a few hundred centrally-managed trading firms with local branches, with pyramidal command and control, and 90,000 plus foreign-funded enterprises which are also entitled to trading rights. In January 1993, 839 large and medium Enterprises, and 100 Research Institutions were granted trading rights (American Embassy 1993).

According to Chinese figures foreign investment with utilized direct investments in China in 1992 exceeded US\$11 billion, an increase of 160% over 1991, US\$500 million in 1992, the United States ranked 4th in utilized direct investments. The contracted direct investments more than quadrupled in one year, and reached nearly US\$58 billion in 1992 (Central Intelligence Agency 1993b).

Foreign-owned firms have contributed significantly to the growth of exports in China, in 1985 foreign owned firms accounted for only about 1%, and in 1990 increased to 17% of China's total exports, almost three quarters of the growth of exports (Orr 1991-1992). Since 1979 there has been a gradual decentralization and dispersion of trading rights and systems.

In 1949 after Communist take over, Marxism and Leninism, Mao Tsetung's theory of State and Law, and the "New Democracy's" policy ruled China. The earliest legislation of the People's Republic of China (PRC) on patent and innovations after the Communist victory dealt with the problem by replicating the Soviet models (Zhongyang Renmin Zhengfu Faling Huibian 1952). The reward to the patent was minimal, and proportional to the amount of money saved by society in the twelve months after such invention for a period of three to five years. Foreigners could apply for a patent or certificate only if they resided in China. Only six certificates of authorship and four patents were recognized before the political climate changed in 1963 (Ramjerdi and D'Amato 1995).

To draw advanced foreign technology, and to facilitate trade and establishing a legal framework for foreign interchange China enacted its first patent law in April 1985. One of the reasons for China's accelerated growth in China is the opening of the economy to foreign trade and foreign investment (1995), which increased exports, in turn removed the foreign exchange bottleneck..

On June 4, 1991, the new Computer Software Protection Regulations went into effect. In addition, on January 17, 1992, the Memorandum Of Understanding (MOU) was signed between the United States and China to provide significant improved protection for U.S. investments and copyrighted works, including software and sound recordings, and to adopt rules and

regulations for the protection of trade secrets.

Intellectual property rights are unclear concepts in China. Because of Communism's rejection of individual property ownership, coupled with the newness of intellectual property rights in China's legal system, intellectual property has a precarious place in China's legal scheme. Because of the limited enforcement of intellectual property rights and serious trademark infringements, U.S. companies are faced with the risk of investment and technology transfer, (Ramjerdi and D'Amato 1995).

### **Marketization Through Laws And Reforms**

In 1949 when the Communist took over China, the Chinese Communist Party abolished all the laws and the judicial systems of the Nationalist Regime and the Kuomintang's Complete Book of Six Codes (Zhuanli fa Zuigin liufa Quanshu 1981). The term "Complete Book of Six Codes," refers to a whole body of Laws including the Constitution, Criminal, Civil and Commercial, and was replaced by Marxist and Leninism, Mao Tsetung's theory of State and Law, and the "New Democracy's" policy (Mao Tsetung 1977). Between the years 1949 and 1976, more than 4000 laws and regulations had been established, of which 1500 were enacted or approved (Lan, Quanbu, Sanshi nian lai woguo fagui yange gaikuang 1980).

On November 3, 1963 as the country pressed for "Self Reliance" and industrialization, the systems of checks and balances between courts were completely abolished, civil disputes were handled by informal or non judicial agencies. People's Daily openly praised lawlessness, the Gang of Four instructed the Red Guards to smash the police organs, and courts ("In Praise of Lawlessness" 1967). Mao favored the rule of man over the rule of law, and promoted the idea of continuous revolution which does not easily lead to building of firm legal structures (Mao 1977), coupled with the restricted trade policy of the Western Countries with the Communist Block, China was near autarky.

After Mao's death in September 9, 1976 and the fall of the Gang of Four which is considered the end of the Cultural Revolution, and Mao's isolationist policy, the view toward a whole range of economic and legal issues began to shift away from Orthodox Marxist ideas of 1950-1978. The third plenum of late 1978 under the leadership of Deng Xiaoping and his "Practice Group," set in motion a series of major reforms which are considered to be the turning point in the history of the People's Republic of China (Yahuda 1993).

Since the late 1978 and the beginning of the 1979 Deng Xiaoping begun the process of improving its legal structure to put Democracy in the form of a system of laws (Selected Works of Deng Xiaoping 1983). Deng moved China's economy from the Soviet-style centralized and monolithic political-socioeconomic system, in which control over capital and human resources, information and economic decisions were in the hands of the political bureaucratic elite (Jowitt 1978), toward a more productive market oriented economy with in the framework of monolithic Communist control.

In 1980 Deng called for a reform plan for the "Economic Structure" which proposed that China should develop a commodity (Market) economy which would be regulated by central "guidance" rather than a mandatory plan, "Planned Commodity Economy" (Interview with Liu Guoguang 1978). The dual strategy of economic reforms with cautious political changes, caused the process of Marketization to be gradual, and through ownership reforms (Delfs 1989). The reform measures amounts to a qualified decentralization, and structural change. In agriculture, responsibility was given to a system of household (geti hu). In industry the authority of local officials and plant managers was increased, a wide variety of small-scale enterprises in services, light manufacturing were permitted, and opened the economy to the foreign trade, foreign investment, and the special economic zones (Central Intelligence Agency 1989).

In the agricultural sector, the reforms laid a groundwork for other reforms, the commune system (800 million people in the countryside) was replaced by the new "responsibility system," the actual management of farming decentralized to the level of individual households, emphasizing the promotion of self-sufficiency for the key commodities. According to one study "China's rural reform, in which communes were to some extent privatized to their members, stands as the most impressive example of property rights reform among Socialist Economies"(Hardt 1986; Fischer and Gelb 1991). In 1978 for the first time provisions were made to allow individuals in a collective work unit to receive a monetary reward based on the contribution of the individuals to the project (Longheng and Jianlun 1981). In 1984 more than 95% of agricultural production came from individual households (Shwu-Eng and Webb 1993a). In 1986, as a result of these reforms, between 1978 and 1985 the number of free markets doubled in agriculture. The proportion of agricultural commodities that had their prices set by the state was reduced to nearly 30%, with 26% "guided" by the state (free fluctuation of price within a set limit), and 40% through market forces. These reforms lead to establishment of highly profitable agricultural enterprises "township and village enterprises" (Qiang and Jianjun 1988). But, the urban rationing system remains intact (Shwu-Eng and Webb 1993a). In 1992 more than 60% of agricultural commodities were traded in open markets. In 1990 there were 72,579 open agricultural markets in China, 59,473 in rural areas, and 13,106 in urban areas (Crook 1993a).

In the industrial sector the Bankruptcy Laws (Cheng 1987) and the Enterprise Law went into effect, the policy was

designed to resolve the chronic debt, low efficiency and heavy losses of State run enterprises. The Enterprise Law separates factory management from government interference. This Law grants the individual factories the responsibility for their profits and losses. Allows state enterprises to choose supplies, hire and fire labors, set prices, raise finance capital, and to contract with foreigners ("Laws of People's Republic on Industrial enterprises Owned by the Whole People" 1988). In 1992 Beijing published regulations on changing management mechanisms at State Enterprises. State Enterprises manufacture such products as heavy equipment, primary products, and energy and are the major provider of downstream services to joint ventures. And Non-State Enterprises are in light manufacturing, services, and high technology products. These regulations granted State firms greater operational autonomy in 14 areas. In 1992 the numbers of companies in China were 480,000, of which 13,000 large and medium size state enterprises, produced nearly half of China's industrial products, and were a key source of state revenue (Central Intelligence Agency 1993b). Some of the state enterprises due to price controls therefore lack of profit, are under government subsidies, these subsidies constitute 14% of the government's budget, (Shwu-Eng and Webb 1993b).

In the labor market the wage reform started in 1978 in order to increase incentives and productivity. The measures to increase productivity included the replacement of job tenure system by salary scale, bonuses, and allowing management to hire and fire labor freely. Developing local urban collective enterprises to absorb the unemployment due to increase in labor productivity, and labors are given more freedom to find their own jobs. China does not have a labor code, collective bargaining is not permitted, no minimum wage laws, regulations set a basic "living wage" which varies from city to city. Only in Chinese foreign joint ventures workers have the right to form unions over wages and benefits, the maximum work-week is 48 hours (U.S. Department of State 1993). The All China Federation of Trade Unions (ACFTU) is the only legal trade union and is under the control of the Communist Party. The 1982 constitution outlaws strikes on the grounds that the socialist political system had resolved the conflicts between the proletariat and enterprise owners. However, the 1992 Union Law allows "withdrawal from work," if the local union and its safety official find the work place to be unsafe. The 1988 "Women's Protection Laws" provided the non-rural female workers with a minimum of 3 months maternity leave and child care benefits, which lead to hiring discrimination of females. In 1989 the labor reforms were abandoned due to political unrest. In 1992 the "Law on Protection of Right and Interests of Women" was passed, the law specifically prohibits discrimination in hiring or firing based on pregnancy, maternity leave or childcare. While this law prohibits discrimination in employment, leaves open the suitability of physical labor to women, (American Embassy 1992-1993). The Child Labor Laws of April 15, 1991 prohibited the employment of children under age 16 who have not finished 9 years of compulsory education, (Almanac of China's 1992/1993b). In recent years real progress has been made in expanding retirement and unemployment insurance programs. China has abandoned its traditional use of convict labor for building the infrastructure projects, but in China any person sentenced to prison or forced labor camps is required to work, the "Reform through Labor" and "Reeducation through Labor" systems, with little or no compensation (American Embassy 1992-1993).

In 1984 China announced urban reforms, today in the cities Maoist Orthodoxy has been replaced by consumerism. On May 1, 1998, the Price Law, (Volker 1998) with its groundbreaking provisions on antitrust and consumer rights became effective. The law is designed to prevent price collusion, dumping, spreading rumors about price hikes, attracting business through deceptive pricing, discriminating against particular business operations, manipulating prices by incorrectly categorizing commodities, illegal profiting, and other illegal pricing activities. The Price Law also addresses the recent consumer complaints of exorbitant prices of medical care, education and public welfare services. This consumer advocacy approach has made the policies of "from the masses, to the masses," an approach of the past and reflects the new era of governmental concern for long run consumer rights, welfare, and sovereignty.

In 1985 started technology and science reforms to link research with economic needs of China (Hardt 1986). In 1992 the reforms were geared to maintaining urban support, the enterprises were given more decision making autonomy over personnel, and reducing the government control over wages in state enterprises. In 1993 quotas on the numbers of personnel were lifted, each enterprise was given the maximum total for wage bills, and the government stopped imposing salary caps on wages in the other types of venture (American Embassy-Beijing 1992-1993). The wage cap regulations were issued in 1990, which stipulates, wages paid to workers in foreign-invested joint ventures may not exceed 120% of wages paid to workers in the state enterprises, a higher wage must be approved by the Local labor Bureaus (U.S. Department of State 1994a).

In 1993 China started to reform its input supply systems by allowing a wide variety of businesses owned privately, collectively, or by the government to deliver input to rural areas. Of all input markets, since land is owned by either the national government or by the small economic co-operations, Land Markets are the least developed, now and then small plots of land are sold in Special Economic Zones and in large urban areas. Sale of farm land is rare but the land contracts could be subcontracted (Crook 1993b). China's Capital markets are not fully developed many companies cannot efficiently and effectively finance their projects, information systems are not fully developed. During the Cultural Revolution advertising ideologically was unacceptable. Only in early 1979 government policy changes allowed domestic foreign advertisers (Eastlack

and Kraemer 1990). The central, provincial and county governments, publishes limited amounts of statistical data on markets, newspapers, TV, and radio began to report price information (Crook 1993). The use of interest-rate policy in developing debt instruments such as bonds and stocks have been successful to a certain degree (U.S Department of State 1994). All these reforms constitute the most critical steps for transition of a regime of centrally controlled prices to a system in which prices are determined by market forces in a competitive environment.

Perhaps one of the most significant elements of China's reform is the "Opening To The Outside" (Duiwai Kaifeng) policy of 1978 toward foreign trade and investment and the renunciation of the "Self Reliance" (Zigei Zizu). The recognition of China's need for foreign trade, investment and technology in order to modernize the economy. In order to reconstruct the economy, promote modernization, and growth, China had to make effective use of technical cooperation and international economics (Chen 1992). Since 1979 China's promotion of trade resulted in an average rate of growth of imports of 11% and exports 13% per year and the trade share of GDP increased from 9% in 1978 to 36% in 1991 (Shwu-Eng and Webb 1993a). In 1993 the value of output from foreign funded enterprises rose by 64%, as opposed to collective enterprises by 42%, and state enterprises by 9% (Shwu-Eng and Webb 1993b).

China in 1980 joined the International Monetary Fund (IMF) and the World Bank in order to access a new source of funds and technical assistance (Jacobson 1990). China was a member of GATT from its founding in 1947, (the Republic of China) resigned the seat in 1950, the country received observer status in 1982, in 1986 officially applied for membership in World Trade Organization formerly known as General Agreement on Tariffs and Trade (GATT). After almost 13 years of negotiations, the People's Republic of China and the United States have agreed to the terms that would allow China to join the World Trade Organization. As a part of this agreement China pledges to reduce tariffs on agricultural and industrial goods, and make it easier for U.S. banks, insurers, and Telecommunications companies to do business in China (Clinton 1999). Given the fact United States is China's number one export market, this pledge give the US exporters a competitive edge in China's markets.

To encourage foreign trade, the monopoly power of the 12 State-Owned foreign trade corporations was reduced by allowing local authorities and enterprises to set up their own trading corporations. Later, these corporations were given expanded power and autonomy in management, and independence in financial responsibilities (Chan 1987).

The recognition that modernization, technological advances, increase in agricultural and industrial productivity, increase in export (to obtain foreign exchange), growth, and wealth depends on imported capital and technology, China increased its commitment to export growth, and began to accept production contracts that required the use of foreign trademarks. On October 29, 1979, Shanghai People's (official) Radio announced that it would broadcast foreign exchange rates to provide a measure of daily progress in foreign economic activities. China placed diminishing emphasize on the differences between Capitalism and Socialism. The editorial of the People's Daily on January 4, 1983 asserted that nations active in international trade have achieved a faster rate of growth and admired capitalist countries of Singapore and Brazil for their trade achievements (Hsu 1983).

In 1972 President Richard M. Nixon established a relationship between China and the United States of America and signed the Shanghai Communique. This treaty showed China's willingness toward a more "Open Door" policy. In 1978 the United States and China normalized a full diplomatic relationship, (Eastlack 1990).

In 1979 China negotiated a new bilateral trade agreement with the Western world, the first US-China mutual agreement in thirty years, which calls for each nation to offer Copyright, Patent, and Trademark protection equal to the protection correspondingly accorded in the other country. In 1992, China and The United States signed a Market Access Memorandum Of Understanding (MOU) that commits Beijing to further reduction of barriers to trade and improvement of protection of U.S. investments, Trademark Works and Trade Secrets. The Sino-Japanese agreement of 1979 to 1990 with a projected value of \$60 billion, and a new five-year trade pact was agreed upon covering the period 1991-1995. The Textile Export Agreement of 1979, doubled China's annual quota with the European Economic Community (EEC). In mid-1980's China Sino-Soviet trade started to grow rapidly much in the form of bilateral barter with total value less than US\$3 billion per year, but at a much lower rate of growth than with the West. China also renewed its cultural and economic ties with the Soviet Union by allowing them to repair and develop some of the industrial projects they had abandoned in the 1960's (Lardy 1987).

Deng Xiaoping vision of the new economic structure, a "Socialist Market Economy" included money, capital goods, technology, land use rights, labor services, stocks and bonds, a flexible organization of production and distribution to allow the separation of ownership and management. And the sources of income beside wages should include rent interest and dividend, the progress in building these areas would automatically create price reforms (Fewsmith 1988). Deng emphasized the importance of strengthening of the "Socialist Legal System," to build a "Socialist Market Economy," and enacted an impressive number of important laws to govern economic relations and policies of "strengthening the legal system" (Byrne 1984).

1978 National People's Congress promulgated regulations encouraging inventions. In July 1979, only seven months after the Communist Party Central Committee established "open door" policy, a whole set of body of laws went into effect to support trade, including Joint Ventures using Chinese and Foreign Investment, Registration and Labor-Management Regulations for Joint Venture, Environmental Protection, and approved the establishment of the three Special Economic Zones (SEZs). Chinese regard the SEZs as places for the "Observation, Study, and Experimentation" with "strategic meaning" for the future of China as a whole, are designed after the free trade zones and export processing zones which have emerged since the end of the World War II. SEZs accounts for 80% of the joint ventures and other forms of economic co-operations. In 1980 another SEZ and "The Act" the first formal piece of legislation on special economic zones was issued. "The Act" establishes a broad framework of policies and incentives for foreign companies investing in the special economic zones, including joint equity ventures, wholly owned subsidiaries, and provided a number of preferential polices, including tax rate for foreign investment projects (Timothy 1984). These SEZs allowed foreign companies to have wholly owned investment projects, which were not available in other parts of China. The regulation governing the control of Standardization and Academic Decrees also went into effect in 1980.

July 1981, China set up a Technological Economic Research Center, Center for Pricing Research, and an Economic Law Research Center, (which played a key role in making of Economic Laws), all under the State Council (Ming Zheng and Shih 1982). The Economic Contract Laws adapted in December 1981 gives detailed assignments and responsibilities for breaches in various kinds of business agreements, including "contract system," the regulations for hiring labor by foreign ventures, joint ventures and cooperative enterprises (Gellat 1984).

In 1982 the Constitution was promulgated. One of the main goals was to open up the country so that it might become a major participant in the world economic community. Article 18 of the Constitution permits foreign enterprises, economic organizations, and individual entrepreneurs to invest in China to form various alliances with Chinese counterparts. This article also protects the lawful rights and interests of foreign investors as long as they act in accordance to Chinese law<sup>iii</sup>(Zhonghua Renmin Gongheguo Xianfa 1988; Powelson 1990). Also in 1982 the first Administrative Civil Procedure Law in the history of PRC for provisional use was promulgated, filling a major gap in the legal system. This Law allows citizens to sue officials for abuse of authority or malfeasance (Bureau of Public Affairs, 1994). The Trademark Laws implemented, and the Regulations for Joint Venture, the Regulations on Business Registration, Labor, and Entry/Exit for Special Economic Zones went to effect (Gelatt 1984).

China in 1984 added 14 Economic Development Zones (EDZs) in the coastal cities, functions basically the same as SEZs, which opened up the possibility of wholly owned investment not only in 14 EDZs but also just about any part of China that a foreign company wants (Gelatt 1984). Approved the nations first patent law to be effective April 1, 1985 which recognizes products of intellectual labor as a form of individual wealth giving rise to propriety rights and having measurable economic value, and allowed patents for inventions, utility models, and designs (Byrne and Theroux 1984). In 1984 China also enacted the Regulations on Licensing of Imports/Exports, and Foreign Exchange Laws, which allowed the exporting of local foreign trade corporations and private firms to retain the right to 25% of their foreign exchange earnings. Also the foreign-owned firms were permitted to trade foreign exchange in a newly established foreign currency market (Orr 1991-1992). PRC has a dual currency system, Renminbi (RMB) for Chinese and Foreign Exchange Certificates for foreigners including Chinese overseas (Eastlack and Kraemer Watkins 1990). In late 1986 the Foreign Exchange Adjustment Centers (commonly known as SWAP centers) were established in nine cities, to allow the trading of enterprise's foreign exchange, or foreign exchange retention quotas. The trading methods differ from center to center but the rates are determined daily through market negotiations, the Chinese people were allowed to trade in SWAP Centers in 1990. As a result of SWAP centers in 1991 US\$15 billion foreign exchange was available, which has destroyed the black market in foreign currency. The Chinese government uses the SWAP center rates as one of the indicators of the value of Renminbi (U.S. Department of State 1994a).

In 1985 the Foreign Venture Tax Laws, Foreign Enterprise Income Tax Laws, Provisional Regulations Governing Administration of Insurance entities. Accounting Regulations of the PRC for Joint Venture using Chinese and Foreign Investment, Personal Income Tax Laws, and Regulations of Customs went into effect (Almanac of China's 1992/93b) Foreign Economic Contract Law<sup>iv</sup> (Zhonghua Renmin Gongheguo Shewai Jingji Hetong Fa 1985). The Northeastern industrial capital of Shenyang issued the first Bankruptcy Law in 1985, and the "Enterprise Bankruptcy Law of the People's Republic of China" went into effect on November 1, 1988 (Cheng 1987).

In 1989 the joint venture laws were amended by permitting foreigners for the first time to function as Chairman of joint venture firms, and to operate in perpetuity (Central Intelligence Agency 1990). The Standardization Laws also went into effect in 1989, which provides a legal basis for cracking down on fake products, carrying out the system of product authentication, and the adaptation of international standards ("Standardization; Development of Standardization in China," 1989/90).

Between 1949 and 1979, stock markets were considered incompatible with a socialist economy. The progress of reforms opened Shanghai Stock Exchange in June 1990, and a second Stock Exchange Market opened in the Shenzhen in 1991. Only Chinese nationals could buy shares (A shares) in these markets, in 1992 a separate class known as B shares was created for the foreigners, the companies seeking B shares, one year past results are audited, and must adopt the international accounting standards (Curran 1994). By the end of 1998, 851 companies were listed on the stock market (Zaloom Hongchaun and Liu 1999). China Bicycle Company was one of the first Sino-foreign joint ventures to list shares on China's new securities markets in 1992 (Baldinger 1993). In December 1993 China adopted the "Company Law" recognizing the ownership rights of the shareholders, which went into effect in July 1995. A Bermuda based holding company that represents 51% of a major Chinese-owned automobile producer along with three other companies were listed on the New York Stock Exchange in 1993. The Qingdao Brewery became the first Chinese State Enterprise to list shares directly on the Hong Kong bourse in June 1993, six of the leading enterprises were restructured along Western lines to list their shares in the Hong Kong Stock Exchange, since, the combined market value of approximately \$1.9 billion. In 1994 three additional mainland companies were listed stocks, in Hong Kong Stock Exchange, and another 22 companies are being organized. The Chinese Companies trading on the New York and Hong Kong Stock Exchange Markets are audited, and must have their past three year results adopted to the international accounting standard (Curran 1994).

With development of stock markets, ordinary Chinese suddenly found a new way, perhaps more precisely, a new method of making money quickly. But the new markets have been a disappointment for most investors. As many observers have pointed out, Chinese securities markets are driven primarily by rumor and speculation, not the overall economic situation or the financial health of the listing companies themselves (Zaloom Hongchaun and Liu 1999). As a result, the markets have been extremely volatile and often racked by fraud and scandal. The inattention to firms' financial fundamentals and the resulting volatility rests not just with unsophisticated individual investors. The most basic government policies and their implementation are also responsible. Until very recently, China's government has looked upon the securities market primarily as a means by which to drain Chinese individual savings for the benefit of favored state-owned enterprises. Access to securities market have been strictly controlled, and approvals for new listings have been granted as much for policy and political considerations as because of market fundamentals. Majority-share control of listed state enterprises, stays with the state, which has created two ownership categories of shares that do not trade on the open market "state owned" and "legal person." Foreign participation in the securities market is permitted, only through special category of ownership shares reserved exclusively for foreign investors, B shares (listed domestically) and H shares (listed Overseas), and A shares, are reserved for Chinese investors (Leung 1999). This makes markets divided into several ownership categories permitting no cross trading, and most stock-issuing enterprises not always run on a profit maximizing rules, it is not surprising that China's stock markets suffer from price volatility and inattention to fundamentals.

On December 29, 1998 the Standing Committee of the National People's Congress adopted the Securities Law of the PRC, which came to effect on July 1 1999, China's first comprehensive national law on securities. The Securities Law aims to curb the fraudulent practices and frequent volatility that have come to characterize China's stock markets since their establishment in early 1990s. The law does not contain many breakthroughs, brings some substantial changes, such as banning banks and state companies from trading in stocks. Banning brokerage firms from mixing their own and clients' money to trade shares, to curb fraud and other wrong doings in the securities market imposes criminal liabilities and harsh penalties and giving the China Securities Regulatory Commission (CSRC) sole authority over all aspects of the securities business. However, the 1999 Security law fails to provide any detail about civil remedies available to victimized investors, or the right of the shareholders to sue the company and its directors, officers, and underwriters for investment losses suffered as a result of inadequate or inaccurate disclosure (Zaloom Hongchaun and Liu 1999).

In 1991 a selected foreign owned bank was allowed to open branches in Shanghai (limited operations of foreign banks were allowed in Special Economic Zones since mid 1980's), and seven more cities were added to the list in 1992 (Central Intelligence Agency 1993b). Also in 1991 the Copyright Laws went into effect, ("Implementing Rules" 1993) In 1992 China adopted the Harmonized System for custom classification and statistics (U.S. Department of State 1994b). Beijing abolished the "Import Adjustment Tax," the American Insurance Group was allowed to open an office in Shanghai becoming the first foreign insurance firm to operate in China since the Communist take over. And the United States and China signed the Intellectual Property Rights Memorandum of Understanding (MOU), committing China to improve protection of Copyright, Patent, and Trade Secret Laws including strong protection for U.S. inventions and copyrighted works, computer software, sound recordings, and trade secrets, as well as reducing trade

barriers (Central Intelligence Agency 1993c). Also in 1992 Beijing allowed the constructions of the first Free Trade Zone by a foreign-led consortium (Cheng 1992). Effective January 1, 1993 the new amended Trademark Law went into effect and enacted amendments to the Trademark Laws and supplementary provisions to the Criminal Laws adding penalties for trademark infringements, and recognizes services (Office of the U.S. Trade Representative 1993). Service sector is "unproductive" or "Capitalist" according to Marxism and was neglected in China. In 1993, the Beijing authorities announced that they would soon declare the Banking Laws that would make the People's Bank of China as an independent Central Bank and help transform state's specialized banks into Commercial operations (Central Intelligence Agency 1993a).

On July 1, 1993 China enacted the Business Accounting Laws and on December 29, 1993, the National People's Congress enacted a revised accounting law to emphasize the need for a unified national accounting system. China has more than 70 accounting systems, different types of enterprises run by different government departments, who have different ways of accounting. The country's accounting system remains as major obstacle for foreigners to engage into a contract, (Swanz 1995).

The new legal policies involved the restoration of lawyer system (in early 1950 the PRC had adopted the Soviet system of collegiate lawyers, and since mid 1950's till the fall of Gang of Four practicing lawyers did not exit). The training of lawyers and trained legal aids is now high priority in China, but the continued scarcity of such professionals complicates the delivery of legal services in courts. In 1979 four "Political Legal Institutes," were established. The Beijing Political Legal Institute since has merged with other institutions to form (Zhongguo Zhengfa Daxue) the China Political Legal University (Hou 1978).

China's emphases on achieving "economic efficiency" by means of a system of policies, regulations, and laws with socialist values (Gelatt 1984). All these regulations, laws and reforms improved China's economic growth and international trade efficiency, and showed China's willfulness to accept international standards and the principle of comparative advantage and free trade. Reforms, typically represents policy changes and a minor system adjustments, but do not fundamentally alter ideas or institutions. As Lester C. Thurow (1980) puts it, no matter how successful it is in promoting greater efficiency, policy changes can only be insufficient in answering the development needs of the Soviet style systems. Some would contend that not only the improvements of techniques, fine adjustments, and reforms are needed but also fundamental systemic changes, even revolutionary changes are required. Accordingly, the demand for change goes beyond efficiency, it encounters institutional changes.

## **Conclusion**

China has the world's largest consumer market, with a population more than US, the 12-nation European Community, Japan, and the former USSR combined, and according to the 1993 report of the International Monetary Fund China's economy is the world's 3rd largest. Since 1978 "Open Door" policy, China's economy has been growing at an average rate of 9% per year the highest rate growth of GDP in world history. In 1994 China's economy was four time bigger than 1978 and with in decades will double again. Economic growth and marketization of the People's Republic of China economy since 1978 sets a precedent for other new market economies (Chen Kang Jefferson and Singh 1992). China's market economy is growing at such a fast rate that a survey of top Japanese companies showed that 92% of them plan to invest in China over a three-year period. Morgan Stanley, securities firm, declared China would be "The world's most profitable investment opportunity for the next 10 years" (Swanz 1999).

China's "Open Door" policy and mutually beneficial trade promotions are those which promote trade relationships and enhances consumer demand, in fact "there is a close association between trade promotions and consumer promotions" (Kasulis Morgan Griffith and Kenderdine 1999). China's willingness to depart from the former Soviet Style economy to a more productive market economy has increased the purchasing power of the world's largest consumer market. In 1993 the choices for consumer goods doubled, and despite of the 17% inflation rate, sales volumes increased (Swanz 1999).

China's enactment of "Price Law" is a major step forward in protection of legal rights of the consumers and promotion of competition in the business sector. It provides the ground breaking departure from a planned economy of "masses to masses" and ensures the "allocative" and "productive" efficiency of resources, the consumer sovereignty that is necessary for growth in the global economy.

**Table-1**  
**China's GDP and its Growth Rate, Trade with World, and United States 1986-98 (US\$ billion)**

Years	GDP <sup>v</sup>	GDP Growth rate <sup>vi</sup>	World Exports <sup>vii</sup> (f.o.b.)	World Imports <sup>viii</sup> (c.i.f.)	US Exports <sup>ix</sup> (f.a.s.)	US Imports <sup>x</sup> (c.v.)	U S Balance
1986	212.10	7.8	30.9	42.9	3.1	4.8	-1.7
1987	250.50	9.4	39.4	43.2	3.5	6.3	-2.8
1988	316.40	11.2	47.5	47.5	5.0	8.5	-3.5
1989	364.90	4.0	52.5	55.2	5.8	12.0	-6.2
1990	405.00	11.0	62.1	59.1	4.8	15.2	-10.8
1991	406.35	7.0	71.9	63.8	6.2	19.0	-12.8
1992	483.45	12.8	84.9	80.6	7.5	25.7	-18.3
1993	601.29	14.0	91.7	104.0	8.8	31.5	-22.7
1994	541.49	12.6	121.0	115.6	9.3	38.8	-29.5
1995	691.42	10.5	148.8	132.1	11.8	45.6	-33.8
1996	817.00	9.6	151.1	138.8	12.0	51.5	-39.5
1997	901.96	8.8	182.7	142.4	12.8	62.5	-49.7
1998	960.90	7.3	World Exports <sup>vii</sup> (f.o.b.)	World Imports <sup>viii</sup> (c.i.f.)	140.2 US Exports <sup>ix</sup>	US Imports <sup>x</sup> (c.v.)	-56.9

**Table-2**  
**Foreign Investment in China 1986-1991<sup>xi</sup>**

Years	Number of Contracts	Amount Contracted (\$US Million)
1986	1,498	3,300.0
1987	2,233	4,300.0
1988	5,936	6,200.0
1989	5,779	6,300.0
1990	7,273	6,600.0
1991	12,978	11,900.0

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ii.2 China's recent history has witnessed substantial expropriation of foreign investment, along with ambiguity of the Chinese official position, re-enforced wariness on the part of foreign investors (Denny 1990)

iii.3 Chinese recognize Articles 4 of Resolution 1803 of United Nations adopted in 1962 which requires "appropriate" compensation as an element of a legal expropriation (Siegel 1985).

iv.4 Zhonghua Renmin Gongheguo Xianfa [1982 Constitution] grants property right (neither political nor freedoms) only to foreign nationals or enterprises, and that the foreign nationals have certain civil obligations such as fulfilling their contractual agreements, paying taxes, and observing the applicable Chinese laws. Property interests in patents, copyrights and most other kind of property foreigner have the same rights as Chinese citizen. The Constitution was amended in March 1988 to give certain Chinese-owned business enterprises the power to buy and sell the right to use property.

v.5 The 1985 Foreign Economic Contract Law applies to all contracts between Chinese and foreign entities except international transport contracts, which provides evidence of China's willingness to subordinate some of its own sovereignty to international legal norms in order to participate in the global economy.

vi.6 1986-1990 GNP was calculated in US\$ by using GDP in local currency and dividing by exchange rate against US currency in International Marketing Data and Statistics 1994; 183 and 219. 1991-1993 GDP was taken from Shwu-Eng and H. Webb, 1993a: 3. 1994-1997 GDP source: China Statistics. 1998 GDP, Source "China at a glance" World Bank 9/2/1999 Data.

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## Addressing Oversights in the Regulation of Violence in Children's Television

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### Abstract

Levels of violence are higher in commercials than in the programs in which they appear. The authors propose that rating systems for programs include the advertisements as part of a block offering in the overall rating. They also suggest programs be rated on an act of violence per minute scale.

### Introduction

Headlines in recent newspapers demonstrate the levels of violence to which children are sometimes subjected in their day to day life. Parental groups, concerned about a link between television violence and violent actions by children, have exerted sufficient pressure on lawmakers that changes in legislation have been made requiring all televisions sold in the U.S. to include the V-chip (Morris and Moret 1999), shifting control of program viewing to parents. The purpose of this study is to look at the effectiveness of the V-chip in its ability to allow parental control over exposure to violence.

### Violence And The V-chip

Violent acts are often depicted in scenarios that indicate little or no permanent damage to person or property results from the violent actions taken. The lack of visual cues or sanctions for violent behavior and/or consistent exposure to violence may serve to desensitize children to acts of violence (Greenberg 1975). "A child today sees between six and eight acts of violence per hour on prime time television," says Dr. George Gerbner, a communications professor at the University of Pennsylvania (Sun Sentinel 1992). Multiply this by the number of television programs to which a child is exposed daily and it becomes obvious that children quickly learn to problem solve using violence, with no negative consequence.

The major networks indicated to legislators that they would voluntarily self-police children's programming to address concerns about violent content. Anderson (1997) found that Congress agreed not to legislate television programming, provided the rating system was honored by the broadcast community. There is evidence that this voluntary compliance is not occurring. Congressman Ed Markey reported that national violence advisories fail to inform parents as networks are not trying to get warnings into TV listings. (Zurawik 1994).

Therefore, even with mandatory inclusion of the V-chip in all new television sets, parents cannot rely on content descriptors to identify programs containing violence. Furthermore, current ratings are based on age, rather than content (Paige 1998). This means that parents must rely on very generalized knowledge regarding television programs to assist their children in the selection of appropriate viewing choices. A logical assumption is that selecting the non-violent programs would ensure that exposure to violence on television would be minimized. In their study on the role of program arousal on television viewers, Broach, Page and Wilson (1995) found that lowering exposure to television violence may not be as simple as selecting the programs children watch. "While commercials are created in isolation, they are not viewed in isolation. Instead, viewers encounter commercials in the context of television programming rather than as stand alone segments of information and entertainment" (Broach, Page and Wilson 1995). Television commercials also portray acts of violence; however, analysis of violence levels in television commercials has gone largely unexplored.

### Indicators of a Weakness with the Current Rating System

The first indicator of a weakness with the current rating system is that violence in commercials is not regulated by the Federal Communications Commission (FCC), but rather by the Federal Trade Commission (FTC), which acts as a consumer protection agency. While the FCC ensures that the violence level in children's programming is monitored, the FCC does not mention the rating of commercials. In its statement on programming principles, the National Association of Broadcasters ignores advertisements (Anderson 1997). Different standards exist for television programs and for the commercials that appear within them, and only the programs have violence limitations placed on them, thus: **H<sub>1</sub> - The rate of violence in commercials will be higher than the rate of violence in the program in which they appear.**

### **The Link Between Program and Commercial Violence**

High program induced arousal [violence] decreases the viewer's recall of subsequent commercials (Pavelchak, Antil and Munch, 1988). Supporting this finding, Mundorf, Zillmann and Drew (1991) found that viewers experience a cognitive deficit after viewing an emotionally arousing television program. Praasad and Smith (1994) have indicated that these "distraction effects" can be even more pronounced in the case of children versus adults.

Given that high arousal programs decrease viewer recall, it is evident that advertisers must grasp the attention of the viewer. In a high arousal program, this can be accomplished by airing a commercial that has an even higher arousal level than the program in which it appears. If the arousal in programming is due to violence, the increase in arousal levels would be achieved by airing a commercial that incorporates higher levels of violence than the program in which it appears. If a program has low levels of violence, there is no need to have overly violent commercials, however when high levels of violence are present in the program, to curb cognitive deficit, the commercials need to have similarly arousing content. **H<sub>2</sub> - The level of violence in commercials is correlated with the level of violence in the programs in which they appear.**

### **Violence Levels by Network**

"The debate about commercial sponsorship of violent television programming appears to revolve around issues of social responsibility..." (Prasad and Smith 1994). During the 1996 Major league baseball playoffs, Anderson found a difference in the average number of commercials containing violent acts. He reported Fox having the highest rate of violence in commercials at 10.1 acts of violence per game. This was followed by NBC with 6.0 acts per game and ESPN with 3.2 acts per game. We also examined the level of violence in television commercials, coupled with the level of violence in the programs in which they appear. In previous studies, the networks differed in the number of violent commercials by network. We considered that the level of violence across networks may also differ during the hours when children are watching; thus: **H<sub>3</sub> - Television networks differ in the level of violence portrayed in children's programming and advertising.**

### **Research Methodology**

We used content analysis to conduct this study, which has been described as "any technique for making inferences by objectively and systematically identifying specified characteristics of messages. In practice, what this definition means is, ... the question has to be defined in such a way that the answers to it can be counted (Carney 1972). The first step in designing a content analysis is to develop a comprehensive scheme for coding information relevant to the context of the study based on careful definitions of key terms (Tansey, Hyman and Zinkhan 1990). Content analysis has also been used frequently in research of violent content in television programming (Kunkel et al. 1995). Violence definitions have included expressions of physical force, compelling actions against one's will, being threatened, hurt or killed (Gerbner, Gross and Signorielli 1980). Although there are no widely accepted definitions of violence in television, the definitions provided in most studies are closely associated with legal terms describing the undesirable act.

Kunkel, et al. (1995) suggest that studies should narrowly define violence to increase validity, yet must also include measures of psychological aggression or aggression toward inanimate objects. For our study, violent acts are defined narrowly around legal terminology with definitions set out in tort law and constitutional law. Four specific acts of violence were identified: (1) assault, (2) battery, (3) death or actions that would reasonably lead to death in the "real" world (homicide), and (4) damage to property. These terms are defined more precisely as follows:

- **Assault:** the threat of immediate bodily harm or offensive contact.
- **Battery and other intentional injury to persons:** intentional infliction of harmful bodily contact; extreme or outrageous conduct that causes emotional distress to another.
- **Death\* (homicide):** the end to a person's vital functions.
- **Property damage:** any diminution in the physical condition and usability of personal property.

\*The definition for death was modified from the legal definition of homicide to include unintentionally harmful displays of the end to a person's life.

To test our hypotheses, we needed programs and advertisements that were targeted at children. Muehling and Kolbe (1998) found children's programming occurred predominantly only on Saturday mornings between 7 am and 11 am. Therefore, we developed a stratified random sample of children's Saturday morning programming and the

commercials associated with them, by network. Over a 4 week period, all of the Saturday morning children's programs (between 6:00 am and 12:00 noon) were recorded in 30 minute blocks including programming and advertising, from which a stratified sample was selected at random to be analyzed. The sample resulted in thirty-seven 30-minute blocks.

Because content analysis relies upon qualitative judgements, “the best approach for improving the quality of data rely on the evaluation of judgements of two (or more) independent coders” (Perreault and Leigh 1989). For this study, two independent analysts utilized the four definitions of violence to record counts of violence in the children’s programs and advertisements in 30-minute time blocks. The coders were two female graduate students, knowledgeable in content research methods. Coders were trained using three randomly selected 30-minute time blocks. The coders viewed each of these 3 time blocks together with the authors, identifying those acts falling within the defined categories. Each act was discussed thoroughly to insure consistency between raters, and appropriateness of the 4 defined constructs. A matrix of counts in programs and advertisements across the violence definitions was constructed *a priori* enabling coders to more easily tally counts. The raters then individually viewed each of the thirty-seven 30 minute blocks in the sample, rating acts of violence as defined. A *Chi-square* test of homogeneity comparing coders across the four categories reveals that inter-rater variances are not significant at the .05 level, providing evidence of reliability between analysts.

To compare program with commercial violence, the four categories were collapsed into one variable, “violence counts,” for each of 2 categories: 1) program counts of violence, and 2) ad counts of violence. To identify meaningful comparisons, counts were converted into rate of violence per minute, for each of the 2 variables. Because the program segments averaged close to 23 minutes and the advertisements averaged about 7 minutes for each 30-minute block, this allows for equivalent rate comparisons. The mean rate of violence and overall violence counts are presented by network for programs and commercials in [Table 1](#).

## Results

To test for differences in rate of violence between programs and commercials, a *paired sample t-test* was used. This test compared the rate of violence per minute, in the programs, to the rate of violence per minute in the commercial segments. The rate of violence in the commercial segments is significantly higher ( $p < .001$ ) than the rate of violence in the programs, thus  $H_1$  is supported. The results are shown in [Table 2](#).

Hypothesis 2 suggests a positive relationship exists between the rate of violence in the commercial segments and the programs with which they are associated. Using *Pearson's Correlation* a significant relationship, ( $r = .764$ ,  $n = 37$ ,  $p < .01$ ), is found between the level of violence in commercials associated with the programs in which they appear. Results indicate that as the rate of violence in a given program increases, the levels of violence in the advertisements associated with them also increase. This supports  $H_2$ .

A MANOVA test of overall significance was performed to examine differences between the 3 networks. We examined program rates of violence and ad rates of violence as the dependent variables, across the three levels of the treatment variable, the networks. A significant difference ( $p < .001$ ) was found across the networks for the interaction effect, thus supporting  $H_3$ . [Table 3](#) shows the results for the model and main effects.

## Implications

This study indicates proposed legislation, to limit violence in children’s programming, may not be effective. As such, legislation that would require changes by the FCC, which only regulates programming, would only partially affect the level of violence experienced by children. This study indicates that the rate of violence in the commercials far exceeds the rate of violence for the programs in which they appear. While this study also indicates a correlation between level of violence in the program and commercials, it would take a joint effort of the FCC and FTC to ensure changes are executed.

To ensure recall for commercials that appear in violent programs, advertisers must create and place advertisements that are more violent than the programs in which they appear. As such, there are social responsibility questions with which both advertising agencies and advertisers must wrestle. Further, there are cases of consumer boycott of violent programs and the advertisers associated with them. A positive note, however, is that there is an indication in this study that advertisers can place substantially less violent advertising within less violent programming and retain ad recall.

Parents who wish to select programs, for their children to watch, may be disturbed to find that a program rated as non-violent may contain many violent commercials. In addition, many parents who wish to rely on V-chip technology or other parental controls afforded by digital cable may find that programs that are not screened out may

contain very violent segments during the commercials.

### A Proposal

Advertisers are concerned that the V-chip could cause audience numbers to be meaningless because whole areas of programming would be subject to censorship at the viewer level. Parents may be concerned that the V-chip does not do a proper job of screening violence, particularly when it appears in commercials. Policy makers have to grapple with balancing the public good and free speech questions. Each stakeholder has valid, but sometimes conflicting concerns.

We propose that rather than rating only the programs, the networks would rate television targeted to children in half hour blocks which include the commercials. This rating would be based on an acts of violence per minute scale. Such a scale could be developed jointly by networks, advertisers, and public policy makers, which would create a transparent rating classification whereby all stakeholders would know exactly the level of violence to which children are exposed.

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**Table 1. Violence Counts and Mean Rates of Violence By Network**

Network	Violence Count Programs*	Violence Count Advertisements	Mean Rate of Program Violence per minute	Mean Rate of Ad Violence per minute
Fox (n=10)	609	366	2.6470	5.2290
WB (n=14)	388	398	1.2779	3.9907
ABC (n=13)	104	140	.3469	1.5385
<b>Total</b>	<b>1,111</b>	<b>924</b>		

\* 37 thirty minute blocks of television programming

**Table 2. Paired t-test**

	Mean	St. Dev.	Mean Dif.	df	t	p-value
Program rate of violence*	1.3208	1.5009	-2.14303	6	-6.250	.001
Ad rate of violence*	3.4638	2.9940				

\*Per minute (n=37)

**Table 3. MANOVA Across Networks**

	F	Hypothesis df	p-value
Model for Network	5.211*	4.000	.001
Program Rate of Violence (a)	9.960	2.000	.000
Ad Rate of Violence (b)	5.909	2.000	.006

\*Hotelling's Trace (37 thirty minute segments; ABC = 13, WB = 14, Fox = 10)

(a) R squared = .369

(b) R squared = .258

## **Developing a Model for Government Technology Transfer Programs**

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### **Abstract**

United States legislation mandates that technology developed by federal government agencies demonstrate socioeconomic benefits to justify the expenditure of taxpayer funds. This mandate has led to substantial increase in the amount of technology transfers, with limited results. This paper suggests that the application of marketing-exchange will facilitate successful technology transfer.

### **Introduction**

Government agencies at all levels are mandated to demonstrate the socioeconomic and quality of life benefits of their activities. The emphasis on social accountability has led to a variety of new government sponsored programs. These new programs often produce technologies that do not focus on national security concerns but are produced in the normal course of operations. For the purpose of this paper the term technology transfer will refer to the activities associated with the recruitment of other government agencies and non-government organizations to incorporate government developed or sponsored technologies into their regular operations or into their commercial products and services. Federal programs can be classified into two broad categories for technology transfer: 1) technology development and commercialization programs such as Dual Use and Small Business Innovative Research (SBIR) programs; and 2) commercialization of existing technology programs such as the research development agreement programs and commercial cooperative agreements. In the Dual Use and SBIR program commercial firms are recruited to work with a government agency or are funded by an agency to develop a technology to be used in fulfillment of the agency's primary mission.

Despite legislative mandates and aggressive agency programs, government sponsored technology transfer has had only limited success (USGAO, 1992). Challenges include recruitment of firms for participation in technology transfer programs, and weak and unstructured efforts on the part of recruited firms to fully commercialize products (USGAO, 1992). In part the problem may be traced to the technical nature of most organizations granted a federal research contract. This leads to a technology-driven orientation rather than a market orientation on the part of both the originating agency and the commercial firm. The objective of this paper is to provide a conceptual marketing exchange framework as a model for government originated technology transfer and commercialization programs. To this end we will: 1) review the relationship of technology development and transfer to marketing exchange principles, and the expectations and needs of the government agencies and their potential transfer partners; 2) apply the concepts of target marketing and the marketing mix to technology transfer programs; and 3) identify critical elements required in a technology transfer marketing plan.

### **Technology and Marketing Exchange**

The importance of government technology transfer programs is explicit in the Federal law requiring that a minimum of three percent of federal agencies' research and development budgets be allocated to SBIR programs. Despite the magnitude of this commitment there have been few reported success stories (Marshall, 1997), technology transfer programs operated by government agencies often have not succeeded at developing commercial products that create significant commercial impacts in the marketplace (USGAO 1992, NASA, 1994). This is not surprising given the high rate of new product failures faced by private industry regardless of the source of the technology (Kotler 1997; Scheuing 1989; Gruenwald 1985). Some authors estimate that as many as 80% of all new industrial products fail (Copper and Kleinschmidt 1990) and even higher estimates characterize consumer products. While the introduction of any new product to the marketplace is risky, new products derived from technologies developed initially for non-commercial, government applications might be even riskier. The risk is borne by the private firm, which is faced with significant expenditures in time, personnel and money with no assurance of success. While the commercial firm must accept this risk in anticipation of possible rewards in the marketplace, such rewards are not certain and might only be possible in the extended future following substantial product and market development activities. Recognizing the long-term nature of the technology transfer processes, the relationship between the commercial firm, and the government agency should be viewed as a long-term marketing exchange relationship.

### **Marketing Exchange Relationships**

In a marketing exchange relationship, multiple voluntary exchanges transpire over an extended period of time or a single voluntary exchange may involve an extended period of joint effort (Houston and Gassenheimer, 1987). If the relationship is to be voluntary and extend over time, the parties must see the exchanges as equitable. Firms considering adopting a technology must anticipate an equitable benefit that will accrue from the adoption. Technology transfers involve both a transfer of value (technology) from the agency to a commercial firm and the receipt by the agency of a desired value resulting from the transfer. That value to the government organization will be the socioeconomic impact resulting from the firm's success at providing a better, faster, or cheaper product or creating non-economic quality of life benefits. If the exchanges are to be satisfactory over time, all parties must recognize the objectives and needs of the government agency, the benefits that participating firms expect to receive from the technology, and the needs of participating firms and the government organizations. Each party must recognize the others' legitimate needs and desires and must be committed to supporting and documenting their fulfillment. Moreover, each must recognize the limitations under which the other operates.

### **Expectations of Commercial Partners**

The commercial partners purpose for engaging in a technology transfer exchange is to develop a sustainable competitive advantage in the marketplace by either producing a new and better product and providing a more efficient production process; not acquisition of the technology for its own sake. This recognition distinguishes a technology-driven perspective from a marketing exchange perspective. The value of the technology to the commercial firm may be reduced to the extent that the technology might also be transferred to competitors.

This holds two critical implications. First, offers of technology transfer opportunities to commercial firms should be stated in terms of the potential benefit that the technology might provide to the firm's end-user markets. Second, efforts should be made to provide commercial firms with reasonable protections in the exploitation of the technology to the extent that firms must incur costs in adopting the technology and within the legal and policy limitations within which the government agency must operate. Such protections are the "fire" of invention and innovation (Novak, 1996). To justify such license protections, the acquiring firm should provide guarantees of resources to be committed to employing the technology in a product or process and the time frame for performance.

### **Government Agency Expectations**

Government agencies involved in technology transfer seek to demonstrate the social, economic and quality of life benefits that result from the technologies that they develop and transfer to the commercial sector. But, social and quality of life indicators are difficult to develop and social consensus regarding such values is often lacking. Therefore, in the context of technology transfer and commercialization, documentation of social benefits often focuses on traditional economic development indicators such as the creation of jobs, unit sales and business revenues generated, or investment in plant and equipment associated with a technology development and commercialization effort.

However, an emphasis on strictly economic indicators might overlook important contributions that transferred technologies make to the quality of life. Important contributions in health care, public safety, education and other fields might not yield large numbers of units sold and impressive revenues, but might save lives, create opportunities for disadvantaged individuals, or prevent illness and injuries. This broader meaning of social benefits should not be overlooked when documenting the success of technology transfer programs.

### **A Market Oriented Approach to Technology Transfer**

A difficult challenge facing government technology transfer managers is technologies are often developed without an explicit commercial application objective. In most cases the technology was designed to serve primarily the government agency that sponsored the research. Once the primary mission needs are satisfied, mandates to apply technologies to achieve social benefits are invoked. But, many government originated technologies will not have external utility (Radosevich, 1995). However, prior planning to anticipate commercial applications, such as characterize "dual use" programs, can increase the likelihood of social benefits.

### **Required Elements of a Technology Transfer Marketing Plan**

The objective of this section is to briefly summarize five key elements required for an effective technology transfer marketing plan. In this perspective, the agency's target markets are business sectors composed of commercial firms providing goods or services that fulfill needs to which the technology might apply.

**Goals and Objectives.** The technology transfer agency's goals must be clearly stated in marketing terms that can be understood by all participants and conform to the agency's technology transfer mandate. Goals must be realistic, achievable and demonstrable since auditors and the public media may hold the agency accountable. Objectives are generally stated in quantifiable and measurable terms. Measurable objectives should clearly and logically relate to the achievement of a specific stated goal focused on the fulfillment of the agency's mandate. Clearly defined goals and measurable objectives will help to demonstrate in grounded terms the social and economic impacts of the agency's technology transfer activities.

**Defined Business Sectors as Target Market Segments.** Effective marketing plans require well defined target markets. The target market for technology transfer programs is producers of good and services. For this reason a business sector approach is recommended for targeting market segments for technology transfer programs.

A *business sector* is comprised of all technology developers, manufacturers, distribution firms and sales organizations that serve well-defined end-user product-markets. The business sector approach to segmenting the market for technology transfer is useful because it incorporates manufacturing, distribution and sales organizations involved in bringing related products to end-user markets. Effective technology transfer will require that all elements of this value chain are involved in the development and commercialization of products resulting from transferred technologies. A good example of value chain development is the Earth Observation Commercial Applications Program (EOCAP), part of NASA's Commercial Remote Sensing Program. The program requires that prior to acceptance into a cooperative agreement with the government, applicants must provide a business plan, a marketing research plan, and a business alliance agreement with other firms that are critical to the channel of distribution (NASA Cooperative Agreement, 1997).

**Distribution Channels.** In the context of government originated technology transfer the term distribution channel refers to external public and private agencies that help the government agency recruit clients for technology transfer programs. Involvement of such agencies is important in order to supplement scarce resources. The objective of establishing and maintaining effective relationships with these agencies is to provide additional channels for informing the business community of opportunities and for recruiting qualified leads to be pursued by agency's staff. Examples of supplemental distribution channel members include business sector trade associations, small business development agencies, business consulting firms, county economic development offices, state government economic development departments, universities, medical schools, small business incubators, patent attorneys, and government contract procurement centers and clearinghouses. Firms and associations sharing a common business sector also share a common business culture and business interests. Therefore, effective technology transfer marketing materials and programs may be developed and distributed through professional and trade associations to promote the technology transfer opportunities to the firms in the sector.

**Outreach Activities.** Two sets of outreach activities can be identified; promotion activities and business sector market management activities. Promotion activities involve the development and distribution of materials announcing programs and technology opportunities in terms relevant to specific target markets, planning and implementing conference and trade show, developing and implementing direct mail programs to communicate with distribution channel members and potential leads and clients, and maintaining a database of leads, qualified prospects, clients and channel members. Business sector market management activities involve development of business sector profile reports that describe key players in targeted business sectors, the industrial structure of each sector, each sector's product-markets, and potential applications of the agency's technologies to new products, product improvements or production and distribution systems. Business sector market management activities also include responding to leads and inquiries, qualifying prospects as eligible for programs, and recruiting, facilitating, coordinating and supporting clients' applications and involvement in technology programs.

**Infrastructure Development and Management Controls.** "Infrastructure Development and Management Controls" refers to a class of line management tasks needed to coordinate technology transfer outreach activities. Infrastructure development refers to planning and early implementation activities needed to establish the technology transfer outreach team. Infrastructure development also involves commissioning external market research support services to develop business sector profiles that will guide the targeting of business sectors and the establishment of outreach goals and objectives. Infrastructure development also includes the development of procedures and technical processes for building lead-prospect-client database systems to track potential applicants for technology transfer programs and to provide ongoing data on progress toward achieving program goals. *Management controls* refers to policies and procedures designed to monitor the work of members of the outreach team to assure appropriate progress toward the outreach goals and to assure high quality services and contacts with prospective applicants and clients.

## Summary

Government originated technology transfer activities have evolved from legislative mandates to demonstrate economic and social benefits from the investment of taxpayer dollars. Such technology transfer efforts are best viewed from a marketing perspective. In this perspective technology transfer program participation is viewed as the product, business sectors are viewed as the market of potential customers. Private sector firms' efforts to commercialize transferred technologies and demonstrate their economic and social impact is viewed as the price. Efforts by the agency to publicize transfer opportunities are viewed as promotion. The transferring agency's outreach efforts, trade organizations and agencies involved in business development are viewed as the distribution system. To assure that legislatively mandated economic and social benefits are achieved, it is recommended that technology transfer outreach efforts be organized around five required aspects of an outreach marketing plan. These include: 1) explicit goals and measurable objectives; 2) defined business sector target markets; 3) specification of distribution channels for recruiting technology transfer client companies; 4) specifications of technology transfer outreach activities with assigned responsibilities; and 5) infrastructure development and management controls.

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# **Communicating Industrial Brand Value in the Global Marketplace: An Integrated Marketing Communications Perspective—Abstract**

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## **Introduction**

Research examining the concept of branding is central to marketing theory; however, the examination has focused almost exclusively on consumer markets. The relative omission of branding research in the industrial literature parallels management practice in the industrial marketplace. Gertsman (1999) notes that business-to-business marketers have traditionally been less sophisticated in the recognition and communication of a clear branding strategy. Evidence suggests however, that both practitioners and researchers are beginning to recognize the need for an enhanced focus on brand building for industrial concerns (Mudambi, Doyle and Wong 1997; Thompson, Knox, and Mitchell 1998).

This paper forwards an IMC strategy as critical to the conveyance of brand value in the global industrial marketplace. IMC offers a “big picture” approach to promotional management, involving the strategic coordination of all aspects of communication emanating from a firm (Shultz 1993). To illustrate our conceptual framework, we present an overview of the Caterpillar, Inc., IMC program (Communicating Caterpillar: One Voice 1994). The One Voice program is a composite of elements including corporate values, personality, competencies, attributes and positioning, all designed to communicate a strong singular brand image to Caterpillar's multiple global constituencies (e.g., customers, employees, financial community, governments, media, shareholders, suppliers). Corporate advertising campaigns, direct marketing efforts, internet marketing, public relations, personal selling and sponsorship marketing afford the firm multiple “brand” contacts with the value field of stakeholders (Duncan and Moriarity 1997). While benefits of this brand communications program are often direct (e.g., new customers, improved supplier relationships), many are of a long-term variety and indirect in nature (e.g., improved relationships with foreign governments, improved perceptions in the financial community, enhanced employee recruiting).

An IMC approach is also positioned as a necessary and effective brand building strategy for industrial firms entering global markets. Globally, the complexities of communicating industrial brand value are exacerbated due to varying environmental uncontrollables (i.e., economic, political/legal, competition, culture, distribution, geography, and technology). The IMC perspective affords the consideration of multiple types of brand communication (i.e., number of communication methods, mediums, and vehicles) and incorporates a high degree of flexibility necessary for use in countries that lack a sophisticated communications infrastructure.

The framework suggests areas for future research including the relative importance of tangible and intangible brand attributes, the role and scope of symbolic and experiential benefits provided by industrial brands, industrial brand influence on related consumer products (e.g., licensed toys, clothing), and branding issues related to merger and acquisition activity.

NOTE: For a complete copy of this paper, please contact the authors.

**The Emerging Area of Investor Relations: a Study of the Marketing Communications Activity Levels of Investor Relations Departments in U.s. Public Companies—Abstract**

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The purpose of this study is to profile the investor relations function and perceived benefits thereof at public companies in the United States. A mail survey of 250 publicly traded companies was conducted on the qualitative perceptions of investor relations program activities and program effectiveness. Forty-five usable surveys were returned. The findings from the qualitative study of investor relations activities suggest that the tactics valued most by investor relations professionals are those that allow for directed, targeted, and customized communications with influential members of the investment community, particularly financial analysts and institutional investors. Comparatively, investor relations professionals do not find as useful other tactics that broadcast information to a large, non-segmented groups of stockholders and investment community members. However, these professionals also understand the necessity of these kinds of tactics as ways to disclose material information to shareholders. Respondents suggested in additional comments written on survey forms that the Internet and e-mail will become a widely used tactic in the distribution of information.

## **Gently Nudging or Strongly Persuasive? How Agencies View Advertising—Abstract**

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Two opposing schools of thought on how advertising works have emerged. One, known as the 'strong theory', holds that advertising plays a centrally important part in the economic system of a country and is therefore, a formidable market force. This view is generally associated with North American scholars and practitioners. An opposing view is that advertising is a rather weaker force, capable only of gently nudging or reminding consumers, rather than actually persuading them. To explore these two perspectives empirically, this article reports on a study of Australian agency personnel. Findings suggest that opinion overall is more weighted towards the strong than the weak theory, particularly among creative personnel. However, educational background/field of study, age and agency experience play significant roles in determining a practitioner's theoretical orientation. Business faculty graduates are more inclined towards the weak theory, while mass communications, journalism and art school graduates lean in the direction of the strong theory. Furthermore, younger practitioners, and those with less than 7 years' agency experience, are more inclined towards the strong theory, but as they age and gain more experience, they tend to gravitate towards the weak theory.

# **The Impact of Product Type, Creative Team Composition, And Agency-client Relationship Duration on Winning Advertising Creative Awards**

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## **Abstract**

In a *Journal of Advertising* editorial in 1993, Zinkhan challenged academics to further research the area of creativity within the advertising discipline. This paper responds to challenge by investigating product, individual, and team impact on advertising creativity. Research questions are proposed and answered using eleven years of creative award data.

## **Introduction**

This paper examines the impact of product type, composition of the creative team, and duration of the agency-client relationship on winning advertising awards. The issue has been brought to light by Reid, King and DeLorme (1998) that the central problem facing the advertising industry is, "creativity" or as most often stated, "the lack of creativity". During the last two decades practitioners such as Brown (1994) and Levine (1994) have also questioned creativity and its use within the advertising industry. Media writers have criticized the talents of creative people and the appearance of "lack-luster" campaigns (Farrell, 1994). Many industry spectators believe advertising creativity has declined, leaving current practitioners to use formula advertisements or "copy-cat" campaigns (Benady, 1994; Vagnoni, 1990). Academic interest in this topic has varied over the years. For example, in the first five years of the *Journal of Advertising*, 10 out of 110 articles (9%) were published on creativity in advertising. During the next fifteen years, only 5 articles (1.4%) were published on the subject (Zinkhan, 1993).

## **Advertising Creativity**

According to Zinkhan (1993), "advertising, as we know it, could not exist without creativity." But what is advertising creativity? Reid and Rotfeld (1976) provided one of the few studies of advertising creativity that focused on the creative process based upon associative theory. They examined the work of proponents of the associative theory, (fusing mutually remote ideas into contiguity), and matched their theories to advertising through previous writings by advertising professionals such as Burnett, Ogilvy, and Reeves. Relating the associative theory to several principles of advertising, Reid and Rotfeld formulated a conceptual model of the process of advertising creativity in logical steps. According to Reid and Rotfeld the associative ability of a copywriter is critical to the success of the advertisement. Essentially, copywriters utilize research data, the stated problem definition, and his/her own associative ability to translate the inputs into a creative idea.

Rhodes (1961) examined a large collection of creativity definitions, and noted that the definitions were not mutually exclusive, but overlapped and were intertwined. Rhodes suggested that creativity was not just one or two individual elements but a synthesis. For Rhodes', the first strand, "person", involved elements such as: "personality, intellect, temperament, physique, traits, habits, attitudes, self-concept, value systems, defense mechanism, and behavior." The second strand, "process", applied to elements of "motivation, perception, learning, thinking and communicating." The third strand, "press," referred to the relationship between human beings and their environment. To Rhodes, this concept embodied growth experiences by both internal and external sources upon the creative person. Therefore, one's ideas uniquely reflect the background, mentality, and conditioning provided by everyday experiences in one's own life. The fourth strand, "product", refers to the tangible representation of one's ideas, or as stated by Rhodes, "products are artifacts of thoughts."

Both models make a valid contribution to creativity. On the one hand creativity is a process (Reid and Rotfeld) and on the other it is an amalgam of different inputs (Rhodes). Of course, process is integrated into the amalgam as people undertake creativity as a mental process. The following sections will discuss three elements of advertising creativity as originally conceptualized for creativity in general by Rhodes.

## **Advertising Creativity and the "Creative" Person/Team**

The most popular approach to creativity research has been to study the "creative person". Initial investigations focused solely on geniuses, then progressed to gifted students, artists, scientists, and eventually, the ordinary person. Early researchers believed intelligence was a prerequisite for creativity; possessed by only certain individuals that could be identified, such as: Einstein, Picasso, Poincaré, and Mozart. Contemporary researchers agree that intelligence is not necessarily a prerequisite for creativity; and that each person, ordinary or "great", possesses some degree of creativity. Similarly, the issue of natural born talent versus learned creativity has proponents on both sides.

The creative person is the most important component of advertising creativity, as demonstrated by the quantity of research devoted to this construct. Previous research has emphasized the importance of personality characteristics and traits as well as motivational aspects of human behavior. Specific to advertising creativity, most advertisements are created by more than one individual, usually a collaboration between an art director and copywriter (Baker, 1979). It is this collaboration that stimulates the first research question. How does the size and composition of the creative team impact advertising creativity as measured by winning creative award competitions?

**Proposition 1a:** The number of creative people involved in the creation of an advertisement has no effect on the number of awards won.

**Proposition 1b:** The number of creative persons involved in the creation of an advertisement has no effect on the level of award won (i.e. gold, silver, bronze, certificate).

### **Advertising Creativity and Product-Type**

The "subject" of creative work is usually a good or service. Ogilvy often noted that products, which interested him, were easier to write about. Furthermore, he believed it was a pre-requisite to believe in the product. However, creatives cannot choose their assignments unless they have developed a reputation (Higgins, 1987). Rosenspan (1995) supported Ogilvy's view of the relationship between the product and the creative's ability to produce: "Good creative people have choices. They can sometimes decide which accounts to work on. And they can always decide how much effort they put into it." Likewise, Bernbach (1987) supported the importance of the client's product to advertising efforts: "...we never kid ourselves about the magic of advertising. The magic is in the product." The second research question explores the issue of whether some product-types possess inherent traits that encourage creativity.

**Proposition 2a:** The product category (subject) of the advertisement has no effect on the number of awards won.

**Proposition 2b:** The product category (subject) has no effect upon the level of award won (i.e. gold, silver, bronze, certificate).

### **Advertising Creativity and Agency-Client Relationship Duration**

Most research examining the relationship between clients and agencies note the partnership-type relationship and their consequences, and the diminishing life span of such relationships (Verbeke, 1988). Major agencies within the United States were projected to lose a major share (67%), of their current accounts within a five year period according to Adweek, 1992 (Henke, 1995). Consequences of a lost client can be traumatic for the agency who, in addition to lost revenues, may suffer damage to their reputation (Buchanan and Michell, 1991), thereby causing other clients to leave (Michell, 1986). On the other side, an agency change can also be traumatic for the client, with recovery time estimated upwards to two years (Newsome, 1980).

Client/agency separations most often occur due to dissatisfaction with agency performance, with emphasis on creative skills (Dole, et al, 1980; Michell, 1986). Henke's (1995) study also identified creative skills as a key concern, but unlike previous studies, Henke found client satisfaction was higher just prior to an agency switch than with clients who did not switch. Henke's research also suggests two distinct stages within the agency-client relationship. The first stage focuses on creative skills, which may be responsible for first attracting the client. The second stage is indicated by a dramatic shift by clients towards the performance dimension, which involves the agencies' ability to get results for *that* client as opposed to "clients" in general. Clearly, creative skills may be a significant drawing factor for many advertisers, but once the client has employed the agency, the client's expectations are heightened. Previous results for other clients are no longer as important, as the expectations for upcoming creative work and subsequent advertising results. A third research question explored the affect of the agency/client relationship over time with respect to the number and level of awards won.

**Proposition 3:** The longevity of a relationship between agency and client has no effect on the total number of awards won.

### **Method**

Advertising awards serve several purposes within the advertising industry (Helgesen, 1984; Keding and Bivens; 1990). First, award shows are the "official means of professional assessment" and industry recognition. Second, winning an award provides the advertising industry with a valuable promotional tool, more so for advertising agencies and media shops. Additionally, awards aid the industry's drive for social acceptance and legitimacy.

This study uses secondary data over an eleven-year period (1986 to 1997), from the "Marketing Awards", an annual advertising competition sponsored and published by Marketing Magazine, Toronto: McLean-Hunter (1993-1997), previously published as Marketing.

Judges have been selected previously on the basis of their knowledge or familiarity with creative work within the industry (i.e.: Creative Directors, Senior Creative Directors, and Marketing or Advertising Managers). Marketing Magazine has held this annual competition for approximately 25 years. Therefore, our sample represents approximately just under half of all awards presented over a 25-year period. The data were categorized and recorded according to year, award category (media), title, product/service, advertiser, agency, copywriter, art director, and creative director. Over a period of eleven years, 1315 awards were given to various individuals and agencies. While the objectives, criteria for assessment, and judging procedures may vary from venue to venue, the established guidelines for each forum remains relatively consistent over time, providing a longitudinal sample of award winning advertisements. Since the purpose of advertising awards is to judge and reward entries based on established criteria, this type of process provides an appropriate way to describe and measure advertising creativity over time. Procedures used by Annual Marketing Awards are closely aligned with Amabile's (1982, 1983, 1993) procedures for judging creativity, providing the consistency necessary to ensure construct validity.

## Results

Over eleven years, a total of 17,813 ads were submitted for competition, with 1,314 ads (slightly over seven percent) receiving awards at either the gold, silver, bronze, or certificate levels. The data set contained 160 different agencies, 520 different advertisers, and 710 different creative people. To better reflect creative achievements, 794 certificate level awards were excluded, leaving 518 awards at the gold, silver, or bronze level. As a point of information, the top ten creative people earned just under half of all the medal level awards. These individuals may have won awards individually (working solo), or as a member of a creative team (two or more people).

Product names and services were listed in the awards publication for most advertisements, however no standard categorization method was adhered to. Therefore, products and services were first combined and categorized using Buchanan and Michell's (1991) typology.

Proposition 1a examined the relationship between the number of creative individuals and the total number of awards won (1312). The results indicated a positive relationship ( $p < .01$ ) between the total number of awards won and the number of creative people per team. Three-member teams accounted for just under half of all medal level awards. The composition of the creative team was predominantly creative director, art director, and copywriter.

Proposition 1b examined the relationship between the level or quality of award won, that is gold, silver, or bronze (518 awards), and the number of individuals per creative team. The relationship proved not to be statistically significant ( $p = .122$ ), however there is some directional support when viewing the data that teams of three also won more "gold" awards.

Using the same test procedure as above, the product-type was analyzed for its effect on the number of awards won (proposition 2a). The range between the number of awards won in the top category, Food and Beverage, versus the lowest categories, Computers and Financial was significant ( $p < .01$ ). Proposition 2b examined the product category's effect upon the level of awards won or quality (i.e.: gold, silver, etc.), rather than the number or volume of awards by product category. This relationship was not found to be significant.

The final area of investigation examined the longevity of the relationship between agency and client and the number of awards won. A correlation analysis revealed a positive correlation ( $P < .01$ ) between the length of the relationship and success at winning awards. [Table 3](#) depicts the relationship between the top ten advertisers, their advertising agencies, and their award success. The correlation analysis included all client agency matches in the dataset, not just those depicted in the table.

## Discussion and Recommendations

Managing creatives within advertising has received its share of attention over the years. However, research has generally focused on the individuals, their traits and characteristics, and elements of motivation. Unfortunately, most of the research has not adequately considered the influence of the elements within the person's environment, particularly the creative team, product-type, and agency-client relationship dynamics.

One notable finding in this study, was the optimal level for creativity in terms of team size. This research indicated that creative teams of three members (copywriter, art director, and creative director) won the greatest proportion of awards overall, and overwhelmingly so. This may indicate that this group dynamic is perhaps the industry norm, but not necessarily. Teams of two members (copywriter and art director) had the second largest proportion of awards. Teams with only one, or four or more members were much less successful in winning awards. This would lend credence to the idea of collaboration first exercised by Bill Bernbach in the 1960's, noting that "two minds are better than one." However, the number of awards drastically drops with each additional member above three. This would support the adage, "too many cooks spoil the meal." Closely related to group size, is the idea of group "chemistry." This research, while not exploring the behavior aspects of creative teams, did note that very few teams maintained a long-term relationship, with the exception of the celebrated partnership of Stephen Creet and Michael McLaughlin, which lasted for a record 18 years.

The second implication for agency managers is the delegation of product/services to creative teams. The data in this study does indicate a significant trend in awards won within the area of Food and Beverage. While the entries may not fully represent winning awards in proportion to entries in a given category, the number of awards won within the Food and Beverage category have been substantial throughout the data period.

This would support the previous literature and research. Creatives appear to be more creative with products that are fun or interesting to work with. The type of product can in itself be a motivator for the creative. In terms of managerial recommendations the research would indicate that managers should provide their creative teams with a variety of creative product/services, endeavoring to supply the team with the type of products they most enjoy working with, whenever possible, while maintaining a balance with other teams within the agency.

The client plays an important role in advertising, since their product/service is the source of work for agencies. However, the role of any one client must be put into perspective. Clearly, from the literature reviewed and research conducted for this study, clients are not the best judge of advertising creativity. Clients should be experts in their own product/service, but the communication of the message regarding the product/service should be left to those who understand the process and the people they write for. In addition, clients should be looking for a different frame of reference in seeking help with their campaigns. That is, where clients may have been impressed by an agency that assigns many people to the account; the client should now realize, given the data in this study, that the best representation is a group with three members. This allows the creative team more freedom to communicate with each other, assigns the specific tasks of copywriter, art director and creative director to the three (although they may together exchanging ideas in each area). More team members might imply a duplication of skills and room for personality or style clashes, and less room for communication among members.

Moreover, clients must come to terms with the differentiated relationship they have with an agency versus a typical vendor. The advertising relationship is more of a partnership for achieving mutual goals, where the agency is working to better the company – currently many client managers are risk-averse fearing repercussions to their own careers. There must be more education provided to clients, in general, to inform them of the nature of advertising and the potential if creative freedom is given to the agency in general.

Lastly, while clients desire “quick results” from newly hired agencies, research indicates that more creativity may occur over a longer lasting relationship where the agency and client has developed a positive working relationship.

**Table 1: Distribution of Total Awards by Creative Team Size**

# Team Members	Type of Award				Total with Certificates	Total Excluding Certificates
	Gold	Silver	Bronze	Cert		
1	16	12	13	46	87	41
2	44	53	53	199	349	150
3	60	89	100	465	714	249
4	23	15	11	65	114	49
5	6	4	6	18	34	16
6	4	6	3	0	13	13
7	0	0	0	1	1	0
Totals	153	179	186	794	1312	518

*Total Awards (1312) by Team size: chi-square 2174, p<.01*  
*Quality of Award (518) by Team Size: chi-square 15, p = .122*

**Table 2: Awards Won by Product Category**

Product Category	Total Awds Won	Gold	Silver	Bronze	Cert	Awards Won Excl Certs
Food and Beverage	258	33	35	43	147	111
Leisure	186	18	20	26	122	64
Advocacy	156	18	21	18	99	57
Household	131	14	19	12	86	45
Institutional	112	11	16	12	73	39
Automotive	96	7	15	13	61	35
Apparel	72	16	12	16	28	44
Travel	70	9	10	15	36	34
Health and Beauty	59	9	9	10	31	28
Publishing	50	8	6	4	32	18
Other	45	4	8	6	27	18
Telecommunications	29	3	3	7	16	13
Computer	24	1	2	3	18	6
Financial	24	2	3	1	18	6
<b>Total</b>	<b>1312</b>	<b>153</b>	<b>179</b>	<b>186</b>	<b>794</b>	<b>518</b>

**Table 3. Top Ten Advertisers and Agency Relationships**

Client Name	Product	Awards Won	Agency	# of Awards	Length Of Relationship
Molson Breweries	Food & Beverage	26	14 – BBDO et al*	10	2
			81 – McLaren McCann	9	2
			20 – Bozell Palmer et al*	5	3
			49 - FCB Canada*	1	1
			91 – Mertens Gibson & Associates	1	1
Ikea Canada	House Leisure	17	120 – Roche MacCauley & Partners	13	5
			84 – McCann Erickson	5	4
Timex Cda	Apparel	15	103 – Ogilvy & Mather	15	1
Labatts Breweries	Food & Beverage	9	5 – Ammirati Puris Lintas/*	5	2
			9 – Axmith McIntyre Wicht	2	1
	Advocacy	2	152 – Vaughn Whelan & Partners*	2	1
			27 -Camp Associates	1	1
Levi Strauss Canada	Apparel	10	42 - DDB Needham Worldwide	1	1
			60 - Harrod & Mirlin	9	7
			42 - DDB Needham Worldwide	1	1
The Sports Network	Leisure	10	4 – Ambrose Carr Linton Kelly*	10	5
Lever Brothers	Health & Beauty Household	7	81 – MacLaren McCann/*	4	4
			70 - J. Walter Thompson	3	3
			103 – Ogilvy & Mather	1	1
Royal Ontario Museum	Leisure	8	120 – Roche MacCauley & Partners	8	3
Volkswagen Canada	Automobile	7	29 – Carder Gray DDB Needham*	1	1
			42 - DDB Needham	6	7
William Nelson Ltd.	Food & Beverage	7	76 - Leo Burnett	4	5
			126 - Scali McCabe Sloves	3	4

**Correlation between awards won and length of agency/client relationship:  $r = .619, p < .01$**

*Total Awards (1312) by Product Category: chi-square 656,  $p < .000$*

*Quality of Award by Product Category: chi-square 15,  $p < .95$*

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## **Consumer Ethics: How Do Consumers Solve Ethical Dilemmas**

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An increase in consumers' fraudulent behavior, shoplifting in particular, have inflated revenue losses and thus the cost of retailing goods. Yet, empirical research on why some consumers shoplift or write bad checks has been lagging. This research uses the Hunt-Vitell model of ethical decision making in conjunction with Etzioni's moderate deontology to explain adult consumer ethics. The results show that adult consumers are fundamentally moral in ethical decision making. Some consumers, however, are also opportunistic when forming ethical judgments, as the Hunt-Vitell theory of ethics predicts. Nevertheless, opportunism does not influence the choice of intended action such as rewarding or punishing, contradicting a fundamental prediction of the Hunt-Vitell theory in the context of sales and marketing managers.

Individuals use either or both considerations, deontological and teleological, when forming ethical judgments and deciding upon which actions to take accordingly. Hunt and Vitell (1986) argue that people use either deontology or teleology, or a combination, to solve ethical problems. Etzioni (1988) suggested that people rely principally on deontological considerations and secondarily on teleological considerations. Hunt and Vasquez-Parraga (1993) empirically tested the Hunt and Vitell theory and Etzioni's hypothesis by use of an experimental design and found that (1) people (sales and marketing managers) rely more on deontological evaluations than on teleological evaluations in arriving at their ethical judgments, and (2) people (sales and marketing managers) rely more on ethical judgments than on teleological evaluations when rewarding or punishing (sales)people. Similarly, Hunt and Vasquez-Parraga (1993) found that ethical behaviors that have negative consequences are less rewarded than those having positive consequences. Managers actually encouraged unethical behavior by rewarding unethical acts that had positive consequences for the firm and, conversely, discouraged ethical behavior by punishing ethical behavior that have negative consequences for the firm.

Consequently, research on consumer ethics aims at answering the following central research questions: 1) to what extent do consumers rely on deontological and/or teleological evaluations in forming their ethical judgments, 2) to what extent do consumers rely on ethical judgments and/or teleological evaluations when they choose an intended action, and 3) how do consumers solve ethical dilemmas. Answers to the first two questions help understanding the process of consumers' ethical decision making. Answers to the last question help understanding consumers' strategies to solve ethical dilemmas.

An empirical test similar to Hunt and Vasquez-Parraga's (1993) test of the Hunt-Vitell (1986) theory of marketing ethics is performed in order to 1) evaluate how deontological (right or wrong based on morals) and how teleological-egoist (good or bad based on the opportunism or consequences of the act to the individual) adult consumers are in the making of ethical judgments, 2) evaluate the prevalence of ethical judgments or opportunism in their choice of intended action, such as rewarding or punishing, and 3) know how consumers solve ethical dilemmas. This research uses the Hunt-Vitell (1986) model of ethical decision making in conjunction with Etzioni's (1988) moderate deontology to explain adult consumer ethics.

A sample of 530 adult consumers were accessed and surveyed. To be selected, respondents had to be older than 18 years of age, half men and half women. The profile of the sample resembles that of the U.S. population regarding other demographic characteristics (education, income, occupation). It does not represent the U.S. population regarding religion and ethnicity, mainly because some of the smaller religious organizations and ethnic groups were not included in the sampling. Descriptive statistics, correlation coefficients, and regression results are analyzed to accomplish the three objectives of the empirical research outlined above. Because the parameters are similar in strength and orientation across all scenarios, pooled samples (collapsed scenarios) are analyzed to make the comparison across the four conditions more robust.

### **Results And Discussion**

Overall, the results show that adult consumers are fundamentally deontological when they both form ethical judgments and choose an intended action such as rewarding or punishing. Nevertheless, some consumers are also teleological when they form ethical judgments, but not when they choose an intended action. Consumers believe that shoplifting, using somebody's stolen credit card, stealing goods, or writing bad checks is unethical, but they believe that it is less unethical when the practice results in positive consequences to the individual than when the consequences are negative. Moreover, consumers believe that persons avoiding those practices are ethical, but they are less ethical when there are negative consequences than when the consequences are positive. As to which one prevails (morals or

opportunism) in the formation of ethical judgments (research question 1), regression results suggest that morals prevail in all situations (shoplifting, using somebody else's credit card, stealing goods, and writing bad checks), but that opportunism is a consideration even though a weak one. The deontological effect on ethical judgment is highly significant at  $p < .0001$ , whereas the teleological effect is weakly significant at  $p < .10$ . Thus, deontological evaluations are significant predictors of ethical judgment and explain a high proportion of its variance (60.9%). In contrast, the teleological evaluations are significant but explain only 0.5% of the total variance. The weak effect of teleological evaluations on ethical judgment is also supported by the non-significant correlation coefficient between those two variables.

Regarding consumers' intended action, in the deontologically unethical condition, almost all consumers would intend to punish the practice of shoplifting, using somebody else's credit card, stealing goods, and writing bad checks. However, the punishment is less severe when the consequences are positive for the individual than when the consequences are negative. Likewise, there is less of a tendency for consumers to highly reward a person for avoiding those practices when the consequences are negative than when the consequences are positive.

In the deontologically ethical condition, more consumers would intend to reward when the practice has positive consequences than when it has negative consequences. As to the extent consumers rely on either ethical judgments or teleological evaluations, or both, when deciding upon which action to take (research question 2), regression results suggest that ethical judgment alone sets the rules in the decision of whether to reward or punish. Ethical judgment is a significant predictor of intended action and explains a high proportion of its variance (64.1%), whereas teleological evaluations are not significant, contradicting the Hunt-Vitell theory of ethics prediction that teleological evaluations have also a direct effect on intended action.

Thus, in response to research question 3, consumers use primarily deontological criteria and secondarily teleological criteria to solve ethical dilemmas. Moreover, in situations that are deontologically unethical, consumers arrive to an ethical judgment with less incongruence, and to an intended action with less ambiguity. Conversely, in situations that are deontologically ethical, consumers have more difficulty in judging behavior correctly and in assigning an intended action appropriately. A sizable group remains neutral when judging an ethical behavior that produces either positive (10.7%) or negative (10.1%) consequences. An even larger group remains neutral when assigning reward or punishment to an ethical behavior that brings either positive (24.2%) or negative (27.9%) consequences. Some managerial implications follow. We should rely more on consumer honesty than on consumer opportunism when addressing the customer. Consumer codes of ethics should be more deontological than teleological and use more the don'ts than the do's in order to secure the codes' more effective implementation.

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## Ethical Evaluations of Business Activities and Personal Religiousness—Abstract

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This study examines the relationship between moral judgments of a business situation with ethical orientation and personal religiousness. Generally, ethical orientation was related to religiousness. Only the ethical philosophy of contractualism was related to religiousness, while moral equity and relativism were not.

### RELIGIOUSNESS AND BUSINESS ETHICS HYPOTHESES

- Hypothesis 1: Orientation toward ethics is positively related to religiousness.  
 Hypothesis 2: The ethical philosophy of moral equity is positively related to religiousness.  
 Hypothesis 3: The ethical philosophy of relativism is negatively related to religiousness.  
 Hypothesis 4: The ethical philosophy of contractualism is positively related to religiousness.

### METHODOLOGY AND RESULTS

The study utilized a sample of 429 undergraduate business students in Hong Kong. Religiousness operationalizations: (1) specific religion or not religious, (2) how long the respondent had been religious, (3) frequency of attending religious services, (4) frequency of considering religious prescriptions in everyday life. Orientation toward ethics operationalizations: (1) extent to which considers himself or herself to be an ethical person, (2) interested to learn more about ethics, (3) importance of employers having a code of ethics, (4) importance of government educating people in ethics, (5) knowledge about the field of ethics. Specific ethical philosophy endorsement was operationalized using the overeager salesperson scenario of the eight-item Multidimensional Ethics Scale (MES, Reidenbach and Robin 1988; 1990): moral equity, four items (Cronbach's  $\alpha=.61$ ), relativism, two items (.56), contractualism (.57).

Results testing Hypothesis 1 are presented in the table. Ethical interest is generally not related to how long one has been religious, but is clearly related to the frequency of attending religious services and the frequency of considering religious prescriptions in everyday life. Hypotheses 2 through 4 were tested using three multiple regressions, having as respective dependent variables the MES subscale measuring ethical philosophies, and the three religiousness measures as independent variables. Contractualism is significantly related to religiousness ( $R^2=.14$ ,  $p=.06$ ), while moral equity ( $R^2=.07$ ,  $p=.53$ ) and relativism ( $R^2=.05$ ,  $p=.72$ ) are not.

To what extent do you consider yourself to be an ethical person?	.11	.14 <sup>d</sup>	.09 <sup>d</sup>
How interested are you to learn more about ethics?	.14 <sup>c</sup>	.20 <sup>d</sup>	.21 <sup>d</sup>
How important is it that a company has a code of ethics?	.03	.22 <sup>d</sup>	.20 <sup>d</sup>
How important is it that the government educates people in ethics?	-.15	.11 <sup>d</sup>	.00
How knowledgeable do you feel you are about ethics?	-.08	.09 <sup>d</sup>	.10 <sup>d</sup>

a Spearman rank correlations  
 b Pearson correlations

c one-tailed  $p < .10$   
 d one-tailed  $p < .05$

# Analyzing the Effects of Egoist and Utilitarian Evaluations on Subjects' Responses to (Un)ethical Salesperson Behavior

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## Abstract

This study explores the possibility that the egoist and utilitarian components of the teleology evaluation, represented in the Hunt and Vitell (1986) model of ethics, differ in their effects on subjects' judgements and intentions. Using a 2 deontology x 2 egoist x 2 utilitarian randomized between subjects design, the study found that the effects of egoist versus utilitarian consequences on subjects' ethical judgments and ethical intentions differed in the deontologically unethical condition but not in the deontologically ethical condition.

## Introduction

Managers are commonly faced with ethical issues that create dilemmas between their obligation to improve the economic performance of their organizations and their ethical obligations to persons internal and external to their companies (Kohut and Corriher 1994). The sales profession is especially vulnerable to unethical conduct because salespeople commonly function without direct supervision and face role ambiguities and/or conflicts with customers, competitors, other departments, as well as the regulatory environment (Dawson 1992). To effectively deal with unethical conduct, sales managers need to understand how ethical decisions are made.

The Hunt and Vitell (1986) model of ethics (hereinafter referred to as the H-V model) is one model of the ethical decision making process that is commonly referenced in the marketing literature (Mengüç 1998). Hunt and Vitell (1986) introduced the idea that ethical decision making included both a deontological evaluation and a teleological evaluation. Deontological views of ethics focus on the inherent rightness or wrongness of a behavior when judged against a societal norm (Hunt and Vasquez-Parraga 1993; Scarre 1996). To a deontologist, lying is wrong regardless of the positive consequences it may have. Teleological theories of ethics focus primarily on the evaluation of the amount of good or bad embodied in the consequences of the behavior (Scarre 1996). To a strict teleologist, lying to save a company from bankruptcy would be ethical because the positive value of the consequences would be much greater than the negative consequences.

Unlike deontological theories, teleological theories can be clearly separated into two schools based on the focus of the decision maker. Teleological theories that focus on the value of the consequences to the individual are termed egoist theories while those that focus on the value of the consequences to the group are referred to as utilitarian theories. Although Hunt and Vitell (1986) and Hunt and Vasquez-Parraga (1993) recognize the distinctiveness of the two teleological perspectives in their discussions of ethical decision making, they do not incorporate, nor do they test, the separate effects of egoist and utilitarian consequences.

Thus, the objective of this paper is to empirically explore the possibility that egoist consequences, such as increases in sales by the sales person, and utilitarian consequences, such as a financial difficulty for the organization, differ in their effects on decision makers' ethical judgments and intentions. A 2 (deontology) x 2 (egoist) x 2 (utilitarian) randomized between subjects research design was employed to test hypotheses associated with this objective.

## Literature Review

Hunt and Vitell's (1986) theory of ethics proposes that people are not simply teleologists or deontologists, but rather (un)ethical acts are evaluated on the basis of a combination of considerations of the separate components. The first step in determining what aspects of the situation should be considered is the recognition that the situation actually has ethical content. Once the individual perceives that they are faced with an ethical problem, they generate a set of possible alternatives. These alternatives are, in turn, evaluated from a deontological and teleological perspective. The result of this evaluation may result in an ethical judgment and subsequently, a behavioral intention. The relationship between the deontology and teleology evaluations, ethical judgment, and behavioral intention form the core of the H-V model.

The H-V model suggests that the primary path between teleological evaluations and deontological evaluations to behavioral intentions is through ethical judgments. Empirical tests of the model show the relationship between ethical judgment and behavioral intention to be quite strong with Hunt and Vasquez-Parraga (1993) and Vasquez-Parraga and Kara (1995) finding the relationship to be highly significant. The H-V model also suggests a direct route to intentions from teleological evaluations to allow for those cases where the benefits of the consequences of an act are so great,

relative to the possible deontologically unethicalness of the behavior, that intentions are formed without ethical judgments (Hunt and Vasquez-Parraga 1993).

### **Consequentialism and the H-V Model**

Although the primary focus of all teleological or consequentialist theories is the amount of good or bad embodied in the consequences of the behavior, they can be separated on one major distinction; the focus of their evaluation. Egoism, on one side, evaluates outcomes according to their propensity to enhance the agent's own welfare (Scarre, 1996) whereas utilitarianism focuses on how the act promotes the best interest of everyone involved in the action (Almonde, 1998).

Although utilitarianism is made up of a number of theories (Scarre 1996), the common theme put forth by these theories is that an act is ethical when it promotes the best interest of everyone involved in the action (Almonde 1998). For example, a utilitarian would not condemn a sales person for lying if the lie helped protect the company. In this situation, the harm done by the lie would be greatly outweighed by the fact that the fortunes of all those employed by the company were saved.

Egoism is a non-utilitarian form of consequentialism which evaluates outcomes according to their propensity to enhance the individual's own welfare (Scarre 1996). As in the study of utilitarianism, egoism comes in many forms. Ethical egoism recommends self-interest as a moral policy. To the ethical egoist, their own personal interest is at the center of the moral world (Almond 1998). Rational egoism, in contrast, recognizes that what is in my best interest, may not produce the most immediate pleasure. A rational egoist, therefore, may appear to adopt moral behavior even though they are still acting selfishly (Almonde 1998). Thus, the common theme of all forms of egoism is the focus on the good of the individual rather than the group or society in general.

From a managerial perspective, it can be argued that if consequentialism plays a role in the determination of our ethical judgment and resulting behavioral intentions, then managers should prefer an emphasis on utilitarian consequences rather than egoist consequences. The rationale for this is that utilitarian evaluations are based on the goodness or badness of the act for the group, and the group in question in these cases is inferred to be much more representative of the group that determines the societal norms on which we base our deontological evaluations than the individual. If utilitarianism is indeed akin to deontology as Etzioni (1988) suggests, then the justification for studying the effects of utilitarian consequences versus egoist consequences becomes clear, as few would characterize egoism as a relative of deontology.

Given the bipolar nature of teleology, it is not difficult to envision an ethical dilemma that is unethical from a deontological and utilitarian perspective, yet ethical from an egoist perspective. The use of misleading information by a sales person is clearly deontologically unethical and may also be unethical from a utilitarian perspective, or from the company's perspective, if the act results in negative word-of-mouth among customers. The same act, however, may also be seen as ethical from the salesperson's perspective because of the positive consequences for the individual.

Managers' intentions to use rewards or punishments to enhance ethical behavior have been the focus of previous empirical tests of the H-V model (Hunt and Vasquez-Parraga 1993; Vasquez-Parraga and Kara 1995). The role of punishments in shaping sales persons' ethical conduct was studied by Bellizzi and Hite (1989). They found that sales managers use more severe punishments when poor performers, negative consequences, and salespeople are involved in unethical selling behavior. Hunt and Vasquez-Parraga (1993) studied the use of punishments and rewards and found that managers judged behaviors that had positive consequences to be more ethical than those that had negative consequences. Similarly, managers were found to be more lenient in their intentions to punish, and more generous in their intentions to reward, subordinates when the consequences of the subordinate's behavior were positive versus negative.

### **Hypotheses**

The following hypotheses were derived from the literature review for the purpose of empirical testing. The first four hypotheses serve as tests of the findings of Hunt and Vasquez-Parraga (1993) that subjects judge acts to be more ethical and respond more leniently when the consequences of the act are positive versus negative, with respect to both egoist and utilitarian manipulations.

*H<sub>1</sub>: When the act is deontologically unethical, subjects judge scenarios with positive egoist and utilitarian consequences to be more ethical than scenarios with negative egoist and utilitarian consequences.*

*H<sub>2</sub>: When the act is deontologically unethical, subjects' intentions to reward rather than punish subordinates will*

*be greater when egoist and utilitarian consequences are positive versus when they are both negative.*

*H<sub>3</sub>: When the act is deontologically ethical, subjects judge scenarios with positive egoist and utilitarian consequences to be more ethical than scenarios with negative egoist and utilitarian consequences.*

*H<sub>4</sub>: When the act is deontologically ethical, subjects' intentions to reward rather than punish subordinates will be greater when egoist and utilitarian consequences are positive versus when they are both negative.*

Hypotheses five to eight were developed to test for differences in the effects of egoist consequences and utilitarian consequences on subjects' decision making.

*H<sub>5</sub>: When the act is deontologically unethical, subjects judge scenarios with positive egoist and negative utilitarian consequences to be more ethical than scenarios with negative egoist and positive utilitarian consequences.*

*H<sub>6</sub>: When the act is deontologically unethical, subjects' intentions to reward (punish) a subordinate's behavior will be more generous (lenient) when the behavior has positive egoist and negative utilitarian consequences versus behaviors with negative egoist and positive utilitarian consequences.*

*H<sub>7</sub>: When the act is deontologically ethical, subjects judge scenarios with positive egoist and negative utilitarian consequences to be more ethical than scenarios with negative egoist and positive utilitarian consequences.*

*H<sub>8</sub>: When the act is deontologically ethical, subjects' intentions to reward (punish) a subordinate's behavior will be more generous (lenient) when the behavior has positive egoist and negative utilitarian consequences versus behaviors with negative egoist and positive utilitarian consequences.*

## Method

### Research Design

A 2 (deontology: ethical or unethical) x 2 (utilitarian consequences: positive or negative) x 2 (egoist consequences: positive or negative) randomized between subjects research design was used to test the eight hypotheses. Of the eight possible ethical conditions incorporated into scenarios, four contained a common deontologically unethical condition and four contained a deontologically ethical condition. The deontology components were based largely on the "Overstating Plant Capacity" scenario used in Hunt and Vasquez-Parraga (1993). With respect to the teleology content, each scenario contained references to outcomes that were either positive or negative in terms of the sales person (+egoist or -egoist) or the organization (+utilitarian or -utilitarian). Thus, the outcomes in the scenario could be; (1) +egoist and +utilitarian, (2) +egoist and -utilitarian, (3) -egoist and +utilitarian, or (4) -egoist and -utilitarian.

**Measures.** Subjects' intentions to reward or punish were recorded on a metric rating scale ranging from the "The Most Severe Punishment" (-10) to "The Most Kind Reward" (+10). Subjects' ethical judgments were recorded on a single item 7-point Likert scale anchored by "Very Unethical" (7) and "Very Ethical" (1). Both measures were taken from Hunt and Vasquez-Parraga (1993). Although ethical judgments proceed ethical intentions in the H-V model, the intention measure was given first to avoid the possible biases that may have occurred if the subjects were alerted to the ethical focus of the study.

**Sample and Data Collection.** Undergraduate business students from a university in the Southwestern United States were used as test subjects in the study. Managers are always desirable subjects, especially when the impact of the results is managerial, however, when testing theory the use of students is appropriate. Students allow for greater control over possible confounding variables that would not be possible in an unsupervised environment that employed managers as subjects. Questionnaires containing the eight different scenarios were shuffled and then randomly distributed to the students by the professors.

## Results and Discussion

Results for the statistical tests of hypotheses in addition to the means and standard deviations of the two dependent variables can be found in [Table 1](#). Hypotheses one to four focused on the effects of positive versus negative consequences on judgments and intentions across deontologically ethical and unethical conditions. These hypotheses served as a replication and extension (because of the separation of the teleology condition) of Hunt and Vasquez-Parraga (1993). Strong statistical support was found for all four hypotheses. Thus, subjects found scenarios with positive consequences to be more ethical than those with negative consequences in the ethical and unethical deontological conditions. Furthermore, subjects issued less severe punishment, in the unethical condition, and more kind reward in the ethical condition, when consequences were positive versus negative.

The second set of hypotheses (H5-H8) focused on the separate effects of egoist consequences and utilitarian

consequences on ethical judgments and intentions. Statistical support was found for the hypotheses that subjects would (a) judge scenarios that were deontologically unethical to be more ethical (H5) and (b) issue less severe punishment (H6) when the scenario had positive egoist consequences and negative utilitarian consequences versus negative egoist consequences and positive utilitarian consequences. Statistically significant differences in subjects ethical judgments (H7) or intentions (H8) were not found in the deontologically ethical condition.

The finding of support for significant differences in ethical judgment and intentions between scenarios two and three but not between six and seven was inconsistent with the researchers' expectations. It is possible that the relationship between teleology and deontology evaluations on ethical judgment differs for deontologically unethical versus ethical conditions. Upon further review, however, it is more likely that these inconsistencies in the findings are the product of a method artifact. More specifically, the presence of relatively high standard deviations for ethical judgment and intention measures for scenario six and seven suggests that the manipulations of the egoist and utilitarian conditions were not clear. In support of this explanation, the researcher noted that informal comments concerning confusion over the scenarios in question had been made after the data was collected.

### **Areas for Future Research**

The finding of support for the hypothesis that egoist and utilitarian evaluations differ in their effects on ethical judgements and intentions, at least in the deontologically unethical condition, suggests that future research in this area is warranted. Researchers need to focus on more effective manipulations of the egoist and utilitarian conditions as this was seen as one of the limitations of the present study. It may be beneficial for future researchers in this area to explore the use of scenarios that contain only a positive or negative egoist condition or positive or negative utilitarian condition. This may provide a better understanding of the main effects of these variables.

The relationship between subjects' judgements and intentions in varying ethical conditions is another area of interest that may be developed in future research. Hunt and Vitell (1993) suggest that in most cases ethical judgement is the product of teleological and deontological evaluations. In some situations, however, the teleological evaluation may lead directly to intention. By using the expanded version of the H-V model, researchers could investigate conditions under which strong utilitarian or strong egoist evaluation lead directly to behavioral intentions.

Finally, expansion of the H-V model may also prove useful in the study of gender differences in ethical behavior. When the sample was separated by sex and subjected to regression analysis, the egoist component was more significant for males while the utilitarian component was more significant for females. It is possible that the utilitarian message cues are processed as "other-oriented" information whereas egoist message cues are processed as "self-oriented" information. Meyers-Levy (1988) suggests that the use of other-oriented message cues is more consistent with a typical female's gender role whereas the use of self-oriented message cues is more consistent with the typical gender role of males. If this is true, then the sex differences in ethical judgement that have been found by numerous authors (Dawson 1992) may be the result of gender differences in information processing rather than gender differences in morality.

**TABLE 1**  
**Summary of Results for Significance Tests of Hypotheses One to Eight**

Hypotheses	Means and St.deviation		F-value	df	Sig.
H <sub>1</sub>	S1: 3.06 (0.28) <sup>1</sup>	S2: 2.19 (2.79)	4.92	1, 30	0.034
H <sub>2</sub>	S1: 1.19 (0.91)	S2: -5.75 (0.91)	29.06	1, 30	0.000
H <sub>3</sub>	S5: 6.167 (0.26)	S6: 4.50 (0.24)	25.00	1, 22	0.000
H <sub>4</sub>	S5: 7.67 (0.84)	S6: -1.59 (0.84)	60.21	1, 22	0.000
H <sub>5</sub>	S2: 2.36 (0.20)	S3: 1.80 (0.19)	3.89	1, 27	0.059
H <sub>6</sub>	S2: -2.93 (0.85)	S3: -5.47 (0.82)	4.62	1, 27	0.041
H <sub>7</sub>	S6: 5.42 (0.36)	S7: 6.09 (0.37)	1.72	1, 21	0.204
H <sub>8</sub>	S6: 4.75 (1.12)	S7: 2.91 (1.17)	1.29	1, 21	0.269

<sup>1</sup>Standard deviations are in parentheses.

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# **An Empirical and Logical Exploration of the Strategic Compatibility of *Best Practice* and *Product Innovation*: Preliminary Insights From the Australian and New Zealand Manufacturing Industry**

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## **Abstract**

This study re-investigated data from a 1994 survey of Australian and New Zealand manufacturing practices to test the hypothesis that *best practice* and *product innovation* may be incompatible generic business strategies. Four major insights emerged, all of which indicated the incompatibility of *best practice* and *product innovation*.

## **Introduction**

### **The research problem**

This paper reports a limited empirical investigation of the proposition that *best practice* and *product innovation* are incompatible generic business strategies for manufacturing enterprises. The study re-analysed selected data from the Australian Manufacturing Council's (AMC's) 1994 survey of Australian and New Zealand manufacturing practice in order to compare certain *product innovation* characteristics of two groups: firms using a *best practice* strategy (BPs) and those not using a *best practice* strategy (Non-BPs). The study's primary hypothesis, ( $H_1$ ) adapted for each tested variable comprising the construct of *product innovation*, was that the pattern of innovation behaviour for BPs and non-BP's would be significantly different.

### **The Importance of the Strategic Compatibility Question**

Every decade or so, a new generic business strategy evolves and tends to dominate both business practice in a given community and management theory in learned journals. In Australia and New Zealand in the 1980s, the generic strategy of *best practice* dominated manufacturing thinking. By the late 1990's, the broad emphasis had shifted to a focus upon innovation. But practitioners have not given much thought to the issue of strategic compatibility. There is an established academic controversy. Some researchers argue that *best practice* enhances the creation of *new products* (Rimmer et al. 1996). Other analysts, including Hayes and Pisano (1994), Sweetman (1996), Manoochchri (1999) and Schrage (1999), argue that the pursuit of *best practice* can actually constrain and hinder business organisations from successfully implementing and executing a *product innovation* strategy. Both sides of the argument suffer from a lack of formally researched empirical support.

### **Theoretical Framework**

Robert G. Cooper's stage-gate product development model (Cooper 1993: 107) was selected as the basis of a theoretical framework for this study because it is extensively used by business enterprises and because a derivative of it permits creation of a useful construct of *product innovation*.

## **Method**

### **Data: sampling and instrument**

The data used in this study came from the responses to the AMC's Best Manufacturing Practices Survey questionnaire (AMC 1994). A detailed treatment of all methodological issues associated with data collection can be found in the original report. In summary, in a stratified sampling design, questionnaires were posted to 3,000 Australian and New Zealand manufacturing companies (based on ABS data and its NZ equivalent). Just under 1,300 valid responses were obtained. Responses were found to be biased towards larger firms (over 100 employees). The survey, *inter alia*, contained questions germane to the focus of this study.

### **Populations, Construct, Variables, Hypothesis and Analytical Regime**

The very first question of the AMC survey (AMC 1994, 87) '*Has your site embarked upon a program aimed specifically at achieving "Best Practice"?*' was used as a filter. 914 "yes" responses provided the *best practice* (BP) group, while 345 "no" responses provided the *non best practice* (Non-BP) group. Using data captured by the AMC survey instrument, Robert G. Cooper's Stage-Gate product development model was operationalised as a construct where product innovation equals a function of two key elements: *commitment* and *capability*. The AMC data (see Appendix in the full version of the paper) permitted 'commitment' to be represented by two variables and 'capability' by six variables. One dominant hypothesis was examined for each of the 8 variables listed above -  $H_1$ : *the pattern of*

*innovation behaviour for BPs and Non-BP's are significantly different.* Since this was exploratory research, non-directional testing was appropriate. A critical value of .05 was chosen. All variables were analysed using SPSS (version 9) for three tests: (1) the Pearson two-sample chi-square test; (2) the Mann-Whitney U test and (3) the Gamma test. The sample size (1,289 responses) was large and representative of the population of manufacturing firms.

## Results

**Table 2**, below, presents selected tabulated results of the hypothesis testing regime. The hypothesis ( $H_1$ ) that there would be significant differences between groups for each product-innovation variable was supported for five of the eight variables.

## Interpretation and Discussion.

Nearly 60% of both BPs and Non-BPs rated innovation as the least important of five success factors (the others were leadership, planning, employee relations, customer relations and supplier relations). This is probably the most telling empirical revelation of the whole study, providing compelling evidence that, in the mid-1990s, product innovation simply was not regarded as a key strategic issue by Australian and New Zealand manufacturing industry irrespective of any strategic involvement with *best practice*. Less than 10% of both groups rated innovation as the *most* important success factor. On the logical side, the framework of best practice as embodied in the AMC study and represented in its the best manufacturing practices model seems to predetermine incompatibility with any strategic approach to innovation. The AMC best practices model views innovation as an outcome – not a process. Innovation is thus, *a priori*, allocated to secondary, passive status whereas innovation, properly conceived is a primary and active component of strategy. The AMC model provides no discussion of the potentially damning inconsistency between benchmarking and innovation. Benchmarking is essentially copying: setting your standards by what someone else has done. Innovation is essentially being original: creating your standards by doing what no-one else has done. How can the practice of copying result in an outcome of originality? The intrinsic logic of the AMC version of *best practice* seems fundamentally flawed. After logical critique was added to statistical data analysis, four major insights emerged. (1) Tests yielded several statistically significant but substantively inconclusive results because both studied groups had nearly identical profiles in rating innovation as the factor of lowest importance to commercial success and because the definitional framework which guided construction of the survey instrument treated innovation as a second-order issue. (2) Currently, *best practice* and *product innovation* are logically incompatible by definition. (3) Even if the definition of *best practice* were changed, it is likely that the additional key process of innovation would remain incompatible with the existing key process of benchmarking. (4) However, until the definition of best practice *does* make an attempt to include innovation as a key process rather than an outcome, testing any hypothesis of strategic compatibility between a best practice focus and an innovation focus will be both empirically difficult and logically unnecessary.

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Figure 2 - Stage-Gate New Product Model (Source, Cooper 1993: 107)

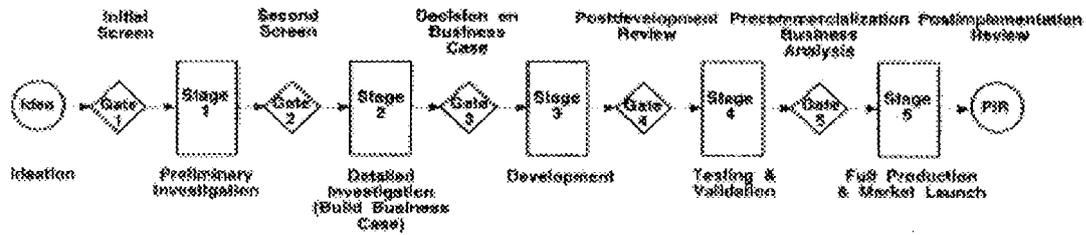


Table 2. Results of Hypothesis Testing

Variable Number and Name	Pearson chi- squa re p- value	Gamma test p- value	Mann- Whit ney p- value	H <sub>1</sub>
1 Product Innovation Importance	.472	.704	.702	7
2 R&D Commitment	.000	.000	.000	4
3 New Product Development Capability	.790	.679	.679	7
4 Degree of Internal Focus: Match with Current Skills	.010	.002	.002	4
5 Degree of External Focus 1 - Domestic Customer Involvement	.028	.002	.002	4
6 Degree of External Focus 2 - Overseas Customer Involvement	.000	.000	.000	4
7 Degree of External Focus 3 - Supplier Involvement	.000	.000	.000	4
8 New Product Speed	.138	.484	.491	7

# **The Role of Marketing in Initiating Entrepreneurial Activity in Established Companies**

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## **Abstract**

Triggering events in corporate entrepreneurship are explored, with particular attention to the ways in which triggers impact upon and are impacted by the marketing function, types of triggers, key ways for classifying them and how the role of marketing might vary depending upon the type or category of trigger.

## **Introduction**

Work on corporate entrepreneurship has emphasized the critical role of the marketing function both as an initiator and contributor to entrepreneurial projects. Some have gone so far as to argue that marketing should be the home of the entrepreneurial process in organizations, while others have noted that firms having a stronger entrepreneurial orientation also tend to have a stronger marketing orientation (Murray, 1981; Davis, Morris and Allen, 1991; Miles and Arnold, 1991). It is argued that marketing, as a boundary function, is uniquely positioned to recognize external threats and opportunities and translate them into innovative changes to the company's portfolio of products, markets and competencies.

Stevenson and Jarillo (1990) have noted that "entrepreneurship is a process by which individuals—either on their own or inside organizations—pursue opportunities without regard to the resources they currently control". Other authors have noted that, in a corporate context, entrepreneurial activities revolve around organizational sanctions and resource commitments for the purpose of innovative results (Burgelman, 1984; Kanter, 1985; Naman & Slevin, 1993; Miller, 1993 and Zahra & Covin, 1995). Zahra (1991) provides a fairly integrative perspective in stressing the formal and informal activities in established companies aimed at creating new businesses through product and process innovations and market developments, as well as strategic renewal. Corporate entrepreneurship can also take a variety of forms. Schollhammer (1980) identifies five major types: administrative (traditional researched-based innovation), opportunistic (exploitation of newly identified opportunities by a champion), acquisitive (acquiring other companies), incubative (creation of semi-autonomous units), and imitative (replication of achievements of some other firm).

## **Marketing and Corporate Entrepreneurship**

Zeithaml and Zeithaml (1984) claim that the fundamental responsibility of the marketing function is to effect and manage change in the external environment. Similarly, Simmonds (1986) states that the role of the marketer is organized rational innovation and concludes that marketing's responsibility is to induce continual change in both the organization and the market place. Alderson (1965) depicts marketing as a process of arriving at desirable innovations, while Hamel and Prahalad (1992) discuss the need for "expeditionary marketing". To the extent that marketing fulfills the types of responsibilities to which these authors refer, it should play a pivotal role in triggering corporate entrepreneurship. In fact, Murray (1981) suggests that marketing is the logical home for the entrepreneurial process in organizations since it is "uniquely equipped and indeed should feel uniquely responsible for .... the redesign of the corporate resource base and its product market portfolio."

Business at large remains structured around specialized business functions and management of innovation/entrepreneurship tends to fall outside the domain of the conventional marketing department. Marketing becomes an organizational function that responds to key components of the environment for the purpose of facilitating transactions. Conversely, entrepreneurship is primarily concerned with creating discontinuities in the external environment, where the end goal is major new products, new markets, new organizational forms, and novel sources of customer value. New ideas might originate in the marketing department, but especially in the case of radical innovations, there is frequently a need for a self-contained group with considerable autonomy that can insulate innovative developments from the prevailing corporate culture (Littler and Sweeting, 1985). This often limits the role of marketing.

Further insights regarding marketing's role require that we return to the notion of different types of corporate entrepreneurship. Using a slight adaptation of Schollhammer's (1982) typology, as discussed above, it can be argued that marketing's role might vary as depending on which one of five strategies for achieving entrepreneurship are followed: administrative, opportunistic, acquisitive, imitative or incubative. The first three types of entrepreneurship tend to produce outcomes that are least consistent with marketing's traditional role. The extent to which the marketer

can act more as an innovator rather than an adapter will determine the extent to which marketing will contribute to the triggering events referred to herein. It must continually scan the environment looking for opportunity. **Table 1** summarizes major differences between conventional marketing and entrepreneurial marketing. Thus, marketing becomes responsible for the more mechanistic aspects of entrepreneurial outputs, while others pilot the more risky steps of launching an innovation.

### **Triggering The Entrepreneurial Process**

Hornsby et al. (1993) conclude that the decision to act entrepreneurially occurs as a result of interactions among organizational characteristics, individual characteristics and some kind of precipitating event (i.e., triggering event). The precipitating event provides the impetus to behave entrepreneurially when other conditions are conducive to such behavior. In an attempt to identify a more comprehensive set of triggers, the literature on product development, technology management, research and development, and related fields were reviewed. While the potential list is limitless, some key triggering events include initiative on the part of one or more employees, a new marketing initiative, a specific customer request, a competitor threat or action, diversification, changes in people's lifestyles/expectations, the availability of new resources, availability of a new distribution channel or method, new management, vertical integration, a substitute (a threat by an external product or service), a specific customer complaint or a supplier request.

It is important to examine relevant ways in which triggers can be grouped or categorized. Based on insights gained from the new product development literature events (Rockford, 1991; Von Hippel, 1988; Oden, 1997; Conway and McGuinness, 1986; Pavia, 1991), we believe that at least five key classification methods can be applied to triggering. These include: origin of trigger-- internal source (e.g. declining profits) versus external source (e.g. new raw material);

strategic force--opportunity-driven (e.g. emergence of new market segment) versus threat-driven (e.g. competitor action);

market link--technology-push (e.g. new on-line systems) versus market-pull (e.g. customer request); management hierarchy: top-down (e.g. senior management initiative) versus bottom-up (e.g. employee suggestion) search type--systematic or deliberate search (e.g. on-going strategic program) versus chance or opportunism (e.g. export).

The linkages between the type of internal corporate entrepreneurship strategy and the types of triggers show that an administrative strategy is associated more with management hierarchy type of triggers that originate internally, while imitative and opportunistic strategies are associated with market link triggers that originate externally through deliberate search. When incubation is the primary entrepreneurial strategy the triggers tend to be based on strategic force types that originate externally and are the result of a deliberate search. Triggers that originate internally and by chance play a more important role in an acquisitive Strategy.

### **Implications for the Role of Marketing**

There are many activities or responsibilities with which marketing can become involved when it comes to entrepreneurial initiatives. Accordingly, we have first attempted to specify fourteen of the key ways in which marketing might get involved: analyzer, interpreter of environment, visionary, catalyst or leader, endorser, team player, resource provider, problem-solver, coordinator, negotiator, politician, change manager, missionary, and opportunist. As a second step, we have combined these activities in such a way as to define four general roles for marketing: initiator, sponsor, supporter, and reactor. These are defined as follows:

- Initiator – marketing actually triggers a new entrepreneurial event, either by recognizing some external threat or opportunity, identifying some internal need, or pursuing some ongoing innovation initiative.
- Sponsor – marketing is the leading or a major sponsor of the initiative, pushing for its acceptance and completion, playing a leadership role as it unfolds, perhaps housing it, and providing resources.
- Supporter – marketing augments the team, playing a secondary or more minor role, and providing expertise, intelligence, analysis, and marketing plans/programs on behalf of the initiative.
- Judge – marketing plays more of a “devil’s advocate” role, providing market intelligence and insight that serve to either pinpoint weaknesses, refine or revise ideas, and reasons it should or should not be pursued.

Of course, marketing can play more than one role, as it might be the initiator and also a supporter. Further, these roles can overlap. The reality of marketing’s conventional roles, responsibilities and orientation suggest that marketers may be able to maximize their impact by concentrating efforts around certain kinds of triggers. As suggested in **Table 2**, marketing may find it is best suited to play the role of initiator with triggers that are external, threat-driven, and based on a more systematic or deliberate search. Marketing may find it is most successful at sponsoring innovations

triggered by market-pull and bottom-up factors. The supporter role may make the most sense when innovation is triggered internally and/or from a senior management directive, and when it is technology-push in origin. Finally, marketing's critical role as judge is especially important when dealing with triggering events that are opportunity-driven and more random.

Specific aspects of marketing's role that change depending on the different types of triggers include the extent, pattern and timing of involvement, the complexity of interactions, scope of inputs and the potential impact on outcome. There is a need for marketing to be more heavily involved with triggers that are externally-based, threat-driven, market-pull in nature, and that derive from a deliberate search as these are the areas where marketing's impacts are the greatest.

It is also reasonable to expect marketing's role to vary based on the type of project, and specifically marketing should play a leading role in minor modifications where assessment of current markets and the launch of the product are the primary tasks. Similarly, marketing will play a greater role in service innovations compared to a product innovation, since service innovations often involve heavy input from and involvement by customers.

The structure of the team or organizational form involved in the innovation, whether the team is formal or informal, and the existence of an appointed VP for Venturing will further determine the type of role marketing will play. Oden (1997) identified eight alternative venture forms and in four of these (single function project, multi-function team, venture team, new product committee) marketing plays a more prominent role than in the remaining four (new product department, heavy weight or light-weight project team or autonomous team). In addition, the reporting structure for the venture organization and the extent to which the venture team is separated from the company's on-going operations will impact on the role of marketing.

### **Summary and Conclusions**

This discussion suggests that triggers are an important but little understood phenomenon in corporate entrepreneurship, and that marketing can play a meaningful role in triggering entrepreneurial events. Innovation in companies appears to have evolved separate from the marketing function, and marketing itself has not become the "home of the entrepreneurial process in organizations", in spite of Murray's (1981) arguments some years ago. Since marketing's focus is directed by the customer and operational aspects related to the satisfaction of customer needs, it stays close to the customer and meets their needs in terms of the company's current offering. This, in effect makes the company prisoner to the current market, in the process limiting its entrepreneurial intensity. To maximize marketing's contributions, and serve the organization's long-term welfare, we have proposed a number of roles for marketing in the triggering process. And yet, the role of the marketer is dependent on his/her status and influence, control over resources, leadership skills, extent of involvement (full versus part time), and creativity. It also depends on the company's objectives, strategy, structure, size, type of market served, and the type of innovation.

What we have called triggers is a loose term to describe a dynamic interaction that serves as a catalyst for a process that may unfold over months and years. Research must explore the determinants of corporate responsiveness to triggering events. Determining the relative importance of risk taking behavior, work discretion, time availability, management support, resources, organizational boundaries and structure, reward reinforcement, individual motivation and commitment would seem especially critical. Further study is needed to explore the impact of different triggering events and this should be a priority issue for those in marketing.

**Table 1: Major Differences between Conventional Marketing from Entrepreneurial Marketing**

<b>A S P E C T O F MARKETING</b>	<b>CONVENTIONAL MARKETING</b>	<b>ENTREPRENEURIAL MARKETING</b>
<b>Definition of marketing</b>	Facilitate transactions	Lead the company into new technologies/products/markets; Lead the customer
<b>Marketing strategy</b>	Development of strategy most important	Implementation of strategy most important
<b>Marketing concept</b>	Management of fixed set of marketing elements	Creation of customer value through continuous innovation
<b>Primary goal</b>	Capitalize on change	Create change
<b>Dynamics</b>	Reactive	Proactive
<b>Focus of marketing planning</b>	Adaptation to changing market environment	Vehicle for effecting change
<b>Marketing mix</b>	Elements are constants	Elements as variables
<b>Approach to serving needs</b>	Follow customer	Lead customer
<b>Action orientation</b>	Appetite for "learning" (monitor change)	Appetite for "doing" (institutionalized revolution)
<b>Develop employees into</b>	People who can perpetuate conventional wisdom	Marketing subversives; innovation champions, change masters

**Table2: Linking The Major Roles Of Marketing To Categories Of Triggers\***

<b>Trigger Category</b>	<b>Primary role of marketing Trigger type</b>	<b>Initiator</b>	<b>Sponsor</b>	<b>Supporter</b>	<b>Judge</b>
<b>I</b>	Internal source				
	External source				
<b>II</b>	Opportunity-driven				
	Threat-driven				
<b>III</b>	Technology-push				
	Market-pull				
<b>IV</b>	Top-down				
	Bottom-up				
<b>V</b>	Systematic/deliberate search				
	Chance or opportunism				

\* Key: Darkened cell indicates a primary role for marketing when dealing with type of trigger

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# **Organizational Innovation: Relationship with Functional Strategies and Organizational Performance**

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## **Abstract**

This study examines the relationships between organisational innovation, functional strategies and organisational performance. We define organisational innovation in terms of administrative, process, and product innovation. Our findings suggest that administrative innovation plays an more important role in enhancing organisational performance than either technical or product innovation.

## **Introduction**

The field of innovation is very broad. For example, authors have made distinctions between studies of the “diffusion” and “adoption” of innovations (Kimberly, 1981) as well as between studies of “innovating” and “innovativeness” (Van de Ven and Rogers, 1988). Innovation is defined as adoption of an internally generated or purchased device, system, policy, program, process, product, or service that is new to the adopting organisation (e.g., Daft, 1982; Damanpour and Evan, 1984). This definition is sufficiently broad to include different types of innovations pertaining to all parts of organisations and all aspects of their operation. The adoption of innovation is generally intended to contribute to the performance or effectiveness of the adopting organisation. This study presents an operationalisation of three types of innovations and empirically tests the differential effects of each type of innovation on organisational performance, marketing effectiveness and operational efficiency.

## **Literature Review**

The relationship between innovation and performance was recognised over 25 years ago by Cyert and March (1963). Most research is concerned with the relationship between technical and administrative innovations where it is argued that administrative innovations are necessary to embed and promote technical innovations, and a single administrative innovation will commonly spawn a succession of technical innovations (Daft, 1978; Damanpour and Evan, 1984).

Downs and Mohr (1976) found that relationship between innovation and organisational performance have varied across many studies. Many other scholars have acknowledged Downs and Mohr’s assertion that the results of innovation research are inconclusive (Bouwen, 1988; Bouwen and Fry, 1988; Damanpour, 1987; Dewar and Dutton, 1986; Kimberly and Evanisko, 1981; Meyer and Goes, 1988; Miller and Friesen, 1982; Nicholson, Rees, and Brooks-Rooney, 1990; Zmud, 1982). However, in none of these empirical studies nor in any conceptual article have the findings been systematically aggregated to confirm that they are actually unstable (Daft, 1982; Kimberly, 1981; Van de Ven, 1986). Such an evaluation would help determine the impact and moderating power of each dimension, thus providing directions for future research in organisational innovation (Damanpour, 1991).

## **Types of Innovation**

According to Damanpour (1991), the types of innovation that have gained most attention are i) administrative; ii) product; and iii) process innovations. The distinction between administrative and technical innovations is important because it relates to a more general distinction between social structure and technology (Evan, 1966). *Technical innovations* pertain to products, services, and production process technology; they are related to basic work activities and can concern either product or process (Damanpour and Evan, 1984).

*Administrative innovations* involve organisational structure and administrative processes; they are indirectly related to the basic work activities of an organisation and are more directly related to its management (Damanpour and Evan, 1984; Kimberly and Evanisko, 1981). Administrative innovation includes social structure or design, rules, procedures, reward and information systems, and communication authority structures that govern the relationships among members. These dimensions of innovation also appear to have a great impact on work productivity and overall performance of the organisations. Firms also differ in their emphases on product or process innovation as means of gaining competitive advantages (Ettlie, 1983; Hull, Hage, and Azumi, 1985).

We advance the following proposition and the hypotheses that derive from it:

***Proposition 1:*** *Administrative innovation is more strongly associated with organisation-wide variables than*

these are with product or process innovations. Hence

H1.1: Customer satisfaction, H1.2: Financial management, H1.3: Leveraging (risk taking), H1.4: Human Capital development, H1.5: Human Resource Management, H1.6: Overall management of value chain, H1.7: Financial performance

Product innovation involves the introduction of new products or services, including new applications of the existing product, or diffusion of the product to new sets of customers. Japanese companies successfully incorporate quality in product decision making processes (Kogure and Akao 1983) and obtain a significant competitive advantage (Deming, 1986). In marketing, quality generate customer loyalty (Zeithaml, 1988), and permits product differentiation (Shetty, 1987) and positioning advantages (Day and Wensley 1988).

**Proposition 2:** *The association between product innovation and marketing variables is stronger than either process or administrative innovations are to the marketing variables.* Hence product innovation is more strongly associated with the following:

H2.1: Market effectiveness, H2.2: Successful new product, H2.3: Product differentiation, H2.4: Customer niche marketing, H2.5: Product niche marketing

Process innovations are those that affect the production process in all facets, including the transformation from raw material to end product and all the support activities associated with this process. Several authors have examined advantages associated with the various degree of process innovation (Buffa, 1985), product improvement, increased turnover of inventories, and shortened delivery cycles (Meredith, 1987a,b; Skinner, 1985). Although the various dimensions of process innovation improve competitive position (Blois, 1988; Lefebvre and Lefebvre, 1993; Meredith, 1987a), few studies have specifically focussed on the synergies that could arise from an integrated examination of administrative, product and process innovation as suggested by Schroeder (1990) and Miller (1988).

**Proposition 3:** *Process innovation is more strongly associated with efficiency variables than either product innovation or administrative innovation.* Hence

H3.1: Efficiency improving activities, H3.2: Inventory management, H3.3: Logistics management, H3.4: Supplier logistics management, H3.5: Technological leadership, H3.6: Technology management, H3.7: Low cost strategies

### Indicators of Organisational Performance

Non-financial indicators which are the basis of on going monitoring of operational activities. These are very similar to managerial accounting decisions, highly correlated with financial performance (Kaplan, 1983; Johnson and Kaplan, 1987; Smith 1993), could include *product, market, employee, customer* (Whitt and Whitt (1988), a combination of efficiency (Gosling 1988, Venkatraman and Ramanujam 1986).

### Sample

A survey was conducted of two hundred and fourteen (214)-manufacturing companies that participated in the Australian Best Practice Program. There were 120 returns out of a total of 214 questionnaires sent, resulting in a response rate of 56 percent. The size of the sample companies based on number of people employed, as well as industry types classification based on product information are shown in [Table 1](#).

### Scales and Measurement

The questionnaire used for collection of data in this research consists of three sections:

**Section I - Selected Situational Characteristics of the Respondents and Organisations.**

**Section II - Organizational Innovation Scale (29 items - = 0.83).** The scale comprises of the following sub-components: *administrative (13 items - = 0.87), process (7 items - =0.80) and, product innovation (9 items - = 0.71).*

**Section III - Organizational Performance Scale (27 items - = .83)** *financial performance (= 0.83), financial management (= 0.82), leverage (= .60), and, marketing effectiveness (= 0.68).*

### Results

To test the hypotheses with respect to types of innovation, first, the correlations were run for each type of innovation (Administrative, product or manufacturing- [Table 1](#)). The correlations were formally tested for significance of differences using the formula developed by Cohen and Cohen (1956) for dependent correlation coefficients ie those arising from the same sample. (see formula in appendix)

#### Proposition 1

H1.1: not supported. Manufacturing more strongly associated with customer satisfaction

- H1.2 partially supported but not statistically significant
- H1.3 no significant differences exist
- H1.4 Strongly supported
- H1.5 Strongly supported
- H1.6 Strongly supported
- H1.7 Strongly supported

In general, these results suggest that administrative innovation is far more important than other forms of innovation. This emphasises the importance of management as a driving force in creating the conditions necessary to support innovation. It implies that innovation needs to be nurtured from the top to send the appropriate signals to the middle managers and technical staff. We do find that for some organisational outcome product innovations is critical but we find little evidence of support for manufacturing innovation superiority. In part this might be because senior managers did not have mechanisms in place to consciously and systematically measure process innovation in their companies. This would be unfortunate because it suggests an important source of innovation is not being recognised, supported and motivated.

#### **Proposition 2**

H2.1 which posits that market effectiveness is strongly related to product innovation is not supported. This seems to be consistent with marketing literature which suggests that overall market effectiveness is a company-wide characteristic (Narver and Slater 1990, Kohli and Jaworski 1990) hence more strongly related to administrative innovation.

*H2.2: is supported; H2.3: not supported ; H2.4: not supported; H2.5: not supported*

#### **Proposition 3**

H3.1 is not supported. In fact administrative innovation is far more strongly associated with efficiency improvements. This suggests that although efficiency issues can be assigned to technical staff, their success depend on administrative systems being in place to support the technical efforts.

H3.2: Not supported. Again inventory management should be considered a form of administrative innovation than a purely manufacturing function.

H3.3: Not supported. Product innovation seems to be more closely associated with logistic management even significantly more so than manufacturing.

H3.4: Not supported. Again administrative innovation is indicated.

H3.5: No significant differences

H3.6: partially supported in that manufacturing innovation was more strongly associated with technology management than product innovation. However, administrative innovation is the most important association.

H3.7: These findings are very similar to those for technology innovation.

#### **Conclusion**

These results suggest that for most desirable organisational outcomes, administrative innovation is the most important. This implies that where organisations are flexible, they encourage risk taking and support and nurture innovation. Administrative innovation may subsume other forms of innovation. The results highlight the need of organisational leadership that show by example that this has beneficial impact on functional units ie marketing and manufacturing. Senior managers must set the direction and pace of innovation, motivate the departments, support and nurture risk taking. In a few cases product innovation is the most important form of innovation (new product development) this might be just be an outcome of definition and consequence. In general, process innovation is a useful complement to administrative innovation. Processes that emphasise efficiency and effective coordination seem to be strongly associated with operational improvements. These results suggest we need innovative organisations to support both product and process innovation.

#### **Future Research Needs**

In this paper we had very limited aims ie identify how the different forms of innovation are related to various forms of organisational outcomes. It would be an advantage to take the discussion a step further by examining the resource implications of innovation. This would address the question what combination of innovations is economically signifi-

cantly related to organisational performance. This would assist in deployment of resources for maximum effectiveness. Thus one would suggest the need to examine simultaneously the implications of the different types of innovation.

### Limitations

While the respondents for this study were senior managers, the researchers had no access to secondary or other data that could be used to validate the findings. Some qualitative in-depth study would have enriched the findings. The questionnaire was pre-tested however, it is possible that the target respondents might differ from the pre-test sample. In order to minimise this effect similar respondents to the pre test sample were used in the generative stage. Finally, this research was based in an Australian context, hence the results may not be entirely generalisable especially since this is rather an elite group of companies within Australia.

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**TABLE 1: DIFFERENCES ACROSS THE THREE TYPES OF INNOVATION**

Variable	TYPES OF INNOVATION			Different Sets
	Admin.	Product	Manufacturing	
Market Effectiveness	.414	.231	.343	A>P*
New successful Products	.410	.645	.341	P>A**, P>M**
Product differentiation	.410	.417	.351	No significant differences
Customer Niche Marketing	.210	.337	.212	No significant differences
Product niche Marketing	.262	.362	.286	No significant differences
Competitive Advantage	-.333	-.228	-.241	No significant differences
Customer Service	.210	.337	.419	M>A**
Financial Performance	.409	.311	.281	No significant differences
Financial Management	.449	.254	.304	A>P*
Human Resource Management	.899	.297	.527	A>P & M***, M>P***
Leverage (Risk Taking)	.333	.266	.170	No significant differences
Human Capital Development	.566	.185	.299	A>P***, A>M***
Value Chain Management	.594	.413	.416	A>P*, A>M*
Efficiency Improvements	.592	.248	.365	A>P***, A>M***
Inventory Management	.455	.283	.507	A>P*, M>P**
Logistics Management	.220	.417	.231	P>A*, P>M*
Supplier Logistic Management	.564	.349	.448	A>P**
Technology Leadership	.256	.348	.247	No significant differences
Technology Management	.897	.442	.601	A>P***, A>M***, M>P**
Low Cost Leadership	.788	.415	.580	A>P***, A>M**, M>P*

\* p<.05

\*\* p<.01

\*\*\*p<.001

## **Tv Viewing Motivations of Chinese Households in the U.s.: an Empirical Perspective**

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### **Abstract**

This study reviewed a sample of 107 Chinese adult immigrants in the Los Angeles, California area. The findings indicate that the five primary television viewing motivations, in order of importance for these Chinese respondents were: Relaxation, entertainment, information, companionship, and passing time. The five primary motivations for watching Chinese TV in order of importance were: Relaxation, information, entertainment, companionship, and habit. Implications to TV programming and advertising strategies are provided.

### **Introduction**

Mass media has traditionally played a significant role in providing information and entertainment to various cultures around the world. Television, in particular, due to its audio-visual stimulating characteristics, is a popular form of communication enjoyed universally. Television viewer motivations differ not only between individuals within a particular culture, but also across cultures. For example, a cross-cultural study of children's television viewing by Zohoori (1988) indicated that children of immigrants from East Asia tended to be more motivated to use television for information, social interaction and companionship than did children of Caucasian American families.

The population of Chinese immigrants in the United States has increased significantly over the past thirty years. Newcomers may have limited contact with residents of the host country and are often unfamiliar with their new environment.(Dougherty, 1990 ) This study utilizes Rubin's (1983) Uses and Gratification model to explore the underlying motivational factors that influence television viewing among adult Chinese immigrants in the United States.

### **Uses and Gratification Theory**

Uses and Gratification Theory views the relationship between consumers and the media as a complex and dynamic one. The consumer is not simply a passive receptacle of information but instead imposes his or her own ideas and motivations on the message being delivered. The consumer, the media, and society form a complex system of interrelated and interdependent components, such as viewing behaviors, viewing patterns, and viewing motivations.

A change in any component in this matrix affects the other system components and the system as a whole. Uses and Gratification Theory allows us to explore the way in which households and individuals use the mass media to gratify their needs and their motivations, or reasons, for specific media-related behaviors.

Katz, Blumler, and Gurevitch (1974), identified four tenets of Uses and Gratification Theory: The first tenet suggests that media use is goal-directed. Audience members actively select certain media or types of media content to satisfy their certain expectations. For example, Chinese immigrants may choose to watch Chinese television programs to meet their needs for information on how to adapt to the American culture, or to obtain news that are specific to Taiwan or Mainland China.

The second tenet suggests that social interaction and cultural factors produce viewer expectations for gratifying needs through the use of certain media. For example, an immigrant with limited social interaction from the outside world may satisfy his/her need of companionship by viewing television.

Third, the audiences' initiative is a key factor in selecting which media outlet they utilize. For example, Chinese adult immigrants may prefer TV programs in their own language so they can understand the message.

Fourth, individual audience members know and can account for their own motivations and preferences. Typically, researchers examining audience uses and gratifications utilize closed-ended response categories in which individuals are asked to compare a given motivation statement to their own reasons for using the medium, to determine audience motives. For instance, in this study participants were asked why they watch television, and were given specific alternatives from which to choose. According to these four tenets, it is rational to assume that Chinese adult immigrants are goal-directed viewers and actively select certain television channels or programs to satisfy their needs.

Rubin assessed television viewing motivation among American elders(1981), and American adults (1983). The goals of his investigations were to examine the relationship between viewing motivations, preferences, and audience

demographics. The studies sought to determine whether TV user motives could predict behavioral consequences of television use. For instance, an individual seeking information may choose to watch a news program. In his sample of American adults, Rubin reported the following five primary television viewing motivations listed in order of their importance: Entertainment, relaxation, passing time, habit, and information. He concluded that the entertainment motivation resulted from the need for fun and excitement. Viewing for relaxation resulted from the need to reduce tension related to everyday problems. He also found that television seems to gratify entertainment and relaxation needs, regardless of program content.

In an earlier study, Rubin (1981) noted that the five primary television viewing motivations for older people were, in order of importance: passing time, information, entertainment, social interaction, and companionship. Passing time, he concluded, was motivated by a strong need for relief from boredom. He also found that older people use television for information based on a need to connect with the outside world. Moreover, due to their informational needs, older people preferred watching news program.

Greenberg (1974) suggested that TV viewing motivations were related to demographic traits, such as age. He studied television use by British children and adolescents, and reported seven primary viewing motivations: Learning, habit, arousal, companionship, relaxation, escape, and passing time. He also noted that age was the most significant demographic correlate of the viewing motives. For example, younger children identified more strongly with certain television viewing motivations, such as arousal, than did older children and adolescents who identified more with passing time.

### **TV Viewing Motivations and Ethnicity**

Zohoori (1988), Ikeda (1992), and Albarran & Umphrey (1993) have all explored the role of ethnicity in television viewing. In his 1988 study, Zohoori examined the differences in television viewing motivations for immigrant children of various ethnic backgrounds. He concluded that both immigrant children and American children were motivated to use television for learning/information, social interaction, companionship, and escape. Compared to American children, immigrant children appeared to use television more as a tool for learning: First for learning English and, secondly, for gathering information about others and themselves. He also noted that immigrant children tended to be more motivated to use television for social interaction and companionship than did American children. Zohoori attributed these differences in TV viewing motivations between the two groups of children to the needs of the immigrant children to acculturate to the U.S. society. Moreover, Zohoori suggested that over time, the intensity of isolation for immigrants decreases as social contact with residents of the host country increases.

Ikeda (1992) studied differences in television viewing motivations between Chinese immigrant children in the United States and American children. This study also noted that demographic traits such as ethnicity and primary language are important in determining television viewing motivations. He argued that immigrant children need to learn the language, behavioral patterns, and cultural norms of the host country in order to survive in a new culture.

Since these children are often limited in the ways in which they could satisfy these needs in the host country, they relied heavily on television for adapting to the new culture.

Ikeda (1992) reported four primary television viewing motivations for Chinese immigrant children: language learning, entertainment, and information. Moreover, he found that Chinese immigrant children enjoyed American TV programs more than Chinese TV programs. This finding he attributed to the observation that most Chinese television programs were geared toward adolescent or adult audiences, with very few developed for children.

Albarran and Umphrey (1993) found different TV viewing motivations for Hispanic and Anglo Americans. Hispanics in the U.S.A., reported stronger information and social interaction motives than did Anglo Americans. Watching television, for the Hispanic study group, was often a family activity. Comparatively, Anglo-Americans were much more independent in their viewing and didn't look at television as a family activity. He also noted a stronger motivation for information among the Hispanic group was a result of their need for acculturation. They were motivated to use television as a source of information about themselves and others, language acquisition, and as a way for observing mainstream society. Thus one could extrapolate that Chinese adult immigrants have a greater information motivation for watching television. Because Chinese television programming is geared toward Chinese adults, Chinese adult immigrants may prefer watching Chinese Television. Using both Ikeda's (1992) and Zohoori's (1988) studies, one might also infer that if viewing motivations for immigrants are different from mainstream viewers, and if those motivations vary depending upon how long they have lived in a new culture, then viewing preferences may also be affected.

Other studies (Stroman 1994; Matabane, 1986) investigated the TV viewing motivations of African Americans. Both of these studies showed that African American viewers were more likely to watch programs with dominant black

characters. Matabane also noted that language affects program preferences among Black viewers. Black language is more often used by Black-character programs and it presents a meaningful insight into the homogeneous culture of the African American population.

### **Methodology**

Data for this study was collected from 107 Chinese adult (over 18 years old) immigrants. The respondents were randomly intercepted in Chinese Markets located in the greater Los Angeles areas of Hacienda Heights, Monterey Park, and Diamond Bar. These areas were specifically selected due to the high concentration of Chinese immigrants in them. A total of 356 shoppers were selected, but only 107 resulted in completed and useful responses.

Each respondent was told that the primary purpose of the study was to obtain information about what motivated him/her to watch television. The questionnaire attempted to capture information relating to Rubin's TV Viewing Motives Instrument and demographic variables. Rubin's instrument, and this survey included 27 different TV viewing motives related to the following nine motives: Relaxation, companionship, habit, passing time, entertainment, social interaction, information, arousal, and escape. Respondents indicated their levels of agreement with 27 statements depicting reasons for watching television. These were measured across four response options ranging from "a lot" to "not at all." To ensure the validity of the study, the respondents were offered a Chinese version of the questionnaire whenever necessary. Ninety respondents completed the Chinese version.

The study sought to answer three basic research questions: What are the primary motivations for adult Chinese immigrants to watch television in general? What are the primary motivations for watching Chinese TV programming; and, what relationship, if any, exists between the viewing motivations and selected demographic characteristics?

### **Results**

The demographics of the respondents showed forty-five (42%) to be males, and sixty two (58%) were females. The age distribution spanned 37 years and ranged between 18 and 78 with a mean of 34 years. Of the sample, 105 (98.1%) were born in Taiwan or China. Eighteen (17%) were raised in the United States, and eighty-nine (83%) were raised in Taiwan or China. The average stay of these respondents in the U.S. was 8 years with 62% reporting being in the States less than 8 years. The majority of the respondents (64.5%) indicated their desire to stay in the U.S. permanently.

Most of the respondents (88%) reported Chinese as their primary language, and 11% noted English as their primary language. Fifty Eight (58%) percent indicated preference for watching Chinese TV programs and 42% preferred watching American TV programs. However, 76% reported being in the habit of watching Chinese TV programs. More than half of these respondents were in the habit of watching Chinese TV daily. Overall, Relaxation, information, entertainment and companionship were the top four TV viewing motives cited by this group of respondents.

As expected, a significant difference ( $P < 0.05$ ) in TV viewing preferences was noted between respondents raised in the United States and respondents raised in Taiwan or China. Those raised in the United States were slightly more likely to prefer American TV. Those raised outside the United States were more likely to prefer Chinese TV. Length of stay in the U.S. also proved to be a differentiating factor in TV viewing habits ( $P < 0.000$ ). Those who preferred Chinese TV had been in the United States an average of 6.4 years. While those who preferred watching American TV had been in the United States an average of 9.7 years. This finding suggests that more recent immigrants prefer watching Chinese TV. Similarly, viewing habits appeared to differ by the reported primary language ( $P < 0.005$ ). Respondents who claimed Chinese as their primary language were more likely to prefer Chinese TV than those who reported English as their primary language.

The relationship between length of time spent in the United States and television viewing motivations was also evaluated. Escape ( $P < 0.039$ ) was the only viewing motivation that appeared to differ significantly among those who have been in the U.S. less or more than eight years.

### **Discussion and Implications**

The results of this investigation suggest that the five primary motivations for Chinese adult immigrants to watch television were: Relaxation, entertainment, information, companionship, and passing time. In this study, the "information" motivator was ranked number three (3) as compared to number five (5) in Rubin's 1983 study. This finding may suggest that the Chinese adult immigrants have a greater information need than the other mainstream populations. A further look at the results shows that the information motivation was stronger for watching Chinese television programs. This finding shows that the respondents are likely to meet their need for information by viewing

Chinese television programs.

Other studies (Zohoori, 1988; Albarran & Umphrey, 1993) have also shown that immigrants have a greater information motivation for television use than do mainstream Americans. This greater need for information is believed to be a part of the acculturation process. Thus, the indication that the Chinese group has a greater motivation for information may result from their need to adapt to the mainstream culture. They depend more on television as a source of information about themselves and others, and as a way of observing the mainstream culture while they are still not fully acculturated. Stroman, (1984); and Matabane, (1986) further indicate that ethnic groups prefer watching programs that represent their own culture, because they can obtain more information about experiences in the mainstream society related to their particular ethnic group. Another noted difference in the findings of this study from those of Rubin's 1983, is that Companionship emerges as an important reason for Chinese adult immigrants to watch television. Rubin's study did not list companionship as a strong motivation for television use among adult Americans. The finding that companionship is a strong viewing motivation for Chinese adult immigrants may reflect the limited social contacts this group has within its new environment. Zohoori (1988) suggests that immigrants initially feel isolated in the new culture, but that over time such isolation diminishes with increased social contact.

As minority populations continue to grow in the United States, understanding the motivations and needs of these groups becomes necessary for inducing balanced acculturation and resulting integration in the mainstream culture. This study suggests that marketers would benefit from providing customized information about their products or services that pertain to the Chinese market. A number of local cable networks now offer programming in Chinese among other languages represented in the U. S. population. Whenever available, such customized programs are more widely watched than the regular programs. Television stations could benefit from this information in attracting advertising of products aimed at the Chinese market.

Another implication of the major findings in this study highlights the importance of providing information that could enhance the assimilation of Chinese immigrants in the U. S. A. If more of these immigrants depend on information seen or heard on foreign satellite channels, then the process of acculturation and assimilation may be hampered. Given that the younger generation of immigrants is more likely to watch regular English programs, the different tv viewing habits could threaten the traditional harmony of the Chinese family. Further research is necessary to identify trends that could impact the status of the pluralistic American family as we enter the new millennium. How will the viewing habits of the various ethnic groups impact their overall attitudes towards other ethnic groups, and their behavior in the host nation? These issues are of interest to marketers and policy makers alike.

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## The Ukraine: Web of Cultural Paradox

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### Abstract

This paper will address a number of paradoxical factors, which strongly affect and explain the culture and economic situation in the Ukraine today and which are widely reflected in Ukrainian media. Viewing the transitional market as a web of paradoxes will help to promote a richer understanding of its cultural complexities and give insights into the state of this country for those interested in doing business and economic investment into Ukrainian economy.

### Introduction

Since gaining independence from the former Soviet Union, the Ukraine has aggressively sought to develop international relationships that would provide economic partnerships and foreign investment. Likewise, the Ukrainian market has been of great interest for foreign investors. U.S. Secretary of State Madeleine Albright listed relations with Ukraine as one of four key U.S. foreign policy priorities in 2000 (Albright, 2000). However, the current economic situation in Ukraine may be seen as extraordinarily contradictory and significantly changeable. Therefore, the promotion of the New Independent State in the international markets appears to be rather difficult. Promotional difficulties could be described as *technical* and *environmental*. *Technical* difficulties have deep roots in the soviet state monopoly on information, specific character of planned economy functioning, total market deficit, and the absence of competition. All of this made the promotion undeveloped and vulgar. Since 1991, the Ukraine has made appreciable progress toward economic and political transformation. It has begun the process of serious structural reform to remedy the problems experienced by former Soviet Bloc countries. First of all, it was very important to eliminate the state /public/ ownership of the means of production and to overcome influence of the communist ideology, inflation, increased trade deficit and external arrears for payments due for primarily gas imports. At the same time, it has become necessary to develop the marketing principles and to create new image of the Ukraine and Ukrainian market. *Environmental* difficulties in promotion of the Ukraine in international markets deal with different political and economic circumstances including a number of cultural paradoxes which have significantly influenced the current business environment in Ukraine. The analysis of the essentials of these paradoxes could help to attract the foreign investments into Ukrainian economy and attract business activity in Ukrainian market. While every country in transition has economic and political situations to address, the Ukraine offers some cultural contrasts, which yield insights into this country with a rich independent tradition and a sizable geographic advantage.

### Research Objectives

In his book, *The Age of Paradox*, Charles Handy argues that we must learn to live with and see things as the paradoxes they are. Paradox is inevitable, endemic, and perpetual. The more turbulent the times, the more complex the world, the more paradoxes. Handy believes that paradoxes are like weather; they have to be lived with (Handy, 1994).

Using the notion of paradox can give us insights into the Ukraine, which might be overlooked in traditional economic/political analysis. In fact, seeing this country's history and culture as a paradox provides insights into its "nature," which would not be part of a traditional market opportunity analysis. To truly understand the Ukraine and its paradoxes, one must recognize that for decades there have been two quite different ideologies within the country: traditionally historical and socialist. Both have influenced the forming of the cultural marketing environment and customers' preferences in the Ukraine. Ukrainian culture and folklore indicate a strong sense of national identity as Ukrainians and strong devotion to the Orthodox Church. As such, the old country's social values, educational system, traditional customs and even climate all contributed to its national identity and sense of tradition. However, this

identity was suppressed by the socialist ideology, which promoted atheism, socialist party codes, public ownership of means of production and forbid the attendance of church services for all but the very old. Russian became the primary language of the Ukraine and today 77% speak Russian and Ukrainian. However, only 33% of the Russians are fluent in Ukraine.

### **Paradox 1 - One and three**

While geographical borders and political boundaries describe a country of approximately 240,000 square miles (about the size of Texas), there are actually three distinct areas each with its own situation. After a national referendum on December 1, 1991, the entire nation expressed its wish to be separated from the USSR. While the vote was of one nation, in fact, three distinct identities emerged:

*Eastern Ukraine* - held close identification with Russia. As the region that physically abuts Russia, mining and heavy manufacturing kept Ukraine economically tied to it. *Central Ukraine* - held very tolerant attitudes and may hold a 50/50 split in east-west orientation. Kiev, Ukraine's largest city, is located in the central region and has approximately 50% Russian speaking residents.

*Western Ukraine* - identified most strongly with Ukrainian nationality and language. Life includes traditional meals, dress, songs and a dislike for the Russians.

Each district has a differing mental model of national identity and image of how the economic livelihood of the country can be advanced. The new political landscape that resulted from the last presidential elections could be an example. Mass media now conduct public opinion polls and report the findings. In contrast to President Kuchma's first term election, which was carried by the Eastern Ukraine, support for the second term was garnered mostly in the western half of the country. Although incumbent President Kuchma managed to retain his hold on leadership, his constituency changed considerably. So the Dnipro River is not only a natural geographical dividing line between two parts of the same nation, but it also demarcates political and cultural differences that have never been resolved even by the forces of the Soviet Union. Now, Kuchma has greater support in western Ukraine, a region with strong European traditions and values, and it is expected this government's policies will shift towards more western standards (Krill and Andrushkiw, 2000).

### **Paradox 2 - Rich and poor**

Ukraine is an industrial and agricultural country: industry accounts for 40% of GDP and agriculture for 12% of GDP (World Bank, 1999). Ukraine has a highly developed scientific infrastructure composed of numerous Institutes of the National Academy of Science, hundreds of university R&D Centers, and industrial labs. Good climate, fertile soil and different natural resources also characterize it. However, the country has not been able to overcome economic crisis or achieve relative economic stability.

Large enterprises were stopped because of inability to adapt their production and management to new marketing environment. Medium and small enterprises have no government support and can not successfully develop businesses. To intensify its economic activity Ukraine vitally needs approximately \$40 billion of foreign investment. However, the cumulative volume of external financing in Ukraine has hardly reached \$1 billion since 1991 (Dash Into the Market Economy, 1997). Foreign investors may be reluctant because of high risks in operating in the Ukrainian market. As estimated by a European research center, there is an 80% degree of risk in the Ukrainian economy. The purchasing capacity in the industrial and consumer markets is low. As to the UN ratings, Ukraine occupies the ninety-first position in the world in human development (UN Global Report, 1999).

The economic situation in the Ukraine is highly dependent on quickly achieving six goals:

- Implementing a mass privatization program successfully and developing Ukrainian security markets;
- Creating the institutions of a market economy, particularly the banking system, commercial law, tax system and trade and investment regimes;

- Restructuring and invigorate the agricultural sector;
- Restructuring the power sector;
- Creating targeted subsidies for social services in order to protect the most vulnerable groups to reduce the budget deficit;
- Increasing the effectiveness and accountability of the national Parliament, political parties and the Ukrainian legal system.

#### **Paradoxes 3 and 4 - Big, yet small; Independent and dependent**

The Ukrainian Republic was one of the most highly developed nations in the USSR. However, size and seemingly independent status fell victim to value chain problems. The Ukraine's supplier-buyer relationship with other Soviet Republics proved to be an economic Achilles heel after independence. Around 80% of the country's production processes were dependent on suppliers or buyers in the other republics to produce marketable goods. In essence, 80% of the Ukrainian industries are like big strong links in a questionable chain.

Politics also enters the independent-dependent paradox. Petroleum oil products and natural gas serve as an example. The Ukraine was dependent on Russia for these products. To move away from this dependency meant to seek other supplies around the world. Attempts to use Turkmenistan sources meant dealing with a supplier close to Russia. Middle Eastern producers also created international relation and payment problems. So the Ukraine still seeks to express its independence but finds it difficult to select the right supplier country. It is said in the Ukraine that political independence must be proven by economic independence.

#### **Paradoxes 5 and 6 - Open and closed; Shunned, yet desirable**

While an attitude of open market conditions permeates the Ukraine, it remains closed to some investors because of its stage of development and economic reforms. One can look at the Ukraine as going through three stages to achieving complete openness:

*Stage 1 (1991-1996)* - this stage was called "development in conditions of crisis." Here the Ukraine was wrestling with taking measures to prevent the collapse of industries and further wreckage of the economy. During this period, the country had to form foreign economic policy in crisis conditions and maintain a foreign balance of trade, which would help reduce inflation all while addressing social problems.

*Stage 2 (1997-2000)* - this stage was called "stabilization" because the task was to solve a series of vital problems surrounding privatization and the enticement of foreign investment so that Ukraine might strengthen its position in world markets. The integration of Ukraine into the international community was accompanied by active cooperation with International Organizations, other countries, state and private institutions of foreign countries. One of the most active is USAID, whose principal mission in the Ukraine has been to help the country make the transition to a broad-based democracy with the market-oriented economy (USAID, 1999). Relations of the Ukraine with international financial organizations, in particular with the International Monetary Fund, World Bank, the European Bank for Reconstruction and development, the International Financial Corporation and other international organizations, played a special role in forming of marketing environment and strengthening the economy in post-socialist country (Butayeva, 1997).

*Stage 3 (2000 and beyond)* - a period of "intensive development" in the economic, political, legal, social and cultural aspects. One of the major economic and social challenges facing the country is the newly emerging Ukrainian democracy and the establishment of a strong, vibrant private sector. The process of transferring ownership from public to private hands will continue. This process is supported by the new constitution, which guarantees the right to entrepreneurial activities.

Despite the economic limitations, the Ukraine by its culture remains open and unencumbered unlike many Eastern Bloc countries. It has been able to draw on a rich national identity to revive quickly entrepreneurial consciousness.

A complimentary paradox (#6) reveals that the Ukraine, for reasons outlined above, offers much promise in that the right things appear to be happening, but are perceived with varying time frames and levels of certainty by potential economic partners. Historically, Ukraine's geographical location as a "crossroads of Europe" has been sought after and,

at times, occupied by its neighbors. Its natural and agricultural resources have made it attractive to other nations.

### **Paradoxes 7 and 8 - Modern, yet dated; Poor, but aristocratic**

While the Ukraine moves toward privatization, it displays paradoxes 7 and 8 in its everyday life. Today, the country has a population of approximately 49 million people with a number of cities exceeding one million residences. Kiev, located in the center region, has a population of more than 2.7 million people.

Culturally, Ukrainians exhibit a strong sense of heritage. With low personal disposable income, Ukrainians display an attitude of aristocracy in passing their family possessions. In addition, Ukrainians are a relatively educated nation of great erudition: 83% of adults have high or special technical education. Advanced traditional and modern arts and a deep spiritual life influence consumers' needs and create the special level of demands in Ukrainian market.

However, the undeveloped Ukrainian democracy cannot tap the high potential of Ukrainian society, thus it remains poor. "The political struggle is only just beginning" - said President Kuchma in his first public explanation of the future all-Ukrainian referendum aimed at creating a more compliant and market focused parliament able to revive the stagnant post-soviet economy (Reuters, 2000).

### **Paradoxes 9 and 10 - Eastern and Western meals; Natural and Unnatural foods**

With privatization and market oriented changes comes the flood of products from around the globe, particularly the United States. The culture soon found new foods and drink competing with diets that are more traditional. The initial reaction to U.S. products like Coke and Pepsi was strong, possibly because of novelty or taste. In fact, there were cola wars in the Ukraine between Coke and Pepsi as production geared up in 1997 (Okno Group, 1997).

Yet, another paradox (#10) entered the equation. The penetration of cola drinks was slowed by the cultural values on healthy and natural. Traditionally, Ukrainians have believed in natural foods favoring homemade fruit drinks over produced products. The introduction of colas made East meet West and natural meet unnatural. Ukrainians would argue that our drinks are open in that you see them produced and know the ingredients. Even their traditional soft drinks, like crème soda, bottled locally are viewed as more Ukrainian than U.S. colas.

### **Paradox 11 - Trusting and suspicious**

Part of the country's culture is that of giving and receiving help and that value is part of their natural fabric. However, the dramatic changes of privatization have brought new horizons never seen before to the economic, cultural, and social scene. The reaction of most people is one of suspending their trusting nature to question the motives of new domestic and western owners. They wrestle with questions like "Which interests are in focus?" "What are the main purpose of western help?" For many years, Ukrainian media reported untruthful information and many people were deceived in their expectation.

Political and business leaders in the Ukraine are concerned with two fundamental questions. First, are we dealing with an ally or future competitor? The desire to create an independent economic country to sustain and further their national identity has to be concerned with identifying competitors. Second, entering relationships can mean that some other nationality holds the control over part of the Ukraine's growth.

### **The Paradox of Opportunity in Media Implications**

The Ukraine is itself a paradox of opportunity. It is a huge untapped market of over 50 million people who live in relative political stability. It is a country of cheap natural resources with a strong R&D and industrial infrastructure. Labor is highly qualified and work for reasonable wages. The Ukraine is situated in the middle of Europe - a crossroads between east and west. The country's leaders are seeking cooperative, joint business ventures and direct foreign investment. The country is becoming increasingly more attractive and comprehensive.

The media's activities have become more intensive and effective day by day. TV, radio, newspapers, magazines, and the Internet disseminate commercial information about the Ukrainian market and marketing environment to

activate domestic and foreign companies' business activity. One of media's main purposes is forming the positive Ukraine's marketing image in the web of cultural, social and political paradox.

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## **Cultural Differences in Web-based Chatting: an Exploratory Study**

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### **Abstract**

The Internet is a medium that allows people in many different countries to communicate with one another. Few researchers have examined the impact of chatting online; we employ Hofstede's theory of cultural values to test cultural differences in online chatting. Using data from 260 respondents, representing 39 countries, we examine the chatting differences among strong, moderate, and weak uncertainty avoidance cultures. Differences are found in three areas: relationship between Internet use and time spent chatting, motivation for chatting, and impact of chatting on the use of other media. Limitations of the study, as well as suggestions for future research, are discussed.

### **Introduction**

In recent years, Internet usage has grown in popularity for both individuals and companies, and projections indicate continued growth. According to Nielsen Media Research and CommerceNet (CommerceNet, 1999), over 120 million people use the Internet worldwide and the value of electronic commerce transactions exceeds US\$9 billion. Academic researchers have examined several aspects of Internet usage, including online consumer behavior (Geissler & Zinkhan, 1998), Internet advertising strategy (Leong, Huang, & Stanners, 1998), electronic marketing strategy (Quelch & Klein, 1996), and the economics of the Internet (Bakos, 1997). However, an important, yet often neglected, aspect of academic research concerns how consumers use the Internet as a means of communication. Web-based chatting is one such medium. Online chatting is a worldwide phenomenon and therefore, it is important to examine the cultural differences in chatting behaviors.

This paper intends to examine the differences in Internet chatting behavior between countries within Hofstede's (1991) fourth dimension (uncertainty avoidance) of cultures. Specific chatting behaviors are measured and then differences are compared across various countries with regard to their uncertainty avoidance scores.

### **Chatting And The Internet**

America Online (AOL), the biggest Internet service provider, estimates that 10 million consumers spend approximately 25% of their online time in Web-based chatting (Marsh, 1997). There are many aspects to Web-based chatting (e.g., frequency of chatting, multimedia usage), as well as many reasons for chatting online (e.g., entertainment, escapism). The Internet provides companies and individuals, with new methods for communication.

Today, chat is an important component of many commercial Web sites, as well as public sites such as the United States Government (USA Today, 1999). Chat rooms are also used for relationship marketing and can enhance the recognition of products and services. It is estimated that installations of chat programs on a Web site can increase consumers' visits by 50%, can keep consumers on the Internet site 30% longer, and it can increase online purchases by 41% (Business Wire, 1998). At the individual level, Web-based chatting allows people to advertise personal information on a Web chat server. In recent years, a number of individuals looking to post personal advertisements have moved away from newspapers, toward Web-based classified ads (e.g., AOL) and chatting servers (e.g., MNM), because they feel restricted by some of the regulations imposed by the print media, such as the limitation on the number of lines of text allowed and the prohibition of sexual content.

### **Chatting and Culture**

Today, individuals are more likely to interact with people from various countries and social environments for political, social, and occupational reasons. The Internet is one interactive medium that allows individuals exposure to people from cultures different than their own. Therefore, it is important to understand the differences among the various cultures. Hofstede (1991) defines culture as the "collective programming of the mind which distinguishes the members of one group or category of people from another" (p.5).

Hofstede (1991) posits that all societies face the same basic problems (i.e., relation to authority, conception of the self, ways to deal with conflict), but each may differ, based on their culture, in their solutions to these problems. Hofstede refers to these basic problems as representing dimensions of a culture. A dimension is an "aspect of a culture that can be measured relative to other cultures" (p.14). The first three dimensions (power distance, collectivism vs. individualism, femininity vs. masculinity, and uncertainty avoidance) are interesting aspects of cultural differences;

nonetheless, for this study, they are not examined as they are not expected to contribute significantly to the differences in chatting behaviors across cultures.

However, based on the specific characteristics of Web-chatting, the final dimension of culture, uncertainty avoidance, is expected to significantly effect the factors involved in chatting behavior. Uncertainty avoidance can be defined as the “extent to which the members of a culture feel threatened by uncertain or unknown situations” (Hofstede 1991 p.113). This feeling is conveyed by the demonstration of nervous stress and a need for predictability: a need for written and unwritten rules. Web-based chatting can be viewed as a form of communication that seems to break all of the accepted rules, which in turn could cause anxiety for some individuals. Internet usage is also a relatively new technology and for some individuals the unknown is perceived as risky. Many people worry about confidentiality on the Internet, as well as security with regards to information.

Hofstede (1991) pointed out that anxiety levels differ among countries and some cultures are more anxious than others. For organizational purposes, we separate the countries into three groups (strong, moderate, and weak) based on Hofstede’s Uncertainty Avoidance Index (UAI) values for each country. Strong uncertainty avoidance countries include Japan, Korea, France, Turkey, Argentina, and Mexico. The United Kingdom, Jamaica, India and Hong Kong are examples of weak uncertainty avoidance countries. Countries such as the United States, Canada, Italy, Brazil, and Taiwan demonstrate moderate scores. Originally, Hofstede tested his theory of national culture by surveying workers in multinational corporations. Thus, his dimensions of culture may apply to a work setting, rather than a leisure setting (such as Web-based chatting). Nonetheless, some of Hofstede’s predictions have been confirmed in a leisure setting (e.g., consumer tipping behavior; Lynn, Zinkhan, and Harris 1993).

### **Research Questions**

In this study, we examine seven research questions. These questions include: 1) What is the predominant language chatters use when chatting with people living in countries other than their own? 2) How often do chatters connect to MNM in order to chat? 3) What time of the day/night do chatters typically connect to MNM to chat? 4) What is the relationship between how long an individual uses the Internet on a typical day and how long he/she spends in a MNM chat room? 5) What reasons do chatters give for chatting on the Internet? 6) How often do chatters use the various chatting services (e.g., text-based communications services, bulletin board services, 3D and animated function services)? and 7) To what extent does chatting on the Internet impact the time an individual spends using other media sources (e.g., going to the movies, watching television, reading newspapers)?

The answers to these questions will help researchers to better understand how chat rooms are used, the reasons why individuals chat, and any impact chatting has on the lives of these individuals. Also, this study will examine the differences among strong, moderate, and weak uncertainty avoidance cultures, with respect to the seven research questions, in order to determine whether or not Hofstede’s (1991) classification works in the chatting world.

### **Sample and Data Analysis**

Data were collected through the use of an Internet survey. Actual chatters who use the service Microsoft NetMeeting (MNM) were contacted through email requesting their participation in a survey on Internet usage. Email addresses were obtained through several directories of information on MNM, which chatters use to display their personal advertisement. A total of 1,521 email messages were sent to addresses found on the MNM service. The response rate was 19%; with 290 individuals attempting to complete the survey. Of the 290 respondents, data on 30 had to be eliminated due to incomplete information provided. Thus, 260 responses were used in the analysis.

There were 39 countries identified in our dataset. The majority of respondents are from countries labeled as moderate with respect to Hofstede’s (1991) uncertainty avoidance index. Individuals in this group (group2) represent 18 different countries (190 respondents; 73.1% of the total sample). Group 3 consists of forty-nine respondents (18.8% of the sample), representing 15 countries, that are from cultures which Hofstede (1991) labeled as demonstrating strong uncertainty avoidance. The group with the smallest number of respondents (group 1) consists of 21 individuals (8.1%), representing 6 countries, all of which can be labeled as weak uncertainty avoidance cultures. A series of analyses are adopted to answer the present questions.

## **Results**

### **Chatting Language**

English is the predominant language used by chatters in this study when they are chatting with people from countries other than their own.

### **Chatting Frequency**

No significant differences were found among the three groups with respect to the frequency of which chatters connect to Microsoft NetMeeting in order to chat.

### **Preferred Chatting Time**

Results showed that chatters seem to prefer to chat on weekdays between the hours of 5:00 p.m. and 12:00 a.m. Fifty-five percent of group 1 indicated that they use Microsoft NetMeeting mainly during this period. Fifty-three percent of group 2 and thirty-eight percent of group 3 report the same time preference for chatting.

### **Relationship Between Internet Use and Time Spent Chatting**

Results indicate a positive relationship between how long an individual uses the Internet on a typical day and how long he/she spends in a MNM chat room for both group 1, with  $r = .47$  ( $p < .05$ ) and group 2, with  $r = .21$  ( $p < .05$ ); however, no such relationship was found for group 3.

### **Motivation for Chatting**

No single reason for chatting on the Internet was given by a significant number of respondents in group 1 or group 3 in order to explain the groups' motivation of chatting. However, respondents from group 2 appear to be motivated to chat by entertainment ( $F = 4.00$ ,  $p < .05$ ).

### **Use of Different Types of Chatting Services**

Results indicate no significant difference for the three groups with respect to the various types of chatting services.

### **Impact of Chatting on the Use of Other Media**

This research question resulted in the greatest difference among the three groups. Responses from chatters in group 1 indicated that chatting had no significant impact on their use of other media sources. Chatters from group 2 reported that the more time they spent chatting on the Internet, the less time they spent engaging in the following behaviors: going to the movie ( $r = -.23$ ,  $p < .05$ ), watching television ( $r = -.15$ ,  $p < .05$ ), watching videos ( $r = -.25$ ,  $p < .05$ ), and reading newspapers and magazines ( $r = -.14$ ,  $p < .05$ ). Responses from chatters in group 3 indicated a limited impact of chatting on other media usage. In this case, the more time individuals spent chatting, the less time they spent going to the movies ( $r = -.39$ ,  $p < .05$ ); the use of other media sources was not affected by time spent chatting. Overall findings for the present paper are presented in Table 2.

### **Conclusion**

For the majority of our research questions, no significant differences were found among the three groups based on Hofstede's Uncertainty Avoidance Index values for each country. However, differences were found for some aspects of the research questions. First, a positive relationship was found for both group 1 (weak UAI) and group 2 (moderate UAI) between how long an individual uses the Internet on a typical day and how long he/she spends in a MNM chat room. It was also discovered that chatters from moderate uncertainty avoidance cultures are motivated to chat for entertainment purposes. Lastly, although chatting did not impact use of other media sources for chatters from weak uncertainty avoidance cultures, it did effect the use of other media sources for chatters from moderate and strong uncertainty avoidance cultures.

In an attempt to explain why no major differences were found among the three groups with respect to the research questions, we examined the characteristics of Internet chatters. It is possible that because Internet chatters are a very unique and specialized group of individuals, cultural differences may not apply to this one aspect of their lives. For example, it could be that Internet chatters in Hong Kong (weak UAI) may be similar to chatter in Japan (strong UAI) with respect to chatting behaviors. There are other limitations to this study. First, the majority of respondents (73%) could be classified as representing cultures that Hofstede (1991) describes as moderate with respect to uncertainty avoidance. The unequal sample sizes across groups, as well as the small sample sizes within groups, may have contributed to our difficulty in finding differences among the three groups. Second, Microsoft NetMeeting was the only chatting service used in this study. Microsoft NetMeeting is a very advanced chatting service (e.g., voice and video chatting) and the chatters that choose this service may be very unique group, thus biasing our results. By examining respondents using other chatting services, different results may emerge.

This study is intended to be exploratory in nature and the results provide interesting information. Future research may want to expand this study by including additional research questions. Researchers may also want to focus on the impact of chatting behavior on specific areas of interest to marketers, such as purchasing behavior, in order to determine the relationship between chatting behavior and electronic commerce.

**Table 1:**

**Summary of findings**

<b>Research Questions</b>	<b>Cultural Differences</b>
What is the predominant language chatters use when chatting with people living in countries other than their own?	Found <sup>1</sup>
How often do chatters connect to Microsoft NetMeeting in order to chat?	Not Found
What time of day/night do chatters typically connect to Microsoft NetMeeting to chat?	Not Found
What is the relationship between how long an individual uses the Internet on a typical day and how long he/she spends in a Microsoft NetMeeting chat room?	Partially Found <sup>2</sup>
What reasons do chatters give for chatting on the Internet?	Partially Found <sup>3</sup>
How often do chatters use the various chatting services?	Not Found
To what extent does chatting on the Internet impact the time an individual spends using other media sources?	Partially Found <sup>4</sup>

English is found to be the dominant language in the three groups.

<sup>2</sup> A positive relationship found for both group 1 (weak UAI) and group 2 (strong UAI).

<sup>3</sup> Group 2 (moderate UAI) motivated to chat for entertainment reasons.

<sup>4</sup> Chatting reduced the amount of time group 2 (moderate UAI) spent at the movies, watching television, watching videos, and reading newspapers and magazine. Chatting reduced the amount of time group 3 (strong UAI) spent going to the movies.

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## Standardized versus Localized Advertising: The Consumer Perspective

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The international marketing and advertising literature is replete with conceptual and empirical assessments of the suitability of standardized advertising strategies in the international marketplace. The overwhelming body of published work in this area focuses on standardization and customization from marketing and advertising strategy perspectives without an explicit consideration of consumer response. Consumers' positive response to advertisements is a key objective of any campaign, but there is a void in the international marketing literature in this regard. In this research, we aim to address this gap by gauging consumer perceptions of customized and standardized advertisements in Hong Kong. Specifically, this study assesses consumer response to standardized and local advertisements in a single host market.

To address issues pertaining to consumer perception of local and non-local advertisements, a series of hypotheses are developed and tested. Hong Kong was selected as the data collection site for this project. Hong Kong is a highly developed market (average annual household income is about \$30,000) that imports a great deal of consumer goods. In addition, numerous multinational corporations have market presence there. Finally, Hong Kong has a fully developed print and electronic media, thus making it an ideal site for this project.

The assistance of advertising agencies was sought in securing pairs of copies of customized, locally-produced ads and headquarter-produced versions of each advertisement intended for use in conjunction with local ads in markets abroad. Overall, 16 pairs of television commercials were selected for this project.

The sample for this study consisted of MBA students from several universities in Hong Kong. All subjects were fluent in the English language and the great majority of them were full-time employees holding professional positions in their respective firms.

Subjects were assigned to one of 16 groups, each of which viewed a randomly selected *matching pair of commercials* from our pool of 16 pairs. Groups were exposed to three repetitions of each commercial. The order of showing standardized and customized commercials was randomized to minimize primacy-recency effect, that is, to assure that subject perceptions are not idiosyncratic to the order in which the ads were shown. Subjects were required to respond to a series of multi-item measures of their cognitive structures related to the ad, their affect-based attitudes toward the ad, their attitudes toward the advertised brand, their cognitive structures related to the advertised brand, and their intention to purchase the brand. Each session lasted approximately 20 minutes.

Results indicate a significant difference in subjects' attitudes toward local and standardized advertisements for the same brand. Consumers generally prefer locally-made advertisements over foreign-conceived and produced ones. Locally-made ads are perceived as being more interesting and less irritating, and they produce higher purchase intention rates. Also, consumers prefer a transformational execution style to an informational one, especially if the ad is sourced from abroad. Standardized ads are more likely to gain acceptance in the case of food products, and female consumers are more likely to accept standardized advertising than their male counterparts. These findings also contrast the general belief regarding the suitability of standardized advertising for consumer non-foods products. Results indicate a definite preference for locally made ads for all products, especially foods.

## **Integration of the Undergraduate Curriculum as a Strategy to Increase the Effectiveness of Business Education**

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### **Abstract**

The current shift in marketing paradigm calls for a corresponding adaptation of the content of, and teaching approaches to, marketing education. This comes at the time when the integration of business curriculum is seen by many as the way to improve the effectiveness of business education. This paper examines the mutual influence of these two collateral trends and suggests that the problem-focused base for developing business education is likely to produce higher teaching effectiveness than the other alternative bases of subject quantum and multiple sequences of subjects. Further, it points to the need for any curricular modification to produce optimal fit with the defined internal and external circumstances of the education provider. Finally, it examines the potential influence of the paradigm shift on the various aspects of the effectiveness of business teaching.

## **How Mission Influences The Attitudes And Behaviors Of Marketing Faculty**

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### **Abstract**

Numerous factors influence how marketing faculty prioritize teaching, research, and service activities—including the mission of the college or university employing the faculty member. A total of 203 marketing faculty from balanced and teaching schools, reported different work priorities and publishing records, and held differing attitudes and perceptions about their work environment. Two significant findings of this study are: (1) teaching-oriented faculty reported devoting similar hours to both class preparation and student advising; and (2) 57% of teaching-oriented faculty were “involved” in research, but their reported publishing rates did not support this claim. A discussion of the findings and suggestions for future research are presented.

### **Introduction**

The daily behavior of a marketing professor is complex since faculty allocate distinct time and energy to teaching, research, and service activities at their educational institutions (Beltramini et al. 1985). Numerous factors influence a faculty member’s priority, but perhaps paramount is the teaching load set by the university or college that employs the faculty member. The purpose of this investigation is to examine the behavior and accomplishments of faculty employed by schools of business with two stated missions: teaching-oriented and “balanced” or those schools that focus on both research and teaching. First, the weekly time professors devote to the three traditional areas of teaching, research, and service is analyzed. Second, the scholarly publication levels reported by professors are examined. A more precise understanding of these two areas—essentially activity inputs and scholarly outputs permit us to better comprehend how marketing professors allocate their time and determine what is accomplished by these research activities. These findings can also provide an important benchmark for college administrators who currently are wrestling with the role of teaching and research in the operation of U.S. business colleges (Polonsky and Mankelov 1999).

### **Literature Review**

In the mid-1980s, the Carnegie Foundation examined the undergraduate environment on U.S. campuses. The study reached a number of significant conclusions about the college experience. A major finding reported was that large numbers of faculty--across disciplines--were not involved in scholarly research and, furthermore, had little interest in conducting research (Boyer 1987). In response to the 1984 Carnegie Study, which had under-represented business faculty, a follow-up investigation of American Marketing Association (AMA) faculty members was undertaken. This study found that marketing faculty conducted research at higher levels and held more positive attitudes about their jobs, their students, and the future than that reported for all university faculty by the Carnegie Study (Honeycutt, Ford, and Honeycutt 1988). A number of variable affect faculty activities. For example, when asked to place themselves into one of three categories, marketing faculty responded they were teaching-oriented (41%), research-oriented (22%), or teaching/ research-oriented (20%) (Boya, Robicheaux, and Dotson 1992). Ideally the mix of teaching and research is unique at each business school rather than being set to “national norms” (Mason 1990 p.16). That is, scholarship expectations should be in concert with the overall school mission. Teaching and research have been shown to dominate faculty work styles, with service activities assuming residual priority (Boya, Robicheaux, and Dotson 1992). In fact, marketing faculty report that they spend more than two-thirds (70%) of their time teaching and conducting research (Roach, Johnson, and Hair 1994). This study examines the activities and perceptions of marketing faculty in the United States regarding their institutional mission. That is, in what activities are faculty involved? How much time do they spend on these activities? What portion of their time is devoted to teaching, research and service? Finally, how important are these activities to them?

### **Sample Information**

In a national mail survey, 2,500 randomly selected business faculty members obtained from a commercial mailing list were sampled. Each respondent completed a nine-page survey identical to the one employed by the 1984 Carnegie Foundation study. The survey was designed to obtain data about the educators’ attitudes and their teaching and research practices. After an initial and one follow-up mailing, a total of 776 responses were received for a usable response rate of 31 percent. Of the 776 surveys returned, 203 or 29.6 percent of respondents identified themselves as

marketing professors and are included in this analysis. Since most survey responses were categorical, as opposed to metric in nature, Chi-Square was employed as the primary analysis mechanism.

The distributed ranks of the 203 respondents include: 55 Assistant Professors (27.1%), 57 Associate Professors (28.2%), 55 Professors (27.1%), 7 Endowed/Distinguished Professors (3.4%), and 29 Instructors (14.2%). Due to missing values, reported totals may not equal 203. The respondents included 130 (64%) tenured and 71 (34%) untenured faculty members. In terms of teaching responsibilities, 98 (48.5%) taught only undergraduate students, 92 (45.5%) instructed both graduate and undergraduate students, and 12 (6.0%) indicated that they taught only graduate students. Responding faculty indicated their primary interests were heavily into research 3 (1.6%), interested in both research and teaching, but more heavily into research 61 (31.8%), interested in both research and teaching, but heavier into teaching 63 (32.8%), and heavily into teaching 65 (33.8%).

## Findings

To ascertain how mission affects the behaviors and perceptions of marketing faculty members, respondents were divided into two groups: (1) those who reported they were employed at teaching institutions (n=100) and (2) those affiliated with balanced--or teaching and research--oriented institutions (n=101):

As seen in [Table 1](#), respondents from balanced institutions reported significantly higher graduate lecture hours, more research hours, fewer undergraduate teaching hours, and less office hours per week than their peers at teaching-oriented institutions. There were no reported group differences, however, in terms of time allocated to administrative duties, consulting, professional duties, class preparation, and advising. The report on research activities and publication rates ([Table 1](#)), confirm that faculty from balanced institutions had published more journal articles and national proceedings during the past 5 years, more publications during the past 2 years, and that greater numbers were currently engaged in scholarly research than faculty from teaching institutions. One noteworthy contrast is that, while the vast majority (93%) of respondents from balanced institutions are currently engaged in scholarly research, a significant number of faculty (57%) at teaching institutions also indicated that they were involved in current scholarly research. However, teaching-oriented faculty may be overstating their involvement in research leading to publication since 43 percent report no publications during the past two years and 58 percent acknowledge no national proceeding in the past five years. Other significant differences were apparent in response to statements that delved into the importance of research, teaching, and service to the promotion and tenure process. With 1 signifying the "most important" and 5 the "least important" balanced institution respondents stated that journal articles were significantly more important (1.18 vs. 2.53,  $p=.0000$ ), teaching excellence was significantly less important (2.13 vs. 1.55,  $p=.0000$ ), and service excellence was significantly less important (3.59 vs. 2.69,  $p=.0000$ ) in the promotion and tenure process than respondents from teaching institutions. Other perceptual differences were evident regarding the importance of faculty/student relationships, their academic discipline, and professional societies. With anchors of 1-"Very Unimportant" and 4-"Very Important," respondents from balanced institutions stated that their relationship with students was less important (3.39 vs. 3.72,  $p=.0047$ ), their academic discipline was less important (3.20 vs. 3.48,  $p=.0255$ ), and their professional societies were more important (2.6 vs. 2.3,  $p=.0096$ ) in comparison to faculty respondents from teaching institutions.

## Conclusions and Suggestions For Future Research

As expected, marketing professors at teaching institutions are assigned higher teaching loads, teach fewer graduate classes, and conduct longer office hours. What is surprising is that, although faculty at teaching-oriented schools report higher student contact hours, they do not claim that more time is devoted to preparing for these classes! Likewise, teaching-oriented faculty do not report that they spend more time advising students than faculty at balanced institutions. One would assume that faculty who are assigned higher teaching loads would need to allocate greater amounts of time to class preparation and student advising, but this intuitive relationship is not supported by this research. The data also confirm that faculty members at balanced business schools publish at significantly higher levels. This is true for both journal articles and national conference proceedings, but no differences are evident for regional conference proceedings. While 93% of responding balanced school faculty claim they are currently engaged in scholarly research, over 57% of teaching oriented faculty reported involvement in scholarly research. This suggests that faculty at teaching schools are engaged in scholarly activity, but this activity is not leading to publication. One possible explanation for this practice is the growing importance of research and publication--at all schools--in the tenure/ promotion process.

Perceptually, faculty at balanced schools appear to be more externally-oriented. Teaching-oriented faculty focus more time and attention upon their students, while balanced faculty show greater concern for their discipline and professional societies. One reason for this external focus is certainly opportunities for publishing and networking available at professional meetings. Likewise, balanced faculty--who hail from larger, accredited schools, perhaps with larger budgets--are more positive about their students' future, teaching loads, and their department. The two groups also differ on the idealized importance of teaching and research on the tenure process. As expected, faculty at balanced institutions prefer more credit for publishing than faculty at teaching-oriented schools who indicate that more weight should be placed on the area where they spend a greater amount their time--teaching! Finally, what is unknown is the total time faculty from each school category work each week. One possible scenario is that faculty devote similar amounts of total weekly time to their jobs, but allocate different amounts to specific areas such as teaching and research. Future research should examine this area to determine if teaching-oriented and balanced school faculty actually work the same numbers of hours while in pursuit of different goals? Or, perhaps one category of faculty actually work significantly longer hours to fulfill their college's mission.

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**Table 1**  
**Weekly Activities of Respondents**

**Comparison of Respondents from Teaching-Oriented vs. Balanced Institutions**

**Undergraduate Lecture Teaching Oriented**

Hours/Week	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>
≤ 4	20	20.0	37	37.0
5-10	28	28.0	49	49.0
11 or more	52	52.0	14	14.0

$X^2 = 32.68, p=.0000$

**Graduate Lecture**

Hours/Week	<b>Teaching Oriented</b>		<b>Balanced</b>	
	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>
≤ 4	90	90.0	76	76.0
5 or more	10	10.0	24	24.0

$X^2 = 8.18, p=.0167$

**Office**

Hours/Week	<b>Teaching Oriented</b>		<b>Balanced</b>	
	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>
≤ 4	25	25.0	45	45.0
5-10	58	58.0	47	47.0
11 or more	17	17.0	8	8.0

$X^2 = 10.11, p=.0064$

**Administrative Duties**

Hours/Week	<b>Teaching Oriented</b>		<b>Balanced</b>	
	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>
≤ 4	51	51.0	47	46.5
5-10	32	32.0	32	31.7
11 or more	17	17.0	22	21.8

$X^2 = 0.80, \text{Not Significant}$

**Professional Duties**

Hours/Week	<b>Teaching Oriented</b>		<b>Balanced</b>	
	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>
≤ 4	87	87.0	96	95.0
5 or more	13	13.0	5	5.0

$X^2 = 5.33, \text{Not Significant}$

**Teaching Preparation**

Hours/Week	<b>Teaching Oriented</b>		<b>Balanced</b>	
	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>
≤ 4	29	29.0	25	25.0
5-10	47	47.0	55	55.0
11 or more	24	24.0	20	20.0

$X^2 = 1.29, \text{Not Significant}$

**Research**

Hours/Week	<b>Teaching Oriented</b>		<b>Balanced</b>	
	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>
≤ 4	63	63.0	17	17.0
5-10	23	23.0	38	38.0
11 or more	14	14.0	45	45.0

$X^2 = 46.43, p=.0000$

**Advising**

Hours/Week	<b>Teaching Oriented</b>		<b>Balanced</b>	
	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>
≤ 4	72	72.0	82	81.2
5-10	23	23.0	14	13.9
11 or more	5	5.0	5	4.9

$X^2 = 2.95, \text{Not Significant}$

**Table 2**  
**Research Activities and Publication**

	<b>Teaching</b>		<b>Oriented</b>		<b>Balanced</b>	
	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>	<u>Frequency</u>	<u>%</u>
“Number of Journal Articles Published in Past 5 Years”	None	38	38.0		5	5.0
	1-2	21	21.0		10	9.9
	3-4	11	11.0		7	6.9
	5 or more	30	30.0		79	78.2
	$X^2 = 52.14, p=.0000$					
“Number of National Proceedings Published in Past 5 Years”	None	58	58.0		18	17.8
	1-2	11	11.0		24	23.8
	3-4	17	17.0		17	16.8
	5 or more	14	14.0		42	41.6
	$X^2 = 33.88, p=.0000$					
“Publications During Past 2 Years”	None	42	43.3		11	10.9
	1-2	25	25.8		26	25.7
	3-4	20	20.6		35	34.7
	5 or more	10	10.3		29	28.7
	$X^2 = 31.43, p=.0000$					
“Are You Presently Involved in Scholarly Research”	Yes	56	57.1		94	93.1
	No	42	42.9		7	6.9
	$X^2 = 34.59, p=.0000$					

**Do Patterns of Levels of Faculty Effort Affect Overall Business School Performance? An Application of Profile Deviation Analysis**

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**Abstract**

The results of a national survey of levels of business faculty effort expended toward various activities (teaching, research, service, advising) are analyzed with the objective of determining the relationship, if any, between patterns of levels of effort and business school self reported performance. Specifically, we identified two research questions. First, is there an “ideal” pattern of levels of effort devoted by business school faculty to teaching, advising, research, consulting, and service activities? Second, if so, what is that ideal pattern of faculty effort?

The project was undertaken as a part of a larger study by use of mail surveys sent to 1052 AACSB and ACBSP business school deans in the United States. Results include a summary of mean percentages of effort reported for six different categories of activities. Mean patterns of percentages of effort and mean performance are also presented for “top performers” and “lower performers.” The pattern of effort identified for the top performers is indicated by profile deviation analysis to be “ideal” in terms of overall business school performance.

Several limitations of the research are discussed. Additionally, suggestions for future research are provided.

## **Portfolios as a Method of Assessment in an Integrated Curriculum**

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### **Abstract**

Increased interest in two important aspects of marketing education suggests the need for the use of portfolios. First, many business schools support a trend toward “integrated” programs and away from traditional functional approaches. Second, many educators advocate assessment reform as a means to more accurate understanding of students’ competencies. This paper provides (a) a summary of the integration and assessment issues, (b) a typology of portfolios and a description of their benefits, and (c) a process for portfolio development. The process suggests a “worksheet” for matching competencies with course activities that would become elements of a portfolio.

### **Introduction**

In recent years, many business schools have considered, tested, or adopted new “integrated” courses and curricula. The interest in and support for this trend by educators, students, and employees has been reported in a variety of marketing (Hill 1997), business (Hettenhouse 1998), and education (Pollock 1999) publications. Most observers acknowledge many potential benefits of integration including synergy, realism, timeliness, involvement, and interaction. In addition, however, educators have identified several important issues related to the development of integrated curriculum. The relative emphasis on, and general identity of former disciplines, for example, is a frequent topic of debate in such programs. Further, the balance of traditional and contemporary teaching methods is under constant scrutiny. Finally, the assessment of the impact of the new curriculum remains an important and undeveloped area.

While the issues of emphasis, teaching methods, and evaluation face all business disciplines, they are particularly important for the marketing discipline as integration provides important opportunities to emphasize boundary-spanning roles, interdisciplinary decision processes, and customer-focused business models. Demonstrating the efficacy of integrated programs may also be better addressed through the use of the marketing discipline’s traditional assessment methods and additional methods such as a portfolio. This article provides background, discussion of portfolios as a means to assessment, and implementation procedures for the portfolio approach to assessment.

### **Background**

Recent developments in two important areas – integration and assessment – provide the foundation for investigating the portfolio approach.

#### **Integration**

Feedback from students, alumni, and recruiters has encouraged schools to re-evaluate traditional program designs and to develop innovative approaches that reflect contemporary practices of organizations and better address the needs of employers and employees. The result has been a general shift toward integrated approaches to business education. These approaches have varied from simply requiring concurrent enrollment in traditional discipline-focused (e.g., marketing, management, finance) courses to combining content from various disciplines in a single course (DeConinck and Steiner 1999; Marshall 1996) to redesigning the sequence and content of an entire curriculum. The costs and benefits of these efforts have been substantial.

The costs of the changes are both direct and indirect. First, new course and program catalogs and promotional materials, and increased advertising, advising, and (sometimes) teaching expenses represent direct costs of integration. More substantial, however, are the indirect costs such as course and program development, faculty and staff training

and support, and current and prospective student education. While the total costs of integration may be difficult to estimate, in most cases they represent large allocations of financial and human resources.

The benefits of integration vary by constituent group. Students are exposed to the multiple facets of typical business decisions and are encouraged to consider interdisciplinary issues concurrently rather than consecutively (or not at all). Faculty have the opportunity to present comprehensive scenarios and to challenge students to consider competing organizational interests. Employers argue that employees are better prepared for the complexities of most professional positions. Finally, all groups hope that the benefits are evident in traditional and future forms of assessment.

## **Assessment**

Curriculum integration has prompted a growing interest in assessment. As courses and programs have changed, schools have grown eager to demonstrate that the changes have had an impact on the quality and effectiveness of the educational experience. The process of assessment, of course, has long been advocated by many educational institutions, including the International Association for Management Education (AACSB):

Performance assessments, when based on clearly defined missions and objectives, provide important information that aids decision making in individual schools. Such information helps schools improve their quality, distinctiveness and competitiveness. Indeed, viewed in this fashion, outcome measurement and assessment naturally demonstrate concepts emphasized in modern business education – organizations should plan systematically to assess their performance and should adjust behavior in light of the results. In this sense, business school efforts should parallel those of business institutions by regularly reassessing their effectiveness in a highly competitive world (AACSB 1989).

Thus, recent innovations in business school curricula now face assessments which educators hope will (a) provide supporting evidence for their efforts, and (b) allow additional and continuous improvements.

Traditional curriculum assessment approaches often utilize formats which focus on isolated bits of information and the mechanical application of isolated skills (Murphy, 1997). In fact, many forms of assessment simply use tests administered at the end of a learning cycle to rate or rank students. Some observers have suggested that new forms of assessment which better match the processes students use and the skills they develop are needed. Learning outcome performance measures, however, are often difficult to identify and manage (Harcharik and Hwang 1998). As a means of representing the benefits of integration, portfolios have been suggested as a potentially useful assessment tool. While other disciplines (e.g. art, music, engineering, etc.) have used the concept, its popularity in business and marketing programs has been limited. The potential contribution of an increased use of portfolios in marketing education, is dependent on an improved understanding of the types and benefits of portfolios and the unique issues related to their implementation.

### **Portfolios as a Means of Assessment**

To utilize portfolios as a means of assessment it is useful to understand the different types of portfolios and their potential benefits.

#### **Types of Portfolios**

Portfolios can take two basic forms – academic and professional. Academic portfolios may contain material such as reports, case analyses, and presentations which educators are likely to evaluate. Professional portfolios may contain work completed on-the-job which professional colleagues or licensing agencies evaluate. Both academic and professional portfolios can take on two forms – formative and summative. Formative portfolios contain work that demonstrates improvement over a period of time while summative portfolios contain only work which represents the highest level of achievement. The combinations of the types of portfolios are represented in [Figure 1](#). Each of the four types of portfolios might be used in different situations. Type I, for example, would be appropriate for students who are attempting to demonstrate improvement and growth in specific areas of interest. Type II portfolios would be appropriate for students involved in job interviews and placement activities. Type III and IV portfolios would serve

in similar situations for professionals. Professors, for example, would develop a formative teaching portfolio to demonstrate improvement in teaching, and a summative portfolio when changing positions or applying for teaching honors, awards, or a chair (Gifford 1997).

### Potential Benefits of Portfolios

The use of portfolio assessment is based on the premise that portfolios allow types and levels of assessment that are not possible with other assessment procedures. Further, many of the unique aspects of portfolio assessment appear to match trends in recent curriculum changes. There are a variety of benefits of portfolio assessment (Carpenter et.al 1995). They:

1. Examine growth over time.
2. Involve the student in a process of self-evaluation.
3. Serve as an alternative to standardized assessment.
4. Foster professionalism.
5. Allow assessment of “authentic” performance rather than tested performance.
6. Represent cognitive and affective dimensions of learning activities.
7. Offer face and convergent validity.
8. Provide a mechanism for reporting integrative and collaborative activities.
9. Create a comprehensive exhibition of accomplishments.
10. Demonstrate knowledge, skills, and personal characteristics.

These benefits suggest that portfolios may offer an important and useful means of supplementing traditional assessment practices.

### The Process of Portfolio Development

To take advantage of the benefits of portfolios educators should utilize a systematic process such as the four-step model illustrated in [Figure 2](#). Each step addresses an important issue regarding assessment and portfolios, and facilitates the development of effective portfolios. The following presents details of each step.

**Step 1: Determine the Role of Portfolios as a Form of Assessment.** Dissatisfaction with traditional assessment practices, has encouraged consideration of new alternatives. The authors of a survey of marketing department chairs observe that “in pursuit of valid measures of performance, institutions of higher learning are examining outcomes assessment as a means of program and institutional evaluation (Miller, Chamberlain and Seay 1991). The alternatives include standardized tests, licensure and certification exams, instructor-based judgments of tasks, skill assessments, grades, transcript analysis, self-evaluation, and portfolios. Most assessment efforts are likely to include several methods. Therefore, the first step in the portfolio development process is to determine the role of portfolios relative to other assessment methods. Portfolios, for example, may be used as a requirement for graduation, or as a supplement to transcripts and resumes to facilitate the job interview process (Taylor 1990).

**Step 2: Identify Important Student Competencies.** In today’s mission-based accreditation environment it has become increasingly important to specify important student competencies. Programs often use feedback from faculty, students, and employers to generate lists of competencies, which typically fall into three categories – knowledge, skills, and personal characteristics. [Table 1](#) provides a summary of traditional and contemporary competencies often specified as important (Lamb, Shipp and Moncrief 1995). While students may hope to suggest that they have achieved minimum levels of all the knowledge, skill, and personal characteristic elements, this step encourages specification of critical competencies which should be priorities.

**Step 3: Identify Courses and Activities Likely to Provide Selected Competencies.** As students focus their interests on particular professional areas, they must begin to base their course selections on the competencies they specified as priorities in Step 2. [Table 2](#) provides an example of a “worksheet” that facilitates the process of matching competencies with specific courses and specific course activities. Creativity, for example, might be demonstrated with an advertising campaign developed in an advertising class. Similarly, technical skills might be demonstrated in a technical report written in a marketing research class, and integration skills should be evident in a marketing plan.

Of course, an activity may demonstrate multiple competencies, and some competencies may result from multiple activities. Therefore, while [Table 2](#) and the examples included in it are simple, Step 3 can easily become complex. Because knowledge of courses and their activities is required to accomplish this step, advising and mentoring may be a necessary element of successful portfolio development.

Step 4: Collect Portfolio Components. The components of the portfolio should be a result of the worksheet completed in Step 3. Specification and selection of the final portfolio entries, however, might be (a) selected by an advisor, (b) selected by the student, (c) selected by the student from a menu of options, (d) a program or degree requirement, or (e) requested by an external source (e.g. potential employer). Traditionally, portfolio entries are presented on paper. Video tapes, however, can now be included to demonstrate oral and interpersonal skills. Further, alternative delivery systems such as the World Wide Web and compact discs can be used to create “digital portfolios.” Early decisions about the medium to be used will facilitate the collection of the portfolio elements.

### **Implementation**

While there is significant support for the use of portfolios, several implementation issues must be addressed if a portfolio initiative is to be successful. These issues are related to program portfolio requirements, portfolio contents, portfolio approval, and content validity (Powell and Jankovich 1998), and are discussed briefly below.

**Program Portfolio Requirements.** An important issue related to portfolios is the mechanism used to encourage their development. One approach is to suggest their use as an option for any student. In this case the career planning center and students might work together to produce the portfolio. Another approach is to offer a course in which a portfolio is developed as a course assignment. Finally, programs might add portfolios as a graduation requirement for all students. Currently, most legal guidelines allow institutions to require production of a portfolio as long as distribution is not required.

**Portfolio Contents.** Should portfolio contents be specified? If a portfolio is a program requirement it may be useful to specify that projects or activities from various elements of the program be included to demonstrate that program goals have been achieved. If a portfolio is the result of a student’s self-motivated effort, allowing the student to select the portfolio may be appropriate. The most common approach, however, is a combination of required elements, elements selected from a menu of options, and self-selected elements.

**Portfolio Approval.** This issue suggests that it is important to designate responsibility for approval of the portfolio. The options range from career planning office staff, to academic advisors, to course instructors, to program directors, to review committees. The rigor of the approval process, of course, will vary depending on the purpose of the portfolio. Some observers have suggested that as the standards for portfolios increase, institutions may eventually consider providing a certification or seal of approval much as they currently provide with transcripts and degrees.

**Content Validity.** Providing a guarantee that the contents of a portfolio accurately represent students’ competencies is complicated by several issues. First, it is likely that many of the elements of the portfolio are the result of team efforts. Therefore, a mechanism for describing the individual contribution to a joint outcome is needed. A “cover letter” explanation, for example, could be provided by the student. Second, plagiarism may be difficult for employers or other reviewers to detect. While the educational institution can provide oversight during the development of the portfolio, its involvement is obviously reduced once the portfolio is completed. Again, a possible solution is a certification from the student. Finally, it is possible that the validity of the competencies represented by some of the elements may diminish over time.

### **Conclusion**

This paper has suggested that the increasing popularity of integrated programs and the demand for assessment reform may provide support for the use of portfolios in business curricula. A typology of portfolios demonstrates a variety of contents and purposes. In addition, a portfolio development process suggests consideration of the role of portfolios as a form of assessment, identification of important student competencies, linking competencies to program and course activities, and collecting portfolio components, as important steps for successful portfolio initiatives. Portfolios offer advantages and benefits for students, educators, educational institutions, and employers. Future efforts at the development of portfolios as a method of assessment should build on the conceptual work presented here and benefit from the increased attention and use by the many constituents advocating their use.

**FIGURE 1**

A Typology of Portfolios

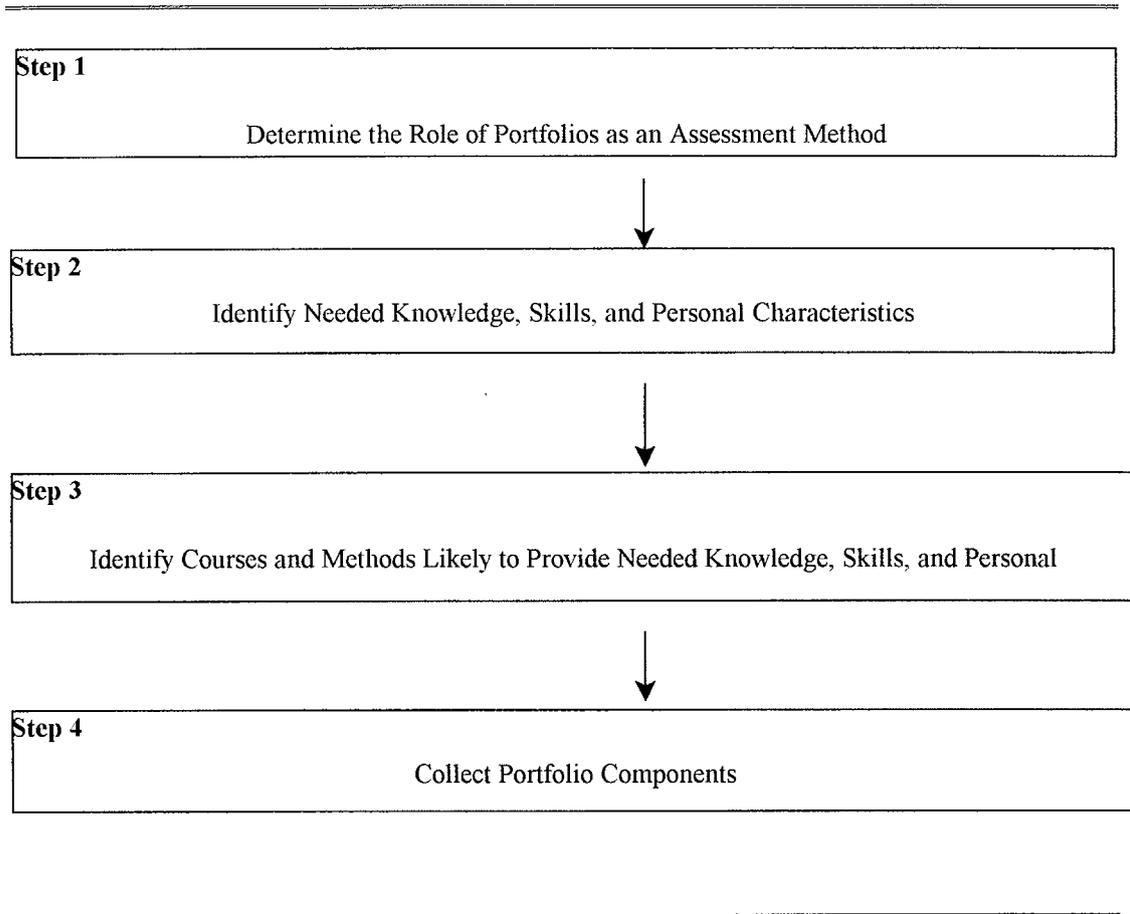
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	Formative	Summative
Academic	<b>Type: I</b> <b>Contents:</b> Temporal <b>Purpose:</b> Demonstrate improvement; meet standards or requirements	<b>Type: II</b> <b>Contents:</b> Representative of experiences <b>Purpose:</b> Demonstrate mastery; facilitate selection
Professional	<b>Type: III</b> <b>Contents:</b> Temporal <b>Purpose:</b> Demonstrate growth, evolution, change	<b>Type: IV</b> <b>Contents:</b> Representative of best work <b>Purpose:</b> Demonstrate expertise; qualify for honors; facilitate selection

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**FIGURE 2**

A Process of Portfolio Development



**TABLE 1**

## Summary of Typical Business Student Competencies

Knowledge	Skills	Personal Characteristics
Marketing	Written and Verbal Communication	Motivation
Management	Creativity	Leadership
Finance	Teamwork	Ambition
Global	Critical Thinking	Personality
Statistics	Ethical decision-making	Self-discipline
IT	Technical	Ability to organize
Accounting	Integration	Ability to work independently
	Problem solving	Self-assurance
	Time management	Practical work experience
	Selling	
	Negotiation	
	Foreign language	
	Integration	

**TABLE**

## Competency Development Matrix and Examples

Competency	Course	Type of Activity <sup>1</sup>	Individual or Group Activity	Description of Activity
1. Creativity	Advertising	Text-based	Individual	Advertising Campaign
2. Technical Skill	Marketing Research	Library-research	Individual	Technical Report <sup>2</sup>
3. Problem Solving	Marketing Strategy	Case Analysis	Group	Case Presentation
4. Integration	Marketing Planning	Field Research	Group	Marketing Plan
5. Etc.				
6.				
7.				
8.				
9.				
10.				

<sup>1</sup> Competency Development Activities include text-based assignments, library research projects, field research projects, case analysis, financial analysis, role-playing, simulations, presentations.

<sup>2</sup> Including questionnaire, data analysis, etc.

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# **A Transaction Cost Analysis of the Impact of Stack Trains on Steamship Lines' Sales Force Governance Decisions**

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## **Abstract**

The impact of a maritime quest for efficiency – the stack train – is investigated for its impact on the make-or-buy sales force decision facing steamship lines. This manuscript reports the results of an estimated econometric logit choice model, based on Transaction Cost Economics considerations. Results are summarized and implications are derived.

## **Introduction**

Governance decisions in channels of distribution have received much empirical attention over the past decade in the supply-chain literature (Stern, El-Ansary, and Coughlan 1996). These decisions have been modeled appropriately through logit choice econometric models, based on Transaction Cost Economics (TCE) considerations. The robustness of the models have aided in both explanation and understanding of discrete choices in supply chain management (Anderson and Coughlan 1987, Dwyer and Oh 1988).

Anecdotal evidence suggests that steamship lines have been vertically integrating their sales forces over the past years. This integration may be in response to increasing transaction costs and an industry quest for operational efficiency and marketing advantage—the stack train. The vertical integration of the sales function in maritime shipping may in part be explained by Transaction Cost theory.

Transaction Cost Economics was operationalized in an effort to better understand and explain the vertical integration of the sales function in U.S. market/load centers in maritime shipping, as impacted by the stack train. This theory was chosen because of the theory's focus on the firm not as a production function, but rather as a governance structure. The theory was further favored because of its robustness in explaining vertical integration issues across business applications and for its efficacy in explaining integration decisions of marketing activities. This manuscript reports the results of an empirical study and an estimated logistics sales force model. The model was estimated with data collected from industry executives in the summer and fall of 1998. The stack train was found a significant determinant in sales force integration. The results of the estimated model also suggest that, at least in part, transaction-cost considerations are important determinants of the vertical integration of the sales function in U.S. market/load centers of the maritime shipping industry. The findings in this study may be generalized both to other transportation industries, such as airlines and railroads; and, to other service-oriented industries.

Vertical integration can be accomplished via the internalization of physical capital and equipment (e.g., General Motors Corporation and Fisher Body-Klein 1991) or internalization of a firm's functions like marketing (e.g., the sales force-Anderson 1984, 1985; market research-Croisier 1998). Prior to the early 1980s, a typical international transportation transaction would be handled via a number of transactors. Typically, a shipper (i.e., consignor) had to contract with several separate and distinct parties to transport cargo. Minahan (1996) illustrates the evolution to seamless service and the advantage to the shipper in dealing with fewer transactors:

Asset based carriers (e.g., steamship lines like Maersk, Sea-Land Services, and American President Lines) move freight on their own ships. In the past these carriers did little more than ferry cargo across the seas. Nowadays, most also act as travel agents for cargo, making arrangements for inland trucking and rail carriers to deliver freight to the customer's doorstep. 'That way a shipper doesn't have to arrange the inland freight and customs clearance or contract the railroad,' says Bruce McMillan, spokesman for the American Association of Exporters and Importers in New York. "The shipper gets one bill that is broken down by ocean freight and inland freight. And he makes one payment." (Minahan 1996, 59)

Steamship lines had been shipping containers by rail since the late 1950s (DeBoer 1992). However, both the regulatory and technical environments dictated that steamship lines play a limited, specific role (i.e., transacting with, or relying on third parties to handle the landside portion of a shipment transaction).

The passage of the Staggers Rail Act of 1980 deregulated the rail industry<sup>1</sup> and removed barriers restricting the landside marketing of transport service. Amongst the liberties of deregulation was the freedom that shippers now had in dealing with steamship lines to handle both the seaside and landside portions of service transactions. The deregulatory evolution removed legal barriers to marketing landside space, yet the advent of the stack train operationally revolutionized the shipping industry (Richardson 1989, Pendleton 1997, Gawlik 1997).

### **Transaction Cost Economics**

Transaction cost economics, first suggested by Coase in 1937 (Coase 1998) as ‘comparative economic organization’ and developed principally by economist Oliver Williamson (1975, 1979, 1981, 1985) is part of the “New Institutional Economics,” a term coined by Williamson (Coase 1998). A key conceptual move for New Institutional Economics is to push beyond the theory of the firm as a production function (i.e., ‘Old Institutional Economics’) into a theory of the firm as a governance structure (Williamson 1998).

Transaction Cost Economics focuses on the conditions under which a firm’s function is more efficiently performed within the vertically integrated firm (i.e., hierarchical governance mode) versus open market contracting (i.e., market governance mode) with independent entities (Anderson 1984). As proposed by Williamson (1975, 1985, 1989), TCE is built on a micro-analytic framework with strong behavioral reality (Klein 1989, Anderson 1985). In describing the ‘make-or-buy’ framework under TCE, Williamson (1989) writes:

Refutable implications are derived from the hypotheses that transactions, which differ in their attributes, are assigned to governance structures, which differ in their costs and competencies, in a discriminating, mainly cost-economizing way. (Williamson 1989, 142) This is known as the discriminating alignment hypothesis (Williamson 1998). Williamson (1985) has shown that market exchange suffers whenever increasing transaction costs are present. These costs arise from asset specific investments designed to carry out transactions, the uncertainty surrounding the transaction, and the frequency with which they occur. This creates a problem in relying on market governance, which is manifest in opportunistic behavior by agents. The TCE solution to this problem is the replacement of market governance with hierarchical coordination (Hennart and Anderson 1993), that is, vertical integration of that activity within the firm. In the steamship sales force context, the solution to increasing transaction costs is the vertical integration of the sales force.

Williamson (1975, 1985, 1989) operationalized three tenets of TCE which yield clear causal relationships between transactional characteristics and institutional arrangements (e.g., market or firm governance). Those three transactional characteristics: 1) the specificity of assets; 2) the uncertainty surrounding the transaction; and 3) the frequency of transactions. High levels of these tenets are hypothesized to lead to the decision to vertically integrate. transaction cost economics turn critically on the last (Williamson 1989, 142).

Thus, TCE posits that high levels of asset specificity, uncertainty, and frequency lead to market failure, which in turn creates greater transaction costs, and in turn leads the profit-maximizing firm to integrate that function rather than to continue relying on the open market (i.e., a nonintegrated sales force).

When markets exhibit high levels of these features market failure is said to occur, with the result that cost-free exchange disappears and efficient conditions for the organization of activities are no longer present (Klein 1989). The costs arising under such conditions of market failure are called transaction costs, and include the costs incurred in searching for information, bargaining, monitoring, and contractual enforcement. Transaction costs will be greatest where competitive

### **Model Specifications**

Six factors were hypothesized to lead a steamship line to vertically integrate its sales function with owned sales forces. These factors reflect TCE theory. The hypotheses expressed were each conceptually consistent with Williamson’s (1985) TCE framework. The model also included a variable known as “stack train.” The stack train

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<sup>1</sup> In the regulated era, the rail industry operated with vast price and service restrictions, where antitrust immunity was granted to rate bureaus and the potential for abuse of market power was assumed to exist. The deregulated environment allows more liberal price and service capabilities, where invasion of territory issues are moot (e.g., due to the ability for any railroad to service markets beyond its system of tracks through intermodal), and where marketing and operational decisions are better made via supply and demand signals emanating from the marketplace.

variable posited a positive relationship between its primacy (e.g., presence, importance) in a given market for a given firm and the decision to integrate the sales force. Functional specification of this relationship is presented next.

**Functional Model**

Functionally, the model of steamship line sales force integration is as follows:

$$Y = f(\text{HAS, PAS, EUN, BUN, FRQ, STR}) + u$$

where:

- Y = a limited dependent variable [Y = 1 if the sales force is owned; = 0 otherwise]
- HAS = Human Asset Specificity
- PAS = Physical Asset Specificity
- EUN = Environmental Uncertainty
- BUN = Behavioral Uncertainty
- FRQ = Frequency of spot (i.e., tariff) transactions in *ij* pair
- STR = Stack Train primacy
- U = noise

**Mathematical Model**

To test the hypotheses in this research a binomial logit regression model was specified and estimated. The endogenous, or dependent variable is the choice labeled as follows: 1 = integrated sales force (i.e., make); 0 = otherwise-nonintegrated (i.e., buy-reliance on open market, third parties). The estimated model has estimated coefficients for the exogenous, or independent variables, and the Y-intercept. These estimated coefficients: 1) constant (Y-intercept); 2) human asset specificity; 3) physical asset specificity; 4) environmental (i.e., external) uncertainty; 5) behavioral (i.e., internal) uncertainty; 6) transaction frequency; and, 7) the importance or primacy of the stack train, in *ij* pair.

The formal logistic regression model is as follows.

$$P_i = E(Y = 1 | X_i) = \frac{1}{1 + e^{-(\beta_1 + \sum_{i=1}^n \beta_i X_i)}}$$

For ease of exposition, this is written:

$$P_i = \frac{1}{1 + e^{-Z_i}}$$

where  $Z_i = (\beta_1 + \sum_{i=1}^n \beta_i X_i)$

The probability (Pi) of vertically integrating the sales force is given. Then, 1-Pi is the probability of not integrating the sales force. This is expressed next.

$$\frac{e^{-Z_i}}{e}$$

$$1 - P_i = \frac{-Z_i}{1 + e} \quad (5)$$

Combining the above equations yields:

$$\frac{P_i}{1 - P_i} = \frac{Z_i}{-Z_i} \frac{1 + e}{e} = Z_i$$

Taking the natural log yields the linear relation between the factors and the log odds ratio, which is the following:

$$L_{ij} = \ln [P_{ij}/1-P_{ij}] = Z_{ij} \text{ for } \forall ij$$

$$\text{where } Z_{ij} = (\beta_1 + \sum_{i=1}^n \beta_i X_i)$$

and  $\forall ij$  defines all  $ij$  pairs, where  $i = 1-33$  firms; and  $j = 1-22$  markets.

Nonresponse bias was assessed via a technique suggested by Armstrong and Overton (1977). Accordingly, nonresponse bias does not appear to be a major problem.

Following Morrison (1969) the researcher compared the model classification with a chance classification. This technique shows a gain over chance—an improvement in correct classification using the estimated logistics sales force integration model.

### Sampling Issues

The sample frame database was a primary database constructed by the researcher. Six hundred ninety-three questionnaires were mailed. Twenty-four surveys were returned non-deliverable. One hundred and thirty-one responses were received, for an overall response rate of 19.6%. Sixty-four responses were received in the first mailing wave, and 67 in the second. One hundred and eight  $ij$  pairs represent integrated sales forces, while 23 represent nonintegrated sales forces.

The market/load center with the greatest number of responses is Chicago, Illinois. Twenty-three steamship lines responded from Chicago, 19 of which employ integrated sales forces. New York/New Jersey and Northern California are next with 11 responses each, eight respondents with integrated sales forces in New York/New Jersey.

### Estimating Nonresponse Bias

Nonresponse bias was assessed via an extrapolation technique suggested by Armstrong and Overton (1977). The most common type of extrapolation in mail surveys is to compare waves in a questionnaire. Respondents who respond in the later wave are assumed to have responded because of an increased stimulus (e.g., a second questionnaire, phone call) and are expected to be most similar to nonrespondents (Armstrong and Overton 1977, 397). Sixty-one useable responses were received in the first mailing wave, and 65 in the second wave. Mean responses were compared on items between first respondents and second respondents. T-tests were calculated comparing respondents from both mailing waves on key variables. None of the items was significantly different. Accordingly, nonresponse bias does not appear to be a major problem in this sample data.

### Discussion

In general, the transaction cost framework appears to explain the use of integrated sales forces by steamship lines in U.S. market/load centers; however, it is by no means a complete explanation. The stack train variables also

add to the explanation, and not all transaction cost hypotheses are supported. Of the five significant terms, four have the expected sign (i.e., tendency to rely on integrated sales forces). One term, uncertainty (volume changes each transaction) was significant, but in the wrong direction. Though contrary to TCE predictions, mixed uncertainty results found here were also found by Gatignon and Anderson (1988), Fladmoe-Linquist and Jacque (1995) and Stump (1995). The strongest effect is STRAVG2, a construct comprised of three terms: a) percentage of containers moving via rail in an *ij* pair are stack train; b) overall containerized cargo moving inland via stack train; and, c) overall dollar value of cargo moving inland via stack train in an *ij* pair.

### Significance of the Overall Estimated Model

The test statistic calculated to test this null hypothesis was  $-2LL$  (i.e.,  $-2$  Log Likelihood) is distributed chi-square. The Log Likelihood function for the restricted model is  $-59.87807$ , and for the full model, or unrestricted, is  $-40.53243$ . Thus,

$$\begin{aligned} & -2 [(-59.87807) - (-40.53243)] \sim \chi^2_{d.f. = 22} \\ & = 38.69128 \end{aligned}$$

The critical chi-square value for 22 degrees of freedom (i.e., d.f.) at  $\alpha = .05$  is 12.338. Thus, the calculated chi-square value of 38.69128 exceeds the critical chi-square value of 12.338, so the null hypotheses that all  $\beta$ s are jointly zero is rejected. That is, the model is significant.

### Classification

Lastly, the estimated econometric model of sales force integration can be assessed by its ability to correctly predict membership in each of two classes (i.e., integrated and nonintegrated sales forces). The estimated sales force logistic model correctly predicted 10 of 23 nonintegrated *ij* pairs, a 43.48% correct classification; and, 97 of 103 integrated *ij* pairs, a 94.17% hit rate. Overall, the estimated logistics model correctly classified 107 of 126 *ij* pairs, for a hit rate of 84.92%.

### Model Versus Chance Classification

Following Morrison (1969) the researcher compared the model classification with a chance classification. Morrison showed that the probability of correct classification,  $P(\text{Correct})$  can be expressed as:  $P(\text{Correct}) = P(\text{Correct} | \text{classified integrated}) P(\text{classified integrated}) + P(\text{Correct} | \text{classified nonintegrated}) P(\text{classified nonintegrated}) = P(\text{Correct}) = p\alpha + (1-p)(1-\alpha)$  where  $p$  = true proportion of integrated *ij* pairs in the sample and  $\alpha$  = the proportion of *ij* pairs classified as integrated. More formally, the proportional chance criterion (i.e.,  $C_{pro}$ ) is:

$$C_{pro} = \frac{\alpha}{2} + (1-\alpha)\frac{1-\alpha}{2}$$

where  $\frac{\alpha}{2}$  = proportion of *ij* pairs integrated and  $(1-\alpha)\frac{1-\alpha}{2}$  = proportion of *ij* pairs nonintegrated. Hence, the chance proportion correctly classified in this research is:

$$(0.81746) + (0.18254) = .70145$$

Comparing the model classification with chance classification shows a gain—an improvement over chance—with the estimated model. That is, the estimated model correctly classified nearly 85% of the observations in this sample, which is greater than a 70% chance classification.

### Conclusion

The goal of this research was to construct and estimate a model of integrated (i.e., steamship line employees) vs. nonintegrated (i.e., third parties) sales forces in the maritime shipping industry, as impacted by an industry quest for operational efficiency and marketing advantage—the stack train. This was accomplished via estimating a logistic

regression econometric model with maximum likelihood estimation based on transaction cost theory, from data gathered from steamship line executives in the fall of 1998.

The results of the estimated model showed partial support for the TCE variables and for the primacy of the stack train in predicting vertical integration of the carrier's sales function. These results should be interpreted with caution as they are for one industry-maritime shipping-in one country, the United States, and their generality remains to be established. Nonetheless, these findings are encouraging. This research adds to the efficacy of explanation in the sales force literature on vertical integration and to the transaction cost literature in industrial organization research which views the firm in terms of governance features. The results of the estimated sales force integration model suggest that, at least in part, transaction-cost considerations are important determinants of vertical integration of the sales function in U.S. market/load centers of the maritime shipping industry. In sum, Transaction Cost Economics theory aided in explaining the phenomenon of interest in this research.

The findings in this research may be generalized beyond containerized shipping to other marketing value chains or channels of distribution, as well as to other service-oriented industries, with characteristics similar to those found in containerized maritime shipping. The findings in this research suggest that transaction cost considerations may aid in better understanding and explanation of "make-or-buy" discrete choices of marketing activities in distribution channels and in service industries.

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# Conjoint Model with Artificial and Real Stimuli: A Comparative Assessment of Within and Cross-Domain Generalizability and Choice Prediction

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## Abstract

In their review of the developments in conjoint methods, Green and Srinivasan (1990) report that a large number of studies have addressed validity issues. Most of these studies have involved tests of cross-validity using holdout set of profiles. These studies have shown very high internal validity for conjoint models when holdout samples are used (Green and Srinivasan 1990; Akaah and Korgaonkar 1983). However, mixed results have been reported for external validity thereby indicating, in some cases, a lack of convergence between models estimated from artificial and real stimuli (Holbrook and Havlena 1988; Holbrook et al 1985).

In the real domain, most studies have used the multi-attribute model (where ratings are expressed as dummy variables and weights estimated by OLS procedure) as a parallel to the conjoint model. Such a representation of the real domain captures the brand name and the knowledge base associated with it. However, the limitation of this approach is that the accuracy of information retrieved largely depends upon familiarity, knowledge, and prior experience. In many consumer-packaged goods, the real world choice situation is different since consumers are confronted with several brands to choose from. The actual presence of the brand contributes to preference and choice beyond mere information retrieval of brand attributes. In moderate to less familiar brands, where attitudes are not well established and spontaneously retrieved, peripheral factors can play a prominent role (Machleit and Wilson 1988).

The purpose of this study, therefore, is to investigate the difference between the traditional conjoint model (cards only) and the same model (cards plus real stimuli) both in terms of internal and external validity and choice accuracy. First, conjoint study 1 is conducted using the traditional full-profile approach (artificial stimuli) using sneakers as the product category. Subsequently, a short survey is conducted to measure several affective variables. Thereafter, conjoint study 2 is conducted using the same traditional full-profile approach (artificial stimuli) together with well-matched actual sneaker brands (real stimuli). Results indicate that while conjoint model 2 outperforms model 1 in cross-domain validity, both models perform equally well in internal validity. Conjoint model 2 outperforms model 1 in choice accuracy when complete choice set (estimation and hold-out sample) is included while model 1 outperforms model 2 when constrained choice set (hold-out sample) is included.

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# **The Brand Personality as a Determinant of Brand Loyalty – Findings of an Empirical Study in the Automobile Sector**

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## **Abstract**

In the present study we propose and empirically test a framework which jointly examines the interrelationships between values, brand personality and brand loyalty. Furthermore, by incorporating attribute-level measures for personality constructs our research not only provides a richer understanding of the antecedents of loyalty but also practical implications for managers.

## **Introduction**

As motive research shows, consumers in our changing social world first of all wish to satisfy their need for love, intimacy, and closeness to their own image. Enterprises increasingly respond to this social development by attributing a distinctive personality to the brands they create with which they try to meet the customers' needs. Suppliers have to take into account the consumers' value system and objectives to make buyers integrate marked products into their emotional world of experiences and to create a psychological connection between the brand and the customer. As these values and objectives are closely related to the characteristics that constitute the consumers' personality (Bilsky/Schwartz 1994, p. 179) the decision to buy is not only influenced by perceiving the brand personality (Lastovicka/Joachimsthaler 1988, p. 583) by also by perceiving their own personality or self-conception. This paper has two goals against the background of the above considerations: On the one hand, we want to analyze the influence of the congruent perception of individual brand personality and human personality dimensions on the brand loyalty of consumers. On the other hand, we are interested in identifying the hypothetical connection between the human and the brand personality, in other words, we want to know which characteristic of a human is related to which personality attribute of a brand. Unlike the goal in previous studies, the focus here is not on identifying the personality characteristics of customers that determine a purchasing decision. We rather aim at making a statement as to whether any congruent personality dimensions of a person and a brand influence this person's loyalty to this brand. As Sirgy et al. (1997) postulate, this is an underdeveloped area. As they state, self-concept researchers have long argued that self-image congruence effects should also extend to post-purchase behaviors, but no research has yet been undertaken to empirically demonstrate this effect (Sirgy et al. 1997, p 237). In addition, we want to find out which product attributes are related to the relevant personality characteristics to be able to give detailed instructions for action to the management on how to attribute a specific personality to their branded products, a personality that agrees with the characteristics of the target group.

## **The Model**

There has been a long tradition in buying behavior studies of linking the self-image construct to the product image factor. Several authors tested various hypotheses in this field regarding the relationship of these two constructs; today we can distinguish three approaches in today's literature to using self-conception in marketing: First, self-image can be interpreted as a psycho-social factor that is structured according to consumer group segmentation or differentiation (Sirgy 1982, p. 290). Many investigators, however, interpret consumer behavior as a function of the direct effect of the consumers' respective self-image (Sirgy 1982, p. 293). Sirgy's hypothesis to what extent consumer behavior is not just a function of self-image but rather a function of congruence of self-conception and product image has been tested most frequently. It says that if the self-image of a person matches the symbolic image of a respective product, consumers evaluate the product more positively or develop a greater preference for it. Various authors of the second generation tried to remove the methodological errors by precisely defining the relevant personality characteristics and exactly checking the reliability and validity of the variables (Malhotra 1981). In addition, awareness grew that personality factors should be viewed in their interaction with social, cultural, and economic variables to reduce expectation pressure (Punj/Stewart 1983, pp. 181). But the guiding function of moral attitudes has still not been

in the center of any research activities in this area. This is even more surprising because researchers of consumption patterns as of the recent past have been paying more attention to personal goals, motivational factors, or moral attitudes (Jolibert/Baumgartner 1998, p. 154). Personal goals are commonly defined as the individual cognitive representation of personal motivation (Markus 1983, p. 543), and motivation denotes the strive for personal incentives initiated by needs (McClelland 1987, p. 4). An individual uses values to evaluate or select actions, people, and events (Odin et al. 1998, p. 37). Values, goals, and motivational factors influence the evaluation and selection behavior of people or consumers (Bamberg et al. 1997). However, neither researchers nor those working in marketing practice have dealt in detail with the question what relation there is between these factors (Bilsky/Schwartz 1994, p. 164). If we compare the Values construct defined as "convictions with regard to desired end states" (Schwartz/Bilsky 1987, p. 551) and the Personality characteristics construct defined as "any kind of distinguishable and comparatively lasting features by which an individual stands out against another" (Fisseni 1998, p. 321), we may assume that the individual values of a person are a subset of the personality (Bilsky/Schwartz 1994, p. 165). Values and personality characteristics differ in three important criteria so that they require independent conceptual treatment: Personality characteristics are typically regarded as descriptions of observed behavioral patterns while values are considered criteria for evaluating the desirability of behaviors, humans, and events, they vary inasmuch as an individual lets characteristic features run free while values can be distinguished depending on the importance that individuals attribute to specific goals and they influence actions of which it is assumed that they go back to the person proper, regardless of his or her intentions whereas values refer to goals an individual pursues and is conscious of (Bilsky/Schwartz 1994, p. 165). There are some overlaps, though. According to Rokeach (1973, p. 21), the human personality profile can be expressed as a value system in which needs, interests and attitudes result directly in behavior or values. Maslow's analysis of needs (1970) also points to a complex connection between values and the personality; its manifestation depends on the extent to which behavioral patterns are geared to satisfy growth or deficiency needs. There is a covariance relationship between the two constructs if the individual focuses behavioral patterns on satisfying growth motives (e.g. thirst for knowledge). If a person can be described as "inquisitive," he or she will probably value "thirst for knowledge" highly. If a person's behavior is focused on satisfying deficiency motives, a compensatory connection is more likely because an anxious person will give a higher priority to the "safety" value (Bilsky/Schwartz 1994, p. 166). Bilsky and Schwartz were now able to prove these theoretically assumed interrelations between characteristics and value concepts. The findings of their studies prove the influence of personal motivation on both the organization of individual value systems and personality differences. Each value dimension is therefore related to a specific personality characteristic. More accurately put, the "health concern" characteristic is related to the "security" value dimension, the "achievement orientation" personality characteristic to the "power" value, and the "social orientation" property to the "benevolence" value concept. Bilsky and Schwartz have thus proved empirically that the relevant value concepts of a person go back to, or originate from, deeply rooted personality characteristics.

After previous research efforts were focusing on the effect of congruent brand and personality profiles, we now concentrate on the interacting system of value concepts and product attributes. Bilsky and Schwartz say that the personality characteristics of people influence their value concepts. Aaker (1997, p. 348), however, interprets the attributes of a brand as the basis for perceiving the brand personality. So there is an interactive relationship between the human personality and value concepts as well as between brand personality and product attributes. What has not been settled yet is the question of a link between human value concepts and product attributes. Some considerations on use can be quite valuable to answer this question. According to Gutman, perceived product attributes do not only influence the formation of a brand's personality profile (Aaker 1996, p. 145) but also the concept of potential benefit components a product may have (Walker/Olson 1991, p. 111). These benefit or use concepts are evaluated against the background of the value concepts embedded deeply inside the respective person or against this person's personality characteristics (Gutman 1982, p. 61). At the same time, consumers try to strive for congruence, to bring about a match or fit of a brand and a person (Sirgy 1982). If we put all this knowledge together, this leads us to the model shown in [Figure 1](#) which is next to be tested empirically.

### **The Empirical Study**

The model was tested by a written poll that consisted of a pilot and a main study. The goal of the test was to find out whether Sirgy's congruence hypothesis is valid. We used the personality inventory of Mc Crae and Costa and, for the first time, the brand personality inventory developed by Aaker. The objects of study were the vehicles of the Mercedes product group brand about which we asked drivers of S-, E-, and C-Class cars, and the Mercedes A-Class product brand in the opinion of drivers of this class. A pilot study was carried out to determine the relevant attributes, benefit

dimensions and value concepts of the Mercedes and Mercedes A-Class brands. The data was collected in using a questionnaire, that had a similar structure as the ones developed by Botschen and Hemetsberger (1998, p. 154), respectively. The response categories for each explanation category were given in the questionnaire of the main study based on the statements obtained in the pilot study on relevant attributes, benefit dimensions, and value concepts that determine the purchase of Mercedes and Mercedes A-Class brands. The first question the respondents had to answer in the main study was about the importance of individual product attributes. If the respondent was a Mercedes driver, he or she was asked to evaluate the importance of 18 product attributes. A scale of 5 with the poles "This attribute is totally unimportant" and "This attribute is very important" was used as a basis for the evaluation. The product attributes were numbered from 1 to 18. In a next step, the participants in the study had to enter the numbers of those attributes into a box that they had evaluated as being very important. The instruction given in the questionnaire read as follows: "Now try to explain why the respective attribute was so important for you by linking each box clearly to the benefit categories listed here. In a second step, try to find out why these benefit categories are so important for you, and link the first explanation categories with the explanatory terms of the second category." A note said that each attribute can be linked to several terms from the two categories. The main study also collected the respondents' statements on their own personality and the perceived personality of the Mercedes and Mercedes A-Class brands. Although Aaker (1997) identified five brand personality dimensions as a result of her work, only three out of five factors coincide with personality inventories used by psychologists. The questionnaire was therefore restricted to determining these six dimensions (2 inventories x 3 factors). The Agreeableness and Sincerity factors are based on the notion of warmth and mutual acceptance, Extravert behavior and Excitement links to notions of energy, socializing, and activity while the Conscientiousness and Competence dimensions relate to responsibility, reliability, and safety. 31 adjectives from the BPS developed by Aaker were selected to describe the Sincerity, Excitement, and Competence dimensions of the brand personality. 36 records in accordance with the NEO-FFI based on Mc Crae and Costa that were coded to analyze human characteristics were used to determine the Agreeableness, Extravert behavior and Sincerity factors of the personality. The respondents were asked to evaluate each attribute describing the personality or brand personality profile on a rating scale of 5. Five items for determining the intensity of brand loyalty based on Narayandas (1997) proved valuable for collecting dependent variables with Mercedes and Mercedes A-Class drivers, and for evaluating the future buying intention with drivers of other brands. The persons who answered the questionnaire of the main study were selected at random. We distributed 150 envelopes to A-Class cars, 150 to Mercedes cars, and 150 to other brands. The average response rate was 46% within a period of four weeks. Let us describe the sample evaluation procedure using the example of Mercedes drivers (A-Class excluded).

Using Aaker's (1997) approach for determining brand personality, we determined the personality profiles for Mercedes A-Class and Mercedes. We applied a confirmatory factor analysis. The first parameter estimations for the Mercedes driver group showed that characteristics had to be eliminated because we did not determine a high correlation with the latent variables for all variables observed. As result, we eliminated the Daring/risk-taking, Cool/restrained, Petty bourgeois, Unspoilt, and Sensitive variables. The results of the adjusted parameter estimation showed that the Excitement factor was expressed strongest in the Contemporary (factor loading 0.77), Independent (0.73), Unique (0.69), Thrilling (0.66), and Highly topical (0.60) variables. The latently observed Sincerity variable is reflected in the Healthy (0.79), Sincere (0.76), Decent (0.75), Family-orientated (0.65) and Realistic (0.64) variables. The Competence factor is best represented in the Successful (0.92), Intelligent (0.85), Self-confident (0.83), Leading (0.82), Safe (0.75) and Technical (0.70). The goodness measures that are available to assess the total structure come close to the critical values; the root-mean-square-residual index is 0.14, the goodness-of-fit index is 0.88, and the adjusted goodness-of-fit index is 0.86. Reliability was tested by calculating Cronbach's alpha. The values for the three variables of interest were: 0.80 (Sincerity), 0.80 (Competence), and 0.82 (Excitement). A discriminant analysis was used to test the effect of congruence of the perceived brand personality of the product and the personality profile of the consumers on the degree of brand loyalty or the buying intention of the respondents. Congruence is operationalized by the difference between the corresponding brand and human personality factors, i.e. by the difference of Excitement and Extravert behavior, Sincerity and Agreeableness, and Conscientiousness and Competence. As a first step to determine the congruence or differential values we calculated the mean across all variables that constitute a brand or human personality factor for each respondent. In addition, we calculated absolute differential values between the corresponding brand and human personality dimensions, which resulted in three attribute variables: Absolute difference between Excitement and Extravert behavior (=DIFF\_2); between Sincerity and Agreeableness (=DIFF\_1); between Competence and Conscientiousness (=DIFF\_3). The congruence hypothesis to be tested read: The smaller (greater) a difference is, which expresses a

high (low) congruence of the factors, the higher (lower) is the degree of brand loyalty. Group membership with regard to the brand loyalty criterion was determined by averaging across all loyalty variables according to Narayandas (1997) and attributing high brand loyalty to a value equal to or greater than 2.5 and a low brand loyalty to a value below 2.5. We classified 20 percent of our Mercedes driver sample as disloyal and 80 percent as loyal. We checked the extent to which the two groups differ in congruence features using a discriminant analysis. Thus the DIFF\_3 variable, i.e. the difference between the Competence and Conscientiousness dimensions, appears to be best suited. Wilk's lambda value is comparatively low (0.491) for this variable. DIFF\_1 significantly discriminates with a level of significance < 5% (Wilk's Lambda: 0.937), but not DIFF\_2 (Wilk's Lambda: 0.978). The measures of goodness, characteristic root, canonical correlation coefficient and Wilk's lambda values show that the discriminant function makes a significant contribution to group discrimination. Accordingly, the standardized discriminant coefficients once again attribute the greatest importance within the discriminant function to DIFF\_3, i.e. the difference between the competence and Conscientious dimensions. The results also show that 90.3% of the originally grouped cases were correctly classified, which corroborates the existence of the two loyalty groups. We may therefore assume that the brand loyalty of a Mercedes driver really is the greater the more similar his or her personality profile is to the perceived brand characteristics, especially as regards the Conscientiousness and Competence dimensions. After having determined the perceived characteristics of the Mercedes brands and tested the congruence hypothesis with regard to personality profiles, we will now focus on linking the two constructs using means end chains. We first counted the frequency of those attributes of the Mercedes brands which the drivers of the cars had rated "very important" for the purchasing decision. It is in particular the high-quality workmanship, the spacious interior, the high resale value, the user-friendly center console, and the elegant design of the vehicles that are of great importance to Mercedes drivers. A minimum of 70% of the respondents said that these attributes are "very important" or "important" for their purchasing decision. If we look at the HVM for the Mercedes brand, we can see the following dominant paths:

§§ Spacious interior →<sup>®</sup> relaxed driving →<sup>®</sup> convenience; Spacious interior →<sup>®</sup> convenient sitting →<sup>®</sup> calmness/relaxation; High-quality workmanship →<sup>®</sup> longevity →<sup>®</sup> quality; High-quality workmanship →<sup>®</sup> longevity →<sup>®</sup> trust/reliability; High-quality workmanship →<sup>®</sup> reliable vehicle →<sup>®</sup> trust/reliability; Innovative technical improvements →<sup>®</sup> protection of life →<sup>®</sup> safety/health; Low-pollution combustion →<sup>®</sup> low environmental impact →<sup>®</sup> nature. The evaluation of the brand mainly corresponds to the previously determined brand personality profile of a safe and reliable character, illustrating again the matching of the consumers' individual needs or goals or values and perceived core competencies of this brand.

### Summary and Implications

The analyses for the Mercedes product group brand have shown that both Mercedes drivers and drivers of other brands perceive the Mercedes umbrella brand as a middle-aged male to whom management qualities and (career) success can be attributed by properties such as leading, successful, self-confident but who is also characterized by properties such as reliable, safe, and sensible. These results are also reflected in the means end analysis. The respondents perceive the core competencies of the Mercedes brand, especially that it conveys a feeling of safety and protection and that it ensures convenience, relaxation, and quality. If we consider the values or inner motives the purchasing decisions were based on, we can clearly see the congruence of what the brand provides expressed in attributes and benefit components and what is demanded by consumers as expressed in value concepts or needs to be satisfied. We were able to confirm our hypothesis regarding the Brand loyalty of customers grouping variable at the deeper level, in psychological terms, of brand personality attributes and personality characteristics. As the Mercedes driver sample shows, the groups showing high or low brand loyalty are primarily discriminated by a strong congruence of the Conscientiousness brand personality factor and the Competence personality dimension. If we combine the attribute-benefit-value chains of means end analysis with the findings of the congruence comparison, we can in summary state the hypothetical links between relevant brand personality attributes and personality characteristics of the consumers for the Mercedes product group brand as shown in Fig. 2. Thus we obtain means end chains that are expanded by the Consumer personality and Brand personality factors, all based on the assumption of a relationship between product attributes and perceived brand personality and stable personality factors and value concepts of the consumers.

Understanding how a brand is perceived as a person provides the basis for collecting the internal brand images or positioning of the brand in the consumers' or even society's system of ideas. We disclosed information on the core competencies of the product that belong to the level of myths and symbols, so that such an analysis also explains what psychological functions the brand has for consumers or which inner motives and needs they wish to satisfy by buying the product. In addition, a personality profile perceived as unique, unmistakable and positive enhances the consumers' goodwill as regards their attitude towards the brand and the inclusion of the brand in their evoked set, whereas the brand personality profile of customers contributes to self-representation and converts the brand into the notion of a reliable partner in any situation. Thus the more detailed analysis of the links between humans and the brand does not only reveal which goals a consumer wants to achieve using the brand but also how this takes place. The vendor of a product can thus find answers to questions such as how the brand is rated as compared to competitors' brands, with how many brands it competes in the evoked set of the consumers of a brand, how clear-cut the personality profile of the brand is, and what the intensity or quality of the brand-consumer relationship is. This knowledge enables the vendor to focus all activities of his marketing mix on the shaping of the profile of a successful brand personality or on correcting a less desired perception, and at the same time make customers immune against the competitors' offers. Future studies should therefore concentrate on the quantification of the effect determined in this study, i.e. the effect of the relation between consumer and brand on buying behavior and on testing the hypothesis with regard to further aspects of buying behavior. It would also be interesting to analyze an intercultural comparison of the hypothetical links (e.g. the effect of the merger of the U.S. Chrysler corporation and the German Daimler Benz group to DaimlerChrysler on the brand-customer relation of traditional Mercedes drivers) or to test the effect of communicative activities in the formation of a congruent perception of one's own personality and the profile of the brand.

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Figure 1: The means-end theory as a hypothetical link between a brand and its consumers

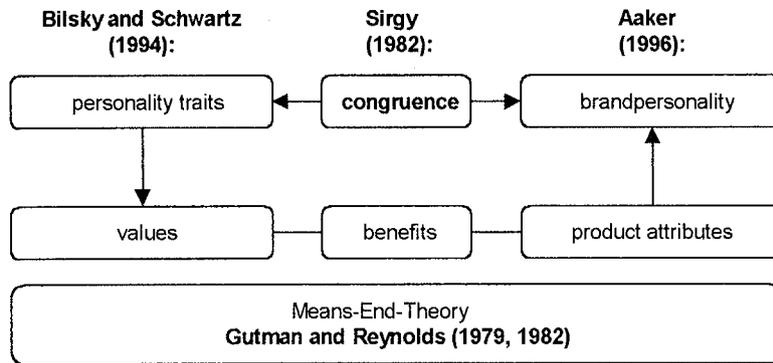
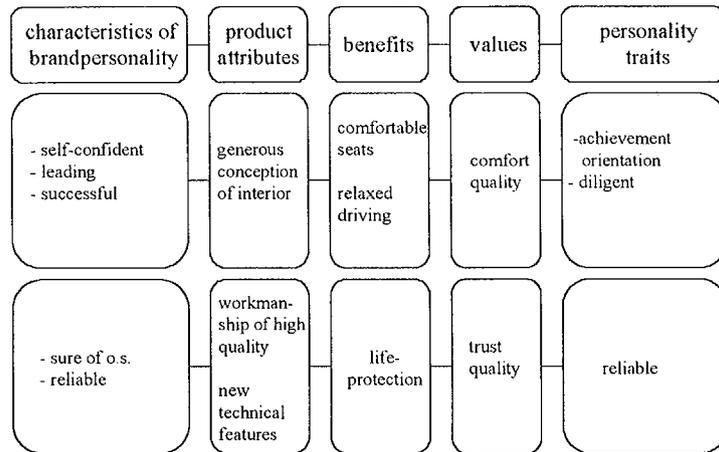


Figure 2: Hypothetical links between brand personality and personality characteristics of Mercedes drivers



## **Manifestations and Measurement of Asymmetric Brand Competition**

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### **Abstract**

When two brands do not behave in an identical manner for changes in marketing variables, then brand asymmetry is said to exist. Although researchers have acknowledged the differential performance of brands (i.e., asymmetry) as an essential ingredient of a brand's market power, there has not been a comprehensive examination of the various manifestations of asymmetry and their measurement in marketing or related literature. This article describes the various manifestations of asymmetry that can exist in the marketplace and presents the methods used to measure asymmetry. These measures depend on the type of asymmetry to be studied, the type of dependent variable to be modeled, and the functional form of the variables. Mathematical expressions are derived for the several measures of asymmetry and the effect of model parameters on the magnitude of asymmetry.

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# The Paradoxes and Challenges of Creating Social Good Through Environmentalist-Marketer Collaboration

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## Abstract

Increasingly, collaborative relationships, commonly called *green alliances*, are emerging between marketers and environmental groups to promote corporate environmentalism and create social good (Stafford and Hartman 1996). Green alliances allow marketers to obtain ecological expertise, credibility, and linkages to consumers and other relevant stakeholders to support green marketing initiatives (Stafford, Polonsky, and Hartman 2000). Environmental NGOs benefit as well, gaining the opportunity to leverage their efforts directly with business (Stafford and Hartman 2000).

Despite opportunities, many green alliances have been challenged when striving to create social good. For example, in 1990, McDonald's was criticized in its partnership with the Environmental Defense Fund for replacing polystyrene clamshells with a paper wrapping. FDA restrictions prevented the new wrappers from being made of recycled materials, igniting controversy over its environmental improvement (Stafford and Hartman 1996). More recently, Starbucks was criticized for abandoning efforts with the Alliance for Environmental Innovation to develop a more environmentally friendly paper cup after test marketing failed (Gibson 1999). Balancing various stakeholder interests commonly results in compromise, inviting public scrutiny and questioning the social good derived from green alliance initiatives.

## An Agenda for Marketing Research

To better understand the practice of doing social good through green alliances, we propose a research agenda, which incorporates *sustainability*, *corporate citizenship*, and *stakeholder management* perspectives. Marketing issues such as sustainable consumption and product take-back/leasing warrant consideration. Further, because social and environmental initiatives affect multiple stakeholders with diverging interests, researchers need to examine how relationship marketing and network linkages may be extended among stakeholders. Finally, promotions research needs to consider a *two-way, symmetric* model of stakeholder communications (Grunig and Hunt 1994) to facilitate mutual understanding, education, and collaboration.

To initiate this research program, we propose that the goal of creating social good be added to the environmental and economic goals commonly associated with environmental collaboration to achieve *corporate social sustainability*, which we define as the extent to which a corporation meets its economic, sociopolitical, and environmental responsibilities imposed by its stakeholders without compromising future generations to meet their needs. This concept integrates several converging literatures with green alliance research, including corporate citizenship, social responsibility, environmental sustainability, and stakeholder management. Ultimately, we contend that collaborative stakeholder exchanges are necessary for global social and environmental sustainability.

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## **Strategic Philanthropy's Role in Implementing Marketing Strategy**

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### **Abstract**

Organizations are facing increased scrutiny from stakeholders. Greater consideration of the business implications of organizational decisions have resulted in alliances forming between previously unrelated areas. Synergy has occurred between the philanthropic giving of many organizations and marketing strategy decisions. Benefits include greater awareness of organizational competencies among customers, employee satisfaction and development, and improved organizational financial performance.

### **Introduction**

Strategic philanthropy is the synergistic use organizational core competencies to address key stakeholders' interests and to achieve both organizational and social benefits. Beyond traditional philanthropic giving, strategic philanthropy involves employees (utilizing their core competencies and enriching their work experience), organizational expertise (applying equipment, knowledge or financial resources to deal with social concerns), and an understanding of social issues that organizational stakeholders will value. When Home Depot donates materials and encourages employees to become involved with Habitat for Humanity, they are using their core business competency (materials and labor) and applying those areas of expertise to a commonly accepted social cause. Such an endeavor reinforces their image as a home improvement specialist, allows employees to improve their skills, and generates significant positive publicity for the company.

In the emerging model, philanthropy becomes one focal point under a corporate culture that values both the firm performance and stakeholder benefits. Top management must be integrally involved in establishing reward and incentive structures that include a sensitivity to stakeholder concerns. Corporate giving, volunteer efforts, and other contributions are evaluated and aligned with marketing strategies and objectives. This trend, moving from benevolent philanthropy to strategic philanthropy, resulted from organizational struggles of the 1980s and 1990s including downsizing, global competition, and greater organizational accountability for actions.

### **Strategic Philanthropy and Marketing Strategy**

Marketing orientation has been linked with continuous marketing intelligence and its integration in strategic planning, cross-functional efforts to address customer needs, quick responses to changing external factors, and a longer term perspective in strategic planning (Narver and Slater 1990). Increased profitability and higher growth rates have resulted from a strong marketing orientation. Strategic philanthropy initiatives operate with a longer term perspective.

Unlike cause-related marketing which has immediate ramifications for sales and profitability, strategic philanthropy represents a longer term investment, often without short term financial benefits.

### **Implementation of Strategic Philanthropy**

First, evaluating corporate philosophy must start with an understanding of how these efforts are related to the company's mission, resources, and marketing strategies. Second, organizations must have a clear understanding of stakeholder expectations and interests in the area of social concerns and philanthropy. Philanthropic efforts should be evaluated in light of their effect and benefit to relevant stakeholders. Companies also need to evaluate the communication vehicles used to reach stakeholders. Although critics berate organizations for promoting their philanthropic efforts, strategic philanthropy initiatives are dependent upon the feedback to create greater value for the organization and its stakeholders. Finally, strategic philanthropy is based on organizational learning, including corporate culture and history, organizational mission, and other processes for thinking, doing, evaluating, and reflecting (Senge 1990).

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## How Marketers can ‘Do Well While Doing Good’: The Institutional Theory Framework

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An emerging area of interest in the marketing literature is the study of marketing actions with a social dimension. Underlying this literature is a fundamental reconceptualization of the organization as not only an economic agent, but also an agent of environmental and social change. There are two objectives of this presentation. First, institutional theory is presented in a marketing context to provide a theoretical framework that explains why marketers should integrate pro-social activity with traditional economic-oriented strategies. A theory of the firm provides the conceptual underpinnings that help to guide the development of marketing by providing the theoretical and research traditions within a particular domain of research. Institutional theory is presented as a theory of the firm that provides the potential underpinnings of this emerging domain of marketing thought. The second objective is to present the range of pro-social marketing strategies – or “institutional orientation strategies” - from the institutional theory perspective.

Institutional theory is a theory of the firm that embraces the complementarity between marketing actions with a social dimension and the traditional economic-oriented actions. In particular, it is recognized that an organization faces constituents from both a task and an institutional environment. It is from the task environment that organizations find constituents such as shareholders and customers who reward the organization with their support (investment, patronage) if the organization is viewed as performing in an economically efficient manner. The task environment houses the economic norms of competition and efficiency.

However, organizations also face constituents from the institutional environment. The institutional environment contains the unwritten social rules of “proper” organizational conduct. With increases in the proliferation of competition, turbulent markets, and global corporate strategic networks, governments have a smaller role to play as agents of environmental and social change. As a result, there is a growing backlash from constituents in the institutional environment who demand that organizations balance their economic imperatives with norms of environmental and social responsibility. With the adoption of an institutional theory of the firm, the importance for the organization to adhere to these social norms is not understated. Organizations that come to recognize the importance of demonstrating adherence to these institutional norms are rewarded from constituents with political support, avoidance of boycott pressures, community involvement in the well being of the firm, the attraction of top employees, as just a few important examples.

When responding to constituents from the institutional environment, the organization can adopt a number of institutional orientation strategies. These approaches range from a passive acquiescence to the norms of the institutional environment, to an active attempt by the organization to manipulate these institutional norms. In between these two extreme strategic approaches, marketers may attempt to symbolically demonstrate adherence to institutional norms, while tangibly adhering to norms of economic efficiency.

## **An Assessment of Low Price Guarantee Signals: A Process Model of Consumer Evaluations**

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### **Abstract**

This article reports the findings of a study that examines the effects of low price guarantees (LPG) in retail advertisements within the frameworks of signaling theory (Spence 1974) and economics of information (Stigler 1961, Urbany 1986). A low price guarantee may be defined as a policy where a retailer offers the lowest possible price for a product or a group of products and promises to match or better any lower price found in the local market. The promise normally includes a provision to refund the difference between the seller's offer price and the lower price. The guarantee may also include a self-imposed penalty for not having the lowest price.

The role of the low price guarantee signal is to assist the consumer in differentiating between firms that seek to compete using an everyday value pricing policy from those that cannot offer such a policy due to higher costs or a different strategic orientation. Assuming that firms are rational in their desire to maximize profits, the consumer can rely upon such signals that could be costly or unprofitable for higher cost sellers to send. This paper argues that an LPG operates as a valid market signal of lowest market price due to the potential costs of providing such a signal. Potential costs of the LPG signal include self-imposed monetary penalties as well as damages to reputation due to repeated false claims (Nelson 1974; Schmalensee 1978). These market incentives and penalties create what Spence (1974) refers to as a "separating equilibrium" allowing consumers to rely upon LPG signals in distinguishing between high price and low price retailers in assessing financial risk, forming value judgments, and determining search behavior.

Results of the study are generally consistent with the predictions drawn from these theories. Overall, an LPG in an ad results in higher value perceptions and shopping intentions and lower search intentions. An LPG also lowers consumers' financial risk perceptions and raises lowest price estimates. Mediation analysis demonstrates complete mediation of low price guarantee effects on value perceptions by consumers' financial risk perceptions and estimates of lowest price. Managerial and public policy implications also are noted.

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# **The Relationship Between Nostalgia and Consumer Preference: Replication and Extension**

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## **Abstract**

This study investigates the relationship between nostalgia and consumer preference and measure levels of nostalgia amongst multicultural groups. Results showed that mutually interdependent relationships exist between nostalgia and consumer nostalgic preference. Significant relationships further exist between the measured constructs and distinct biographical variables. These results support previous findings that nostalgic consumers represent an important market segment.

## **Introduction**

Consumer researchers (Holbrook and Schinder 1996, Castelnovo-Tedesco, Pollock and Greenspan 1998, Rousseau and Venter 1999) have recently focused increased attention on the role of nostalgia as a historical and cross-cultural influence on consumption-related tastes and preferences. The reason being that nostalgia may have major implications for product design, pricing strategies and promotional campaigns. (Du Plessis and Rousseau 1999). In the present study nostalgia refers to the construct in its broadest terms as described by Holbrook (1993) as a bittersweet emotion, where the past is viewed with both sadness and longing whereas consumer nostalgic preference refers specifically to consumers preference for products and services with a nostalgic appeal.

## **Research Objectives**

The main objective of this study was to investigate the relationship between nostalgia and consumer preference and to measure levels of nostalgia amongst multicultural groups. This was done by replicating and extending the methodology used in a preliminary study. The study is further based on past research in the field and uses a modified version of a questionnaire developed by Holbrook (1993). The questionnaire was modified by adding eighteen items to the original questionnaire. These items were derived from a model proposed by the current authors in a previous study (Rousseau and Venter 1999) on nostalgia. Due to the fact that a multicultural sample comprising of English, Afrikaans and Xhosa speaking respondents were included in the sampling frame, it was further expected that significant differences between levels of nostalgia would emerge amongst the respondents.

## **Hypothesis Development**

Based on previous research, two hypotheses were formulated, the first postulating mutually interdependent relationships between the measured constructs (nostalgia, progressiveness and consumer nostalgic preference) and the second, postulating significant relationships between the measured constructs and biographical variables.

## **Method**

A multicultural non-probability convenience sample (N=555) was drawn from the Port Elizabeth-Uitenhage metropole. The sample was stratified to include all the important sub-populations in the area. Respondents were selected from upper, middle and lower income groups residing in various sub-urban areas and townships in the region. They were also representative of the three main languages spoken in the province. The authors assumed that home language would accommodate the multicultural background of respondents in the sample. Xhosa speaking respondents may hold different perceptions of the past based on the political history of the country. English and Afrikaans speaking communities representing Eurocentric cultures tend to be more individualistic and task oriented, while African cultures are more relationship-oriented. Members of the Afrikaans speaking group are deemed more conservative than their liberal English speaking counterparts (Du Plessis and Rousseau 1999).

Field work was carried out by students of the University of Port Elizabeth. Data analysis employed the computer program BMDP 4M (Frane, Jenrich and Samson 1985) to perform factor analysis on the item sample, item versus scale-minus-item Pearson Product Moment correlations to determine whether any items should be excluded from the questionnaire, Cronbachs' coefficient alpha to test the reliability of factors and analysis of variance (ANOVA) to determine which demographic variables are significantly related to various factors.

## Results

Results of the study revealed two factors emerging from a factor analysis of the first twenty items in the questionnaire. They were nostalgia and progressiveness. Findings of the study also revealed two factors emerging from a second factor analysis performed on the last eighteen items in the questionnaire. They were consumer nostalgic preference and vintage/antique propensity. These two factors represent impact areas of nostalgia in terms of consumer preference. Results further showed a positive correlation between nostalgia and consumer nostalgic preference, suggesting that they are mutually interdependent. This finding as well as the fact that 34,4 percent of respondents scored high on consumer nostalgic preference support previous findings by the authors that consumers with nostalgic tendencies may represent an important market segment. The positive correlation observed between consumer nostalgic preference and vintage/antique propensity further suggests that products and services with a vintage/antique appeal, could attract consumers who are prone to nostalgia.

A rigorous inspection of socio-biological variables and the measured constructs shows that language is significantly related to progressiveness, age is significantly related to consumer nostalgic preference and vintage/antiques, education is significantly related to nostalgia and income is significantly related to nostalgia and consumer nostalgic preference (Table 1 a). The significant differences observed between various sociobiographical groups and the measured constructs (Table 1 b) further suggest that differences between levels of nostalgia can be expected when dealing with multicultural samples. This observation supports previous findings by Mc Cracken (1998) that differences may occur at a cultural level assuming that language is a proxy for culture.

The observation that age is significantly related to consumer nostalgic preference and vintage/antique propensity confirms the contemplation that marketers should focus on elderly consumers with products and services with a nostalgic appeal. The observation that income is significantly related to nostalgia and consumer nostalgic preference as well as the observation that the lower income groups scored highest on these two factors should caution marketers to also cater for lower income consumers when marketing products with a nostalgic appeal.

## Conclusion

The findings of the study demonstrate once more the complexity of sentiments involved in the measured constructs, especially when dealing with multicultural samples. Although the stated hypotheses were only partially upheld the study reveals meaningful relationships between nostalgia and consumer preference. These relationships may act as guidelines to marketers when taking strategic decisions on whether to continue using old trademark characteristics in product design as well as on the use of nostalgic memories and heritage in advertising appeals.

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# **Is Internal Marketing Really Important? An Examination of Internal Service Quality Perceptions From a UK Banking Perspective**

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## **Abstract**

This paper explores the relationship between internal marketing as represented by employee attitudes and the gap between their perceptions of internal service delivered and received in the context of the UK banking sector. Specifically, the determinants of the size of this gap will be determined.

## **Introduction**

The market for financial services in the United Kingdom over the past two decades has become much more competitive. In this competitive environment quality has become a major strategic weapon and a critical competitive advantage (Lewis 1993; Bowen & Hedges 1993; Leonard & Sasser 1982). There is a growing emphasis on the creation of a customer orientation at every level. Some authors make a direct connection between the quality of service and the returns on investment that an organization may expect (Buzzell & Weirsema 1981). In financial services the employee has a key role, since the customer may see a single point of contact but in fact actual delivery requires the cooperation of a number of internal departments. For customers, employees are the most critical element in forming service quality perceptions (see for example LeBlanc & Nguyen 1984; Kelly 1988).

There is also a continually growing acceptance of the existence of internal as well as external customers (Bowen and Schneider 1988) and the importance of the internal user-provider relationships (Grönroos 1992). Several authors propose a link between internal and external customer satisfaction (see for example Heskett et al 1994; Berry 1981; Gummesson 1990). External quality initiatives are often seen to fail in the absence of internal commitment (Piercy 1995, 1996) leading to the view that the concepts of service quality and the internal customer are inextricably intertwined.

## **Internal Marketing and the Internal Consumer**

In the light of the above discussion it is apparent that a customer-oriented culture is essential for a service firm in its attempts to create a competitive advantage. The creation of such a culture can be achieved through the use of a variety of marketing activities internally, collectively referred to as 'Internal Marketing' (see for example Grönroos 1992). Internal marketing is viewed as a broad based concept with cross-functional origins and concerns, which considers both customer contact and support staff. Employees are recognized as the first market of the organization that must have a strong quality and service orientation, which they will in turn communicate to the external customer. As such, every employee within the organization is seen as a customer for every other employee as well as of the organization itself (see for example Foreman and Money 1994, 1995; Berry and Piercy & Morgan 1991). Internal marketing combines elements of human resource management, total quality management, empowerment and organizational communication into a holistic management process that ensures that all employees understand the business in which they work and are motivated to act in a service oriented manner (Bekkers and Haastrecht 1993).

Authors such as Heskett et al (1994), and Grönroos (1992) argue the existence of a clear link between internal and external service quality, which encourages the exploration of the existence, and implementation of internal marketing and internal service quality. The purpose of this study is to identify the gap in employee perceptions of internally delivered service quality and to explore the relationship between these gaps and internal marketing factors as represented by the attitudinal factors.

## **Methodology**

To explore this issue a self-completion questionnaire was developed and administered to employees within the Southwest region of a major UK Clearing bank. For the purpose of the study three internal departments, employing approximately 200 people with frequent interaction amongst themselves were selected. These departments also had extensive interaction with front line departments, which served external customers and were considered representative of the manner in which the overall organization was structured. Of the 200

questionnaires dispatched a total of 126 usable responses representing an overall response rate of 63%. **Table 1** represents the distribution of respondents according to their level and department.

The questionnaire addressed respondents' views on the presence of strategic and tactical aspects of internal marketing as represented by a series of attitudinal variables. It also captured data in respect of their perceptions of 'provided' internal service quality and that which they 'receive' from two other departments. A modified version of the SERVPERF scale was employed for this purpose (Cronin & Taylor 1992, 1994). This allowed the researchers to identify a series of customer-supplier relationships and to calculate the gap in the perception between delivered and received service quality. The determinants of the size of this gap were then explored using demographic, behavioral and attitudinal variables. The latter consisted of a set of statements designed to measure exposure to, and perceptions of, internal marketing activity.

### **Perceptions of Internal Marketing Activity**

The researchers were also interested in respondent perceptions of the quality of internal marketing (IM) undertaken in the bank. Intuitively one would expect that the more favorable the perception of IM activity, the more likely employees might be to provide an acceptable standard of service to their customers. A series of 28 attitudinal statements were generated for this purpose. Cronbach alpha confirmed the reliability of this scale to be acceptable with a value of 0.7926 overall. An exploratory factor analysis yielded a seven-factor solution. The final row of **Table 3** shows that 57.19% of the variance in the full set of 28 attitudinal variables can be attributed to the seven factors. The significant correlation between factors and statement variables are also shown in **Table 2**. Note that a positive correlation implies that donors scoring high on this factor tend to agree with the corresponding statement. A negative correlation implies that a respondent scoring high on the factor would tend to disagree with the statement as written.

The seven factors identified represent different underlying aspects of internal marketing and its expected impact on their ability to perform their functions in an effective manner. Factors 1 (Faith), 2 (Line Communications), 4 (Collegiality) and 7 (Confidence) are reflective of the role that internal marketing can play in managing organizational attitudes. Factors 5 (Insularity) and 6 (Empowerment) define the internal climate that exists within the bank and finally Factor 3 (Service Rewards) refers to the development and maintenance of a service culture. These seven factors therefore deal with distinct elements of internal marketing and their impact on employees perceived ability to provide high levels of internal service quality can be clarified through the use of a regression analysis as discussed below.

### **Calculating the Service Gap**

Data in respect of the perceptions of delivered service quality was captured employing the SERVPERF scale proposed by Cronin and Taylor (1992). This scale uses the performance part of the SERVQUAL scale (Parasuraman et al 1988) as an accurate representation of the respondents' views on service quality. The mean scores of received and delivered service reported by the respondents were calculated. M1 indicates the "Mean Score for Service Delivered". The average customer rating of the service provided by each internal department was then employed to determine how close an individual employee might be to his/her internal customers. To facilitate this analysis, the average customer ratings (M1) for each statement were subtracted from the delivered service quality perceptions of each employee. A GAP variable was thus calculated for each of the dimensions measured by the statements, for both the relationships they had cited in their response to the study (simply stated  $Gap_n$  (where  $n = 1, \dots, 26$ ) = *Perceptions of Service Provided to Department X - Average Perception of Service Received From the Department*). As a result the gap for each individual statement was obtained for each individual across the identified relationships. The individual statement scores were added together and an average calculated. As a result a single average gap for each individual was calculated and provided the researchers with an indication of how 'close' the individual was on average to their customers. This variable will subsequently be referred to as the AVGAP. It is interesting to note that in 79% of the cases, this AVGAP variable was positive, indicating that the overwhelming majority of the respondents over-rated the quality of their own performance. However since both an underestimation and an overestimation of service quality reflect the providers lack of understanding of customer needs (Pitt 1997), neither is desirable. The researchers were therefore interested in subsequently exploring the determinants of the size of this AVGAP variable.

### **Regression Analysis**

A regression analysis was conducted between the seven attitudinal factors and the AVGAP. The aim was to identify the determinants of the size of the AVGAP variable. The results of the analysis are shown in **Table 3**. Only those factors related to an individual's attitude to internal marketing were found to offer any explanatory power. Moreover the overall fit of this model is quite satisfactory. The regression explains 59% of the variation in the AVGAP variable and the adjusted co-efficient of determination is 43%. In addition the F test rejects the hypothesis that none of the regressors has an effect on the AVGAP with an empirical significance level of 0.4%. This indicates that the three personal attitude factors can offer some degree of explanation for the size of an individual's AVGAP.

The first factor identified 'service rewards indicates that those individuals who feel strongly that some degree of reward based on delivered service quality is an integral part of their performance evaluation will tend to have a larger AVGAP than those who feel that internal service quality is not monitored. Since the remuneration of those who feel that service quality is an issue, will be viewed as dependent on their performance, their overestimation of their own performance is to be expected. There would clearly be no economic incentive for holding a more 'realistic' view.

It is also interesting to note the performance of the factor 'confidence', since it could be argued that it addresses a related issue. It would seem that those individuals who express the greatest degree of confidence in their ability to deliver a high standard of service, are actually those who are most likely to have a larger value of AVGAP. Of course the converse of this is also true – those individuals who to some extent question their ability to be able to provide a quality of service, would appear to be those 'closest' to their customers. It would thus seem that the bank should ensure that its staff is kept adequately apprised of the attitudes and opinions of their internal customers. This should have the effect of deflating over optimistic assessments of their own service quality and compel staff to devote some effort to exploring possible ways in which it might be enhanced.

The final factor, which would appear to offer some utility, is that of 'insularity'. Those individuals who feel most constrained by their line manager and who have the least interest in the activities of their peers, would also tend to be those that have higher than average Avgaps. This would seem relatively easy to explain since if individuals express little interest in the service quality provided by others within the organization, they are likely to be somewhat less enthusiastic about assessing the quality of service that they themselves provide in return.

### **Conclusions**

The research indicates that while almost all employees of the organization have daily internal interactions, which are likely to impact the external customer, the overall attitude to internal service quality as reflected by the service gaps is mediocre. In the current study the attitudinal statements allowed the identification of factors representing internal marketing within the organization in terms of creating and maintaining a service culture and the management of organizational attitudes. The regression analysis highlighted the existence of a link between internal marketing perceptions and the service gaps as represented by the Avgap. It is interesting to note that while only three of the seven factors identified have any impact on the Avgap, these three factors represent different aspects of internal marketing, namely its ability to manage organization attitudes, determine the internal climate that exists within the bank and the actual development and maintenance of a service culture within the organization.

The principal issue here is that theoretically an improvement in factors such as Service Rewards, Insularity and Confidence should lead to a reduced Avgap while in practice it appears to be increasing it. Employees who demonstrate a greater awareness of internal service issues are farther apart from their customers in terms of the service they offer. This is indicative of the absence of any overall effort to harmonize internal marketing efforts and to implement it as a holistic management process. As such the results should not be taken as a negation of the theory but rather an indication of its ineffective practice and application within the bank.

The above analysis indicates that the manner in which internal marketing is currently being implemented within the bank is an issue for the organization. It needs to be embraced not only in theory but also in practice to ensure that it is being effectively utilized to create a more service oriented organization.

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**Table 1**  
**Distribution of Respondents by Seniority of Position and Department**

<b>Job Role</b>	<b>% of Respondents</b>	<b>Department</b>	<b>% of Respondents</b>
Junior Management	19%	Business Banking Center	32%
Middle Management	34%	Head Office	29%
Senior Management	47%	Branches	39%

**Table 2**  
**Structure of the Individual Attitudinal Factors**

Statement	F1	F2	F3	F4	F5	F6	F7
I am encouraged to think of my colleagues as my customers to whom I am providing a service				0.7 1			
I receive regular feedback from my manager		0.8 7					
I am encouraged to provide regular feedback to my manager		0.7 8					
I am encouraged to work as an individual						0.7 3	
My evaluation is dependent on my achieving financial targets							0.5 3
My evaluation is affected by the quality of service that I provide colleagues			0.7 3				
My evaluation is affected by the quality of service that I provide to my customers			0.8 4				
Training programs benefit the way in which I serve customers			0.6 4				
My manager likes to be informed of every activity I undertake					0.6 5		
As long as I'm doing a good job, poor performance by other employees does not matter to me					0.7 0		
My manager believes in delegating responsibility						0.6 1	
When I need to talk to another department I know who to call							
I feel that my manager does not always tell me all that I need to know		-0.7					
I trust my colleagues in other departments to provide my customer with the best service	0.6 0						
I feel that I can provide my customer with a better quality of service because of the changes introduced in the bank	0.6 5						
I have a lot of input into service delivery decisions	0.7 8						
I believe that delivering service quality is at the heart of my job							0.5 9
I am aware of what expectations customers have of my bank							0.8 3
I feel that I can deliver on the promises made by the advertising programs run by the bank	0.6 8						
I feel that everyone I work with is entitled to receive the best service that I can provide				0.6 1			
My customer is any person within the bank with whom I have regular contact				0.8 1			
Eigen Value	3.1 2	3.0	2.3 7	2.1 4	1.8 4	1.8 4	1.7 1
Variance Explained (in %)	11. 1	10. 7	8.4 6	7.6 5	6.5 8	6.5 8	6.1 2

Note: Correlation coefficients less than 0.5 in absolute values have been omitted

**Table 3**  
**Regression Analysis For AVGAP**

<b>Variable</b>	<b>Coefficient</b>	<b>Significance</b>
Constant	0.272	0.0000
Factor 3: Service Rewards	0.020	0.0003
Factor5: Insularity	0.109	0.0005
Factor 7: Confidence	0.161	0.0002
$R^2 = 0.59$ $R^2 = 0.43$ $F = 3.17$ $\alpha = 0.004$		

## Evidence and Implications of Electronic Word of Mouth

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### Abstract

This paper expands the understanding of word-of-mouth to include the unique traits of electronic word-of-mouth communication. A newsgroup content analysis is run to develop an understanding of electronic word-of-mouth scope and volume. An in-depth interview with a frequent newsgroup advice giver provides insight into the electronic word-of-mouth process. Finally, a simulation is run to better understand the impact of electronic word-of-mouth.

Because traditional WOM frequently deals with household purchases and repairs, the newsgroup *alt.home.repair* was chosen for analysis. The study found that electronic word-of-mouth communication has significantly increased in the four-year study period.

Accessing this newsgroup on a randomly chosen day, over two hundred unique subjects were open for discussion. The subjects discussed ranged from air conditioning choices to wood fences. Individuals asked about home improvement projects and about specific product purchases. Brand names and store names were freely used in negative and positive discussions.

To understand subject depth, discussions within a specific newsgroup about a single product were analyzed over an extended period. Over 49 months, a total of 1223 garage door opener questions, answers and comments were posted in the *alt.home.repair* newsgroup. The paper provides a monthly breakdown of the messages.

To increase the understanding of the flow of information, the activities of a frequent provider of advice in the *alt.home.repair* newsgroup were studied. The advice giver's response history in *alt.home.repair* was analyzed, and he was interviewed, by e-mail, to better understand his newsgroup access decision. In the first seven months of 1999, he posted 1509 pieces of advice and comments. In July 1999 alone, he posted 246 answers to 196 different topics ranging from garage doors, to insulation, to toilets. The interview provides important insight into the on-line advice giving process.

The simulation indicated that internet-based word-of-mouth would be consistent with previously suggested word-of-mouth models, though the potential for inter-group communication is greatly increased. The simulation tends to indicate that E-WOM can offset weaknesses in traditional WOM environments. Specifically, low between-group information transmission can be partially overcome through the electronic word-of-mouth.

## **The Net Generation: An Analysis of Lifestyles, Attitudes and Media Habits**

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### **ABSTRACT**

Anecdotal evidence suggests that the cohort labeled the Net Generation is significantly different to previous generational groups, particularly in terms of their values, beliefs and buying behavior. However, there is the limited empirical research to support this belief. This study examines the lifestyles, media habits and attitudes of a sample of teenagers and young adults. Four segments within the Net Generation cohort are identified. Differences between these groups with respect to their attitudes towards advertising and their use of traditional and interactive media are then discussed. Implications are drawn, limitations noted and directions for future research offered.

## **Ethical Behavior Frameworks: Can They Be Applied to Principle-Agent Relationships?**

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### **Abstract**

The current research advances the Hunt-Vitell General Theory of Marketing Ethics to provide explanatory power in both the principal-agent relationship and in developing long term relationships. Deontological processes are seen as key to better understanding. Scenario's are constructed that illustrate cases when use of Hunt-Vitell model lead to risk reduction.

### **Introduction**

Currently the marketing field is undergoing a paradigmatic shift. Value, once considered to be created within the discrete transaction is now believed to flow from the development and maintenance of long term relationships. This issue is important for several reasons. Managers have been given relatively little guidance in the area of developing and maintaining long term relationships. Yet the fundamental task of marketing in relational exchanges is to structure and maintain the exchange relationship (Li, Greenberg and Li 1997). Bringing an ethical component into consideration may provide a richer and more expansive framework for managers to build value creating long-term relationships upon. Second, consideration of ethical behavior as an antecedent to long lasting relationships will explain more of the relationship, adding to our knowledge of the field. Finally, we believe that adding an ethical component to the channels literature will supply a needed unifying point of view, thereby enhancing the previous literature in the value chain.

The current paper will investigate whether ethical behavior has a role in principal-agent relationship study. Principal-agent relationships comprise an essential part of the value chain (Zusman and Etgar 1981). This framework proposes that marketing channels are a series of dyadic agency relationships. The terms principal and agent denote the two members of the dyad. Principal refers to the contracting dyad partner. Agent refers to the contractor. This dyadic relationship is used in agency theory. (Zusman and Etgar 1981; Bergen, Dutta, and Walker, Jr. 1992).

Previous research on the set of principal-agent relationships that form the marketing channel has assumed that the agent is motivated to act to increase his own utility. The central problem in the principal-agent relationship is one of asymmetrical information between principal and agent. Often, but not always, the agent has more information and according to conventional thought will use that information to enrich himself to the detriment of the principal. In the transactional paradigm the agent's behavior is assumed to be detrimental to the principal and must be controlled either through contracts, pricing schemes or monitoring processes. The shift from transactional exchange to relational exchange and it's focus on creating and maintaining long term relationships allows us to consider the agent in another light, now as a partner who understands that all may benefit through the maintenance of a healthy relationship. This paper will suggest that it is not *necessarily* true that the agent will act only for his own best interest but that other processes come into play which may mediate the way agents perform their duties. The paper will then consider whether an ethical framework can add to the existing literature on principal-agent relations and provide an additional mechanism by which agents and principals develop their behavioral intentions within the marketing channels framework.

Previous researchers have noted that traditional principal-agent theory has needed additional underpinning to increase its explanatory power. Etzioni (1988) states, there is a problem in the unidimensionality of the use of price theory for these problems. Etzioni points out that without a normative component many of the price solutions become tautologies. This same point of view is expressed by Eisenhardt (1989) who notes that agency theory is in need of an additional sociological component. "The recommendation here is to use agency theory with complementary theories. Agency theory presents a partial view of the world that, although it is valid, also ignores a good bit of the complexity of organizations" (Eisenhardt 1989, p. 71). It is the view of this paper that an ethical component may fulfill these criteria. This paper will describe agency theory, review previous literature which has attempted to deal with similar issues, describe an ethical framework which we believe is applicable to the principal-agent relationship. Finally we will draw conclusions based upon our discussion of these areas.

### **The Principal-Agent Relationship in the Channels Literature**

In theory, a manufacturer has available a range of contracts through which to organize the distribution function, with each contract imposing its own particular trade-off in terms of control and resource commitment (Anderson & Gatignon, 1986). High control relationships tend to require high investment (e.g., vertically integrated, owned subsidiaries) whereas low investment tends to result in low manufacturer control (e.g., outsourced distribution). A wholly-owned distribution subsidiary, for example, provides high control but requires a significant commitment of tangible and intangible resources. It requires the manufacturer to make decisions in a related but different business, thereby exposing him to unfamiliar risks and uncertainties. Furthermore, by integrating the distribution function, the manufacturer loses the flexibility to switch quickly and at low cost to

another distribution arrangement. Thus, manufacturers make trade-offs between the amount of control required in the distribution channel and the level of resource commitment and risk they are willing to bear.

Normally considered as temporary, principal-agent relationships operate under the assumption that all parties involved pursue their own perceived self interest. This self interest leads to a higher final price for the consumer than the optimal profit maximizing price for the whole channel. This suboptimal price is the Nash Equilibrium (Shugan 1985; Jeuland and Shugan 1983). The agency parties may understand, however, that the long term well being of the channel or of the firm can often be crucial to the well being of the individual (Baiman, 1982). This dichotomy between short and long term focus can often lead to conflict represented by the prisoner's dilemma. The independent distributor, in turn, depends on the manufacturer to supply attractive products at competitive prices. Thus, both parties share the goal of maximizing sales of the manufacturer's product. In delegating the distribution task, however, the manufacturer runs the risk that the distributor will pursue this basic goal in ways that conflict with the manufacturer's broader interests. The distributor may: carry insufficient inventories of the manufacturer's product, carry and promote competing products, price above or below the preferred range, advertise and promote the product inappropriately, train sales personnel improperly, fail to provide adequate after-sale service, etc. In stylized agency terms, the manufacturer risks *moral hazard*, whereby the distributor fails to exert sufficient effort on the manufacturer's behalf, and/or *adverse selection*, whereby the distributor misrepresents his qualifications and resources in order to secure the distribution contract.

Agency theory predicts that the form of the principal-agent relationship (or contract) will depend on the relative costs of curbing agent opportunism, either through monitoring of agent behaviors or through structuring of incentives that pay off for outcomes desired by the principal. Thus, where outcome measures are unclear or where the manufacturer is willing to invest in monitoring systems, the manufacturer will offer a contract that attempts to directly control distributor behaviors. This type of contract is appropriate for well-established manufacturer-distributor relationships in which goal conflict is low. It is preferred by risk-averse distributors, especially where outcomes are unpredictable. This contract will stipulate specific the behaviors required by the manufacturer and may impose restrictions on variables such as inventory levels, range of products stocked, approval of advertising and promotions, carrying of competing products, training of sales and service personnel, etc. In addition, the manufacturer is likely to exert centralized coordination and control of all distributors within a given market area as well as provide high levels of support in the form of financing, promotional materials, expedited delivery, etc.

Conversely, where outcome measures are clear and the manufacturer is unwilling to invest in monitoring, he will offer a contract that attempts to control the distributor by compensating based on measurable outcomes. This is appropriate for new manufacturer-distributor relationships or where goal conflict is high. Outcome-based contracts are preferred by risk-averse manufacturers, because they transfer risk to the distributor. Financing, promotional or logistical support, or coordination of distributors is likely to be minimal; manufacturers will maintain arm's length relationships with their distribution networks.

Independent firms have differing fiduciary relationships to different stakeholder groups (Weitz and Jap, 1995). The modern business environment, with its intense pressure to maximize return on investment from shareholder groups is forcing changes within the channels relationship. Increased channel conflict, channel jumping, and channel shifting are more prevalent now than ever before. Companies such as General Electric are dropping channel partners they have had for decades (Frazier and Antia 1995). Yet this is occurring at the very time that marketing theoreticians are calling for increased focus on the relationship as the creator of value.

### **Ethical Behavior Frameworks**

One theory, which provides a potential framework for research in principal-agent relationships is the Hunt-Vitell General Theory of Marketing Ethics (Hunt and Vitell 1986, 1992). This theory describes two processes by which marketers make ethical judgements that in turn influence their behavior. One process, teleological, is a consideration of a probable outcomes, likelihood, valence, and stakeholder importance. In many ways this is representative of the assumption of utility maximizing man implicit in much of the principal-agent literature. A second process, deontological, considers that an action is good or not in reference to some outside moral code or set of values.

At its core, Hunt-Vitell's General Theory (H-V in the remainder of the paper) states that the subject's deontological evaluation and the teleological evaluation both directly impact his/her ethical judgements. These ethical judgements directly impact the subjects action intentions. Teleological evaluations can directly effect behavior intentions, bypassing the ethical judgement stage. Behavior can occur strictly due to some outcome estimation, without a deontological component. Both components may be used in the final action decision. The deontological evaluation will always be considered in the evaluation of ethical judgements, while the teleological process will frequently be present (Hunt and Vitell, 1986).

In 1992 Hunt and Vitell revised the model. They further developed the environmental area by adding 'professional' which is that environment peculiar to the particular profession the actor is involved. For example, the legal profession has its own designation, certifies sub disciplines, and controls qualifications to practice. In most states, the bar association participates in the establishment and enforcement of its own code of conduct. To successfully practice law, a person must master these environmental prospects as well as the technical side of the law (Hunt and Vitell 1992). In the revised model the term Action

Control replaces Situational Constraints, focusing on the idea that while an action can be influenced a situation may not be. Hunt and Vitell also break down the various environments into sub-components which adds depth to the model and makes it more generalizable (1992).

Work done by Hunt and Vasquez-Parraga (1993) validated the Hunt-Vitell while extending and clarifying some of the existing relations in the model. Their study of sales forces and marketing ethics found that the tendency of managers to discipline or reward sales reps was moderated by the teleological outcome of the situation. Managers agreed that deontologically negative behavior coupled with a negative outcome warranted a more severe punishment than a negative deontological behavior coupled with a positive outcome. The converse was also true in that positive ethical behavior was rewarded more when the outcome was positive than when it was negative.

Hunt and Vasquez-Parraga (1993) found that the variance accounted for in a regression equation for both ethical judgement and intention (separate regressions) was significant for both deontological and teleological evaluations.

### **Ethics Application to the Principal-Agent Relationship**

Perceptions of ethical treatment are important in at least two ways. First there is the current focus on relationships in marketing channels (Weitz and Jap, 1995; Nevin, 1995). Value is now believed to be best created through long term relationships. It is reasonable to assume that the development of long-term relationships will be a priority with many firms. Weitz and Jap (1995) cite two important criteria firms will consider when seeking out channel partners. (1) Firms will wish to partner with other firms that share similar values, beliefs and practices and (2) Firms will wish to partner with other firms having a reputation and history for fairness and consideration. Rephrased, firms will wish to partner with other firms who have a history of treating other firms in an ethical manner.

The second case involves those firms who, in responding to shareholder pressure have decided to switch channels often and not have long term relationships (Frazier and Antia, 1995). A high priority for these firms will be the development of new relationships. It is reasonable to assume that the same criteria will apply for selection of short-term channel partners as in long. Perhaps the criteria are more important because there is no time for correction.

This paper's purpose is to broaden the foundation of principal-agent relationship research by incorporating an existing model of ethical behavior, the Hunt-Vitell General Theory, for marketers behavior with the extant research. In doing this we broaden the horizons of value chain study and introduce a tool which allows us to more clearly focus on individual components which foster strong principal-agent relationships.

As the Hunt-Vitell expressly states, marketers, use the teleological component, which calculates the potential benefit to them in both evaluating situations and developing their intentions to act upon these evaluations, and the deontological component which draws directly from previously developed notions of right and wrong, without any moral calculus. This has been validated by Hunt and Vasquez-Parraga (1993) using sales managers, Burns and Kiecker (1995) who replicated the Hunt and Vasquez-Parraga study with accounting managers and Menguc with Turkish sales managers. The Hunt-Vitell, although tested so far only with managers and students, expressly considers all marketers and in a more general context all decision makers. We fully expect that both principal and agent will conform to the processes outlined in the Hunt-Vitell General Theory. Therefore two research propositions stem directly from the core of the Hunt-Vitell.

*P1: Principals and agents will use both deontological and teleological processes when evaluating actions taken within the principal-agent relationship.*

*P2: Principals and agents will use both deontological and teleological processes when developing their intentions to perform their agency roles.*

Eisenhardt (1989) argued that agency theory potentially can be useful in a variety of situations. This paper will develop a set of propositions based on deontological / teleological processes that will extend agency theory where it is now incomplete. One of the areas Eisenhardt (1989) developed was that "The length of an agency relationship is positively related to behavior based contracts and negatively related to outcome based contracts" (pg. 63). Reducing risk to the agent makes behavior based contracts more efficient (Lassar and Kerr 1996). Increasing our understanding of risk maintenance should allow researchers to more fully develop strategies for long term relationship maintenance. Please see [figure one](#).

Specifically there appear to be four conditions under which a principal-agent relationship might develop. Case 1 occurs when both the principal and the agent formulate their situation evaluations and intentions to act teleologically, in that both principal and agent are basing their actions in the relationship on the perceived outcomes. This case is the normal case considered in the principal agent literature. There are no will be no significant change from current principal-agent predictions. Case 2 occurs when the principal develops his evaluations and intentions primarily deontologically, or from a set of outside moral precepts, while the agent formulates his evaluations teleologically. Risk is highest for the principal in this case as the principal acts in a deontological or ethically derived manner while the agent continues to act in an outcome based teleological way. Case

3 occurs when the principal forms his evaluations/intentions teleologically while the agent derives his evaluations/intentions deontologically. This case should reduce risk for the principal, but increase it for the agent, as the principal, acting teleologically may take steps to shift either risk or costs to the agent. Case 4 occurs when both principal and agent form their evaluations/intentions deontologically. This should lead to the lowest total risk and total cost as both principal and agent are acting in a deontological manner. These scenarios lead to the following propositions.

*P3: When the principal forms his evaluations/intentions primarily deontologically and the agent forms his evaluations/intentions teleologically the principal will face increased risk in enforcing the agency relationship.*

*P4: When the principal forms his evaluations/intentions primarily teleologically and the agent forms his evaluations/intentions deontologically the principal will have lowered risk in enforcing the agency relationship.*

*P5: When the principal forms his evaluations/intentions primarily deontologically and the agent forms his evaluations/intentions teleologically the principal will have lowered risk to a minimum in enforcing the agency relationship.*

### **Discussion and Future Research**

Relationship theory in marketing has become extremely important in the application of marketing tactics, especially in the realm of distribution and sales. While we have well proven frameworks, like agency theory and transaction cost analysis that provided valuable guidance in the past, marketing needs to adjust these frameworks to be useful in the future. This paper takes an initial stab at such improvements, trying to expand the agency theory by including deontological relationship aspects. We posit that the present principal-agent framework needs to consider that principals and agents may act deontologically, without necessarily trying to maximize their own short-term utility. We reason that the change in individual behavior is result of the shift from transactional exchange to relationship marketing. As relationships in marketing become more long term oriented, managers and theoreticians need to take into account, that individual partners in the transaction will adjust their actions accordingly. In addition, the paper suggests that inclusion of deontological behavioral patterns can be explained by a preexisting framework, the Hunt-Vitell model, which not only describes the underlying behavioral processes but also provides a mechanism that allows us to measure the relative strengths of these processes. Of course, this paper is only meant to be a start for ensuing debates. As the Hunt-Vitell model has been somewhat overlooked in past research efforts on channel relationships, we feel that future research that extends and validates the model as a predictor for successful long-term relationships would add value.

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**Figure 1**

**Principal-Agent Theory: A Deontological Extension**

		<b>Principal's Evaluations</b>	
		<i>Teleological</i>	<i>Deontological</i>
<b>Agent's Evaluations</b>	<i>Deontological</i>	<p><b>Case 1</b></p> <p>Classical Principal-Agent Relationship</p>	<p><b>Case 2</b></p> <p>Increased Risk for Principal</p>
	<i>Teleological</i>	<p><b>Case 3</b></p> <p>Reduced Risk for Principal</p>	<p><b>Case 4</b></p> <p>Lowest Risk Lowest Costs</p>

# **Linking Selling Position, Information Processing and Individual Ethical Perspective: An Empirical Investigation of Sales Practitioners**

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## **Abstract**

Managers and researchers are provided with insight into some of the variables underlying the ethical conflict of sales professionals. This exploratory study empirically links selling roles to the individual moral perspectives of sales practitioners through the application of a recent taxonomy of sales positions and an ethical perspective questionnaire. Information load and complexity of information processing are key selling dimensions linked to moral perspective.

## **Introduction**

Although boundary spanning activities potentially provide conflict, opportunity and pressure to deviate ethically it appears that managers and researchers experience difficulty in identifying the underlying dimensions which impact ethical decision making. This is partly because marketing ethics research generally fails to adequately define and describe the nature of the activity being investigated. This is despite meaningful classification of the material under investigation being a fundamental requirement for the explanation and prediction of phenomena (Hunt 1983). Schemata are necessary for organizing and studying phenomena and their deficiency represents a problem in sales research to the extent that researchers lack, and generally fail to apply, meaningful schema for research (Damon 1998; Moncrief 1986).

Theoretical and empirical sales research frequently fails to adequately distinguish and account for the various dimensions of selling whereby the lack of application of taxonomies has led to results which possess high internal, but low external validity, and which often cannot be generalized across sales positions (Damon 1998). Diversity of selling activities and roles contributes to conflicting results from the studies of the attitudes and behaviors of sales practitioners, and salesperson job-related responses can vary across settings (Churchill et al 1985). This lack of precision in defining the activities being investigated has led to an ambiguity of findings. Contentious results have been ascribed to the diversity of selling roles across industries and companies (Chonko et al 1996; Churchill et al 1985). The failure to appropriately categorize the selling activity under investigation also relates to the inability of researchers to develop a taxonomy that can be easily applied (Damon 1998).

The purpose of this study is to apply a recent taxonomy of selling positions (Damon 1998) to ethics research thereby addressing the failure of marketing ethics research to adequately distinguish the underlying dimensions of the selling activities under investigation. This will hopefully lead to an improved understanding of the relationships between selling and ethical decision making, enabling managers to deal more effectively with ethical conflict. The study empirically links one of the key dimensions by which selling can be classified, namely 'information', with that of personal moral perspective.

## **Ethics, Boundary Spanning and Selling**

Conceptual and empirical support for certain dimensions of marketing activity being associated with moral evaluations comes from major theories of marketing ethics. These include: (i) the impact of the work environment (Hunt and Vitell 1986); (ii) the resolution of moral conflict within the 'characteristics of the work' (Trevino 1986); and, (iii) the inclusion of 'moral intensity' as a dimension within activities and which impacts various stages of the decision process (Jones 1991).

There are various taxonomies of selling, or research serving such a purpose, based on selling behavior and activities, the personal process and selling techniques utilized, contingency aspects, job involvement, organizational commitment, and job outcomes (for example, Hite and Bellizzi 1985; Ingram, Lee and Lucas 1991; Lamont and Lundstrom 1977; Moncrief 1986). It is suggested in this study that an important dimension inherent in selling, and which relates to moral evaluations, is 'information'. The taxonomy developed by Damon (1998) from an extensive review of the literature successfully categorized selling positions on the dimensions of (1) information load, (2) information complexity, and, (3) ratio of time management to relationship management. From this trichotomy, eight segments were developed (See Appendix, [Table 1](#)).

The rationale provided by Damon for using 'information' as a key selling dimension included that the cognitive selling paradigm, a complex mental process, links salesperson performance with both declarative and procedural knowledge. Information has also previously been related to cognition which itself is integral to the process of moral evaluations, as discussed further below. Defining characteristics of selling included the importance of the acquisition and processing of information as part of the role of sales practitioners in the exchange process. It was proposed that "mental processes should define more homogeneous sales positions than activities would" and that "a personal selling position may be conceptualized as the

management of personal marketing relationships through effective information management" (Damon 1998, p. 35).

The Damon taxonomy overcomes many of the problems with existing taxonomies. His conceptualization and procedure allows for: (i) the changing nature of selling activities and positions, (ii) the ability to generalize findings over categories of selling, (iii) simplicity of application in research and practice, and (iv) a better match with the increasing sophistication found in selling and its management. Grounded in logical partitioning, it contains many of the activities that Moncrief (1986) grouped in his taxonomy.

Damon operationalized and empirically validated his schemata concluding that "the proposed classification procedure is quite reasonably reliable and valid" (1998, p. 42). See Damon (1998, p. 35-37) for further empirical support provided for his classification. Although he used *managers* to classify selling positions in the development of his taxonomy, it is proposed in this study that homogenous groups of *salespeople* would self-classify their own positions *similarly*, (and into *one* of the eight positions from [Table 1](#)), based on his dimensions. It is reasoned that sales practitioners *themselves* would have greater understanding of the nature of their role, especially given the changing environment of selling, which was an assumption made by Damon. The following propositions are developed from the above. Proposition 1: Sales practitioners engaged in similar selling roles will self-categorize their roles into the same position based on the three dimensions identified by Damon. Proposition 2: Sales practitioners will distinguish their selling position from those selling dissimilar offerings based on the three dimensions identified by Damon.

Further to this, although Damon provided thirty activities as indicants of the relative importance for the three dimensions which characterize sales positions, he did not provide a questionnaire in a format suitable for survey research. An objective of this study is therefore to further develop and test a questionnaire appropriate for surveys of sales practitioners.

### **Cognition, Information Processing and Moral Evaluations**

The processes and products of the human mind leading to 'knowing' are referred to as *cognition*. Cognitive development has also been understood in terms of information processing (Kuhn 1988; Siegler 1983). Information processing theory also suggests that cognitive development is domain-specific, such that general statements cannot be made without reference to the task environment (Berk 1991). Moral development has also been strongly linked with cognitive development and its underlying association with information processing perspectives of cognition (Kohlberg 1978; Rest 1976).

That cognition and information processing are factors associated with individual moral evaluations is also demonstrated by their inclusion in the main marketing ethics theories. Moral evaluations are seen to partly result from interactions between individuals and the situation where "the individual reacts to an ethical dilemma with cognitions determined by his or her cognitive moral development stage" (Trevino 1986, p.602). It is also suggested that the ability of an individual to develop in moral reasoning is related to the nature of the work, for example where "certain managers may be responsible for balancing the needs of the organization with the welfare of workers, customers, or the general public" (Trevino 1986, p. 611). For Hunt and Vitell (1986) the decision process involves the impact of industry and work-related norms with the recognition and evaluation of problems, alternatives and consequences, and is impacted by the individual's level of moral development as described by Kohlberg.

Jones (1991) links social cognition and cognitive moral development. From a synthesis of the major models he postulates that "ethical decision making is issue contingent; that is, characteristics of the moral issue itself, collectively called *moral intensity*, are important determinants of ethical decision making and behavior" (Jones 1991, p. 371). He cites research suggesting information is a variable partly influencing the recognition of moral issues and that "the magnitude of consequences of decisions influences the amount of time and information that a person will bring to bear on cognitive processes" (Jones 1991, p. 384).

Information load and information complexity, two of the dimensions underlying the Damon taxonomy, are theorized in this study as being associated with an individual's ethical perspective - specifically those of idealism and relativism. Since moral *relativists* accept the existence of a 'best' possible outcome from the application of moral rules, it is suggested here that they are *more* likely to engage in higher levels of information processing and complexity in order to determine such outcomes. Further, this is likely to involve more effort managing relationships. Conversely, moral *idealists* accept the notion of universal moral rules and are therefore *less* likely to become engrossed in information processing and relationship management. Extending from the above, the following propositions are advanced. Proposition 3: Higher levels of relativism are associated with higher levels of: (a) information load, (b) information complexity, and (c) relation to time management. Proposition 4: Higher levels of idealism are associated with lower levels of (a) information load, (b) information complexity, and (c) relation to time management.

### **Methodology**

#### **Sample**

Forty-three sales practitioners from four companies were the subjects of this study. Specifically they sold new automobiles (labeled *automobiles*), residential real estate (*realty*) and dairy products (*food*). Thirteen automobile salespeople sell new

vehicles mainly to individual consumers and small firms. Seven realty salespeople are engaged mostly in selling suburban houses or small apartments and twenty-three food sales people sell dairy drink products to supermarket chains and smaller retail outlets. Their organizations were judgment samples since it was determined that *within* each group all sales practitioners were primarily engaged in *similar* selling activities, but that *across* the groups they conducted different selling roles according to the Damon taxonomy. No prior categorization into selling position was conducted before the survey, although auto salespeople are identified as Adaptive Sellers according to Damon.

Their managers distributed self-administered questionnaires to the sales staff who then replied anonymously. Fifty-six responses were received, of which forty-three performed a selling role. The others indicated they conducted non-selling sales-related functions and were excluded from further analysis.

The actual response rate represented a substantial proportion of the salesforce for all companies, being approximately 95% of their sales practitioners. Much of the background information required to gain a clearer insight into this research problem was *not* collected in this exploratory study. For example, actual sales performance, number of customers, the value of individual sales and the extent of the product ranges were not investigated. It is appreciated that this data is required in order to produce sound results, an issue addressed in the limitations and future research directions section, further below.

### Questionnaire and Analysis

Sixty-three questions were *developed* from the selling position indicants outlined in the Damon taxonomy; twenty were from the Ethical Position Questionnaire or EPQ (Forsyth 1980); and, seventeen collected demographic information. Respondents rated, on a 9-point Likert-type scale anchored at zero, the extent to which they engaged in certain selling-related activities from "a small amount" to "a large amount". Forty questions related to the *size of the information load*; twelve to the *complexity of the information processing*; and, eleven to the *time to relation management*. Respondents were also asked to rate the extent of their agreement to questions on idealism and relativism on a nine-point Likert-type scale. (Since space limitation do not permit the inclusion of the questionnaire, interested readers should direct requests to the authors.)

For each respondent, scores were summed for all questions in each of the three categories, and could range between:  $\_160$  for *size of the information load*; from  $\_48$  for *complexity of the information processing*; and, from  $\_44$  for *time to relation management*. Selling position was determined by calculating the means of the summed scores for *each* of the three separate selling groups. Negative scores are taken to be indicative of low loads, lack of complexity and low time to relational management, while the opposite is said to be true for positive scores.

### Results

Based on the *individual* results for salespeople, auto salespeople categorize themselves into five of the Damon positions; food salespeople categorize themselves into three positions; and realty into one position (See [Table 1](#)). The individual results for food and realty salespeople indicate most classify themselves as Relationship Builders. However, differences in their perceptions of information complexity and time management levels by automobile salespeople results in most of them being classed mainly as Relationship Builders or Sedentary Informers. Proposition 1 appears to be supported for food and realty salespeople, but not for automobile salespeople.

When looking at the *group* results, all categorized themselves as having high information loads, extensive information processing and being high in relationship management, as demonstrated by returning positive *mean* scores on these dimensions ([Table 2](#)). They all locate in the 'Relationship Builders' category described by Damon. For example, food salespeople identify their position as involving extensive information load (77 of a possible  $\_160$ ), complex information processing (17 of  $\_48$ ) and relatively high relation management (10 of  $\_44$ ).

Consistent with Damon's suggestion that automobile salespeople should be classified as 'Adaptive Sellers' this study shows that of the three groups surveyed, on all of the key dimensions auto salespeople were self-categorized *nearest* to this selling role - namely, "elaborate long purchase-cycle selling processes to a diverse, self-selected clientele" (Damon 1988, p. 41). The three groups also distinguish themselves from *each* other. For example, *automobile* salespeople have low mean levels on *all* three dimensions, compared to *realty* salespeople. Note that their score for information complexity (1) is about one thirtieth that of realty salespeople (31), and that their relation management score (2) is low compared to realty sales practitioners (17). Although the sales groups do *not* self-categorize themselves into *different* taxonomic positions, based on the group mean results they distinguish their selling position from each other. There appears to be some support for Proposition 2.

Overall, for the selling groups the data highlights some relationships between the information dimensions and ethical perspectives. From [Table 3](#), an association exists between *idealism* and the two information dimensions for automobile salespeople (0.678 information load; 0.618 information complexity), but no such relationship exists for either food (0.061 and 0.133) or realty salespeople (-0.356 and -0.084). There also appears to be relationships between *relativism* and both the

information dimensions for food salespeople (0.664 and 0.503). Stated in other words, idealism appears to be associated with lower information loads and less complex information, while relativism appears to be associated with more moderate information loads and complexity. These relationships are not apparent in the realty group which has the highest levels of information load and complexity, where the association actually becomes negative for idealism. There appears to be limited support for Propositions 3 and 4 on the information dimensions.

### **Discussion, Limitations and Future Research Directions**

Overall, the study provides further support for the Damon taxonomy as a useful managerial and researcher tool for identifying and understanding the complexities of selling positions. The results indicate that the taxonomy *does* have the capacity to provide a meaningful classification of the phenomena under investigation. Its use, with further development, will therefore be a significant step towards overcoming a long-outstanding methodological issue in sales research. This study also indicates that salespeople, as distinct from sales managers, also self-classify selling positions similarly. The Damon taxonomy may be a useful tool to combine with surveys of sales practitioners. This study developed Damon's indicants into a questionnaire, but much work is required to build a valid sales information scale appropriate for inclusion in surveys.

Essentially, all groups of respondents represented themselves as 'Relationship Builders' which was a position consistent with only part of their selling roles. Food salespeople sell to a large number of accounts, but do not sell a highly technical or diversified products. Whether the groups sold 'highly diversified products lines', a feature described of relationship builders by Damon, is subjective. Future research should define and measure variables such as these prior to surveying.

*Within* each group the *range* of values on the dimensions suggests there is some variety in the manner by which salespeople manage selling. As well, there may be much variation in the amount and complexity of information provided *by* customers so sales practitioners may adopt different time and relation management strategies to deal with these differences. Sales professionals and their managers may achieve greater understanding of customer-salespeople dyads by the exploration of these dimensions. Researchers may seek to establish relationships between these dimensions and factors such as performance and satisfaction.

Another main interest to managers and researchers is that of ethical conflict and its management. Although this study should be viewed as *exploratory*, some interesting results and areas worthy of future examination have emerged. Idealism and relativism seem to be associated with certain information loads and levels of information complexity. This is consistent with there being a relationship between individual moral reasoning and the nature of work, as described in some marketing ethics theories.

Questions arise as to why this is so. Possibly there are conditions in the processing of information and decision making that give rise to these differences. Perhaps a combination of personal characteristics and environmental influences contribute either to individuals selecting or remaining in specific marketing roles, or for them being selected by managers to particular positions. Given the persuasive role required of salespeople, further research efforts into areas such as the need for cognition and information (see Cacioppo and Petty, 1982), might assist in the explanation of the findings of this study. It may be that 'product' or 'customer' heavily influences these relationships. For example, realty salespeople compared to the other groups are more service oriented where information may be less 'standardized'.

Subsequent research must also address the limitations of this study. The judgment sample and small size prevent making any generalizations. Future sample selection methods and size should allow for reliability, validity and generalizability of results. Depth interviews and other data should provide much greater background details of the salespeople, their selling roles and their organizations. This is needed to permit more rigorous statistical analysis and to understand the complexities of this topic. The data analysis in this study was rudimentary, but illuminating. To be able to confirm these results future research should include much more comprehensive statistical analysis of the sample, questionnaire and scale development. For instance, although all groups categorized themselves as relationship builders a more sensitive scale might categorize salespeople into those positions described by Damon.

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## Appendicies

Table 1: Classification of Selling Positions (Damon, 1998)

	Relatively Extensive / Complex Information Processing		Relatively Simple Information Processing	
	Relatively Heavy Information Load	Relatively Light Information Load	Relatively Heavy Information Load	Relatively Light Information Load
Relatively Little Time Management	Partnership Builders <i>Auto=2</i> <i>Food=2</i>	Adaptive Sellers	Sedentary Informers <i>Auto=4</i>	Sedentary Servicers
Relatively Extensive Time Management	Relationship Builders <i>Auto=5</i> <i>Food=19</i> <i>Realty=7</i>	Adaptive Planners	Mobile Informers <i>Auto=1</i> <i>Food=2</i>	Mobile Servicers <i>Auto=1</i>

Table 2: Information Dimensions Scores for the Sales Groups

	Size of Information Load Score		Complexity of Information Processing Score		Time / Relation Management Score	
	Mean	Range	Mean	Range	Mean	Range
Automobiles	62	-5 to 134	1	-38 to 32	2	-17 to 24
Food	77	37 to 129	17	-9 to 37	10	-7 to 23
Realty	100	67 to 118	31	1 to 47	17	0 to 29

Table 3: EPQ and Information Correlations

	Info-load	Info-complexity	Time management	Idealism	Relativism
<b>Idealism</b>	.678**	.618*	.503*	1.000	
<b>Relativism</b>	.264	.417	.214	.419	1.000
<b>Automobile Salespeople</b>					
<b>Idealism</b>	.061	.133	.418*	1.000	
<b>Relativism</b>	.664**	.503*	.805*	.309	1.000
<b>Food Salespeople</b>					
<b>Idealism</b>	-.356	-.084	-.287	1.000	
<b>Relativism</b>	.342	.524	.214	-.180	1.000
<b>Realty Salespeople</b>					

All tables use Spearman's rho; \*\* Correlation is significant at the .01 level (t-tailed);

\* Correlation is significant at the .05 level (t-tailed).

## **Advertising Practitioners' Attitudes Toward Internet Advertising Regulations in Taiwan**

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### **Abstract**

Results of this survey study indicated that most advertising practitioners in Taiwan supported the needs of an international advertising regulatory regime and standard. However, they did not favor self-regulation. Correlation analyses revealed significant associations between practitioners' attitudes toward Internet advertising and several vital regulatory issues about the Internet advertising.

### **Introduction**

The Internet is basically a regulation-free zone in most countries. Although various pieces of regulations were proposed, it has incurred many controversies and heated arguments regarding the protection of human right, freedom of speech, and protest against government censorship. However, with more and more improper and, in many times, illegal Internet usage behavior emerges, there is an urgent need to consider how Internet advertising, will be regulated.

Given this circumstance, an important, but often ignored, issue is what attitudes advertising practitioners have toward Internet advertising regulations in Taiwan. This paper would look into the attitudes of advertising practitioners toward the Internet advertising regulations in Taiwan. This paper is specially aimed to discussing the following questions: 1) What are the attitudes of advertising practitioners in Taiwan toward Internet advertising? 2) What do they think of different Internet advertising regulations? 3) Are there any relationships between practitioners' attitudes toward Internet advertising and its regulatory issues?

### **Literature Review**

#### **Attitudes towards Internet Advertising**

Considerable research in advertising over the past twenty years has emphasized the construct of "attitude toward advertising in general" (AG) that was first proposed by Bauer and Greyser (1968). However, the majority of the attitudes toward advertising research so far only focused mostly on similar issues in traditional media in the United States (Alwitt and Prabhaker 1994; Mittal 1994). In addition, the attitudes of advertising practitioners were often excluded from past studies in this line of research (Sandage and Leckenby 1980; Anderson, Engledow and Becker 1978).

Several reasons can explain why advertising practitioners were rarely studied. One is that most studies took advertisers' views and put emphasis on the functional relationship between consumers' attitudes toward advertising and advertising effectiveness. Another possible reason may come from the assumption that, since new media bring in more opportunities, advertising practitioners should hold a positive attitude toward this emerging form of advertising. This speculation can be partially supported by many optimistic and positive views on Internet advertising in trade publications (such as *Advertising Age*, *Marketing News*), popular news magazines (such as *Newsweek*, *Time*, *BusinessWeek*, etc.), professional conferences such as the Annual Internet Advertising Conference or other ARF-sponsored conferences in the United States.

Despite Internet advertising is a new phenomenon, most advertising researchers adopted the similar line of research. As a result, past literature on Internet advertising mostly focused on the following areas: 1) content analysis of the Internet advertising of different countries (Oh, Cho, and Leckenby 1999; Pashupati and Raman 1999; Yoon and Croop 1999); 2) measurement of Internet advertising effectiveness (Yang 1994, 1997); 3) audience analysis (Hong, Wu, and Leckenby 1999); 4) media planning (Cannon, Leckenby, and Abernethy 1996). Possible impacts of the Internet advertising on advertising industry and professionals are rarely studied (Kassaye 1997; Yang, Chou, Liu, and Chen 1999).

Kassaye (1997) examined the possible effects of the World Wide Web on the blurring boundaries in advertiser-agency performed promotional activities. Kassaye (1997) pointed out that the immediacy of the challenge posed by new Internet applications have forced advertising agencies to change their business opportunities by either "broaden their business horizons to include all aspects of communications or to stay focused on their core business-making advertisements for traditional media."

Yang, Chou, Liu and Chen (1999) specifically studied possible impacts of the Internet advertising on advertising industry in Taiwan. They found the coming of the Internet advertising has created new forms of advertising agencies. Their study also found that traditional advertising agencies in Taiwan have adapted their organizational structure or re-train their staff to face new challenges posed by the Internet.

## **Attitudes toward Internet Advertising Regulations**

Advertising is regulated in almost every country in the world. In the United States, advertising regulations were often related to the First Amendment. Preston (1983) argued that the First Amendment has been used to eliminate many statutes prohibiting commercial speeches. In Taiwan, advertising is regulated by a variety of laws and statutes, such as Fair Trade Law, Consumer Protection Law, Broadcast and Television Law, Cable Television Law, and Criminal Law, etc (Chen 1982; Lin 1987; Yo 1998).

The explosion of commercial activities on the Internet has created many regulatory problems. As a result, there is a growing body of literature on international and national laws that deal with content regulations on the Internet (Carter 1997). The outcry to regulate Internet advertising is based on studies and incidents that point out how the Internet has been misused. For example, a study released by the Center for Media Education (1997) in the United States has found that alcohol and tobacco companies are using the Internet to advertise and promote their products, through a variety of marketing techniques.

Despite the Internet may seem to be a regulation-free zone, existing regulations apply to the cyberspace. In the United States, the Federal Trade Commission (FTC) filed its first deceptive advertising case involving the Internet (Fesler 1996). The Federal Trade Commission stipulates that advertising agencies or web site designers are held responsible for reviewing the information used to substantiate ad claims (Federal Trade Commission 1998). In Taiwan, libel law was applied to a case of false and defamation email circulating widely on the Internet about pest-infested tampons (Chang 1999).

Although new legal framework or extension of current legal framework to regulate Internet advertising is being stipulated in many countries (Connellan 2000; Pasternak 1998; Zhan 1999), the fastest and easiest way to control advertising contents is through industry self-regulation. Therefore, to stop the continuation of Internet misuse in the commercial arena, the American Marketing Association (henceforth AMA) has issued a code of ethics for interactive marketing. The purposes of this guideline are to "provide additional guidance and direction for ethical responsibility in this dynamic area of marketing." AMA advises that the general responsibilities of Internet marketers must assess the risks and take responsibility for the consequences of their activities (American Marketing Association 1997).

### **Research Questions**

This present study aims to investigating advertising practitioners' attitudes toward Internet advertising regulations. Three assumptions underlie this research. First, advertising practitioners most likely to be affected by the introduction of the Internet advertising are better informed of this new format of advertising. Second, advertising practitioners understand the effect of the Internet advertising on regulations. Third, advertising practitioners can provide in-depth views on regulatory issues and proper mechanisms to regulate advertising on the Internet.

Based on the studies available and the timely needs to better understand advertising practitioners' attitudes towards Internet advertising and regulations, the following research questions were posed:

**Research Question 1:** What are the attitudes of advertising practitioners in Taiwan toward Internet advertising?

**Research Question 2:** What do they think of different Internet advertising regulations?

**Research Question 3:** Are there any relationships between practitioners' attitudes toward Internet advertising and its regulatory issues?

## **Methodology**

### **Instrument Development**

The method for this study was questionnaire survey research. Data were collected using a self-administered paper questionnaire completed by advertising practitioners in major advertising agencies in Taiwan. A three-part semi-structured questionnaire was used to extract advertising practitioners' attitudes toward Internet advertising and regulations, demographics, and Internet usage behavior information for the present study.

The questionnaire consisted of sixteen 5-point Likert scales to extract advertising practitioners' attitudes toward Internet advertising and relevant regulatory issues and mechanisms. Due to the exploratory nature of this study, instrument was developed from selected items in Bauer and Greyser (1968), and Jyotika and Thurwanger (1998). Because these items were originally written in English, several back translations were conducted to ensure validity and reliability of statements in their Chinese versions. Cronbach's alpha value for this part of scales equals 0.8654. The last part of the questionnaire included several multiple choice questions asking about practitioners' demographic information and their Internet usage behavior.

### Sample Characteristics

Advertising agencies were selected from the 1996 member list obtained from the Advertising Practitioners Association (APA) in Taiwan. Advertising companies surveyed include multinational and local agencies in Taiwan. A total of 855 questionnaires were sent out with 287 valid questionnaires returned. The return rate is 33.6%. In general, the sample has shown a high level of familiarity with Internet advertising. Over 79.1% (n=220) of the sample respondents indicated that there are "familiar" and "very familiar" with the Internet advertising. About 20.9%(n=58) of the sample indicated that they are "somewhat familiar " with the Internet advertising. Only 7 persons in the survey said that they are not familiar with the Internet advertising and were removed from later analysis.

Over 65.7 % (n=182) of our sample is female, while 34.3% (n=95) is male. In terms of their age, those under 30 years old accounted for 66.1% of the sample. Those who aged between 31 and 40 years old accounted for 29.9% (n=83). Over 73.8% (n=203) of the sample had the undergraduate education level, while 9.8% (n=27) obtained a graduate degree. In terms of Internet usage behavior, 54.7% (n=98) of the sample used the Internet once or twice a week, while 22.9% (n=41) used the Internet three or four times a week. Only 24 respondents (13.4%) used the Internet daily.

## Findings and Discussion

### Attitudes towards Internet Advertising and Regulations

By the T-test procedure, mean of each variable was compared to examine if they were significantly different from the 2.5, mid-point of the 5-point Likert scales. Results indicated that, except for three variables, all other thirteen variables had a mean, which was significantly different from the mid-point. These three variables were **Prefer**, **Effect**, and **Self**. If mean were tested against the 0, all sixteen variables had a mean that was significantly different from 0.

Advertising practitioners in Taiwan agreed that Internet advertising would affect the future of advertising (mean=3.72, SD= .97), and that it contained more information than conventional advertising (mean=3.82, SD= .94). These findings suggested that advertising practitioners had reserved attitudes toward the commercial potential of Internet advertising in Taiwan, which may be due to the lukewarm response of many local advertisers toward Internet advertising and consumers' unwillingness to shop on-line.

In terms of respondents' attitudes toward Internet advertising regulations, advertising practitioners in Taiwan agreed that Internet advertising regulations still existed a lot of problems (mean=4.14, SD= .75) and there were urgent needs for international standard (mean=4.14, SD= .84) and new regulatory regime (mean=4.10, SD= .84) for Internet advertising. Advertising practitioners also agreed that commercial on-line information service providers (mean=3.92, SD= .95) and global advertisers (mean=4.12, SD= .80) should be responsible for the contents of Internet advertising. The results indicated that most advertising practitioners were aware of the effect of Internet advertising and viewed the need of an international advertising regulatory regime and standard. However, due to the competitive market situation and the lack of neutral regulatory organization in Taiwan, they did not favor self-regulatory mechanism at this stage.

### Relationships between Attitudes toward Internet Advertising and Regulations

Correlation analyses revealed significant associations between practitioners' views on the impacts of Internet on the future of advertising and the following regulatory issues: emerging regulatory difficulties ( $r=0.190$ ,  $p<0.01$ ), possible impacts on traditional regulatory regime ( $r=0.157$ ,  $p<0.05$ ), the role of global advertisers ( $r=0.163$ ,  $p<0.01$ ), and the need for a voluntary code of ethics ( $r=0.130$ ,  $p<0.05$ ). Respondents who agreed more with the possible impacts of the Internet advertising on the future of advertising are likely to agree the importance of the above-mentioned regulatory issues. It was also found that practitioners' preference of the Internet advertising was also related to the urgency of new regulatory mechanisms for the Internet advertising. The more respondents preferred Internet advertising, the more they agreed with the urgency to set up an international regulatory organizations ( $r=0.208$ ,  $p<0.01$ ), and to set up an international regulatory standards ( $r=0.189$ ,  $p<0.01$ ).

Similarly, they were more likely to agree that government ( $r=0.210$ ,  $p<0.01$ ), global advertisers ( $r=0.140$ ,  $p<0.05$ ), and professional organizations should take an active role in setting up a voluntary codes of ethics in tackling with the regulatory challenges posed by Internet advertising ( $r=0.175$ ,  $p<0.01$ ).

One of the greatest challenges related to the Internet advertising is its ability to communicate promotional messages across national borders. The more respondents agreed with the ability of the Internet advertising to reach international market, the more likely they agreed that global advertisers should be responsible for advertising contents on the Internet ( $r=0.195$ ,  $p<0.01$ ) and its possible impacts on traditional regulatory regimes ( $r=0.157$ ,  $p<0.05$ ).

## Conclusion

The Internet encompasses many properties of traditional advertising media; however, the interactive nature of the Internet has created a new marketing communication environment that greatly affects advertising practitioners. As Internet advertising becomes widely accepted among advertisers and advertising agencies, the scale of its influence will increase. These findings should add to our understanding and continuing discussion of what attitudes advertising practitioners have toward Internet advertising in Taiwan.

The future impact of new media on advertising is a vital concern to many advertising agencies. The trends include globalization, media fragmentation, regulatory problems for new media (ADMEDIA 1995). From this aspect, this study contributed to the study of commercial speech regulation in an international scale. The global nature of the Internets has added complexities to the regulations of commercial speeches that also require the ingenuity of researchers and policy-makers. Since advertising practitioners are going to be important stakeholders in the policy-making process, this paper then serves an important function by investigating their opinions on regulating Internet advertising.

However, this study has its limitations. The first limitation comes from the methodology used in this study. Although randomly sampled advertising practitioners may represent a clear picture on how advertising professionals think about the Internet advertising, this approach will lead to very high cost in conducting the survey. Because some advertising agencies refused to cooperate in spite of several attempts, a convenience sampling method was used instead. In addition, questionnaire was limited only to two pages, which also restricted the depth of this survey.

The second limitation comes from the exploratory nature of this study. As discussed above, there are no studies on the attitudes of advertising professionals toward the Internet advertising and regulations. Though previous research on attitudes toward advertising among students and consumers were consulted, it is still questionable whether similar scales or dimensions can be used to study advertising professionals. In addition, studies to provide theoretical framework for this research are also lacking. Nevertheless, this study can be viewed as an initial step toward the understanding of advertising professionals' attitudes toward the Internet advertising and relevant regulatory mechanisms. As advertising practitioners most likely to be affected by the introduction of the Internet advertising, understanding their attitudes towards many issues related to Internet advertising regulations provide in-depth views on some vital issues of the Internet advertising regulations.

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# **Ethical Behavior in Intra-Versus Cross-Cultural Negotiations of US Business People: An Exploratory Study**

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## **Abstract**

This paper compares the likelihood of using certain unethical negotiation tactics by US business people in cross-cultural negotiations as opposed to intra-cultural negotiations. Based on data collected from 69 US business people, this paper shows that there is no significant difference between the cross-cultural and intra-cultural negotiation behaviors of the US business people with respect to likelihood of using certain common negotiation tactics. Based on the findings, the paper posits that the nationality of the opponent is not an important factor in determining the negotiation behavior of US business people.

## **Introduction**

As the world economy is becoming increasingly interdependent, concern for socially responsible and ethical behavior is rising in all areas of business including international negotiations, where negotiators may have contradictory perspectives, values, and communication styles. The negotiation context provides a good setting for studying ethical behavior of negotiators as negotiators often operate under the pressure of opportunism, desperation, and the maximization of self-interest (Lewicki & Stark, 1996).

The literature on cross-cultural communication suggests that people behave differently with people from another culture than they do with those of their own culture (Adler & Graham, 1989). Adler (1981) and Hofstede (1989) further suggest that cultural differences can affect negotiation behaviors such as communication, competitiveness, and commitment as well as individuals' interpretation of what constitutes ethical behavior. Although we find a number of studies that investigated different aspects of cross-cultural negotiations, there is not much empirical evidence about the differences between intra- and cross-cultural negotiation behavior of people from different cultures. Lituchy (1997) conducted a laboratory experiment involving Japanese and US negotiators and compared their intra- and cross-cultural negotiation styles. While Lituchy (1997) focused on the role of collectivism in negotiations, the main thrust of this paper is on unethical behavior in negotiations. The purpose of this paper is to find out if the cross-cultural negotiation behavior of US negotiators differs from their intra-cultural negotiation behavior with respect to using certain questionable negotiation tactics. This study also seeks to investigate if age, educational background, level of income, and lengths of negotiation experience have any impact on negotiation behavior. The study is delimited to looking at the negotiation process from a dyadic relationship only, although, in reality there is no limit to the number of parties in a negotiation. For the purpose of this study, intra-cultural negotiation implies negotiation with people from the same country, while cross-cultural negotiation implies negotiation between people from different countries.

The negotiation behaviors of the people of any given country are likely to be different in different types of negotiations such as one-shot, repeated, sequential, serial, multiple, etc. This paper investigates the behavior that US negotiators are likely to display in their *first* negotiations with an unknown foreigner as well as with an unknown compatriot. The study is delimited to looking at the negotiation process from a dyadic relationship only, although, in reality there is no limit to the number of parties in a negotiation. Any negotiation involving groups, organizations, and nations is beyond the scope of this study. Similarly, any topic related to situational constraints such as time, status, and power of the negotiating parties, is also beyond the scope of this study.

## **Theoretical Foundations**

Cross-cultural negotiations, by definition, involve people from different national cultures. The complexity and uncertainty of cross-cultural negotiations make it almost certain that the information processing, interpretation of events, judgments, and tactics of the negotiating parties will be different in cross-cultural negotiations than those in intra-cultural negotiations. While we find a number of classifications of negotiation behavior, a classification proposed by Lewicki and his associates (1995, 1996 & 1998) provides a parsimonious classification of negotiation tactics. This paper uses a modified version of a classification schema of unethical negotiation tactics developed by Robinson, Lewicki, and Donahue (1996). This paper focuses on the following negotiation tactics.

- 1) False Promises
- 2) Misrepresentation of Information
- 3) Traditional Competitive Bargaining
- 4) Attacking Opponent's Network
- 5) Inappropriate Information Gathering

## 6) Tacit Bargaining

These tactics, including the first five tactics as described by Robinson *et al.* (1996) are discussed below.

False Promises: The negotiator states his/her intentions to perform some act, but has no actual intentions to follow through. Bluffs can generally be described as false promises and false threats.

Misrepresentation of Position to an Opponent: The negotiator distorts his/her preferred settlement point in order to achieve a better outcome. A buyer, intending to purchase an automobile, may tell the seller that he can only afford \$ 3,000, when in fact he is willing to spend up to \$4,000. Misrepresentation is perceived as necessary in order to create a rationale for the opponent to make concessions.

Traditional Competitive Bargaining: Competitive bargaining includes tactics such as hiding the real bottom line from the opponent; making an opening demand so high/low that it seriously undermines the opponent's confidence in his/her own ability to negotiate a satisfactory settlement.

Attacking Opponent's Network: The negotiator tries to create dissension in his/her opponent's network. He/she also tries to lure his/her opponent's people to join his/her group.

Inappropriate Information Gathering: The negotiator attempts to gain information that he/she can not get from the opponent from friends/associates and contacts of his/her opponent by giving them gifts, doing them favors etc.

Tacit Bargaining: Communication is conducted in a non-explicit form in tacit bargaining. The messages are passed between the negotiators in the form of hints, signs, and obscure imitations (Wall, 1985).

## Methodology

### Sample and Method of Data Collection

Samples for this study were selected from the members of Chambers of Commerce of New York Manhattan area, greater Boston area, Houston, and Seattle. These cities were chosen because of their commercial significance. 400 samples were selected. In selecting the samples, only those members were selected whose profile indicated some form of international business such as export, import, joint venture, licensing, foreign operations etc.

Two separate sets of questionnaires were administered- one dealing with intra-cultural negotiation and the other with inter-cultural negotiation. The samples were randomly divided into two equal groups. One group was requested to assume that they are negotiating with someone from the USA (Set A). The second group was sent the questionnaire where they were requested to assume that they are negotiating with someone from Maldives. Maldives was chosen to avoid any positive or negative bias that the respondents might have had toward other well-known trading partners of the USA. Following Singh (1990), this study employed wave-analysis to guard against non-response error. Questionnaires were mailed in two waves. No significant difference was found between the responses received in two waves.

### Instrument

To collect attitudinal data from the samples, a modified version of a questionnaire developed by Lewicki, Robinson, and Donahue (1996) was used. The original questionnaire "Self-reported Inappropriate Negotiation Strategies Scale" (SINS) had 16 items. Two more items were added to measure tacit bargaining behavior of the respondents. All respondents were asked to assume that the opponent is of his/her sex, and that he/she is unknown to the negotiator, and that they are negotiating for the first time with each other. Following Robinson *et al.* (1996), to avoid social desirability bias in the responses, the tactics in the questionnaire were described as "questionable" rather than as "unethical." No information about the negotiation context (the negotiator's own personal motivations, the specific issues being negotiated, relationship between the parties, or other contextual factors) was provided since such information might have influenced the responses.

#### 1) Statistical Tests

Several standard parametric statistical tests were conducted to compare the intra- and cross-cultural negotiation behavior of the respondents. To check reliability of the measures, Cronbach Alphas were calculated for each of the six factors (the six negotiation tactics). The Cronbach Alphas were as follows: traditional competitive bargaining .8567; attack on opponent's network .8595; false promises .8257; misrepresentations .899; inappropriate information collection .8532; and tacit bargaining .7732. The reliability scores of the first five of the six factors satisfy the minimum requirement as recommended by Peterson (1994) and Nunnally (1978) for exploratory studies like the current study.

MANOVAs were computed to find out if there is any difference in the responses among the two groups of respondents (Set A & Set B). To reduce overall Type - I error, *Bonferroni* tests were conducted while conducting the MANOVAs. Finally, regression analyses were also conducted to find out if there is any relationship between likelihood of use of the six categories of

negotiation behavior across age, income level, education, and length of work experience.

Out of the 400 questionnaires, 73 responses were received. Four responses were excluded as the respondents did not have any international negotiation experience. 12 mailouts were returned to the researcher due to address change. The overall response rate was 18.81 percent. Of the 69 usable responses, 37 came in the first wave, and 32 came in the second wave. Of these 69 usable responses, 29 responses pertained to intra-cultural negotiations (Set A of the questionnaire), while the remaining 40 pertained to cross-cultural negotiations (Set B of the questionnaire). 43 respondents were males, and 26 were females. 61 respondents were from the service sector and only three were from the manufacturing sector, indicating the growing importance of the service sector in the USA. Five respondents indicated their involvement with both manufacturing and service sectors. Over 43 percent of the respondents had annual household incomes higher than \$100,000.00.

## Findings and Discussion

The results of the MANOVAs reported in **Table 1** show that the likelihood of use of six negotiation tactics by the US negotiators did not vary significantly across intra-cultural and cross-cultural negotiations. This confirms the earlier findings of Lituchy (1997). To investigate if there is any significant difference in the negotiation styles of people from different age group, educational background level of income, and length of negotiation experience, a stepwise regression model was employed, with a standard .05 criterion. Separate regression analysis was conducted for each of the six behavioral categories for both intra- and cross-cultural negotiations. The results of the regression analyses are summarized in **Table 2** and **Table 3**.

The findings indicate that negotiation experience and education do influence negotiation tactics in both intra- and cross-cultural negotiations. The more experienced negotiators seem to be less inclined toward using questionable negotiation tactics. The regression analyses also indicate a negative relationship between age and likelihood of use of unethical behavior in negotiations. This finding is consistent with that of prior studies (e.g., Volkema 1999).

### 2) Directions for Future Research and Trends

While this exploratory study provides insight into the likely negotiation behaviors of US business people in both intra- and cross-cultural negotiations, more research needs to be undertaken to gain a better understanding of the process of ethical decision making and the factors that influence (un)ethical behavior in negotiations. Future researchers should investigate if the people change their ethical behavior when they negotiate with a friend as opposed to an enemy. Future researchers should examine the role of power in increasing/mitigating the incidents of unethical tactics in negotiation. Future researchers should also investigate how time and budgetary constraints and the negotiation context may influence ethicality in negotiation behavior. Since most negotiations take place in groups, future researchers should also study different aspects of group negotiations involving groups from different cultures.

In the recent past, considerable progress has been made in understanding, explaining, and predicting the nature and practice of ethical behavior in exchange relationships. However, progress made in one area has not necessarily been integrated into the body of work in other areas. This study underscores the need for developing an integrating framework of ethical behavior in business negotiations. The more we can learn about how ethics is viewed and practiced in different cultures, the less vulnerable we will be to opportunistic behavior in international business negotiations.

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**Table 1: MANOVA**

A Comparison of Likelihood Ratings of Questionable Negotiation Behavior in Intra- and Cross-cultural Negotiations )

Tactics	Intra-Cultural		Cross-Cultural		F	Sig.
	Mean	S.D.	Mean	S.D.		
TCB	3.26	1.44	3.30	1.26	3.595	.062
AON	1.58	.69	1.61	.73	.030	.862
FP	1.65	.80	1.74	.76	.205	.652
MRN	1.99	.73	1.86	.89	.313	.578
IIG	1.79	.97	2.02	.93	.996	.322
TB	3.67	1.10	3.78	1.52	.116	.734

TCB: Traditional Competitive Bargaining      AON: Attacking Opponent's Network      FP: False Promises  
 MRN: Misrepresentation                      IIG: Inappropriate Information Gathering      TB: Tacit Bargaining

**Table 2**

Regression Analysis (Intra-Cultural Negotiations)

Predictor Variables	Ethical Categories					
	Dependent Variables					
	TCB	AON	FP	MRN	IIG	TB
Age				-.224	-.286	-.211
Neg. Exp.						-.076
Education					.228	
Income						.225
Constant	5.939	2.728	2.305	2.355	3.016	
Adjusted R <sup>2</sup>	.108	.028	.156	.116	.061	.090
DF	24	23	25	25	25	25
F	5.45**	4.121*		7.773***	9.508**	4.588*
						4.64**

**Table 3**

Regression Analyses (Cross-Cultural Negotiations)

Predictor Variables	Ethical Categories					
	Dependent Variables					
	TCB	AON	FP	MRN	IIG	TB
Age	-.311					
Neg. Exp.		-.235		-.155	-.124	-.196
Education	.207	.101	.147	.185	.230	.279
Income		.174				
Constant	8.288	5.448	4.861	5.658	5.910	5.063
Adjusted R <sup>2</sup>	.477	.720	.645	.720	.652	.338
DF	33	35	35	35	35	34
F	35.351***	59.194***		69.307***	73.733***	53.893***
						20.247***

TCB: Traditional Competitive Bargaining;      AON: Attacking Opponent's Network;      FP: False Promises IIG: Inappropriate Information Gathering;      MRN: Misrepresentation;      TB: Tacit Bargaining  
 0\*\*\* p < 0.001; \*\* p < 0.01; \* p < 0.05

## **A Cross-Cultural Investigation of Bargaining Behavior and Acculturation**

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### **Abstract**

This paper presents the results of an exploratory study on the effect of acculturation on the bargaining behaviors of Asian Indian doctors. Asian Indian doctors residing in the United States were compared to Anglo doctors to find differences in their feelings towards bargaining, and their effectiveness at bargaining. It was found that Asian Indian doctors held more positive feelings towards bargaining, and were more effective at bargaining compared to Anglo doctors. However, as the Asian Indian doctors acculturated into the U. S. culture, their attitudes and bargaining behavior became increasingly like those of their Anglo counterparts. The analysis also suggests that acculturation and ethnic identity are neither independent constructs nor are they opposite extremes of a continuum, but rather are two negatively correlated constructs.

## **The Marketplace as a Moderator of the Country of Origin Effect**

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### **Abstract**

This study examines the moderating effect of the marketplace on buyers' country of origin perceptions. Unlike previous studies, which rely on experimental or projected scenario designs, actual marketplace experience is measured. Three groups with different marketplace experience were used in this study all displaying different characteristics and the supporting marketplace's moderating effect.

### **Introduction**

In the increasingly global marketplace, consumers are presented with tremendous product choices from a wide array of countries. In the past when global trade was more limited, many consumer products came from familiar locations close to home. In highly developed countries, like the United States, cost considerations have pushed the production of many consumer products to developing countries around the world. Information cues originally considered important for product selection by consumers are losing their relevance, while other cues are taking on new strength. As the proportion of products made in developing countries and shipped to markets in developed countries increases, the importance of cues as to the origin of these products should be increasing, but many studies are finding that the opposite is occurring. The current literature is divided on the impact of country of origin (CO) in consumers' product evaluation and purchasing decision-making processes. Some researchers find CO to be an important variable; others find no effect exerted by this variable on consumers' buying decisions (Lim, Darley, and Summers, 1994).

Is there a general decrease in the importance of CO cues or are there other factors causing these results? There are two general reasons for this inconsistency. First, most studies have tested the importance of CO by assessing purchasing intentions, rather than actual purchase behavior (Baughn and Yaprak 1995). The link between buying intentions and actual purchase behavior is very weak (Fishbein and Ajzen 1975; Foxall 1985). Second, research settings and data sources have influenced CO research. Most studies that have observed the diminishing importance of CO were conducted in developed countries like the United States, rather than developing countries (Peterson and Jolibert 1995; Zain and Yasin 1997).

The purpose of this study is to develop a measure to test the CO effect in the actual marketplace. The research design and data collection is based on actual purchase behavior in developed and developing countries. The effect of past and present marketplace experiences on the importance of CO is also tested.

### **Previous Studies**

This section will define CO and review the relevant previous work in this field, divided into three areas: actual versus simulated marketplace settings, developed versus developing marketplaces, and the influence of distributor reputation. According to Lampert and Jaffe (1996, p. 27), "The country of origin [CO] effect may be defined as the impact which generalizations and perceptions about a country have on a person's evaluation of the country's products and/or brands."

#### **Marketplace Setting**

A recent study by Roth and Romeo (1992) found that the CO effect differs across product categories. Their study showed that a good match between a product category and CO is needed for a product to be successful in a foreign market. If a product belongs to a category that is highly regarded when coming from a certain country (e.g., Japanese automobiles), then CO will have a big impact on consumer evaluation of that product. By contrast, if a product belongs to a category in which high quality is not normally associated with a particular country (e.g., Japanese food products), then CO will have little impact on consumer product evaluation (Roth and Romeo, 1992). These studies almost all focused on perceptions of products by developed market buyers in artificially created settings.

A major drawback of most studies on CO has been the researchers' focus on explaining and predicting consumer intentions, rather than examining actual product purchasing experiences of consumers (Baughn and Yaprak 1995). Most previous studies relied on linguistic testing of the CO effect, rather than actual experience or purchase (Liefeld 1992). Previous studies also tested consumer self-reported CO importance, as opposed to actual purchase behavior. Peterson and Jolibert (1995) found CO to be a much better indicator of quality or reliability, rather than purchasing intentions. This study revealed that CO does not significantly affect purchase intentions for all products, but that CO is a good predictor of

purchasing intentions only when the consumer is familiar with the product. A CO measure of actual marketplace behavior would be of value not only to researchers, but also to practicing marketing managers.

### **Developed Versus Developing Countries**

Some authors have argued that the importance of CO is diminishing in the new information age, where consumers possess vast product information sources (Chao 1993). However, most studies supporting this view have been completed in developed, as opposed to developing, countries (Ahmed and d'Astous 1995; Peterson and Jolibert 1995; Zain and Yasin 1997). These and other studies (Zhang 1996; Chao 1993) suggest focusing a new research stream towards evaluating the importance of CO in developing countries. According to Chao, newly industrialized countries (NIC) are becoming global contenders and should not be ignored. Peterson and Jolibert caution that the effects of CO cannot be generalized but differ from country to country. Thus, more studies need to be conducted in developing countries to establish further the strength and magnitude of the CO variable in the developing regions of the world.

Lower levels of industrialization in developing markets lead to the importation of greater levels of high involvement goods simply because these economies lack domestic production capability. When per capita incomes and discretionary spending levels are lower, as they are in developing markets, the risks of making a poor purchase are also higher. Therefore, consumers in developing markets may seek additional information through product cues like CO to lower these risks.

H1: CO will be more important for developing market consumers than for developed market consumers.

### **Influence of Distributor Reputation**

That CO importance is diminishing in developed countries may be because many highly developed countries have reached the same plateau of technological development, resulting in similar product features and quality. Johansson (1992) states that the influence of CO is very much an integral part of everyday product selection. However, he argues that ego and misperception cause managers in developed countries to discard consciously this variable as an important determinant of purchasing behavior in developed marketplaces. This is supported by Papadopoulos (1992), who concluded that globalization has only increased the importance of CO. He further states the need for more multi-country studies to explore further the importance of this variable in the overall global marketplace. A highly developed marketplace whose distributors back the quality and reliability of its products may minimize the importance of CO effect. Consumers who acquire product evaluation skills in developing markets, where distributors are less likely to back their merchandise with generous return guarantees and returns policies, are more likely to value the increased information that product cues like CO provide than consumers from highly developed countries.

Consumer socialization (how consumers acquire product evaluation and other marketplace skills) is influenced by early experiences at home, but is also an ongoing process (Shiffman and Kanuk 1997). **Figure One** illustrates this process. Adults acquire new evaluation criteria and skills when marketplace conditions change, especially when shopping in different countries where distributor policies may vary dramatically from their home countries'. Well-known brands and distributors who back the quality and reliability of their merchandise may be decreasing the importance of CO cues for consumers in developed countries.

H2: CO will be more important for consumers from developing markets who are shopping in developing markets than for consumers from developing markets who are shopping in developed markets.

H3: CO will be more important for consumers from developing markets who are shopping in developed markets than for consumers from developed markets who are shopping in developed markets.

### **Research Design**

Two regions were selected as research sites: the United States, a highly developed country and Macedonia, a developing country. Macedonian consumers travel to and shop in surrounding countries, as Americans travel to and shop in surrounding states. With an annual per capita income of only \$960, Macedonia, a former province of Yugoslavia, represents one of the poorest Eastern European countries. However, the constant improvement of Macedonia's infrastructure and economy has increased consumer activity in the past few years. Due to their limited financial resources Macedonian consumers might be expected to place more emphasis on product evaluation and as such seek more product related cues such as CO.

The instrument developed for this study is a written, self-administered questionnaire designed to avoid the limitations of previous studies, which rely predominantly on respondents' self-reporting how important CO was relative to their purchase intentions in a simulated environment. Respondents were asked to recall their last shopping trip for an important product and to recall the product if purchased along with other information related to their shopping experience. A two-item scale was developed to test the importance of CO. As with most previous studies, one item assessed the self-reported CO importance on a seven-point interval scale, from least important (1) to most important (7). A second item was added to test respondents' recall of the country where the product was made.

A reliability test on this two-item measure indicated an acceptable level ( $\alpha = 0.70$ ) of reliability (Nunnally 1978). This measure tested not only the CO importance based on an actual purchase experience, but it also tested the validity of the respondents' self-reported CO importance measure. A bivariate correlation test was run on the two CO items, yielding correlation results ( $r = +0.54, p < 0.01$ ). This indicated that respondents who deemed CO to be important could indeed recall the country where the product was made significantly better than those who placed low importance on the CO. Relying on a multi-item measure of customer recall of an actual shopping experience gave a more realistic setting to the study. This method avoids the limitations of many previous studies, that relied on customers' future purchase intentions or asked them to predict their shopping behavior in an artificially created scenario.

Two versions of the questionnaire were devised, English, and Macedonian. The English version of the questionnaire was used to collect responses of the two groups residing in the US (Eastern European consumers residing in the US and US consumers). The Macedonian version was used to collect responses in Macedonia, because those who speak English tend to be younger and more willing to purchase less familiar, expensive products. Previous studies have shown that both age and price influence CO perceptions.

Three sample sources were used in this study: (1) United States consumers, (2) Eastern European consumers residing in the US, and (3) Eastern European consumers residing in Eastern Europe. The US consumer marketplace experiences are primarily in the highly developed US marketplace. The Eastern European consumers residing in Eastern Europe have primarily shopped in the developing Eastern European marketplace. The Eastern European consumers living in the US have shopped in both markets, with the US market being the most recent.

### **Sampling Plan**

The data were collected in the US and Macedonia. Data collected in the US came from a major southwestern metropolitan area. Eastern Europeans residing in the nearby major metropolitan area were contacted through several South-Eastern European social organizations. This Eastern European sample completed the English version of the questionnaire because of their familiarity with the language and because their shopping experiences took place in a predominately English-speaking retail trade area.

Data were collected from Eastern Europeans (predominantly Macedonian citizens) in Skopje, the capital of the Republic of Macedonia, using the Macedonian version of the questionnaire. Skopje is Macedonia's largest city with a population similar in size to the US sample source. The US metro area is similar in size, demographic composition, retail trade area, industrial concentration, and infrastructure to the data collection site in Macedonia. Other similarities are that both are capital cities of a state with an overall population between two and three million people. Large portions of the populations in both locations live in these metro areas.

Macedonian respondents were selected at different locations around the city by trained fieldworkers who explained the purpose of the study, administered the questionnaire, and then collected the survey when it was completed.

### **Data Analysis and Results**

The overall sample totaled 225 responses, divided into three groups: (1) 55 respondents from Eastern Europe in Eastern Europe, (2) 43 Eastern European respondents in the US, and (3) 127 United States respondents. Response rates were high in Macedonia due to locally based field workers and the interest in US-based research in Macedonia. An analysis of variance (ANOVA) was used to test mean differences. Individual group Post Hoc comparisons were tested using Sheffe's method.

The first hypothesis in this study tested for CO importance across the three groups using both CO recall and self-reported CO importance. CO recall was highest for Eastern Europeans in Eastern Europe (0.89), followed by the Eastern Europeans in the United States (0.58), and lowest (0.24) for United States consumers (see the Table). Significant differences were also found for the self-reported CO importance. Post Hoc tests yielded significant results between all of the groups. The highest importance of CO was reported for Eastern Europeans residing in Eastern Europe (4.51), followed by the Eastern Europeans residing in the US (3.50), and least important (2.18) for US consumers (Table One).

The importance of CO in developing markets is significantly higher than its importance in developed markets (Hypothesis One). The CO importance was higher for Eastern Europeans residing in the US than for US consumers, regardless of the fact that both groups are shopping and interacting within the same marketplace. Thus, the importance of CO was shown to vary according to the original marketplace experience of these consumers.

The second hypothesis tested for differences in the behavioral patterns of Eastern European consumers shopping in the US marketplace, compared to the Eastern European consumers shopping in the Eastern European marketplace. These results indicate the difference in the importance of CO for Eastern European consumers shopping in different markets. Eastern Europeans residing in Eastern Europe placed significantly greater importance for this variable (0.89) when compared to their Eastern European counterparts (0.56) residing in the US (the Table). Support was found also for hypothesis three. Eastern Europeans shopping in the US placed significantly greater importance on CO (.56) than US shoppers (.24) shopping in the US. The results of this study indicate that the marketplace has a moderating effect on the importance of CO.

### **Conclusions**

Country of origin studies can be conducted using consumers' actual marketplace experience. Original marketplace experience as defined by ethnic origin explained the importance of CO between two groups of consumers originating and shopping in their respective markets of the developed US and developing Eastern European markets. Consumers residing in developing markets display higher concern for the importance of CO than do consumers in developed countries. However, those consumers that originate from Eastern Europe and reside in US were significantly different from the other two groups, displaying moderate concern with the CO. Although CO was more important to these consumers than to the US consumers, CO was not as important to these Eastern European consumers as it was to those residing in Eastern Europe. Thus, the nature of the marketplace appears to moderate the importance of CO.

### **Marketing Implications**

CO is a more salient cue for consumers in developing than for consumers in developed countries when evaluating products. Based on the results of this study marketers will benefit by emphasizing or by downplaying the country in which the product is made when marketing to a developing country. When devising strategies within a developed country, marketers should realize that CO will probably not be the most important variable for native consumers when evaluating a product. However, in a developed country with high immigration rates from developing countries such as the US, marketers should note that consumers who learned their product evaluation skills in developing markets may be more concerned about CO cues than more established consumers.

In the increasingly global market, marketers will need to have a good understanding of consumers and their ethnic background, but they will also need to understand the influence of previous marketplace experience on consumer behavior. A highly developed marketplace whose distributors back the quality and reliability of its products may minimize the importance of CO effect.

### **Limitations and Future Studies**

This study was conducted using a self-administrated questionnaire. Every effort to collect a probability sample was made in Macedonia. However, it was much more difficult to control for response bias in Macedonia. Their unfamiliarity with U.S. surveying techniques and market research studies caused some respondents to be very reluctant to participate. Their suspicion that the study might be used by their employers to spy on them might also have caused some reservations by Eastern European consumers in the US to complete a questionnaire.

The final limitations of this study were the data collection techniques. Although every effort was made to collect a probability sample, due to the problems experienced by working in a newly developing country it may not be representative. Future studies should try to collect a better probability sample.

Future studies should attempt to collect a more representative sample from several different developing countries or regions. Future studies should also test the likelihood that a weak marketplace whose distributors convey less confidence in products' quality and reliability may increase the importance of CO for consumers originating from developed marketplaces.

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**Market-Oriented Product Development as an Organizational Learning Capability:  
Findings from Two Cases**

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**Abstract**

This paper deals with the concept of market-oriented product development. It answers the question what exactly makes product development market-oriented. Market orientation from a combined cognitive and behavioral perspective is integrated with product development. A conceptual framework is developed, describing market-oriented product development as an organizational learning capability at the level of the individual stages and at the level of the holistic process. Two in-depth case studies at large firms give further substance to this framework. We argue that market-oriented product development requires a basic understanding of the need for market information, the kind of market information which is needed, the way it is obtained, and the way it is intertwined with technical information. Furthermore, market and technical information-processing activities seem necessary to generate this basic understanding and to create new products. As a consequence market-oriented product development is more about the quality of these activities rather than the extent to which these activities are performed.

## The Effects of Brand Name on Consumers' Evaluations of Price Presentation Formats

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### Abstract

Though marketing practitioners have begun to acknowledge the utility and effectiveness of a fixed price policy (i.e., prices that are never discounted or reduced), there is limited research and agreement on this issue by marketing theorists. The extant academic literature presents conflicting viewpoints about the effectiveness of fixed price offers with some researchers indicating support for such a strategy and others doubting their success (e.g., see Monroe and Mazumdar, 1988; Nagle and Holden, 1994). Research that has directly compared the effects of a price discount with a fixed price on consumers' perceptions have found that consumers' may evaluate fixed price formats more favorably but only if certain conditions are met. For example, one such condition, motivation to purchase, can explain when fixed price formats may be preferred to price discounts (Suri, Manchanda, and Madan 1999). In this paper, we contend that the strength of the brand, a factor that has previously not been considered in this line of research, could influence consumers' evaluations of these two types of price presentation formats.

Our thesis, which draws upon the price-perceived quality-perceived sacrifice model (Dodds et al. 1991), and research on motivation, suggests that consumers that are considering the purchase of a strong primary brand (e.g., Sony) are in a different frame of mind than consumers who are considering the purchase of a weak brand (e.g., RCA). Consumers purchasing a strong brand are likely to feel assured that the quality of the product will be satisfactory (or more than satisfactory, e.g., Dodds et al. 1991). They are therefore less anxious and uncertain about the brand as the brand name acts as an extrinsic cue, and a strong brand name signals high perceived quality. In evaluating strong brands, consumers will tend to focus more on the perceived sacrifice component of the model and are interested in minimizing the perceived sacrifice as much as possible. In other words, consumers who are evaluating a strong brand are likely to place greater emphasis on the "give" component (perceived sacrifice) than the "get" component (perceived quality), as they are assured of the latter. In this case they will prefer a price discount to a fixed price because the price discount directly reduces the perceived sacrifice and therefore should result in increased perceptions of value (compared to a fixed price). We think of these consumers as "value seeking." Support for this conceptualization can also be drawn from research on motivation that suggests that consumers in low arousal and anxious states tend to seek stimulation and be more risk seeking (Levinson 1990; Saklofske and Eysenck 1983), and a greater proclivity to search for bargains (Mooradian and Oliver 1996). Given that price discounts result in greater uncertainty and riskiness (Suri, Manchanda, and Kohli 2000) and the preceding discussion, consumers purchasing a strong brand are likely to be less anxious and more risk seeking and would evaluate price discounts more favorably.

On the other hand, consumers who are purchasing a weak brand are less assured of the quality of the product. The brand name does not signal good quality. In this case, consumers are more anxious and uncertain about the brand and will tend to focus more on the perceived quality component of the model as they are interested in maximizing their perceived quality as far as possible. This is because consumers who are considering purchasing a weak brand are likely to place greater emphasis on the "get" component than the "give" component, as they are unsure of the former. This will allow them to maximize their value. Support for this conceptualization can also be drawn from research on motivation that suggests that consumers in high arousal and anxious states tend to avoid stimulation, are more risk averse (Levinson 1990; Saklofske and Eysenck 1983), and are disinclined to search for bargains (Mooradian and Oliver 1996). Given that fixed prices result in less uncertainty and riskiness (Suri, Manchanda, and Kohli 2000) and the preceding discussion, consumers purchasing a weak brand are likely to be more anxious and less risk seeking and would therefore evaluate fixed prices more favorably.

Results of a 2 (brand name: strong and weak brand name) by 2 (price presentation format: fixed and discount) between subjects experimental design supported the hypotheses. In addition, cognitive response measures supported the idea of consumers' value seeking and quality seeking frames.

## **Customer-Perceived Value Heterogeneity**

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### **Abstract**

Despite the obvious importance of customer-perceived value to the study of marketing, researchers have thus far devoted surprisingly little attention to central questions concerning the nature of value (Holbrook 1994, p.22). Specifically, in business markets, where knowledge of value is considered both critical and fundamental, and can be thought of as the cornerstone of marketing strategy (Anderson, Jain and Chintagunta 1993), it is critical for organizations to gain an understanding of their offerings, and to learn how they can be enhanced to provide value to their industrial customers. Organizations therefore need first to understand what drivers create value for customers in order to build a competitive advantage (Lichtenthal, Wilson and Long 1997).

This research reports the empirical investigation of a segmentation process to test if and how customer-perceived value differs between information technology (IT) industrial customers. The results help to determine the different weights assigned to the 13 drivers, which are product-, service-, and relationship-related, by groups of individuals in each segment and determine which, if any, of the 13 drivers are assessed differently.

Findings indicate that customer-perceived value is not as heterogeneous as expected from the theoretical and empirical literatures (e.g. Sinha and DeSarbo 1998; Parasuraman 1997; Zeithaml 1988). The three segmentation variables that account for much of the differences in the evaluation of customer-perceived value are variables associated to some extent to the size of the customer organization, i.e. the number of employees, the annual revenue and the IT expenses. Customers in these segments assessed the value provided by their major IT supplier in an heterogeneous way. Value drivers such as reliability and technical competence, two-service-related drivers, and trust, time/effort/energy and conflict drivers that are relationship-related benefit and sacrifices, are the ones that account for the greatest differences among the customers.

## The Effect of Co-Branding on the Brand Equity of Constituent and Composite Brands Before and After Trial

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### Abstract

Branding strategies have become increasingly important to both marketing academics and practitioners in recent years. This research focuses on an emerging and popular branding strategy for consumer products – co-branding. Through an experiment, we investigated the impact of co-branding on consumers' brand equity evaluations of both the co-branded product and the branded products that comprise it.

Our contention is that a product's brand equity can be affected by the company it keeps or the brands with which it is associated. The purpose of this research is to study the effects of co-branding on the brand equity of both the original branded products and the resulting co-branded product, both before and after product trial. We define co-branding for this research as pairing two or more branded products (constituent brands) to form a third, unique product (composite brand) (Park, Jun and Shocker 1996). While other types of co-branding strategies are used in practice, the strategy under consideration in this research is physical product integration whereby one brand is inextricably linked with the other (e.g., Ruffles potato chips joins with K.C. Masterpiece barbecue sauce flavoring) (Rao and Ruckert 1994).

Brand equity is "a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers (Aaker 1991, p.15)." It is the value of the brand name that has the potential of being extended either in the form of line extensions or in conjunction with other brand names as in co-branding (Rao and Ruckert 1994). Brand equity may play an important role in co-branding when a well-known brand name is paired with another brand name (either well-known in its own right or less well-known) in order to enhance the lesser-known product. The general theory on line extensions is that the brand equity of the original brand will help the line extension gain favor in the eyes of consumers and channel members (Swait et al. 1993). Co-branding is believed to limit the marketer's risk of entering into a new product category.

Our analysis suggests that co-branding is a win/win strategy for both co-branding partners regardless of whether the original brand is perceived by consumers as having high or low brand equity. Although it appears that low equity brands benefit most from co-branding, high equity brands are not denigrated even when paired with a low equity partner. Further, positive product trial may enhance consumers' evaluations of co-branded products, particularly those with a low equity constituent brand. Our research suggests that co-branding strategies may be effective in exploiting a product performance advantage or in introducing a new product with an unfamiliar brand name.

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# **Customer-Perceived Value in Business Relationships: A Cross-Sectional Survey Among Purchasing Managers in Germany**

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## **Abstract**

In recent years, there has been a resurgence of interest in the value construct. Delivering superior value to customers is a major concern of management in many business markets of today. In addition, « value » is considered as a fundamental constituent of relationship marketing. In fact, delivering superior value to customers is key to creating and sustaining long-term industrial relationships. From an empirical point of view, however, it is still not clear how the construct interacts with other prominent marketing variables. For example, researchers have recently questioned the role of satisfaction and called for a replacement of the construct by customer value as a more powerful predictor of behavioral outcomes in business markets (Gross, 1997).

## **Research Objectives and Methodology**

The present study investigates the interaction between the two fundamental constructs: customer-perceived value (CPV) and satisfaction. It addresses three specific research questions:

- How can CPV be conceptualized and measured in a business-to-business relationship ?
- Do CPV and satisfaction represent two theoretically and empirically distinct constructs ?
- Which of both constructs is the better predictor for behavioral outcomes such as repurchase, search for alternatives, and word-of-mouth?

Two alternative models that link relationship value to behavioral outcomes are developed. In the first model ("mediated impact model" ), a distinction is made between three levels of variables: cognitive, affective, and conative. The impact of CPV on behavioral outcome variables is mediated by satisfaction. (Ravald and Grönroos 1996; Patterson and Spreng 1997). In turn, the second model ("direct impact model" ) poses a direct relationship between CPV and behavioral outcome variables. Both models are empirically tested in a cross-sectional survey among 302 purchasing managers in Germany. The data is analyzed using structural equation modeling.

## **Findings**

Our study confirms that value and satisfaction in a business-to-business relationship can be conceptualized and measured as two distinct constructs. As the mediated impact model fits significantly better to the empirical data collected in the survey, our research suggests that CPV is not a substitute for satisfaction. Hence, our results do not confirm the criticism concerning the predictive power of affective variables such as satisfaction in B-to-B markets. Researchers should take into account both constructs when assessing outcomes of relationship value. Value must first be created and then translated into satisfaction in order to result in positive behavioral intentions.

## Level of Integration Between the Accounting and Marketing Functions Based on Firm Performance

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### Abstract

As we enter the third millennium, more and more companies are realizing the importance of integrating the activities of the different business functions. While the accounting profession has begun to mention the importance of the marketing-accounting interface, more research exists on its relationship with manufacturing. Integration may be defined in terms of achieving "unity of effort" in various organizational subsystems and information sharing between functional areas is one of its vital components. Hence, different functional areas must exchange information to operate more efficiently. The purpose of this paper is to investigate the differences between the accounting and marketing managers' perceptions regarding the interdependency between their functions in high versus low-performance firms.

These findings are based on data collected from 89 pairs of senior accounting and marketing executives in larger Canadian firms. Table 1 presents the responses to a battery of nine questions regarding interdependency as reported in the literature. Cluster analysis is used to separate the respondents into high performance (HP) and low performance (LP) groups based on market share, sales volume, profits and customer service. Based on MANOVA analysis, five of the nine statements are significant according to accountants in (HP) firms compared to (LP) firms. Accountants in HP firms agree more that there is a higher level of interdependency between the two functions and teams of managers are used more to achieve integration than task-forces. They also agree that the two functions actively exchange information to accomplish their tasks as well as the importance of outputs by accounting for the marketing function. Not surprisingly, accountants in LP's would like to see more integration in their firms. Analysis of the marketers in high-performance firms indicate that they share only two of these views: level of interdependency and exchange of information. Interestingly, there is no difference among the marketers in HP's versus LP's regarding the importance of the information they provide to the accountants. There is more interdependency in the HP firms and marketers appear to depend more on the accountants. Our preliminary findings indicate that level of firm performance accounts for more of the differences than the functional specialization of the managers when accountants and marketers from HP's and LP's are compared.

Perceptions of Accountants	HP	LP	sig
1. There is a high level of interdependency between the accounting and marketing functions.	3.64	3.02	.01
2. In my firm, the following mechanisms are used to integrate the various functions/departments:			
* Temporary task-forces representing different functions	3.49	3.31	
* Teams of managers	3.54	3.09	.05
* Liaison/integration positions such as assistant managers	2.97	2.80	
3. There is not enough integration in our firm.	2.95	3.51	.01
4. Accounting and marketing often claim authority and responsibility for the same task.	2.27	2.49	
5. Accounting and marketing actively exchange information to accomplish their tasks.	3.83	3.09	.001
6. The output of accounting is an important input for the marketing department.	3.91	3.39	.02
7. The information provided by marketing is an important input for the accounting department.	3.83	3.83	

## **Now You See It, Now You Don't: Empirical Findings From an Experiment on the Mere Exposure Effect of a Web-Based Advertisement**

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### **Introduction**

The question of whether Web-based ads are effective as a marketing communication tool still remains elusive. Few studies have ever been conducted to explore the underlying factors that would influence consumers' responses resulting from exposure to a Web-based ad. A model implemented by Proctor & Gamble actually discounts the value of an exposure to a banner ad unless the viewer actually clicks through to the destination site. But perhaps this does not reflect the way information is perceived and recorded in an individual's memory grid. A stream of research has shown that affect for an object can be generated by merely exposing the subject to that object repeatedly, rather than being based on the cognitive processing of information. This is termed the *mere exposure* effect (Zajonc 1968). Given the passive and intrusive nature of a Web-based ad, viewers generally do not consciously decide to view them. This would suggest that *mere exposure* theory could be a possible framework to understand Web-based ad effects. It could be argued that *mere exposure* to a Web-based ad might enhance a viewer's recognition and liking for the ad and brand despite the viewer's inability to recognise having previously seen the ad and brand. As a result, the purpose of this paper is to develop and empirically verify a conceptual framework of *mere exposure* effects for Web-based advertising inspired by the literature on *mere exposure* effects.

### **Conceptual Framework**

Given the scope of advertising clutter (Brown and Rothschild 1993) and the fact that consumers are often involved in tasks that limit ad processing (MacInnis, Moorman and Jaworski 1991), it is most likely that a majority of advertisements do not actually receive any kind of active processing. This view also applies to the virtual environment where web surfers perform their primary activities (e.g. reading an online article or chatting) and banner ads that "surround" them represent merely a part of the secondary information within that environment. It could be argued that web surfers pay mostly attention to primary information (e.g. an online article) or task (e.g. chatting). As a result, empirical evidence from psychology research on *mere exposure* effects suggests that when people have positive affective responses toward stimuli they cannot recall, Web-based ads receiving limited attention may also have the capacity for attitude formation and change. The proposed model suggests that *mere exposure* effects of web-based advertising on affect (attitude toward ad and attitude toward brand) are moderated by three variables: familiarity, vividness, and ad position. In turn, it is expected that attitudes should have a positive impact on purchase intentions as demonstrated in previous advertising literature.

### **Methodology**

The study will use a (2x3x2) between-subjects factorial design. Two levels of Vividness of the ad (low-high), three levels of Familiarity (low, medium and high) and two levels of Ad Position (proper, not proper as suggested by hemispheric theory) will be manipulated as independent variables, generating twelve experimental conditions to which subjects will be randomly allocated. The stimuli for the experiment consists of boxed advertisements imbedded in editorial news-type content presented in a realistic web site environment. The goal of the study is to manipulate all three treatments while maintaining all other factors constant. Participants are introduced to a new web site whose main focus is to report the latest news about the motion picture industry where they will find reviews, storylines, gossip etc. Participants are exposed to multiple pages of text and news in which the stimulus material is imbedded. The last phase of the experiment asks the participants to respond to a questionnaire, which involves filling out the dependent measures and a short set of background demographics using an easy and friendly "point-and-click" interface. Attitude toward the ad, the brand and recall/recognition are used as dependent variables with vividness being measured as a manipulation check. The data are analysed by means of the ANCOVA procedure. Empirical results will be presented at the AMS 2000 Conference in Montreal.

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## **The Real Value of Electronic Banking**

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### **Abstract**

In this paper we will argue that Internet has a transformational impact on the business of retail banking. The primary objective of this study was to identify the ways value can be created. We compared the perceptions of the new value proposition from the perspective of the bank's customers – users and non-users of Internet-banking. These perceptions were related to the changes in their banking behavior. The results imply that Internet-banking creates new value for the customer and also represents a powerful marketing tool capable of utilizing information about and for the customer. The shift from transaction-oriented to an information-oriented business model is behind the transformation of retail banking.

### **Introduction**

The value of on-line banking is real, not potential. For Scandinavian banks this is no news. The total number of customers using on-line banking services, in Finland alone, is over 1,5 million and it represents over 50% of active customers. MeritaNordbanken has over 1,1 million on-line customers in Finland and Sweden and over 3 million log-ons monthly. Customers can transfer funds between accounts, pay bills, shop using on-line payment systems, make on-line investments and sign loans electronically. These services can be accessed with PC using Internet or a proprietary network, Internet TV, mobile phone with Wireless Application Protocol (WAP) and GSM-SMS as well as ordinary phone. (MeritaNordbanken 2000). The growth of the number of on-line customers, mainly switching from other distribution channels such as branches and ATMs, suggests that on-line banking offers real value to the bank's customers. What is behind this growth and how the value is created? To answer these questions we used a sample of 2000 MeritaNordbanken customers – users and non-users of on-line banking.

### **MeritaNordbanken**

MeritaNordbanken is one of the largest banking groups in Scandinavia and Baltic countries providing wide range of financial services to individuals and companies. The company operates in 19 countries and is based in Finland and Sweden. The customer base of MeritaNordbanken comprises about 6,5 million individuals and some 400.000 companies. More than 1,1 million have used on-line services for account and transaction management. The company has some 800 branch offices and 1,100 Swedish post offices (MeritaNordbanken 1999). Competitor banks have similar on-line services. Osuuspankki Group is second largest in Finland with over 400,000 on-line customers.

MeritaNordbanken Group has offered its electronic banking solutions since early 1980's. Internet-based service was first launched in 1996. Today MeritaNordbanken offers on-line services through various distribution channels including telephone, PC with an Internet connection, Internet TV, SMS and WAP enabled mobile phones. Customers are provided with user id and a password as well as key-code lists which could be used on all on-line platforms. Each banking session has a unique encryption key. For Internet-banking a standard Internet browser supporting SSL is required.

Since 1996, the total number of on-line customers have grown steadily and the share of on-line transactions is now 28%. ATM have maintained the same share of transactions through 1996 to 1999 accounting approximately 40%. The number of transactions made by customers who use branch services is now only half of what it was in 1996, dropping to 7%. (MeritaNordbanken, 1999).

The level of adoption of on-line banking services in Finland is one of the highest in the world. Finland's technological infrastructure is very advanced. Internet has grown rapidly - the number of host computers per 1000 inhabitants is well over 100 (USA - 82). Over 40% of households have a personal computer and over 20% an Internet connection. Mobile phone penetration rate is approximately 60%. (Statistics Finland, 1999).

### **Research Design**

The main emphasis of this paper is to give managers practical tools for decision making concerning electronic banking operations. The empirical assessment is based on a data which comprises of 2000 (of which 1000 Solo users and 1000 non-users) questionnaires concerning the change in their banking behavior in a time period from 1996 to 2000. The new rules of banking behavior are modeled and several quantitative methods are applied on the data. Primary academic

question to be addressed is the validity of the social exchange theory paradigms for describing customer oriented electronic banking applications. Second, once the benefits of customer oriented designing are shown, the causality amongst various marketing instrument effects will be more completely indicated. A taxonomy and framework demonstrated in this paper relates the myriad of marketing constructs describing changing consumer values. Preliminary results implicate that electronic banking is substantially reforming the created value.

### **Theoretical Background of the Study**

According to a very simple model of the traditional role banks have played in the economy, they have been acting as intermediaries between depositors and borrowers. The intermediation function normally results in banks offering a payments service to their customers. In modern banking systems, there exists a whole range of specialist banks, which focus on nice markets, and generalist banks, which offer a wide range of banking and other financial products, as diverse as deposit accounts, loan products, real estate services, stockbroking, and life assurance. (Heffernan 1998, 15-16).

So those are the reasons why banks exist, but why a bank exhibits the organizational structure it does. A principal-agent problem exists within any firm because both internally and externally, its activities are a collection of contracts between principals and agents. The principal-agent problem arises if the principal delegates some authority to the agent to act on his behalf. Differences in information held by principal and agent can give rise to adverse selection, if an agent, the firm, borrows money from a bank, the principle. Moral hazard is another potential problem if the principal invests money in the agent. Relationship banking, in which lender and borrower have a relational contract, can help to minimise the principal-agent and adverse selection problems arising between a lending bank and borrowers. An arm's-length transactional or classical contract is at the other extreme, and gives rise to transactional banking where many banks compete for the customer's business, and the customer shops around for several banks. (Heffernan 1998, 21-23).

Moving financial services to the Internet creates a totally new competitive landscape. Instead of operating within clear-cut service boundaries, well-established financial organizations suddenly find themselves competing for customer loyalty and liquidity. The advent of Web-based commerce has added new layers of complexity and unpredictability to the worlds of commercial and retail banking, mutual funds and brokers, back-end processors and front-end financial software providers. The online-markets and customers are all participants in the emerging digital value chain. They all need the integrated, network-accessible banking and financial services (Cronin 1998, 5). Every layer of the new digital value chain offers opportunities for banks and financial services companies to expand their core business models and increase revenues. With electronic commerce moving quickly in the direction of customized, integrated financial services and standard solutions for digital trust, the traditional advantages of banks and well-established investment companies are being challenged by more flexible business models. Banks themselves are experimenting with new approaches to customer service and product extension based on the one-to-one, interactive capabilities of the Web (Cronin 1998, 16-17).

A customer-led strategy makes horizontal sites vertical, providing a natural growth medium for communities of interest. A customer-led web site is the first step in widening the communication bottleneck and listening to e-customers (Siegel 1999, 81). Yet a bank must ensure also that it implements its virtual banking systems in as cost-effective a manner as feasible. It follows that any possibilities for cost-savings from implementing a virtual banking system must therefore be considered in the light of the bank's needs to meet its obligations to its customers and to establish and maintain a competitive advantage in the marketplace (Essinger 1999, 98). Customer benefits of virtual financial services can be summarized as more convenience, better knowledge of state of accounts, and wider range of products/services available to the customer with possibly lower costs.

Customer-directer systems spur a lot of the best ideas and quality improvements. Customers will let you know if you're on track. Success is built by going from day-to-day improvements like changes to graphics, to fixing errors like broken links, to correcting spelling. This lets the customer base know the bank is in this for the long haul. The changes in the customer base need to be watched and flexibility is a necessity; baby steps instead of giant leaps. Because prior projections are often wildly divergent with real results because of the rapid changes in technology and the online community, the inclusion of the firm's support group in development, delivery, and training on new online services leads to an improved customer-led strategies. (Sterne 1996, 275-277).

### **Strategies for Electronic Banking**

Evans and Wurster suggest that we are witnessing emergence of the second generation of electronic commerce, one that is driven by strategy not only experimentation. The first generation was characterized by experimentation with really short time-span, when companies were trying to shorten time-to-market as much as possible. Executives tried to apply same methods to new business challenges. Only few companies had a clear vision of their competitive strengths and of the value

they are offering to their customers. Separating information flows from product flows transforms businesses and industries and the way the value is created. The effect of this separation on business of the same magnitude as when payment and material flows were separated.

In the next section of the paper we will explore different approaches that MeritaNordbanken used for its electronic banking strategy. On the basis of empirical data, a three-phase model for electronic banking was developed (see [figure 1](#)). We will discuss in detail each phase of the transformation of value proposition offered by banks. We will argue that banking business becomes more information than transaction driven. It will be further argued that Internet has a strategic role in this shift.

### **On-line Banking Services – A New Distribution Channel**

Internet proved to be an important distribution channel in today's business environment. By offering services on-line, companies can reach even larger customer segments. An Internet-based service, it is immediately available to everyone connected. The number of people connected is increasing all the time, although estimates vary in numbers.

During this first phase, like many other companies, MeritaNordbanken has moved on-line with its Solo-â service, offering its customers the same banking services that they used to get in bank's branch offices. Their main value to the customer was the possibility to bank from home or work using computer and a modem at a more convenient time. Internet as a distribution channel has changed the utility of time and place.

On-line based services are beneficial for the bank as well - the costs of each transaction made on-line is only a fraction compared to the costs at branch office. Several studies indicate that the cost reduction is substantial, the cost of a transaction completed through Internet is roughly 1% of the cost of the same transaction at the branch office (Booz, Allen & Hamilton; Forrester Research).

However, Internet as a distribution channel don't give any competitive advantage if on-line services are no different than the services in the branch office. To fully utilize the potential on Internet as a business environment, companies need to develop a clear understanding of how the value is created.

### **Facilitating Electronic Commerce**

MeritaNordbanken have decided to go further than just offering the same services that it offers at the branch. The bank has developed Solo payment systems, which is based on the same technology as transaction management for on-line services. The user interface is also similar. MeritaNordbanken offered this system to merchants and aggregated them under Solo Marketplace concept. Currently over 750 merchants are using the system. There is a direct link from bank's home pages to the Solo Marketplace. When a customer from MeritaNordbanken finds a product on merchant's site and decides to buy it, the transaction is handled directly between seller and the bank. After proper authentication, the money is debited from customer's account and credited to seller's account. Both parties get confirmation.

In this business model in addition to basic banking services, the bank offers its customers information about shopping locations, handles payment transactions and reduces the risk of a fraud both for customer and the seller of the product. MeritaNordbanken have positioned itself as a portal and a trusted third party. More value is extracted from use of information, less from transactions. E-commerce is further facilitated by Group's new offerings such as E-billing, E-Identification and E-signatures. New mobile payment systems are developed in cooperation with Nokia and Visa enabling even wider use of WAP phones and personal area network (PAN) connectivity technologies. The boundaries between financial and non-financial industries are already blurring.

### **Information Driven Business Model**

In the future information will be the core of banking business. Traditionally banks provided financial services and information related to them. In the new economy the challenge is to provide the right sort of information at the right time through appropriate distribution channel. Electronic commerce can be further facilitated using more data about customers' buying patterns and profiles. Marketing and advertising will get even more targeted and customized. Information about buyers' behavior is of a value in itself.

Internet as an environment offers unique opportunities not only to do business, but also to leverage information about the customer and for the customer. Internet could be used as a product development platform as well as a marketing tool. With on-line services banks will be able to get closer to customers. This could mean moving outside the industry boundaries. Currently Sonera, Finland's biggest mobile phone operator, offers MeritaNordbanken customers a possibility to open a new mobile phone account using Solo authentication process. The customer can identify him- or herself with the

same key-codes which are used for on-line banking. Given the amount of sensitive information available to the banks already, it is highly likely that customers would prefer to have the bank as a primary guard of such information which could be used for the benefit of the customers in other e-commerce settings. Banks would be more consumer affiliated.

### Conclusions

Primary academic question to be addressed was the validity of the social exchange theory paradigms for describing customer oriented electronic banking applications. What was clearly new in our approach, was the application of behavioural sciences to the technology based applications. Therefore this study makes an important methodological contribution by investigating a new, practitioner-focused method for technology driven modelling in customer-led business environment.

Second, once the benefits of customer oriented designing were shown within the context of retail banking, the causality amongst various marketing instrument effects was more completely indicated. This was done in modelling the transformation of value proposition offered by banks. It was found that our three-phase model describes the current dynamic nature of electronic banking to a great extent.

A taxonomy and framework demonstrated in this paper relates the myriad of marketing constructs describing changing consumer values. The theoretical foundation to accomplish this aim was laid in the two first sections of this paper but also our three-phase model clearly illustrates the different dimensions of social exchange taxonomy by presenting its own framework relating the technological constructs as well as the behavioural ones in describing the marketing decisions. Preliminary results implicate that electronic banking is substantially reforming the created value.

European monetary union present a new challenge for many industries and for financial sector in particular. Companies and individuals have wider a choice of products and services. European integration together with the diffusion of e-commerce makes national borders less relevant. The challenge for the banks becomes truly global. EuropeLoan, a Belgium based Internet bank, has already started operations in Sweden and will move to Finland in the near future.

New mobile technologies offer even broader a scope for banking. MeritaNordbanken was the first bank in the world to launch WAP-based banking and payment services. Customers will get even more value with the help of a small mobile device for purposes as diverse as banking and authentication. Now, not only the time can be saved, but the customer is given more freedom to decide when will he/she do it. The future business model will consist of several models from traditional and on-line world using multiple distribution channels.

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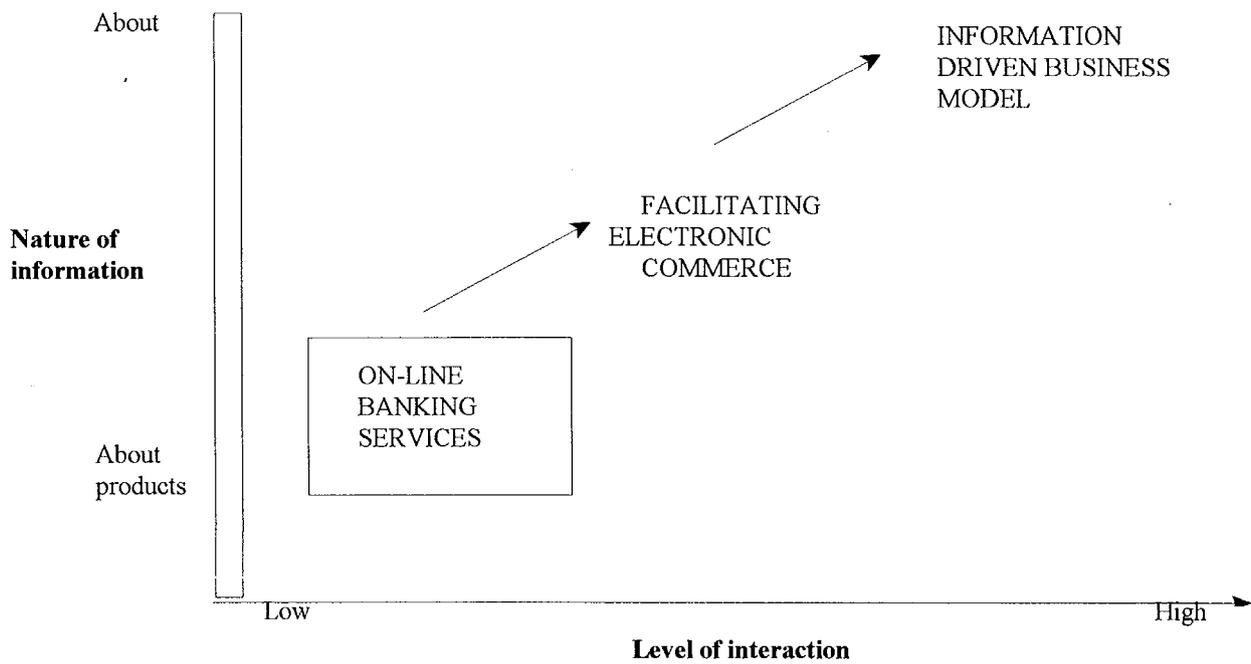


Figure 1. A three-phase model on the transformation of value proposition offered by banks.

## **Cheating, Cooperation, and Darwin: What Evolutionary Psychology has to say about Inter-Firm Relationships**

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### **Abstract**

How do firms in alliances, channels, and other inter-firm relationships determine the level of cooperation they are receiving from their partners? Rarely in actual business transactions are partners fraudulent or negligent. More often they freeload through less than total effort or act only to the letter of a contract, making cheating difficult to observe.

Buckley and Casson (1988) define cheating as not living up to one's obligations. They further define two categories of cheating, strong and weak. Weak cheating is meeting one's minimum obligations in exchange, while strong cheating is avoiding even these limited obligations. A firm that refrains from cheating exhibits forbearance (or minimal opportunism). Given the distinct possibility of partner cheating, especially weak cheating, why do firms engage in cooperative behavior? The working assumption in most inter-firm relationships is that continued cooperation among partners is advantageous, through just-in-time logistics or other long-term relationship benefits.

Tooby and Cosmides (1989) suggest an evocative logic for understanding the roots of cooperation, a Darwinian adaptive process they have labeled evolutionary psychology. Cosmides and Tooby (1989) believe conditions in the Pleistocene era forced hunter-gatherers of this era to engage in social exchange. The nature of the information processing problems in social exchange may have forced our ancestors to develop efficient mechanisms for optimizing cooperative social exchange. Cosmides and Tooby (1989) hypothesize that the optimal strategy may be to catch cheaters who fail to reciprocate their end of a social contract. In fact, the "logic" applied in catching cheaters breaks the laws of formal logic. People use an intuitive sense of what is fair or honest in any given circumstance. The key element of the social exchange cheating logic is learning to infer a partner's intention to cheat.

In a series of experiments, Cosmides (1989) showed that the intuitive search for cheaters more accurately described the outcomes than other types of reasoning. Thus, Tooby and Cosmides (1989) suggest a Darwinian origin for the development of relational exchanges and the paradigm for monitoring exchange behavior -- an in-bred logic for discovering cheating intention by assessing the fairness of the partner's activities and actions.

Fairness in exchange is measured by what is normal in a given society. Thus each society develops its own relational norms. The group (or culture or species) succeeds by creating rules which promotes its continuation. As cooperation is the societal norm, individuals succeed (as measured by their ability in passing on their genes to the next generation) by obeying the rules of the group.

It will be argued that managers should use this highly refined sense of cheating, developed over thousands of years, to understand the underlying level of cooperative intent of their partner firms. By combining many results from the inter-firm relationship literature on norms in negotiations, mutuality, and other strategic and behavioral constructs, managers will be shown how in an orderly manner how to let their intuition catch "cheaters" in inter-firm relationships.

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## **Cultural Dimensions of Opportunism: A Working Paper**

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### **Abstract**

While the investigation of culture's role in marketing management has spanned almost twenty years, no study has contemplated the relationship between cultural dimensions and opportunistic behaviors. Drawing from Transaction Cost Analysis (Williamson 1975, 1991) and various cultural research in marketing (Hofstede 1980, Johnson 1993, Hampden-Turner and Trompenaars 1993), I offer propositions to fill this gap. The paper illustrates specific operationalization of terms, measurement scales, and assessment guidelines. The proposed cross-cultural research is valuable to an increasingly global marketing field for the implications on improved efficiency. When tested, the proposed hypotheses will add managerial insight to the antecedents and behavioral relations to opportunism that may enable international managers to anticipate opportunistic behaviors and take preventative actions.

The purpose of this paper is to propose an examination of opportunism cross-culturally and to understand other measures of behavior which may correlate to opportunistic behavior. I add to the research stream on opportunism by outlining empirical investigations across two national cultures, Filipino and North American (USA), and by illustrating how other cross-cultural measurements of power distance, locus of control, and achieved vs. ascribed status relate to opportunism. These issues are particularly relevant to international marketing managers as they attempt to effectively foster and maintain relationships in global corporations. I develop this study by first defining the concept of opportunism in a general business setting, I then review theory and findings of power distance, locus of control, and achieved status vs. ascribed status. From this theoretical backdrop I advance my hypotheses and suggest methods to pre-test them on a sample of workers from the Philippines and the United States across various industries and demographic backgrounds. Finally I close with comments on future research and managerial implications of my findings.

The proposed cross-cultural research is valuable to an increasingly global marketing field for the implications on improved efficiency. As noted by Williamson (1991) when opportunism is added to environmental uncertainty and bounded rationality, contracting becomes more difficult and more costly. Increased environmental uncertainty in global operations exacerbates this relationship and poses even greater challenges for marketing managers. Understanding the antecedents and behavioral relations to opportunism may enable international managers to anticipate opportunistic behaviors and take preventative actions. Additionally (or perhaps alternatively), understanding cultural values allows organizations to modify practices to adapt to the host country's value structure without sacrificing total organizational effectiveness (Kelley et al. 1987, p. 29). Finally, a comparative analysis of cultures, such as the one proposed here, may assist marketers anticipate responses of competitors, understand the customs in business transactions (exchanges), and deal with colleagues of various nationalities in joint decision-making and problem solving (Tse et al. 1988).

Due to the limited exploration of opportunism cross-culturally, future opportunities for research are virtually boundless. In the near future I hope to capitalize on the findings of this preliminary research by collecting primary data in various business and educational organizations both in the Philippines and the United States. Beyond this immediate application research may take several avenues including combining this study's discoveries with: (1) investigations on cross-cultural communication patterns, (2) high-context, low-context cultural differences related to marketing decision-making and negotiation, and (3) issues of marketing management standardization vs. adaptation in international sales environments. As globalization of marketing operations and relationships continues (Levitt 1983), studies such as the one proposed here and subsequent off-shoots from conclusions drawn will assist managers in maximizing marketing efficiencies while minimizing loss due to lack of cultural awareness.

## Chinese Managers' Attitudes Toward Sales Careers

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### Abstract

This study examines the attitudes of Chinese managers, enrolled in an MBA program, toward careers in sales and marketing. These managers most preferred international sales as a career followed, respectively, by marketing management, finance, and marketing consulting. Consumer product sales and industrial sales were viewed as being much less attractive career paths. In comparison to earlier studies of undergraduate students from other countries, Chinese managers were more positive about sales career paths. Findings and implications are presented to global marketers.

### Introduction

Student attitudes about sales careers have important implications for global marketers, especially for the most populated Pacific Rim country. China is a huge, awakening trade giant with enormous potential economic power (Goldman 1994). The amazing economic growth of China can be seen in the World Bank's World Development Indicators 1998 with an average annual GNP growth over 1965-1996 of 8.5% and an average annual growth in exports of goods and services during the same period of 11.1%. In 1996, China became the sixth largest U.S. trading partner with over US\$63 Billion in goods and services ([www.stat-usa.gov](http://www.stat-usa.gov)). Given the importance of Pacific Rim countries--and especially China--to U.S. and world trade, it is imperative that competent human resources embrace sales careers. Otherwise, the efficiency and effectiveness of the global sales force and ultimately the entire marketplace could be diminished. Myriad studies have examined U.S. student perceptions of sales careers. However, few studies have investigated international student perceptions of business careers. The purposes of this exploratory study are to: (1) examine the preferences of Chinese managers for careers in sales and (2) discuss the implications of these findings for global marketers.

### Background

Numerous studies have investigated student attitudes and perceptions toward careers in sales. Most studies conclude that students possess low perceptions of sales as a career and that this attitude discourages talented individuals from pursuing a career in sales. Generally speaking, college students view sales as a "door-to-door" activity (Weeks and Muehling 1987). However, as students gain improved role accuracy by completing additional marketing, personal selling, and sales management classes, these stereotypes recede (Swenson et al. 1993). In the international arena, New Zealand students rated marketing management and international sales careers highest (Ford, Honeycutt, & Joseph 1995). These New Zealand students described sales in such terms as: challenging, exciting, and dynamic; while other students provided more negative descriptors like: pressure-oriented, unappealing, and boring. In a separate study, Philippine students held low opinions of sales careers and preferred to own their own businesses (Honeycutt et al. 1996). In a larger study of the Pacific-Rim area, students from the U.S., New Zealand, and the Philippines exhibited similar positive views about positions in international sales. However, few students from any of these three countries expressed a desire for an industrial sales career. This may be attributable to the respondents not having sales experience and/or lacking courses in personal selling and sales management (Honeycutt et al. 1999).

### Methodology

A variant of the questionnaire developed by Swinyard (1981) and refined by Swenson et al. (1993) was utilized in this study. Students indicated their appeal for each of 17 possible career areas that included three sales categories: consumer product sales, industrial sales, and international sales. A five-point semantic differential scale that employed descriptor anchors of "very appealing" (1) and "very unappealing" (5) was used to measure student interest in listed career positions. Each respondent also indicated one career area they most preferred. One hundred and two students from Tianjin University, located in Tianjin, China participated in this study. All

respondents were MBA students who were enrolled in an introductory MBA marketing class. The mean age for the respondents was 28.4 years. Less than half (44%) of the respondents reported an average 11 months of sales experience. Sixty-one percent of respondents reported an average 41 months of management experience.

### Results

A significant difference was reported between the three sales categories. That is, International sales was rated the most-preferred career path by nearly one-quarter (23.5%) of respondents. The low esteem shown for non-business careers was not surprising since the student participants in the study were graduate business students. What was surprising is that two of the sales careers listed--consumer and industrial sales--were not selected as a desired career path by anyone! In the overall scheme of occupations, a more favorable image was shown for consumer product sales and industrial sales. However, these responses are relative to other non-marketing career paths. As seen in [Table 1](#), international sales was the most preferred (4.8 out of 5.0), which was in sharp contrast to the ratings for consumer product sales (3.41) or industrial sales (3.24).

To shed more light on these responses, the reactions of students were also tracked through a series of open-ended questions (see [Table 2](#)) and sales as a career path (see [Table 3](#)). In regard to preferred careers, students described them in terms of status, being challenging, financially rewarding, interesting, offering travel, and being excited. When looking primarily at sales as a career, many of the same descriptors were provided, but some others also came up which were not as complimentary, such as hard-work, stressful, boring, and repetitive. These negative responses are similar to those reported in other global studies of sales as a career (c.f. Honeycutt et al. 1999). The respondents also provided reasons for wanting a career in sales (see [Table 4](#)). These reasons included: being challenging, financial rewards, travel, being exciting, and perks of the job. Looking at [Table 5](#), the reasons for not wanting a sales career are listed. Interestingly, 12 responses fall into the "not a good match for me" category. Many other responses show the negativity of the respondents toward sales careers: bad image, stress/pressure, boring, risky, hurts people, and unappealing. A final step in the analysis of the data involved examination of the appeal of careers in consumer product sales, international sales, and industrial sales, and the following demographic variables: age, year of study in program, number of courses completed, and amount of sales experience. There were some interesting results when the correlation matrix was examined. That is, significant correlations were found between three relationships: consumer product sales and months worked in sales ( $p=.000$ ), international sales careers and months of managerial experience ( $p=.020$ ), and industrial sales and sales experience ( $p=.000$ ).

### Discussion

It appears that significantly different perceptions exist in the minds of surveyed Chinese MBA students between the appeal of a career path in international sales, marketing management, industrial sales, and consumer product sales. International sales is viewed by many as an appropriate career path that is exciting, challenging, and offers travel opportunities. Consumer product sales and industrial sales, conversely, are viewed as being less appropriate career paths for MBA students. These sales career paths appear to be perceived in much the same way that past U.S. student studies have shown them: as unglamorous and repetitious. The perceptions indicated by the respondents, relative to specific sales paths, do not appear to be significant for age, number of courses completed, or amount of sales experience. This finding contrasts U.S. studies which have consistently shown that the appeal of sales as a career is inversely related to grade-point average. It should, of course, be noted that most of the international perceptual studies involving sales as a career path have focused on undergraduate students, while these respondents were graduate students. It may be that misperceptions of sales careers are only compounded over time without education. The differences identified in this study, when compared to previous U.S. studies, may be explainable by the nature of the country of China. First of all, China is a large country that until recently has been isolated by a state-controlled economic system. However, China's economy is currently growing at a tremendous rate and more of her citizens--especially those who are younger and well-educated--are looking forward to a career that allows significant reward for doing a job well. If a position in international sales offers them this opportunity, then it is to be greatly desired. Why is marketing management the next most preferred career path? It appears that corporate marketing management is viewed as an important position that occupies a position at headquarters.

These findings present interesting implications for marketing educators in China and potential recruiters from global firms.

### Implications for Global Marketers

Chinese MBA students perceive a potentially bright career path in international sales. From these findings it seems possible that marketing education in a country like the U.S., with its domestic focus, may not present many exciting scenarios for students who are trying to envision their future career paths. If a more global approach were stressed in principles, personal selling, sales management, and marketing management classes, it is likely that American business students would--like Chinese students--be able to see beyond the mire of domestic, "in-the-trenches" sales careers. Conversely a sales position in China, which due to the export focus of the country automatically contains an international focus, is a much higher-probability as an entry-level career path for graduate business students.

**Table 1**  
**Appeal of Various Career Paths\***

<u>CAREER PATH</u>	<u>MEAN RESPONSE</u>
International Sales	4.80
Marketing Management	4.41
Management Consulting	4.39
Finance	4.14
Marketing Research	3.86
Real Estate	3.52
Public Relations	3.42
Consumer Product Sales	3.41
Product Management	3.37
Personnel	3.25
Industrial Sales	3.24
Government Service	3.16
Accounting	3.14
Law	3.14
Teaching	3.14
Engineering	2.78
Retailing	2.69

\*Responses were based on the anchors: 1 - Very Unappealing and 5 - Very Appealing

**Table 2**  
**Description of Preferred Career Path**

<u>DESCRIPTION</u>	<u>FREQUENCY</u>	<u>PERCENT</u>
Status	22	21.6
Challenging	19	18.6
Financially Rewarding	11	10.8
Interesting	8	7.8
Travel	8	7.8
Exciting	5	4.9
Responsibility	2	2.0
Professional Growth	2	2.0
Other Responses (all 1)	5	4.9
No Response	<u>20</u>	<u>19.6</u>
TOTAL	102	100.0

**Table 3**  
**Description of Sales as a Career Path**

<u>DESCRIPTION</u>	<u>FREQUENCY</u>	<u>PERCENT</u>
Hard Work	12	11.8
Fun	9	8.8
Exciting	8	7.8
Financially Rewarding	6	5.9
Challenging	5	4.9
Stressful	5	4.9
Boring	3	2.9
Repetitive	3	2.9
Competitive	2	2.0
Other Responses (all 1)	30	29.4
No Response	<u>19</u>	<u>18.6</u>
TOTAL	102	100.0

**Table 4**  
**Reasons for Wanting a Career in Sales**

<u>DESCRIPTION</u>	<u>FREQUENCY</u>	<u>PERCENT</u>
Challenge	11	10.8
Financial Rewards	11	10.8
Travel	7	6.9
Exciting	6	5.9
Perks	4	3.9
Don't Want a Career in Sales	4	3.9
Help the Company	4	3.9
Matches Personal Abilities	3	2.9
Other Responses (all 1)	32	31.4
No Response	<u>20</u>	<u>19.6</u>
TOTAL	102	100.0

**TABLE 5**  
**REASONS FOR NOT WANTING A CAREER IN SALES**

<u>DESCRIPTION</u>	<u>FREQUENCY</u>	<u>PERCENT</u>
Other Interests	8	7.8
Bad Image of Sales	7	6.9
Stress/Pressure	6	5.9
Too Truthful/Deception	5	4.9
Hard Work	5	4.9
Does Not Match Personal Skills	4	3.9
Dislike of Salespersons	3	2.9
Boring	2	2.0
Hurts People	2	2.0
Risky	2	2.0
Unappealing	2	2.0
Other Responses (all 1)	19	18.6
No Response	<u>37</u>	<u>36.3</u>
TOTAL	102	100.0

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## Profiling Foreign Visitors in a Diverse Florida Community: Impact for Destination Planning

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### Abstract

Travel and tourism contributes substantially to the economy in Florida, where 48.7 million people vacationed in 1998. Almost 8 million of these were foreigners (THCVA, Inc, 1999). In 1997 alone, Florida visitors spent over \$40 billion and tourism directly employed almost 800,000 Floridians (Florida Department of Revenue, 1998).

Some visitors will eschew common destinations like Orlando or the Keys for areas with a more diverse selection of activities, including Tampa, which attracted over 12 million visitors. Understanding what motivates visitors to come to a city like Tampa, which lacks a clear destination location, is important to positioning the city and others like it around the country.

In addition to profiling visitors based on foreign, in-state, or out-of-state, the paper profiles travelers' preference for a variety of leisure activities experienced during their trip to Tampa, comparing their propensity to engage in diverse activities, such as historical-cultural, adventure, sports, environmental, educational, and spectator events.

Professional surveyors interviewed 4,904 travelers during their recent trip to Tampa using a randomized day/site/time sampling technique. Results contained 555 (approximately 12 %) foreign visitors, 1,950 (approximately 43 %) Florida residents, and 2399 visitors from other US states. In general, foreign tourists were less likely to travel to Tampa expressly for the attractions of the area, but were more often drawn to the region based on its proximity to Orlando. They also were more motivated to visit the area for educational, historical/cultural, or environmental reasons. Foreign tourists were less likely to visit to see friends or family, to enjoy the night life, and to either watch or participate in sporting activities. In general, foreign tourists were more likely to consider personal input into decision making, such as friends, than US tourists, who are likely to use impersonal sources of information, such as travel agents and brochures. Data also indicate that Tampa offered a wide range of activities appealing to prospective visitors and perceptions of variety contribute to the attractiveness of the area as a destination. Most visitors rated Tampa very high on all aspects of the experience and planned to return within the next two years for additional visits.

Next, stepwise discriminant analysis was used to determine those variations between foreign and the two types of US visitors that most distinguished the three groups. Results indicated primary reason for visiting Tampa (PRIMARY), number of nights spend in Tampa (NUMBER), the primary attraction of the Tampa Bay region (ATTRACT), the proximity to Orlando (ORLANDO), and the number of times the respondent had visited Florida (VISITS) were major discriminators between foreign and US residents. The resulting two functions are:  
.392 PRIMARY + .670 ATTRACT - .482 ORLANDO + .607 VISITS -.420 NUMBER  
-.109 PRIMARY + .431 ATTRACT + .498 ORLANDO + .404 VISITS +.630 NUMBER  
However, cross validation results using a jackknife approach only yielded a 45.8 % correct classification result.

Clearly, utility exists for analyzing visitor data according to their geographic location ( i.e. in-state, domestic, foreign). Because competitive destinations strive to maximize their advertising dollars, it is important to realize that foreign visitors, as a group, represent the greatest economic impact, since they spend more than \$1000 per day. Regarding behavioral differences, foreign visitors are more motivated to visit the area for "Eco-tourism" purposes, including historical/cultural, educational, and environmental benefits, suggesting appropriate positioning in these markets. Because most foreign visitors view Tampa as a tourist location due to it's proximity to Orlando, marketing executives should devise strategies that create package opportunities within each foreign segment according to activities sought.

**Leadership, Cooperation and Performance in International Marketing Channels: An Empirical Investigation of the United States, Finland, and Poland**

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**Abstract**

Marketing channels around the globe exist in an increasingly competitive environment. Consequently, many alternative channel structures and methods of distribution have emerged. Specifically, many firms have re-engineered their international marketing channel systems by forging cross-cultural alliances to respond quickly to new opportunities and threats. These international partnerships place increased emphasis on the fostering of cooperation among channel partners to achieve individual and systemic goals on a global scale. In a marketing channels context, the existence of a channel leader and the channel leader's ability to effectively manage channel participants have grown increasingly important. In this environment, the question of the transferability of management theories and practices across cultures takes on greater importance. Despite the importance of channel leadership and channel partner cooperation, research on this construct has been limited in scope.

This study explores the impact of leadership style on channel partner cooperation in the context of different national cultures. Using the path-goal theory of leadership, hypotheses were developed regarding the association between channel leadership style and cooperation, and between level of cooperation and channel partner performance in three distinct cultures: (1) the United States, (2) Finland, and (3) Poland. Preliminary results of the research show that the impact of leadership style on cooperation is largely influenced by differences in national culture.

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## Managing Country Risk in Global Marketing: The Triadic Model

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### Abstract

Managing country risk is a critical task for companies engaged in global marketing. To help achieve this goal, the authors present a framework called the "Triadic Model," which is a hierarchical, multilevel schematism, that represents marketing activities to reduce country risk. The three categories of marketing activities are: (i) long-term *relationships* (ii) the continuous *change* and (iii) the management of *paths* for information.

### Introduction

The concept of "country risk" is extremely important for companies who are engaged in, or are considering global marketing operations. Traditionally, most of the research on country risk has been for the benefit of financial institutions concerned with international loan repayment. Therefore, many definitions of country risk found in the literature focus primarily on a country's ability to repay debt, and emphasize economic and financial factors (e.g. Saini and Bates 1984, Shapiro 1985, Cosset and Roy 1991, Thompson 1981, Morgan 1985, Melvin and Schlagenhauf 1985 and Kern 1985). From a marketing perspective, country risk incorporates political, economic, financial and socio-cultural elements, and refers to the uncertainty caused by political, economic, financial and social instability of a country and its attitude towards foreign operations (Bhalla 1983).

In this paper we explore country risk from a marketing perspective. Our analysis will focus on four types of country risk: political, economic, financial, and socio-cultural. Each of these types of risk has the potential to affect marketing activities of a firm operating in a foreign country. When the analysis shows that the market potential to relative risk is large enough, a decision to enter the market may be made despite the high level of risk. Methods to moderate the country risk would be extremely welcome at this point. This paper provides a new framework to help analyze and manage country risk. The new framework is based on what is seen as the focal marketing activities in today's global marketplace (see Erevelles 1997).

### The Triadic Framework for Managing Country Risk

The Triadic Framework is a multilevel schematism that represents *the marketing activities of a firm in today's global marketplace* as a hierarchical classification; it is superior to a single level classification because of its enhanced systemic power (Hunt 1991). There are three categories and these categories are presented in a two level hierarchy. (see figure)

At the top of the hierarchy is the activity of building and enhancing relationships with the various stakeholders of the organization in the foreign country. This should be the focal marketing activity in a global firm. The stakeholders include customers, employees, partners (suppliers, channel members etc.), shareholders, competitors and the government. At the next level is (i) the continuous management of change and (ii) the management of paths. The management of change includes constant change of the offerings, as well as the organization. The offerings (goods, services or ideas) should be viewed only as the initial step in the building of long term relationships. The continuous emerging of the new markets, and the profiles of those markets, make the change function obligatory for the organizations. Offerings consist of the tangibles, as well as the intangibles (including customer service and price) that the firm uses to satisfy the consumer. The third category is the management of the paths for the flows of the offering, or components of the offering, and the flows of information between the organization and its various stakeholders. The communication between stakeholders and the feedback that the company gets from those stakeholders are considered to be 'paths' in that framework.

The "Triadic Framework" enables global companies to evaluate and control their foreign operations within the dimension of time. The following sections analyze the four types of country risk identified earlier within the "Triadic Framework".

## **The Elements of Country Risk and Marketing Strategy**

### **I. Political Risk**

A general definition of political risk for an organization is "business risk brought about by political sources or environment" (Friedmann and Kim 1988). Political risk involves the intervention of a government, such that it affects the firm's operations (Fitzpatrick 1983). Political risk can also be identified in terms of the probability of the occurrence of certain events and/or the presence of constraints on the organization. Political risk involves a change in the environment, but such a change has to be significant and negative, in order for it to be considered a political risk.

#### **Political Risk and Relationships**

An organization can earn the support of local citizens, and thus reduce political risk, by developing good relationships with the people affected by its actions. Local customers support companies that have provided them with desirable products and services. A company can also influence political risk through employee relationships. Employees can be very protective of a company, even in times of local instability, especially if they perceive that the quality of their jobs, or even the very existence of their jobs, could adversely be affected through government interference.

The relationship a company cultivates with other companies (partners) is also important when dealing with political risk. Local "support" companies that have developed strong relationships with a foreign firm will be concerned about a disruption in their production schedules, and possible decreased profits if the government interferes with the foreign firm. A firm's relationships with a foreign government may also determine if the firm will survive a change in the political environment. To protect against this, a firm should develop relationships, not only with the ruling party, but also with any leading opposition parties in the foreign country. Relationships with the local community are also important. The firm's behavior in the foreign country will help determine its relationship with the government. The host country may be concerned that a foreign company will extract materials and labor and make a profit, but fail to give back to the local environment and people.

#### **Political Risk and Change**

Host governments typically consider two issues when deciding on interfering with the affairs of a foreign company: the benefits the company provides to the host economy, and, the expense involved if the foreign operation were to be replaced by a local one (Shapiro 1981). The higher the benefits are and the more expensive the replacement is, the lower is the political risk. Therefore, a foreign company should adapt its offerings and organization to these two criteria. A company's offerings should contribute to increasing the country's living standard, with the product or service itself adapted to satisfy a need present within the community and the price suitable to the local income. As local needs change, the company's offerings and prices should also change.

#### **Political Risk and Paths**

Maintaining effective control over the paths of offering flows can also help moderate political risks. One of the most effective means of warding off nationalization, or at least increasing a firm's leverage against a host government, is to retain control of the distribution and marketing network for the firm's products (Micallef 1981).

Controlling information flows is another means of reducing political risk. Unique advertising and promotional activities could protect a firm from interference, since these activities would be difficult to duplicate. Similarly, a company should protect its brand names and trade marks.

### **II. Economic Risk**

From a marketing point of view, economic risk includes demographic structures, country infrastructures, economic structures, demand structures and economic growth (Bhalla 1983). Per capita income (demand structure) and the economic growth may be the most important factors in assessing

economic risk. They reflect the character, quality and level of economic growth. Furthermore, there is a correlation between uneven income distribution and political instability (Bhalla 1983). Another important factor is the inflation rate, which is an indication of economic instability, disruption and government mismanagement (Davis 1981). High inflation is an indicator of improper demand management,

### **Economic Risk and Relationships**

Economic risk has detrimental effects on a company by presenting problems with the core aspects of marketing: product, price, promotion and place (the 4 P's). In developed countries, the 4 P's form the basis of most marketing activities. Strategy is centered around a good product. The organization determines what the consumer wants, and then creates an offering to satisfy the consumer in every possible dimension. In such a situation, a foreign company must compete and grow by establishing relationships with customers, employees, partners (e.g., suppliers, distributors), shareholders, competitors, the government and other stakeholders, with the goal of solving their problems, rather than providing them with the most advanced products. This marketing approach can play a crucial role in reducing economic risk through establishing customer loyalty and through an overall contribution towards a higher standard of living. In addition, the goodwill that the company acquires provides a competitive edge once other firms enter that market.

### **Economic Risk and Change**

Multinational organizations should also manage economic risk through changes in their offerings (products and/or services) and organizational structures. Governments may even force changes in a company's offerings through changes in regulations. Further, when a country pursues policy changes aimed at reducing current account deficits, changes in markets may be forced upon companies. The majority of the country's products, in such situations, may be exported at the expense of local markets. Also, price changes may be an everyday reality in countries suffering from high inflation.

Companies may also need to implement organizational changes in order to meet changes in local conditions. Because business environments in economically unstable countries change much more rapidly than in other countries, firms must have the flexibility to change as well. Such organizational changes may involve decentralizing decision making and training, and/or empowering employees, which will enable the organization to react quickly in its own interest. Senior management should include personnel from the "home" country who are familiar with the company's values as well as personnel from the "host" country who can easily recognize local change opportunities.

### **Economic Risk and Paths**

The management of information and offering flows is also an essential part of dealing with economic risk. A foreign company operating in a LDC has an advantage over local business when it comes to the management of information flows. Local businesses place less importance on marketing because it is not seen as a guiding philosophy for a business as a whole. A foreign company may have the advantage of expertise in marketing and, with the right promotional adaptation, this expertise can be profitable. Advertising in any form of media, promotions such as competitions, give-aways, point-of-sale displays, etc., can all be effective ways to communicate information about the company and its offerings.

Management of the flow of offerings is especially important in countries with high levels of economic risk. Such countries usually have insufficient infrastructure and, as a result, distribution channels need to be controlled carefully. Yet, strong management of offering flows can contribute tremendously to customer relationships, and thereby reduce economic risk. Furthermore, economic instability means that the faster a product is produced and sold, the more likely the firm will realize a profit. Companies must react quickly and be flexible. If a company sees that its offerings have become devalued before it is able to react, it should look for alternative markets, and, possibly utilize sister companies to limit losses due to the host country's economic conditions.

## **III. Financial Risk**

Marketing managers must be aware of two main types of financial risk: foreign exchange rate risk and commercial risk. Foreign exchange rate risk refers to the risk associated with changes in currency values, while commercial risk refers to the insolvency of, or protracted payment default by, an overseas buyer (Czinkota and Ronkainen 1990). Whenever a firm enters into any transaction

denominated in a currency other than its own, it will face exchange rate risk. Two relevant types of exchange rate risk are transaction risk and economic risk.

### **Financial Risk and Relationships**

Exchange rate risk is particularly important as the firm attempts to build relationships with its customers. When currency values shift, potential customers may face higher or lower prices, and consequently may alter their purchasing patterns. Similarly, partners in the marketing channel may see price changes as a result of currency moves. An interesting facet of exchange rate risk is that changing currency values may cause similar effects for some market competitors, while others may face the opposite situation. An organization's relationships with its customers or its partners may be affected by commercial risk when a firm, having little legal recourse in many countries, experiences difficulties in receiving payments for products and/or services rendered.

### **Financial Risk and Change**

Governments may intervene in currency markets to control prices and/or wages. Firms that produce products in foreign markets could find that such interventions affect their relationships with their employees and may, in fact, result in a change of their organization. For example, when currency values rise, so do wage rates. When wage rates rise over an extended period of time, an organization may find it appropriate to shift production to another location. This type of production shift would also affect the path component of the marketing process. Both new information paths and new distribution flows would need to be established.

### **Financial Risk and Paths**

An important part of financial risk assessment is considering the effect of changing exchange rates on product or service flows. There have even been attempts to determine whether foreign exchange risk has negatively affected international trade flows (Cushman 1986). Because a country's overall well being is affected by trade-flows, this is a meaningful issue. When a country's terms of trade improve, so does its standard of living (Shapiro 1985). Clearly, a firm is likely to have more success in a country with a higher standard of living. However, we suggest that the real issue for the marketing manager is not whether exchange rate risk exists, but how it can be managed.

## **IV. Social Cultural Risk**

Culture influences every aspect of marketing. Since culture (i.e., the social values and beliefs in a society) shapes an individual's actions, it also plays a role in a customer's purchasing patterns. It has been suggested that the products people buy, the attributes they value, and the principals whose opinions they accept are all culture-based choices (Jain 1993). For marketers, this translates into a scenario in which a product that is highly successful in one country may not be considered acceptable in another.

### **Socio-Cultural Risk and Relationships**

Building a relationship with customers in a foreign market requires that a firm become cognizant of the relevant cultural influences on buyer behavior. An organization may find that it must alter its product or service to better suit the needs of its foreign customer. McDonald's and Pizza Hut for example, have subtly altered both their products and their messages in various parts of the world.

### **Socio-Cultural Risk and Change**

There are different generally recognized organizational designs used by firms that operate in more than one market. The choice of organizational structure will largely be dictated by socio-cultural and environmental factors.

### **Socio-Cultural Risks and Paths**

Socio-cultural risk is also present at the paths level of the marketing process. New distribution paths (i.e., offering flows) must be developed in order to sell a product or a service in a new market. This requires a firm to build new relationships with channel partners who will probably be influenced by a different set of cultural values and beliefs.

## Discussion and Conclusions

In this paper, we have advanced the triadic model of country risk analysis that goes beyond traditional models. In presenting the model, we suggest that country risk in marketing can be systematically be managed by managing relationships, change and paths. Together, these factors, and the interrelationships between them and a firm's operations in foreign markets can be a predictor of the firm's likely success in a host country. The model is unique in that it examines the components of country risk within this framework, and in doing so allows for a time dimension to be incorporated into the overall process of managing country risk.

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## **Consumer Comfort with Service Providers: A Proposed Scale**

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### **Abstract**

We first provide our rationale for the importance of consumer comfort in the development and maintenance of relationships with service providers. Previous research in the areas of environmental psychology, social work, communication, and economics suggested the importance of comfort in successful interactions. While comfort can be described in relation to either the physical or psychological human experience, we focus on the psychological aspect of comfort as it relates to interactions with service providers.

Secondly, we report findings from our qualitative study that reinforced the importance of comfort in relationships with service providers. Informants in the study recounted experiences with service providers that revealed something about the nature of comfort in these interactions. We provide illustrative comments from the qualitative research to reinforce our findings.

Thirdly, we report the steps we have taken to produce a valid scale of consumer comfort. Such a scale is necessary to further understanding of this construct and its impact on successful relationships with service providers. We define the construct and outline each step of the scale development process. This multi-step process included steps to judge the content, internal, and construct validity of the scale. Further, we assessed composite reliability, as well as convergent and discriminant validity, using structural equation modeling techniques across two samples. These assessments resulted in a scale of comfort that exhibited reliability and validity.

The introduction of comfort into the marketing literature may provide an expanded understanding of the nature of customer relationships. The development of the comfort scale will allow empirical research to follow that could address the domain, properties, and consequences of comfort in the context of customer relationships. This research comes at a timely juncture where researchers have shown increasing interest for studies that focus on relationships customers have with a variety of businesses.

Note: For more information about this paper, please contact the authors.

## **Developing an Economics of Information Measurement for Services: The SEC Framework**

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### **Abstract**

The consumer information evaluation framework using the search, experience and credence (SEC) classification has been active in the service literature for almost twenty years (Zeithaml 1981). Although embraced by marketers, surprisingly little empirical work has been done on the viability of the economics of information framework yet it offers important theoretical support in the services literature and practical applications for service providers. Useful for both goods and services research, the SEC framework has its strongest appeal in the service industry literature because of services' inherent intangible and non-standard characteristics. Marketing scholars argue that this type of service industry distinction enhances theory development because the findings are not particular to some unique industry but are generalizable to other like type service situations. Because of its important theoretical potential in the service literature and its managerial implications for service providers, an effective multi-item SEC measurement is needed. This research attempts, through several qualitative and quantitative iterations, to further the service literature by extending the SEC measurement into a useful theoretical and managerial instrument. This exploratory research attempts to build upon previous endeavors in developing a measurement (e.g. Iacobucci 1992) that can differentiate, between search, experience and credence goods/services.

The Economics of Information's (Nelson 1970) classification was initially developed to help explain the notion that consumer information about quality often has "profound effects upon the market structure of consumer goods" (Nelson 1970, p. 311). Nelson extended Stigler's (1961) information search theory to explain information by way of experience. He defined two types of qualities that had distinct characteristics in terms of consumer evaluation processes: search -- those that can be fully evaluated prior to purchase, and experience -- those that must be first purchased and consumed before the consumer is able to evaluate. Darby and Karni (1973) extended the information acquisition classification to include credence qualities -- those that the consumer can never fully evaluate even after purchase and consumption, i.e. those accepted on faith. Zeithaml (1981) introduced the classification into marketing, via the service literature, as a theoretical framework to better conceptualize the purchase evaluation differences between goods and services. Her classic piece featured a continuum on which consumer goods anchored one end of the spectrum (easy to evaluate) and pure services anchored the other end (difficult to evaluate). Goods, she proposed, have more search qualities while services exhibit more experience and credence qualities due to their unique characteristics -- intangibility, non-standardization and inseparability.

The current research produced three potentially significant outcomes. First, the multi-dimensional scale performed well in terms of factor loadings and reliability analysis. Second, involvement does appear to play a significant role in how consumers evaluate a service. Third, examining those goods/services with similar involvement scores, we see that the individual dimensions can predict service type.

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## **Measuring Service Involvement: An Adaptation of the Personal Involvement Inventory**

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### **Abstract**

The involvement construct is well-established in the consumer behavior literature, and its influence on consumer decision-making is well-documented. Nevertheless, relatively little work on developing a service involvement scale has been accomplished. This study extends prior research investigating the applicability of Zaichkowsky's (1994) revised Personal Involvement Inventory to consumer services.

Specifically, this study utilized two dissimilar services not previously used in such research: auto repair and maid services. Confirmatory factor analysis was used to assess whether (1) the revised PII seems appropriate for common consumer services, (2) both an affective and cognitive dimension emerge, and (3) the same dimensional items are retained when tested in a service context.

Results indicate that, with minor modifications, the scale appears to be appropriate for services. In addition, the study found support for both convergent and discriminant validity, indicating that a two-component (affective and cognitive) involvement with the service measure is validated. However, because one of the final models still has considerable room for improvement, results of this study must be considered somewhat tentative. In addition, two of the individual items from Zaichkowsky's reduced PII (interesting and involving) have given an inconsistent performance in the limited service involvement literature. Thus, future research on service involvement needs to carefully consider these two items.

However, the results of this study do provide considerable support for using Zaichkowsky's reduced PII as a measure of service involvement that can be employed in exploring the role of consumer involvement in the purchase and consumption of services. Given the continued growth of services in today's economy, such tools are highly critical for the marketer of consumer services.

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## **Towards a measure of corporate environmental citizenship**

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### **Abstract**

This paper presents the process of developing and validating a multidimensional measure of corporate environmental citizenship specifically designed to address the issues facing the energy and mineral resources sector - one of the largest and internationally prominent sectors of the Australian economy.

### **Introduction and Theoretical Positioning**

Making a profit in compliance with laws and regulations is the undebatable, non-negotiable basis of the relationship between business and society (Friedman, 1970) but it has been repeatedly argued that it is not enough (Laczniak, 1983; Smith and Quelch, 1993) to make a good corporate citizen. Following an increasingly popular logic of corporate-human equivalence (Laufer, 1996), corporations have been seen as moral agents (Paine, 1994; French, 1996; Logsdon and Yuthas, 1997) capable of upholding morality and making a positive contribution to society through philanthropy (Carroll, 1998). Thus the multidimensional construct of corporate citizenship, similar to "citizenship in the classical individual sense" (Hutton et al., 1998) is arrived at. It has been described as an assumption of responsibility (Maignan and Ferrell, 1999), a philosophical standpoint (Hutton et al., 1998) or an attempt to align private and public interests (Smith, 1994) in response to external pressures (Parkel, 1991).

Despite the current resurgence in concern for the natural environment which is increasingly reshaping the global businesses environment (Porter and C, 1995; Welford, 1995; Zahra, 1999) environmental citizenship has only been given passing mentions in the corporate citizenship literature. Corporations are increasingly becoming aware of their impact upon the environment (Guimaraes and Liska, 1995). Assisted (or possibly coerced) by supra-national organisations acting as agents of diffusion of institutional environmental norms (Hoffman, 1997; Wartick and Wood, 1998) and environmental activist groups lobbying and raising public awareness (Hoffman, 1997), corporations are involved in the development of voluntary environmental initiatives (Coalition for Environmentally Responsible Economies, 1989; International Chamber of Commerce, 1991; Carroll, 1993; Sharma and Vredenburg, 1998) and allocate resources to environmental management (Greeno and Robinson, 1992; Rugman and Verbeke, 1998). A major part of this institutional activity towards environmental protection is both directed at and generated by the mineral and energy resources industries. The sector has been at the centre of an intense and protracted public debate as it is the most visible contributor to air, water and land pollution (Eden, 1996) and has been positioned in the "corporate desperados" group in terms of its social conscience (Jennings and Entine, 1999:1).

The objective of the research project presented here was twofold: first, to design and validate a measure of corporate environmental citizenship and, second, to provide some preliminary indications of the direction further study should take in identifying underlying organisational antecedents.

### **The Research Method**

An extensive review of the Corporate and Strategic Environmental Management as well as the Business and Society literature was undertaken in order to identify the dimensions of Corporate Environmental Citizenship. The focus of the review was on the scales used in the corporate environmental management literature as well as the legislation, regulation and voluntary codes, standards and agreements that apply to exploration and mining. In organising the variety of items that the literature review revealed, the construct of corporate citizenship was applied. The four categories used were: (ec) economic citizenship which requires corporations to be productive and profitable, and to meet consumption needs; (le) legal citizenship which requires them to fulfil their economic mission within the legal framework; (et) ethical citizenship reflecting the extent to which businesses follow socially established moral standards and (di) discretionary citizenship which reflects activities voluntarily assumed and aimed at helping others without producing direct tangible outcomes for the firm. This conceptualisation has been developed and validated in previous studies (Carroll, 1979; Pinkston and Carroll, 1994; Carroll, 1998; Maignan et al., 1999; Zarkada-Fraser et al., 1999). A Delphi panel of six experts from academia, non-governmental environmental agencies and federal government was set up to review the measure, refine the variables and check the proposed categorisation.

## Data Collection and Analysis Procedures

Using the Disclosure Global Researcher 32-bit Database a total of 82 firms listed under the industry classifications oil, gas, coal and related services were found to have produced annual reports in 1998. The firms were contacted by telephone and letters and asked to provide their annual and environmental reports and other relevant publications. From the 29 firms that responded, 26 provided useable materials. All the reports used in the study, included evidence of compulsory and voluntary external audits for accuracy, quality of information and level of disclosure.

The primary data analysis method of this study was content analysis. Four different procedures were utilised: (a) the *types* of messages (slogans, chapters, sections and references to the natural environment in annual reports or the production of a separate environmental performance report) were recorded; (b) the *length* of messages (word count or number of pages) were calculated; (c) the *appearances of specific words* (relating to the firms' attitude towards their social and environmental role) were counted and (d) *references* to the policies and procedures comprising the corporate environmental citizenship measure were coded. This paper reports on the results of procedures (c) and (d).

Establishing the validity of content analysis involves developing an accurate coding and coding the text according to an objective criterion in a simple, rational (Potter and Levine-Donnerstein, 1999), stable, accurate and reproducible manner (Krippendorff, 1981; Potter and Levine-Donnerstein, 1999). The coding and data entry were carried out independently by the researchers and the results were compared for accuracy and minor discrepancies were discussed and resolved. An experienced researcher with no knowledge of the research area and the objectives of the project also verified the coding of the reports. All data were manually coded and entered into a spreadsheet.

The coding system that was developed for the corporate environmental citizenship variables was based on the logic that at the firm level, codified guidelines (laws, regulations, agreements and industry standards), and often philosophies are translated into corporate processes, programs and policies (Wood, 1991; Wartick and Wood, 1998). For each policy or program, either already implemented and producing results, designed and partially implemented or planned for implementation within a specified time frame, '1' was entered into the database. Multiple references to the same policy were coded but not entered into the database.

To address the issue of top management attitudes and locus of concern a custom-dictionary was constructed. The working hypotheses were that firms' attitude towards the environment is a product of corporate culture, commitment or a sense of responsibility. For each appearance of the words 'corporate culture', 'our/the firm's culture' or 'work ethic' or 'ethos' a counter was inserted in the 'corporate culture' field and for each appearance of the words 'commitment' and 'responsibility' a counter was entered in the respective fields. Similarly, the motivating concerns were hypothesised to be: community/public; culture/heritage; social issues/society; sustainability and rehabilitation/remediation that were treated in the same way. Finally, two terms were added to denote the attitude towards the communications and relationship of the corporations with their external stakeholders. These were cooperation (tracked through the words 'cooperative', 'consultation' and 'interaction' and transparency (expressed either as 'open', 'openness' or 'transparency') and their appearances throughout the text were counted. The CEO and Directors' messages as well as corporate governance statements were used for this part of the analysis.

## Results of the Data Analysis

The first objective of the research was to verify of relevance of the variables in the corporate environmental citizenship measure to mining, exploration and oil extraction firms. Although the appearance of a small number of variables in a firm's corporate communications cannot, in any way, be equated to low levels of citizenship, the complete absence of a variable from all texts could be interpreted as signifying that the variable is irrelevant. This, however was not the case.

All variables appeared in the communication of at least four firms, and some variables appeared in most of them.

More than half the firms in the sample report that they have environmental policies and plans (ec02) and programs to address a variety of issues (ec10); monitoring of procedures (ec03); numerical targets (ec04); EMS integrated into their management systems (ec06); employee awareness and training programs (ec07) and that they develop their own systems (ec08). Almost half the firms have publicly available reports of their environmental performance (ec05). Only nine firms provided clear expressions of linking sustainability and economic objectives (ec01). Moreover, external environmental audits (ec09) seem to be quite rare, as only one firm actually conducts them regularly and another three reported that they have used them in isolated cases rather than as part of their regular auditing process.

Out of the six legal citizenship variables only three were reported by the majority of firms: meeting (le01) and exceeding (le04) legal requirements and publicly reporting incidents of non-compliance (le06). Two of the variables in this section referred to international law (le05 - only appearing in four reports) and agreements (le06) and thus they did not directly apply to 12 of the firms that are clearly domestic (most of them are actually active in a limited area, within one state only).

Actions in anticipation of future environmental legislation (le02) and compliance with voluntary environmental

agreements (le03) were reported by six and eight firms respectively.

Half of the ethical citizenship variables were reported by less than 10 firms Two of them (et02 and et09) referred to product and environmental stewardship B roles assumed, however, by metal producers and oil companies that do have some form of control over their products. Relatively small numbers of firms also demonstrated that environmental responsibilities are part of their value statements (et05) and organisational objectives (et08) despite the fact that most of them stated that they are part of their philosophy (et01). Community consultation features prominently on the reported agenda of most firms (et03) together with benchmarking (et04). Finally, 18 firms articulated the belief that their obligation to the environment extends beyond the shareholders= expectations (et07) and four recognised the global nature of environmental issues (et06).

Interestingly, the majority of firms support community environmental projects (di01) but smaller numbers of firms seem willing to act on their own to raise awareness in the community (di03) or cooperate with other organisations (di04, di05). Finally, the majority of firms conduct voluntary research (di02).

### **Attitudes, Issues and Corporate Environmental Citizenship**

A standardised score of corporate environmental citizenship for each one of the sub-sets (economic, legal, ethical and discretionary), as well as the complete measure was calculated for each firm by dividing each firm=s sum of mentioned variables by the number of variables. Bivariate correlations between the corporate environmental citizenship dimensions and the total constructs as well as with the results of the word counting exercise that was undertaken to establish the way firms relate to their relationship with their external environments and the issues that concern them. The results that are presented here are tentative indications of the possibility of some fruitful avenues for further investigation rather than conclusive results.

Ethical and environmental citizenship seem to be contributing more to the overall citizenship score (.93 and .91 respectively) The most closely correlated sub-sets of variables are economic and ethical citizenship (.76) and legal and ethical citizenship (.78).

Firms that talk about commitment were found to be less likely to be concerned with social issues (correlation of -.76) than those that described their relationships as based on responsibility (.82) and highly likely to be committed to preserving cultural heritage (.98) and to the rehabilitation of sites after closure (.90). The firms that explained their attitudes and actions by relating them to their work ethic were always concerned with heritage and sustainability but never with social issues. Social issues seem to be the concern of those of the firms that see environmental protection as a responsibility (.82). High levels of concern for social issues are related to high levels of economic and discretionary citizenship. In terms of the ways of communicating with their external stakeholders, it appears that the firms that described them as open and consultative were, mostly, the ones that report higher levels of corporate environmental citizenship (.61).

### **Implications of the Research Findings and Future Directions**

This research project has developed a list of variables for measuring corporate environmental citizenship in the minerals and energy resources sector and a tentative, literature-based categorisation of the variables following the theoretical construct of corporate citizenship. The preliminary indications provided through the detailed analysis of corporate communications and the review of the expert panel clearly demonstrate the adequacy and relevance of the variables as a measure.

What now needs to be empirically validated using a quantitative approach is the extent to which these variables echo current corporate, regulatory and social consent on what the important dimensions of corporate environmental citizenship are. The logical step towards achieving this goal would be to use the variables to assess perceptions. A 360° feedback methodology is proposed. The approach has been proved to provide excellent results in assessing individual performance but has not been used for organisational performance assessment. This can be achieved through a study involving employees at different organisational levels in the sector, government and NGO policy-makers, community and environmental group leaders and members, and a representative sample of the general population. Utilising a survey methodology, the importance of each of the variables to each group, the factorial design, as well as the scale validity and reliability can be assessed. A refined and validated scale can then be used to measure firm performance against objective data through verifiable, independent sources. This approach would be expected to result in a holistic measure of corporate environmental citizenship that can build upon and compliment mechanistic audits in order to provide a broader picture.

A major goal of the corporate citizenship field of study is to link performance to its cultural or philosophical antecedents and its direct, tangible benefits. This study has given a limited but enlightening insight into corporate mentality, or at least its public expression.

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## Corporate Citizenship and Organizational Citizenship: What Do We Know? Where Shall We Go?

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### Abstract

Citizenship practices are attracting a lot of attention in business research but they can be tackled from two different perspectives. The first one concerns organizational citizenship behaviors (OCB) and the second corporate citizenship (CC).

In academic literature, authors have examined the nature of organizational and corporate citizenship, their dimensionality, their potential antecedents and outcomes. But no one has proposed a clear and complete comparison of these two constructs, which present the risk of being mixed up because of their similar terminology. Our objective is to fill in this gap by providing a clear review of literature about OCB and CC and establishing a thorough comparison of both behaviors. The different parts of the paper are detailed below.

The first part provides an overview of major papers in the OCB and CC fields. As this paper shows, the definition of these constructs has not been straightforward. Many perspectives have been adopted, many definitions and dimensions have been proposed, some behaviors are described as being OCB (CC) by some authors, but not according to others. Since no single conceptualization has been widely accepted, our objective is to take stock of the different highly related constructs investigated by researchers in these fields. Afterwards, the most relevant conceptualizations of organizational and corporate citizenship are selected on the basis of inclusion of pertinent dimensions, number of replications and validations in different contexts...

The second part compares OCB and CC constructs. An examination of areas of dissimilarity helps us show that these two terms cover really distinct behaviors. Even though they have similar appellations, CC and OCB have, for instance, different initiators, beneficiaries and objectives.

Potential relationships between corporate and organizational citizenship are proposed in the third part. Indeed we argue that an employee reaction to corporate citizenship programs could be to adopt organizational citizen behavior. Further research is needed to show that the proposed links are relevant and that results of OCB are also the indirect outcome of corporate citizenship programs.

The paper gives a clearer image of corporate and organizational citizenship concepts and identifies areas of (dis)similarity. But the most important contribution of the author is to give insight into some unexplored benefits of corporate citizenship programs, such as the increase of employee punctuality and conscientiousness, which represent organizational citizen behaviors. These "new" concrete benefits would perhaps conduct reluctant businesses to acknowledge corporate citizenship as a worthwhile investment. Businesses would use corporate citizenship as a marketing instrument but *in fine*, it is society that would benefit from such actions.

## **Communicating the Ethos of Codes of Ethics in Australia's Largest Organizations: A Reliance on Osmosis**

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### **Abstract**

One of the ways that an organization displays its commitment to an ethical organizational culture is to develop a code of ethics. However, a code by itself is not enough to ensure that the employees of organizations will actually manifest ethical behaviour. The benefit of having a code can only be derived if the codes of ethics are brought to life by organizations that genuinely wish to pursue a better ethical culture.

The study of Australia's largest companies found that many companies have instituted ethical behaviour initiatives yet they have not included exposure, education and support to assist staff to perform in the ethical manner that the organizations require.

### **Introduction**

One of the ways that an organization displays its commitment to an ethical organizational culture is to develop a code of ethics (Stoner 1989; Gellerman 1989; Axline 1990; Harrington 1991; Laczniak and Murphy 1991; Fraedrich 1992). However, a code by itself is not enough to ensure that the employees of organizations will actually manifest ethical behaviour. The benefit of having a code can only be derived if the codes of ethics are brought to life by organizations that genuinely wish to pursue a better ethical culture (Davis 1988).

Codes of ethics serve a most useful purpose as the first plank in a raft of measures that can be implemented by the organization in an attempt to enhance the ethical decision making of the employees of that organization. However, by themselves codes of ethics are not 'panaceas' (Townley 1992).

The research interest inherent in this study was centred on the need to examine the commitment to the principles of the code of ethics that the organization had. This was done by examining the means by which organizations tried to integrate the ethos of their codes into the every day lives of their employees.

### **Methodology**

During late 1995 to early 1996, an unsponsored, unsolicited questionnaire was sent to the top 500 companies operating in the private sector within Australia. The basis of selection was the size in \$Australian of company turnover (DiBiasi & McBride 1993). The aim of the questionnaire was to obtain from the participants a copy of their code of ethics and for them to answer a set of up to forty-six questions. These questions focussed on the methods used by these organizations to inculcate an ethical ethos into the daily operating activities of the organization and their employees (Sims 1991). A month after the expiration of the return date, a second copy of the questionnaire was sent to those companies that had not responded.

### **Response to the Questionnaire**

The response rate to the questionnaire was 340/500 (68%). There were 61 companies that responded but declined to be involved. Of the 279 active respondents to the questionnaire, 121 had a code of ethics and also filled out the questionnaire. These 121 companies are the subject of this paper.

### **Communication of the Code to the Employees**

For an organization to obtain the full effect from implementing a code of ethics that organization must communicate its value system and its document, the code of ethics, to the workplace. Benson (1989), contends that codes should be prominently displayed within the organization, where not only the employees of the organization but also its attendant publics can see them. Stead et al (1990) also believe that codes should be developed and then communicated throughout the organization in the most open of ways possible, to ensure that workers feel a part of the process not an addendum to it. Townley (1992) suggests that business leaders believe that disseminating codes of ethics throughout the organization will limit the probability of unethical behaviour. If the company is committed to the code of ethics then surely it must be a feature of the induction process to which all new employees are subjected.

Wall Plaques and Posters (23.8%) were the most used ways of displaying the code in the organization for people

to see and to view. The fact that the concept of display was not understood by 74/121 (61.2%) of respondents may suggest that displaying of the code is not a common practice.

The major means of communication to employees is through the use of a booklet about and/or containing the code (57.9%). A number of companies had used some innovative ways to disseminate company information about ethics. The use of video (5%) and electronic communication (6.6%) were two such ways.

Two companies replied that the code was not communicated to their employees. Obviously, it would appear to contradict the ethos and the philosophy for an organization to have a code, if one does not inform one's workers of the existence of the company code. Also it would appear to be impossible for employees to act in accordance with the standards of behaviour that the company expects, if they aren't aware of the existence of the code. Unfortunately, an explanation was not proffered by either respondent as to the reason or reasons for this situation.

The major way of inducting new staff is to issue a copy of the booklet containing the code (45.5%) and then to have some training and discussion in the subject area (52.1%). Companies that answered positively about training and discussion often linked it with the issuing of a book.

The use of training and discussion is a preferred option to just distributing a booklet containing the code. At the beginning of a period of new employment in an organization, an employee may often tend to suffer information overload due to trying to understand the organization that they have just joined. If a booklet was merely issued without specific discussion this would relegate the code to the status of just another handout. Unless the importance of the code is emphasised, the new employee may not consider it to be as important as the organization, no doubt, had intended it to be.

### **Consequences for a Breach of the Code**

Sims (1991), Fraedrich (1992), Stoner (1989), and Hegarty and Sims (1979) all suggest that within a code of ethics one should outline enforcement provisions for those individuals who may not uphold the code. The organization, by having procedures for a breach of the code, signals to employees the necessity to abide by the code for the sake of both themselves and the organization. The overwhelming majority of companies 101/121 (83.5%), do have consequences for a breach of the code.

The three areas attracting the most responses were: a verbal warning (80.2%), a formal reprimand (67.3%) and cessation of employment (67.3%). Companies were prepared to take the ultimate step of removing an offender from the organization if the breach had been serious enough. Legal action could be a part of the consequences for 36.6% of companies.

### **Ethical Performance as a Criterion for Employee Performance Appraisal**

The view that organizations should formalise the ethical performance of employees through the employee appraisal system is supported by Laczniaik and Murphy (1991), Fraedrich (1992), and Harrington (1991). This incorporation of one's ethical performance into one's performance appraisal is just another criterion that can be used to assess the organization's commitment to the process of cultural change, designed to enhance the desire to be an ethical organization.

More companies assess an employee's ethical performance 84/121 (69.4%) than those that do not assess it. Employees are made accountable for their actions in this area by their employers. The point of interest here is that superiors (81%) are the ones who make the assessment about an employee's ethical performance.

It is, of course, the role of the supervisor to ensure that staff performance is adequate. However, both Baumhart's (1961) study and Brenner and Molander's (1977) replication study found that in respect to being asked to perform unethical acts, that superiors were the main cause of employee anguish. Using superiors as the only means of employee assessment flags to all staff in the organization that the ability to judge ethical behaviour is the prerogative of one's management position. This may in actual fact run contrary to reality. Some companies do incorporate a review by peers 14/84 (16.7%) and a review by subordinates is also practised by 12/84 (14.3%).

It is of interest that only 31/84 (36.9%) of companies judge ethical performance against formal company standards. If there are no formal standards in 63.1% of companies then against what criteria would the assessment of staff performance be compared?

## **Formal Guidelines for the Support of Whistleblowers**

If organizations are to evolve into ethical entities, individuals must take both individual and collective action to change the practices that they see that may be an antithesis to the ethical health of the organization. Someone must make the move to expose violations of the organization's ethical principles. Formal guidelines to support whistleblowers should be considered because if standards are to be set then one needs ways to ensure that either violations or breaches will be reported, reviewed and corrected. However, taking this required action is not easy, because of the downside to the individual of the actions that they take to reveal unethical or unlawful practices (Grace and Cohen 1995).

Only 25.6% of respondents have guidelines to support whistleblowers. Bearing in mind the risk run by whistleblowers, it would seem that current company provisions do not assist to give either confidence or protection to an individual who may wish to report an issue of concern.

It is pleasing to see that those organizations that support whistleblowing do appear to guarantee confidentiality (64.5%) and do provide a formal channel for complaints (64.5%). However, concern does centre on the ad hoc nature of the formal investigation (38.7%) and resolution (41.9%) procedures. Informal processes can often lack specific and consistent guidelines: therefore accountability in case the process is unsatisfactory or goes wrong for the parties concerned. The obvious downside to the whistleblower can not be overstated.

## **Examination, Discussion and Revision of the Code**

A code to be relevant and effective, one could contend, must be constantly examined, reviewed, discussed and upgraded to reflect the current circumstances that face the organization in its general and task business environments. Murphy (1988) and Laczniak and Murphy (1991) believe that codes must be revised periodically.

The code is revised at least every two years by 34/121 (28.1%) of companies. However, the code is either revised as needed, or the revision is not formalised by 47/121 (38.8%).

The interest in the latter figure is that the code revision is either not formalised or as needed. These methods of determining action are fluid. They appear not to be prescriptive enough to ensure that a revision takes place on a regular basis. With the pressures inherent in business, one can often be tempted to let those activities slip that may not be scheduled regularly for reassessment. Again, it would appear that the current Australian practice is an ad hoc process.

## **The Use of Codes of Ethics to Guide Strategic Planning**

If the company is serious about inculcating ethics into the organization, then ethics should be an integral part of the strategic planning process (Robin and Reidenbach 1987; Harrington 1991). Organizations should consider and review their plans in light of the ethical principles that the company believes that it should practise and upon which it has predicated its decisions in respect to its marketplace participation. Companies (45.5%) do use their codes to guide their strategic planning. There was a large 'Don't Know' response of 20/121 (16.5%).

## **A Standing Ethics Committee or Its Equivalent**

If organizations in the late 1990s in Australia are beginning to realise the need for ethical practices in their organizations then an ethics committee may be an idea that organizations may have contemplated and an area in which they may have initiated action (Weber 1981; the Center for Business Ethics 1986; McDonald and Zepp 1989).

The concept of a standing ethics committee or its equivalent was acknowledged by 31/121 (25.6%) of the respondents. Just under three quarters of the respondents did not have a standing ethics committee.

## **Ethics Education**

A number of writers have advocated the use of training programs as a means of institutionalising ethics within the organization, (Weber 1981; Browning and Zabriskie 1983; Center for Business Ethics 1986; Murphy 1988; McDonald and Zepp 1989; Axline 1990; McDonald and Zepp 1990; Harrington 1991; Laczniak and Murphy 1991; MacLagan 1992; Dean 1992; Sims 1992). Without training and education, one could contend, that the desire to incorporate an ethical perspective into the business practices of employees will only be a dream that can not be translated into reality. Aligned with the need to have ethics education is also the need to have a designated ethics training committee or its equivalent set up to oversee

such training and education.

The existence of an ethics training committee or its equivalent is acknowledged by 18/121 (14.9%) of respondents. In Australia's top 500 companies only 40/121 (33.1%) of those who have codes conduct ethics training for the staff. If 66.9% of companies don't provide ethics training or education to enable employees to deal with the ethical dilemmas faced on a daily basis, then the intent of having a code may be at best devalued and at worst lost.

### **An Ethics Ombudsman or Its Equivalent**

Several authors support the contention that organizations should have the provision within company policy for disclosures of acts which are inconsistent with accepted company ethical practices and procedures (Labich 1992; Gellerman 1989); and Stoner 1989). If an organization has a person designated as a confidante to whom staff can go with ethical concerns, then, hopefully, employees will be encouraged to volunteer information about unethical practices that they perceive are detrimental to the organization i.e. whistleblow.

Only 24/121 (19.8%) of companies have such a person to whom staff can go with their ethical concerns. This links with the previous section on whistleblowing where only 25.6% of companies had procedures in place for whistleblowing.

### **An Ethical Audit of the Organization's Operation**

The need for a company to conduct an ethical audit is linked with the need to monitor employee and company performance. Audits are an accepted format for monitoring organizational performance in a number of business areas and ethics should not be seen to be any different. The positive response was 46/121 companies (38%) which shows that many companies appear to be monitoring the ethical nature of their business, but many more are not.

### **Conclusion**

The companies surveyed do endeavour, in varying measure, to implement the ethos of their codes in their organizations. Companies make employees aware of the existence of codes of ethics and codes are extensively used in the strategic planning process. In general it would appear however, that whilst the intent is there, the procedures to facilitate the practice of ethics in marketing organizations operating in Australia are not well developed.

Many companies in Australia have instituted ethical behaviour initiatives. They have put in place ways to monitor the performance of staff in these areas, yet, they have missed, it would appear, the linking part of the process between implementation and examination. That missing link is: exposure, education and support to assist staff to perform ethically. It would be an anathema to businesses in this country to launch a new product without first ensuring initial and ongoing product knowledge updates. Ethics should not be regarded differently. As a result of the individual differences between employees, companies can not assume that employees will all act in accordance with the company's ethical policies without the support of the organization in such critical areas as: education, and the protection of employee rights. Unless these areas of deficiency are recognised and addressed, organizations will continue to experience the downside of unethical behaviour in the marketplace.

Organizations should not be able to use as their defence, that they have an ethics policy and that they police and monitor it, unless they acknowledge the fundamental responsibility to educate staff on an ongoing basis to its content, ethos and intent. One can not assume that it is an osmotic process.

Employees can not be expected to just view the code, subsume its intent and act accordingly in ways stipulated by the organization. In general, companies in Australia appear to be moving in the correct direction but, they need to be constantly vigilant to ensure that the movement does not become inert.

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## **How Do Codes of Ethics Affect Managerial Behavior? The Impact of FAmiliarity**

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### **Abstract**

Codes of ethics exist in many, if not the majority, of all large U.S. companies today. But how the impact of these written codes affects managerial attitudes and behavior is still not clearly documented or explained. This study takes a step in that direction by proposing that attention should shift from the codes themselves as the sources of ethical behavior to the persons whose behavior is the focus of these codes. In particular, this study investigates the role of code familiarity as a factor impacting the influence of an ethics code on manager behavior. Data collected from 286 executives from companies in the direct selling industry are used to test hypotheses (1) that the perceived usefulness of ethics codes is positively related to the degree of familiarity with the code, and (2) that ethical climate as assessed by managers is positively related to the code's perceived usefulness. Both hypotheses are supported, and their implications and further research directions are discussed.

## A Study of Strategic Alliances of Small and Medium-Sized Firms

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### Abstract

The main purpose of this article is to provide a deeper understanding of strategic alliances made by small- and medium-sized enterprises (SMEs). A theoretical framework has been developed on the basis of four variables: resources, learning, network and performance. Due to the explorative nature of this work, a case study method has been applied to thoroughly describe and analyze the collaborations.

### Introduction

In the field of internationalization, many researchers have studied different aspects of strategic alliances. However, these studies almost exclusively deal with large multinational firms since only these firms have been believed of being capable in engaging in alliances (Faulkner, 1995; Medcof, 1997). But strategic alliances are equally important for SMEs as they usually are in shortage of complementary resources and in need to develop their marketing as well as technical capabilities. In a survey study of Ontario based exporters, Calof (1993) concludes that SMEs are capable of entering the same markets as are the large firms. The only difference is that large firms with more resources are able to seek out more international opportunities and they appear to do so with greater frequency than do SMEs (ibid.). Research works on SMEs mainly apply a quantitative approach, giving only fragmented views of strategic alliances. As a very little is known on the development pattern of SME-alliances, it is appropriate to study the entire process than to concentrate on a limited number of aspects.

Ring and Van De Ven (1994) have called the collaborative relationship a process, and focus on its emergence, growth and dissolution. Following the line of Ring and Van De Ven, one can conceive why SMEs enter into strategic alliances, how they choose the present form of collaboration (licensing, management contract, joint product/market development, joint venture, etc.), and how these activities are organized and managed. With this background, the current paper addresses two research questions: (1) *How and why do SMEs get involved in strategic alliances?* and (2) *How do the strategic alliances function in combination with exchange of resources, learning and network development, and what benefits can SMEs draw from such collaborations?* This study can provide business managers with useful ideas in trying with other alternatives to solve their problems. More precisely, it will demonstrate how SMEs can learn from their partners in developing technology and technical competence, and also gain valuable support in expanding markets. In the field of research, the study will provide new insights in forming and operating SME-alliances.

As the purpose of the study is to increase understanding, a case study approach has been applied. Cases are not taken up as individual units, but presented in a comparative form by using the conceptual variables. Four small- and medium-sized Swedish firms from three different industries were thoroughly studied with the help of in-depth interviews. In all the cases, managing directors or other top executives, mainly responsible for internationalization, were interviewed in person. All the interviews were tape-recorded. The period of observation began at the beginning of 1997 and continued through 1998.

### Theoretical Framework

While presenting the resource-based view of the firm, Barney (1991) discusses the importance of complementary resources in alliance and joint venture formation. In the theoretical framework (**Figure 1**), *resources* have therefore been shown in a direct exchange with the collaborating partners. The other variables used are *learning*, *network* and *performance*. All the variables can influence each other, and the alliance partners are affected and can affect any of the variables. A discussion on the variables follows.

**Resources:** In many studies of interorganizational collaboration, researchers have focused on the criticality and complementary characteristics of resources for successful formation and operation of such

relationships. The entrepreneurship literature highlights two very important interrelated characteristics of small firms: resource constraint and resource commitment under conditions of uncertainty (Erramilli and D'Souza, 1993). Barney (1991) asserts that resources can be classified into three categories: physical, human and organizational capital. The first category includes physical technology, a firm's plant and equipment, and its access to raw material. Human capital resources concern the human element in the organization. The final category includes a firm's formal reporting structure, planning, controlling, etc. This classification is elaborate but does not consider the partners' marketing effort and marketing ability as important aspects in establishing alliances. **Learning:** There is a necessity for learning from each other, otherwise there is virtually no need to form an interorganizational relationship. Strategic alliances are an innovative means by which firms can increase their learning (Osland and Yaprak, 1995). Alliances expand the value of learning because the close inter-firm ties they foster create more opportunities to find technology, marketing and other information than many other outside contracts (Lewis, 1990). The degree of learning, however, varies from partner to partner depending for the most part on the ambition, organizational size, complexity and learning capacity of the partners. Hamel (1994) argues that firms learn from their past experiences and transform these experiences into useful knowledge that will make them more competitive in the future. **Network:** A network involves a set of two or more connected exchange relationships (Axelsson and Easton, 1994). Network has to do with exchange relationships between firms operating in the market (Johanson and Mattsson 1988) and other organizations and individuals who have an interest or play some role in the development of the business. Granovetter (1982) discusses social networks, which are built on social relationships. In industrial marketing, networks are viewed as sets of connected exchange relationships among actors who control industrial resources and activities (Johanson and Mattsson, 1988). Both the relationships are important and complement each other in developing long-term business relationships in the market. **Performance:** The outcome of a relationship is its performance, which can comprise both tangible returns such as profit, sales, etc., and intangible returns such as knowledge of collaboration, access to new contacts, competence development, etc. For measuring performance in joint venture relationships, Hyder & Ghauri (1989) used five criteria - profit, growth, adaptation, joint participation in the activities and survival. The last three criteria have intangible characteristics, implying that results are difficult to measure. Further, performance of SMEs may be of interest from two viewpoints: performance of the alliance itself, and the impact of the alliance on the firm's overall performance.

### **The Firms**

This section presents the results of the case studies done on four SMEs, i.e. PARK, ORTHO, BRUK and LEGO.

**Park:** This firm was established in 1955 and was engaged to produce mechanical parking meters. Since the mid 1980's, the firm had equipped their machines to accept various kinds of cash and electronic means of payment, including credit cards. In 1998, the number of employees was 100 and total sales for the year 1997 reached almost US\$ 19 million. PARK collaborates with a technology-based foreign company for product development, and has an international joint venture with a few of its distributors in Germany. The joint venture was established in 1993, in which PARK has 25% ownership. Concerning the product development collaboration, PARK came in contact with a technically advanced small German firm through other contacts and thus the collaboration was established in 1990. **Ortho:** This company was established in 1986 to produce technical orthopedic aids such as orthopedic shoes, orthopedic shoe accessories and support aids. In 1997, ORTHO's turnover was around US\$ 7.5 million and had employed 80 people. The collaboration is done through an EU project to develop orthopedic support aids for persons with severe paralysis. Advanced material technology is necessary to construct such products, and therefore complementary knowledge and know-how has been gathered in the EU project. The idea of setting up a joint project came as a matter of chance and a collaboration was established between the Swedish firm and a British partner. **Bruk:** The company was established in 1959 and is engaged in manufacturing machines to produce wood chips from waste woods. The company employed 125 people in 1998 and had a turnover totaling US\$ 14 million in 1997. The company had signed two license agreements with two US companies for manufacturing their machines in Sweden. In one case, the contract was signed in 1995. The second license agreement, with another US company, was met in the 70s to manufacture vibration conveyors. **Lego:** This SME was established at the end of 40s and owned

by some of the employees. The managing director owned the majority of the shares. LEGO's products were mainly components. The firm received drawings, technical specifications and necessary instructions from the customers. About 12% of LEGO's production went to export. Total sales in 1997 were US\$ 5 million SEK. A joint venture was established in Spain with a local partner in 1991 by the initiative of LEGO.

### **The Findings**

**Resources:** In general, all the SMEs had a shortage of financial resources, thus all the collaborations involved modest financial involvement. Two SMEs established joint ventures, but even there, investment by the partners was very limited. There was also a shortage of efficient manpower in the field of technology and marketing. The alliance partners in all the cases had also been smaller in size. PARK's products were complicated and quite advanced, and therefore it had an acute need of development engineers but had difficulty in finding such people to recruit. PARK therefore established a product development alliance with a German partner. To gain complementary resources was a basic need in all the SMEs. Three relatively large SMEs required either technology for production, or both technology and support for product development. These firms had their own research facilities but were still unable to solve all their technical problems. However, the needs of these SMEs were not the same, so their dependence on the alliance partners varied. BRUK received license to manufacture certain products, and at the same time further developed the applicability of the products over time to better match the local requirements. The other two firms PARK and ORTHO did not receive any ready-made technology from their partners, rather, the original idea came from these SMEs themselves.

**Learning:** In all the SMEs learning was considered important but the degree of learning varied significantly due to differences in scope and learning capacity of the firms. Maximum learning took place in ORTHO and BRUK. In the first instance, the relationship was totally based on mutual understanding, and the strength of the partners was associated with their capacity to complement each other. On the part of BRUK, learning took place through continuous relations and exchange of ideas with the licensors. BRUK already learned one of the two licensed technologies and could manage manufacturing independently. In the case of the other technology, the collaboration started in 1994 and BRUK was actively trying to acquire the required competence. The need for learning was more acute for PARK, since one of its collaborations directly concerned its core technology. The SME had been very much interested in acquiring this technology, but its learning scope and capacity was quite limited. In the case of LEGO, the learning was very general because specific problems such as marketing or manufacturing of a certain product were never discussed. This firm became aware of the international business, Spanish business culture and the capacity and strength of the other partner.

**Network:** Collaboration with the local partners had in most cases been helpful in establishing new contacts. BRUK was very successful in this context. It came in contact with one of the two licensors in USA through its own Canadian distributor. This distributor had a license from the US company to manufacture the same machine in Canada. The product was also quite new in USA and was marketed there for the first time in 1991. This situation created an atmosphere of close cooperation between the licensor, the Canadian distributor and BRUK. These three parties were engaged in a continuous exchange of views and consequently built up a common information base. The product had been sold by the Canadian distributor for several years. As BRUK was a new user of the technology, the support of the distributor was very helpful for it. Another good example of establishing a business network was demonstrated by ORTHO. During the signing of a collaboration agreement, ORTHO had contact only with one English firm. The network slowly grew out of this, as new partners came into the picture and the whole EU project could be established. All these new contacts helped ORTHO to gather international experience and to keep itself informed about the development in the field. There were several meetings between the collaborating partners during 1996-97. PARK, the main technology-based SME, had developed an international network of distributors all over the world. To keep this network functioning, dealers were invited twice a year to Stockholm. For LEGO, it had been difficult to expand its network beyond the relationship with local partner due to the language barrier and limited opportunity in the local market.

**Performance:** Most of the alliances worked well in compliance with the agreements. In the case of ORTHO, the partners got along well with each other and therefore wanted to continue after the end of the first term of the EU project. The first term of the project was complete at the end of 1997. An application for an extension of the project was duly submitted to the EU but was not accepted. After consultation with the EU, a new application was made in April but had also been rejected by EU in October 1998. Even in the absence of a new grant, the project group had met as usual in the beginning of 1998, as the partners treated the work as highly important for their future development. After termination of the project, the partners planned to continue their cooperation, either in the form of a consortium or loosely coupled network. BRUK, another SME, was not only successful in exploiting the formal agreements, but was also able to develop informal relationships to support the alliances. PARK's joint venture with other distributors went very well but its relationship with the product development company was less encouraging since PARK continued to be dependent on the latter. PARK's performance in connection to learn the technology was not satisfactory. The alliance of LEGO was not that successful. The goals of the partners in this alliance were ambiguous. The investment of the partners was quite low in the case of LEGO, and therefore the financial loss over the years was also negligible. Although PARK failed to play a key role in product development in the German alliance, it continued to earn a good profit through the use of the components developed over the years. Although ORTHO did not get any financial return from the collaboration, it was benefited by the new contacts with many international companies in the field. ORTHO was satisfied by the combined performance of the collaborating partners. BRUK gained both immediate financial return as well as an opportunity for future benefit.

### Conclusion

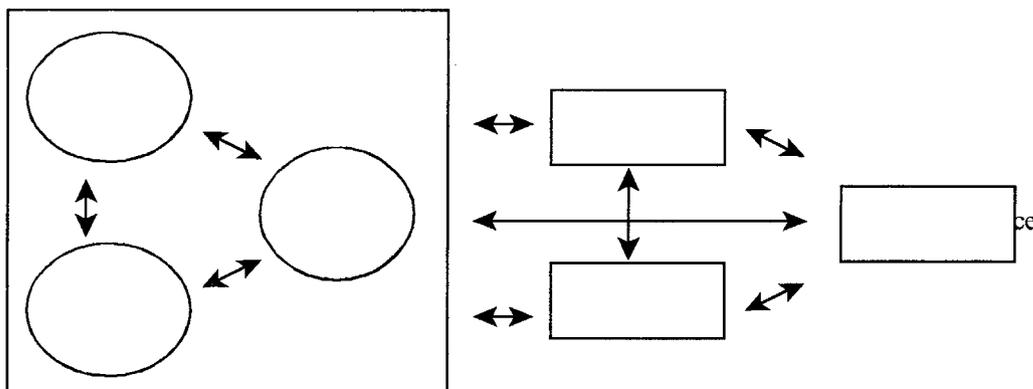
One important finding of the study concerns the degree to which the SMEs are involved in the strategic alliances. Irrespective of the type of alliance used, no substantial investment has been made. An important explanation for this could be that SMEs and even their collaborating partners had limited financial and other resources. Most of their resources were tied up in the usual business activity and no additional resource was available for internationalization. Informal contact, rather than formal agreement was found to contribute more in respect to deepening and broadening the relationships between the partners. Coviello and Munro (1997) view internationalization as an incremental process, based on knowledge, commitment and investment. The current study demonstrates that small firms want to use networks to learn about the market, technology, know-how and the capacity of the partners they deal with for future collaboration. Learning takes place first when partners come to know about each other and begin to discuss about potential collaboration. But this type of learning is less organized. Organized learning takes place with the establishment of the alliance.

Another important finding of the study is related to the recognition of the two types of performance: financial performance and non-financial performance, or performance which can not be directly measured in financial terms. In a study on joint venture, Hyder and Ghauri (1989) recognize the importance of non-financial performance, considering the varied and usually long-term objectives of the partners. Even resources can be classified depending on the degree of dynamism. A resource is considered more dynamic if it has a long-term effect, i.e., it contributes to developing the relationship and competence, and to finding ways for diversification and future market growth. Less dynamic resources, i.e., input, occasional increase in sales volume, etc., do not generate any long-range benefit and are therefore dominantly associated with the fulfillment of current objectives. As the financial result reflects a firm's short-term performance, resources which are less dynamic will have direct impact on these kinds of performance. Similarly, resources which are more dynamic will be associated with the attainment of the other type of performance.

A larger number of SMEs, preferably from other industries, can be included in a new study so that further generalizations can be made. As there are some major differences between SMEs and large firms, it is unwise to blindly adopt concepts and models of strategic alliances developed for large firms, in explaining the cooperative activities of SMEs. It is suggested here that future research be directed to the development of theoretical frameworks and that a more rigorous attempt be made to come up with testable hypotheses on strategic alliances, exclusively for SMEs. Such studies can be carried out in a combination of a thorough literature review on SMEs and strategic alliances, and in-depth case studies on SME alliances.

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**FIGURE 1** A dynamic model of strategic alliances

## **SME Marketing Networks: Handover Issues Faced by Australian Entrepreneurs: A Pilot Study**

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### **Abstract**

In interviewing owners/managers of small and medium sized enterprises (SME's) regarding the use of networking within their marketing decision making the problems of succession of networks were raised. This paper reports on a pilot study identifying six issues in handing over marketing networks as faced by entrepreneurs.

### **Introduction**

This paper discusses issues which arise when owner managers of small and medium sized enterprises (SME's) hand over their marketing networks in order to manage growth or when handing over ownership of the firm.

As an SME grows, it develops its own marketing style and practices. As the business becomes established, owner managers become more confident in actively participating in marketing network activities. Subsequently, owner / managers find they need to hand over some of these marketing networking responsibilities to their staff.

This paper reports on specific issues of handing over marketing networks in growing Australian entrepreneurial businesses, for reasons of succession or sustaining growth. The issues reported on in this paper have been identified from the content analysis as a major concern of owner / managers of successful growth SMEs.

In depth interviews were carried out with subjectively chosen entrepreneurial firms known to the Australian research team.

### **Methodology**

A survey instrument was developed from the longitudinal Northern Ireland research program. The questionnaire was designed from a comprehensive search of the literature combined with the experiential knowledge of the international research teams involved in the project.

In depth interviews were carried out with subjectively chosen entrepreneurial firms known to the Australian research team. Entrepreneurs were approached to obtain their commitment to participation in this study, before the interviews took place. It was explained to the entrepreneurs that the project involved a longitudinal study. A selection criteria was that the firms needed to be established for at least five years and exhibited reasonable growth in dollar revenue.

The interview with the entrepreneurs was at an appointed time, anticipating up to one hour of interview, normally with two members of the research team. Interviewees were encouraged to talk openly, being assured of confidentiality with all discussions being recorded on audiotape. All interviews aimed to be open and flexible, ensuring that the interviewee was able to express his or her own views in their own words. Specifically the language used by interviewers deliberately excluded marketing terminology, but focused instead on what the entrepreneur does in relation to various aspects of his business. Previous studies (example Hills and LaForge 1992) have shown that entrepreneurs will adopt the mode of the recipient to their views, particularly if they have had technology transfer or prior knowledge in an area of discussion. To avoid such a circumstance arising in this study, all questions by the research team completely avoided the use of marketing terminology.

Each taped interview, of approximately one hour, was transcribed and content analysed by the three research team members. In reviewing the full transcript of each interview, the following steps were carried out:

- Each team member individually highlighted perceptions of the key issues arising.
- (a) These issues were discussed and agreed upon by the team.
- (b)

- The agreed issues, with quotations, were identified for each firm.
- (c) Each issue was collated into group issues such as product, price, distribution, customer service,
  - (d) networking and the like. At the same time sub-issues were developed such as ‘ongoing focus on quality’ or ‘product diversification as a marketing strategy’ under the product issue. Sub-issues on price for example were ‘entrepreneurs are acutely aware of their own pricing strategy’.
- Each of these sub-issues was then given an ‘explanation’ for meaning and context.
- (e)

One of the significant sub-issues concerning entrepreneurs related to the handing over of marketing network, is the problem of succession and continued growth. To look at this issue in more detail, focus groups with the entrepreneurs generated concepts and pointed towards differences in the challenges of handing over marketing networks in manufacturing and service industries (Grant, Laney, Pickett 1998).

Arising from the focus group, and in order to obtain more specific detail, the researchers conducted telephone interviews, which were tape-recorded. A list of open-ended questions was prepared prior to the prearranged interviews, the three researchers being on a conference telephone link to the entrepreneur. An interview time of 30 to 60 minutes was arranged. Interviews averaged 45 minutes. The researchers then reviewed the transcriptions before analysing the context. All content analysis was conducted by the 3 researchers, using the same approach as per the initial interviews of the longitudinal study described above.

The pilot research project, which is being reported, is based on 11 in-depth interviews, followed by 3 focus groups, which were followed up with 4 telephone interviews. The same 11 entrepreneurial companies are involved in the longitudinal research program.

#### **Findings to date**

The research suggests that the entrepreneurial values and organisation culture underlie most of the difficulties entrepreneurs of SME’s encounter when handing over the marketing networks, which they have been responsible for establishing.

It appears entrepreneurs do not recruit operational staff for their marketing ability. Therefore when such staff are asked to take on a marketing role, they often feel uncomfortable.

The following issues have been identified by the researchers as difficulties by entrepreneurs in handing over their marketing networks. They have been set out in priority order in terms of the number of firms experiencing the issue.

#### **Personal Relationships are Difficult to Handover**

A difficulty inhibiting entrepreneurs from handing over networks arises where the effectiveness of the relationships and interactions depend upon high levels of trust. Such networks may have required many years to develop to the point where values and capabilities are well understood and behaviour is reasonably predictable.

#### **Lack of Confidence in Staff to Perform the Networking Role**

Regardless of the relative importance of the personal or professional relationships involved, the entrepreneur must have confidence in the ability of the staff to adequately perform the expected networking role. Where this is lacking, or there is uncertainty, the entrepreneur will be reluctant to withdraw from or hand over the network

#### **Entrepreneurs are Hesitant to Let Go**

An important step in handing over networks has to be an acceptance, by the entrepreneur, that the business has grown to a point where other members of the company must become involved in external marketing processes. The results indicated that this could be quite difficult where the entrepreneur enjoys high levels of personal satisfaction in dealing with the external environment.

### **The Commercial Skills of Employees Need to be Developed**

Entrepreneurs experience great difficulty in developing the commercial skills of technical staff. Interview discussions found that the commercial training of the employees is difficult. In several instances, entrepreneurs intend to do more employee training in the future as they pull more and more away from the networking activities related to marketing. Firms reported the commercial ability of staff as being a major issue with them.

It is perceived that the lack of commercial focus among employees is definitely a limiting factor on the growth of the business.

### **Staff Are Reluctant to Take On Networks**

There is evidence to suggest that staff do not see that a large proportion of their own professional networking and relationship building is marketing. A misunderstanding or negative perception of marketing often leads to reluctance to undertake a marketing role even in cases where people (staff) have demonstrated an ability to form strong network relationships. For example:

In other words entrepreneurs are finding that there is a resistance to marketing or selling because of the employee's concept of what it is, rather than a resistance to forming relationships.

### **The Need to Match Staff to Clients/Customers**

Entrepreneurs often make their staff conscious of the interpersonal relationships and endeavour to intervene quite deliberately in this area by asking that their people try to work on the relationship.

The importance of the client match with those staff in the network marketing area is seen as an important aspect of the entrepreneur's ability to hand over marketing networks.

Successful entrepreneurs are also aware of and actively manage the relationships between the firm and the firm's customers. Here we are referring to sensitivity; entrepreneurs have identified that there may be occasions when someone else, other than themselves in the firm can pick up on a "not so strong" relationship between the owner and the client's personality.

## **Other Issues**

Other issues identified as part of this pilot study include:

### **The Relative Importance of Handover Issues are Different Between Service and Manufacturing Businesses**

Participants suggested there are differences in the nature of the hand over of marketing networks, which have been established for service organisations to those, which have been established for manufacturing organisations.

As a professional services firm grows, and is no longer dependent on the entrepreneur, the issues of handing over networks are perceived to be easier.

Much of the perceived difference in handing over marketing networks is related to the difference in the nature of the products of professional service businesses and manufacturing companies.

There is a clear view that tangible products are less dependent on the existence of a strong personal relationship.

However the differences are not always clear-cut, especially where manufactured products carry a servicing dimension to them that creates a need for trust between seller and buyer.

The issue is further complicated where the entrepreneur also attaches a higher level of importance to the network in terms of its marketing impact on the business. In such cases entrepreneurs are hesitant to handover key networks where they believe it may put the business at risk.

### **The Relative Importance of Handover Issues are Different Between Staff and Family Members**

Differences were noted between the treatment of staff and family members when handing over marketing networks. Entrepreneurs appeared to be prepared to take greater risks when handing over networks to family members.

Gender needs to be considered to understand networking activities

An underlying issue was that of gender and its impact on networking. The issues are highlighted by the following quotation from the focus group.

### **Conclusions and Managerial Implications**

The handover issues identified in this paper have substantial managerial implications. Entrepreneurs, owner managers and their advisors need to be aware of these findings and incorporate marketing network handover programs into their formal marketing strategies for the business. This will mean that entrepreneurs will need to develop conscious and specific strategies and implementation plans to exit their marketing networks in a way that allows the business to develop sustainable methods of maintaining and growing revenue streams without their ongoing personal involvement.

Entrepreneurs must recognise the differences between manufacturing and service businesses and how the high trust involved in many service business networks will require more time to achieve a successful handover. In such cases the handover process should not be left to the last minute and should be commenced at an appropriate stage in the life cycle of the business.

#### **Next Stage**

Further research to be carried out includes in-depth interviews with a number of the entrepreneurs, who created a start up business, and those who took over an existing business. These interviews will explore the issues raised above in greater detail.

The findings from this study need to be compared with the results of the similar projects that have been carried out in other countries and which have examined the issues in handing over marketing networks

Further research should be carried out into the implications for and the impact on the value of businesses that rely heavily on personal marketing networks and the potential role for external advisors to guide entrepreneurs to recognise the need to commence and persevere with the handover process. In addition, the issue of gender and its specific impact on the ability for marketing networks to be handed over should be investigated further. Finally the implications for larger businesses should be investigated where personal trust based marketing networks are an important element of generating business revenue streams.

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## **The Effects of Environmental Challenges and Centralisation on the Entrepreneurial Orientation and Performance of Public Sector Entities**

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### **Abstract**

The relevance of entrepreneurship in the public sector is considered. In investigating relationships a review of the literature is undertaken and a model is proposed to examine the effects of environmental challenges and centralization on entrepreneurship and ultimately, performance. Research is conducted among Australian public sector entities and an effective response rate of 27.4% is obtained. A structural equation model is used to examine the hypothesized linkages. Implications of the findings are discussed, limitations are noted and directions for future research outlined.

# **Partnering Orientation: A Theoretical Explication and Empirical Measurement of the Construct, Its Antecedents, and Performance Implications**

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## **Abstract**

It appears, based on both industry initiatives and scholarly attention, that an important and high priority research question is to understand the nature of the strategic capability associated with creating strategic and economic value through partnering, and subject it to systematic scientific scrutiny. However, any prescriptive insights, need to be preceded by a fundamental question: What is the nature of this capability?

This research develops a theory-based conceptualization of a firm's partnering orientation, identifies a comprehensive yet parsimonious set of firm processes that defines the domain of this concept, and develops and validates a scale to measure it. A model incorporating organizational drivers of this orientation, and its impact on business performance is proposed, and empirically tested using data from 182 firms.

An underlying theoretical premise is that economic rents are created not only through competitive activities, but also through cooperative ones. Building on extant literature on collaborative rents, I conceptualize partnering orientation as the degree to which a collaborative rent-seeking behavior that, on one hand, serves to increase derivable potential benefits from collaborations, and on the other, facilitates the realization of the potential. Based on exploratory research with executives in a number of companies, four process dimensions are identified. PO is defined as the degree to which a firm engages in proactive initiation of collaborations, relational governance, inter-alliance co-ordination, and creation of an institutionalized collaboration know-how. While proactive initiation preempts partners and their capabilities, it is a source of monopoly rents in imperfect strategic factor markets. Relational governance fosters cooperative behavior, while leveraging across multiple alliances enables synergy-creation between disparate resources and capabilities. Finally, creating organization-wide know-how from experiential learning creates strategic learning advantages.

The empirical results from the survey indicate support for the conceptualization of PO as a second order construct, and its hypothesized relationships with alliance, market, and financial performance. Also, top management commitment, the scope of the strategic planning process, and learning orientation emerge as drivers of PO. In addition, results indicate that heterogeneity and risk-taking propensity of the top management team are significantly related to partnering commitment, while structural variables, namely centralization, formalization, and integration influence the learning orientation of the firm.

## **Market Orientation within University Schools of Business as Perceived by Deans and Chief Academic Officers: An Item by Item Comparison Using Narver and Slater's Scale**

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### **Abstract**

Narver and Slater's (1990) market orientation scale is reworded to measure market orientation of university schools of business as perceived by deans and chief academic officers. Items measure market orientation toward students, parents of students, and employers of graduates. Data were collected via mailed survey. This study is part of a larger effort. While mean scores for overall market orientation and its three components (customer orientation, competitor orientation, and coordination) are reported elsewhere, the focus of this study is limited to examination of the individual items of the reworded (for university schools of business administration) Narver and Slater (1990) market orientation scale. Specifically, the objectives of the study are to answer the following research questions:

1. What are the mean scores of the individual items used to measure market orientation of schools of business administration toward students, parents of students, and employers as perceived by university academic Vice Presidents and business school Deans?
2. Do individual perceptions of the items used to measure market orientation of schools of business administration toward students, parents, and employers vary based on title or position of the administrator?

In addition to reporting on objective one, three hypotheses stemming from objective two will be tested. The three hypotheses, stated in null form, follow. Each hypothesis has three categories (students, parents, and employers) to test.

- H1: There is not a significant difference in mean scores of items used to measure perceived market orientation toward students, parents and employers between Deans of AACSB member schools and Deans of ACBSP member schools.
- H2: There is not a significant difference in mean scores of items used to measure perceived market orientation toward students, parents and employers between VPs of AACSB member schools and VPs of ACBSP member schools.
- H3<sub>a</sub>: There is not a significant difference in mean scores of items used to measure perceived market orientation toward students, parents and employers between AACSB VPs and Deans of AACSB schools of business.
- H3<sub>b</sub>: There is not a significant difference in mean scores of items used to measure perceived market orientation toward students, parents and employers between ACBSP VPs and Deans of ACBSP schools of business.

Mean scores are calculated and presented for each of 37 scale items, as perceived by AACSB Deans, AACSB Vps, ACBSP Deans, and ACBSP Vps. Results suggest that universities have not yet embraced the marketing concept to the extent that businesses have. Also, differences in mean scores of the items between the four groups of respondents are examined; results suggest that perceptions vary, in some cases, based on level of administration of the respondent. Conclusions and suggestions for future research are provided.

## Personal Investment Theory: A Tool for Segmenting Markets When Devising Marketing Strategy

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### Abstract

This study investigates the efficacy of using Personal Investment Theory to provide a characterization of the target market that can be used as basis for marketing strategy. PIT claims that persons decide which activities to perform because the meaning they create within the context for decision-making motivates them. To illustrate how PIT can be used to create marketing strategy, this study investigates the market for fitness-related products and services. Empirical analysis of survey data shows that the explanatory constructs adapted from PIT can indeed be used to characterize the market for exercise-related products and services in a way that suggests promising implications for marketing strategy.

### Introduction

Understandably, marketers commonly follow the accounting paradigm, which holds that customers incur an expense when purchasing products and services in the marketplace. This perspective may be appropriate when a purchase serves a short-term goal, such as buying a soft drink to obtain a brief "burst" of refreshment. But the nature of a purchase changes when customers are working toward a long-term goal, such as good health or athletic prowess. In the latter case, it may be more appropriate to view the purchase of products and services that promote fitness, for example, as an investment rather than as an expense.

This perspective reflects the PIT conception of Personal Investment as the choice that persons make to commit a part of *themselves* to a certain course of action. The PIT concept of investment proposes that customers' choices of activities (e.g., purchases) are part of a larger pattern of behaviors that should be regarded as an commitment of time, effort, and, of course, money. Persons make these investments because they hope to receive a continuing stream of benefits in the future. To continue the fitness example, people may *invest* in physical fitness products to improve their current health (Moorman and Matulich 1993) or to contribute to their long-term physical and psychological wellbeing (Pender 1987).

Marketers need conceptual devices such as PIT to help them characterize their target market(s) prior to devising a strategy for serving these market(s). The market for athletic shoes provides a prime example. In the 1980's, industry leader Nike watched newcomer Reebok use heavy advertising expenditures to win a much higher percentage of the market (Pfaff 1986). Meanwhile, competitor LA Gear struggled because of distribution and product design problems (Richmond 1990). Eventually, Nike recaptured market share through the use of effective personal endorsements and increased advertising expenditures. Of particular relevance to the present study, Nike used image-oriented advertising campaigns to sell Nike more as a part of their customers' lifestyle than as a functional product (Grimm 1993).

Was Nike correct in its assessment of the motivational basis for buying its products? PIT suggests the answer depends on whether Nike tapped the Meaning that motivates the purchasing behavior of persons in its target market(s). The increasing sophistication of the marketing strategies necessary to compete in this and other industries means the firms that cannot accurately identify and characterize their target market(s) will find it difficult to succeed. The purpose of this study is to investigate the efficacy of PIT for characterizing target markets as a basis for marketing strategy. We use the fitness-related industry as a vehicle for our exposition. Customers' choices of activities to gain and maintain their fitness and their decisions regarding which supporting products and services to purchase typically require a long-term commitment on their part. We stress, however, that the lessons learned from the context of fitness should hold implications for other industries, as well.

### The Nature of Personal Investment

As stated, PIT regards Personal Investment as persons' decision to devote some part of *themselves* to a course of action. Marketers should recognize that customers make this commitment of time, effort, and money in the marketplace because they envision the prospect of gaining a continuing stream of benefits in the future. In the present context, customers' fitness-related expenditures are an investment based on the expectation of assuring their long-term physical and psychological wellbeing.

The Figure shows that persons' decision regarding Personal Investment in certain activities importantly reflects Meaning, which is the core segment of PIT. Meaning represents the thoughts, perceptions, and feelings evoked in the decision-making situation that requires participants to choose from among alternative behaviors. Meaning, as certain elements of cognition, is the key to understanding persons' motivation to favor one alternative course of action over another.

Meaning does not exist in isolation. PIT holds current Meaning to reflect (1) the individual-level and group characteristics that persons have evolved over their lifetime, as well as (2) the nature of the decision-making situation. That is, PIT formally recognizes both past experience and the present environment for decision-making as Antecedents to Meaning. Current Meaning is the key concept, but Meaning can be more fully understood if it is studied in company with its relevant antecedents, which set the stage for decision-making (Boyd and Yin 1999). To facilitate discussion, and because all the elements of PIT play a part in the process of motivating behavior, we refer to the individual elements of Meaning and Antecedents of Meaning generically as motivators (Gill et al. 1996). In considering the Figure, which presents concisely the entire set of motivators, please note that Maehr and Braskamp (1986) offer no suggestions concerning the *causal* links among the *individual* motivators.

### **The Structure of Meaning**

As shown in the Figure, the Meaning segment lies proximate to the output segment of the PIT model; that is, Meaning directly affects the behavioral choice persons make from the set of available, alternative courses of action. The Meaning segment of the model comprises ten cognitive elements or constructs that are organized into three components: Personal Incentives, Sense of Self, and Perceived Options. With one exception, that of Perceived barriers, PIT holds these various constructs to provide a positive influence on Personal Investment; for example, a stronger belief in one's competence produces a greater magnitude of such investment behavior as number of days a week to exercise (Maehr and Braskamp 1986).

*Personal Incentives.* First, the Personal Incentives component of Meaning represents what a person finds attractive or unattractive, the valued outcomes or benefits a person hopes to achieve from the proper behavioral choice. Personal Incentives may be intrinsic (derived from within) or extrinsic (derived from without). In intrinsic form, they may occur as the Task incentives that reflect wanting to become absorbed in the task at hand or to develop a skill. Alternatively, they may arise as Ego incentives that reflect seeking to perform better than others. In extrinsic form, they may develop as Social incentives that reflect the goal of affiliation and social solidarity with others, or as Extrinsic rewards in the form of monetary compensation or the symbolic counterparts of such rewards, including social recognition and approval from significant other persons. To reflect the fitness-related focus of the present study, we extend the basic framework by adding a fifth Personal Incentive, the Health incentives associated with fitness (Jayanti and Burns 1998), which connote such physical and mental benefits of exercise behavior as fitness, health, and stress reduction.

*Sense of Self.* Second, the Sense of Self component of Meaning comprises the constructs of Sense of competence, Goal-directedness, Self-reliance, and Social identity. Sense of competence reflects persons' confidence in their own abilities; it is their self-assessment of their status. Goal-directedness is the tendency to set goals and use them to organize one's activities. Self-reliance represents persons' perceived ability to progress and succeed on their own by controlling the current situation. Social identity connotes the association persons make with other groups and their recognition of significant other persons.

*Perceived Options.* Third, the Perceived Options component of Meaning represents the perceived availability and acceptability of behavioral alternatives, the perceived existence of appropriate action possibilities. This component recognizes the positive aspects of available options as Perceived opportunities and the negative aspects as Perceived barriers.

### **Antecedents to Meaning**

PIT suggests in general terms that Antecedents to Meaning influence Personal Investment by acting indirectly through Meaning. However, marketers will find Antecedents' primary heuristic value lies in their direct links with behavior in the marketplace.

*Performance Situation.* First, Performance Situation reflects the decision environment in terms of two constructs, Social expectations and Task design. Social expectations recognize that decision-makers are affected by their perception of what behavior is considered appropriate by others in their social group. Task design represents the concept that such characteristics as the inherent attractiveness and the degree of challenge inherent in available behaviors influence the choices persons make.

*Personal Experiences.* Second, the Personal Experiences component comprises the relevant set of perceptions and beliefs formed over a lifetime of previous experiences, a set of internal, trait-like cognitions. Thus, when persons derive Meaning in a decision situation, they manifest an idiosyncratic set of incentives, a particular idea of self, and a personal understanding of the behavioral alternatives that are appropriate.

*Information.* Third, Information features the personal and impersonal inputs that create the basis for Meaning. Information includes both personal (e.g., family members) and broadcast (e.g., newspaper articles) sources.

*Age/Stage in Life and Socio-cultural Context.* Fourth, Age/Stage in Life represents two related, key demographics that PIT holds to influence investment decisions. Fifth, Socio-cultural Context represents the set of influences that come from one's society and culture; it reflects the extent to which Meaning is differentially created in settings that can be characterized in terms of their socio-cultural content. These two constructs represent demographics, which marketers have long known to provide a useful basis for market segmentation. To concentrate on the innovative contribution of PIT and to create a framework that can be handled within the scope of a single conference paper, we omit demographics in this study.

### **Behavior as Personal Investment**

Personal Investment, the output construct of PIT, represents the particular course of action a person chooses. More fully, this choice embodies the intensity, duration, and frequency of participation in the chosen behavior. It therefore refers to both broadly conceived, continuing patterns of behavior (e.g., a habitual exercise regimen) and narrower constituent activities (e.g., the purchase of a set of weights). One or a series of decisions that draw upon the Meaning the participant creates within the decision context spurs personal Investment in behavior.

When seeking to influence Investment decisions, marketers must recognize that Meaning applies variously to different levels of decision-making and design their strategy accordingly. To illustrate the multi-level application of PIT, this study considers two levels of decisions that affect the purchase of fitness-related products and services. At the first, or basic, level, persons choose the extent of their participation in fitness activities (exercise). At the second, derivative, level, participants select their expenditures in the marketplace to support these fitness activities.

To formalize the proposed influence of the PIT motivators on decision at these two levels of decision-making, we advance the following hypotheses:

H<sub>1</sub>: The 15 elements of Meaning and Antecedents to Meaning, taken as a set, influence Personal investment as persons' extent of participation in fitness activities.

H<sub>2</sub>: The 15 elements of Meaning and Antecedents to Meaning, taken as a set, influence Personal investment as persons' expenditures for (a) exercise clothing and footwear, (b) use of fitness facilities, and (c) fitness equipment is related to the fifteen elements taken as a set.

### **Method**

To test these hypotheses, we conducted the empirical test as described below.

#### **Data Collection**

The elements of PIT lend themselves nicely to data collection by means of a survey sample. Accordingly, we collected data from a quota sample of 210 adult residents of a major western metropolitan area. The sampling scheme matched the sample to the local population with respect to twelve age-and-gender categories reported in the most recent census of the area (e.g., females aged 18-24, 25-34, ..., males aged 65 and older.). Respondents participated in in-person interviews in their homes and in public places. The trained interviewers visited fourteen different sections of the area to assure appropriately diverse socio-economic representation of the population.

#### **Measurement**

To test the first of our two hypotheses, which involved participation in fitness activities (i.e., exercise behavior), we represented Exercise participation as a multiplicative composite of three aspects of involvement (Heyward 1984). We operationalized participation as the product of (1) the number of days a week the respondent typically exercises, (2) the number of minutes a day in a typical workout, and (3) a six-point rating of how strenuous the respondent considers the workout to be. To investigate the second hypothesis, investment in three types of supporting products and services was operationalized in the monetary terms of how much money the respondent spent (a) in the past year on exercise clothing, including footwear, (b) in the past year on use of fitness facilities, and (c) in

the past three years on fitness equipment.

Expectedly, the distributions of responses for all four Personal investment variables were irregular and heavily skewed; in particular, a response of 0 was the modal value for our broad-based sample. Therefore, reflecting the marketing orientation of this study, we classified responses into three groupings to reflect Twedt's (1964) concept of the "heavy half" of the market. For the now trichotomous Exercise participation variable, the categories became: (1) None, those 97 respondents reporting no regular participation; (2) Light, the "light half" comprising 55 participants, based on a median split of their expenditures, and (3) Heavy, the "heavy half" comprising 56 participants. The tables list the sizes of the three corresponding categories for the remaining three criterion variables.

We operationalized each of the fifteen elements of Meaning and Antecedents to Meaning by means of four to eight 6-point Likert items. We created these items by adapting various scales and other operational measures reported in the behavioral literature to the context of fitness. In particular, formation of the items used in the instrument drew heavily from such operational measures as the Personal Investment scales reported by Maehr and Braskamp (1986); the Health Benefits Index of Lindsay-Reid and Osborn (1980); the Health Status and Behavior scales of Mancini and Quinn (1981); the Social Identity scale of Duda and Tappe (1988); the Physical Self-Efficacy scale (Ryckman et al. 1982); the Internal, Powerful Others, and Chance control scales reported by Levenson (1981); and the Health Specific Locus-of-Control scales (Lau and Ware 1981). We heavily modified most of these items on the basis of three previous studies we conducted; we also created many items of our own.

For example, we measured Perceived barriers using "I don't have a place to exercise the way I'd like," and Social identity using "Most of the people who are close to me exercise regularly." In forming the instrument, we reversed the direction of some items to reduce pattern responses, and then subsequently reversed them again during data processing to create a consistent sense for analysis. For each construct, we averaged the items to produce a single, composite measure for each construct.

## Analysis

We used discriminant analysis, supplemented by one-way ANOVAs, to investigate the four hypotheses that propose a relationship between the set of 15 continuous PIT variables and the trichotomous criterion variables for Exercise participation and Purchase.

## Results

### Participation in Exercise

Table 1 presents the results of the discriminant analysis used to test the proposed relationship between the trichotomous measure of Exercise participation and the 15 continuous explanatory variables. The analysis of usable data from 208 respondents produced a Wilks' lambda of .529, significant at  $p=.000$ . One discriminant function reached significance, at  $p=.000$ . Ten of the 15 explanatory variables had loadings of at least .30 on the canonical variate and are thus deemed important contributors to discrimination. In decreasing magnitude of their loadings, they are: Task incentives, Task design, Information, Health incentives, Sense of competence, (the inverse of) Perceived barriers, Perceived opportunities, Personal experiences, Self-reliance, and Ego incentives. The three constructs that reflect social aspects of personal investment in exercise are noteworthy for their absence. Interpret the canonical variate reflects heavy *commitment* to exercise--in particular, a commitment that is focused on the exercise task itself and buttressed by participants' feeling they can succeed at their chosen task. The centroid for the grouping of 56 heavy participants stood highest on the canonical function, followed in order by centroids for the 55 light participants and for the 97 non-participants.

The univariate ANOVAs show that, taken singly, 13 of the 15 variables distinguish among the three groupings at  $p<.05$ ; only Extrinsic rewards and Social expectations were non-significant. Means for the exercisers are highest for all significant variables but Social incentives (recognizing the nature of Perceived Barriers); means are correspondingly lowest for the non-participants on these 13 variables. Means for the light participants fall intermediate between the two extremes on all variables. The composite picture from the ANOVAs indicates the heavier exercisers are dedicated, confident, communicative persons whose involvement reflects a strong inner drive. The non-exercisers emerge as persons who feel their participation is constrained by obstacles and who have little commitment to exercise. The characteristics of the light exercisers are best described as a compromise between those of the other two groupings. In sum, based on their contribution to either the multivariate or the univariate analyses, all explanatory variables but Extrinsic rewards and Social expectations help characterize the nature of the three segments defined by Exercise participation.

### **Purchase of Exercise Clothing**

Table 2 gives parallel findings from the analyses used to test the proposed relationship between the 15 PIT constructs and the trichotomous measure of expenditures for exercise clothing. The analysis of 201 usable sets of responses produced a Wilks' lambda of .739, significant at  $p=.002$ , with one significant function. Loadings for these eight of the 15 variables reached the .30 level of importance: Task design, Sense of competence, Task incentives, Perceived opportunities, Personal Experiences, Information, (inversely) Perceived barriers, and Self-reliance, in that order of decreasing magnitude. The canonical variate reflects long-term, internally motivated commitment, based on a perceived competence and awareness of available opportunities for reaching one's exercise goals. The decreasing order of the segments' scores on this function is: Heavy ( $n=53$ ), Light ( $n=75$ ), and None ( $n=73$ ). We note that a higher percentage of respondents buy exercise clothing than exercise regularly. Importantly, the pattern of multivariate and univariate relationships follows that derived for Exercise participation.

ANOVAs reached significance at  $p<.051$  for the same eight explanatory variables. Again, explanation is dominated by motivators that reflect a self-motivated focus on the task of exercise, rather than social influences from other persons. Here, the heavy purchasers stand highest on all significant variables, while the non-purchasers stand lowest. The ANOVAs therefore reinforce the previous characterization of heavy purchasers as being internally motivated and strongly committed to exercise. Again, the Light segment exhibits a pattern of characteristics similar to that of the heavy purchasers, but having a lesser magnitude.

### **Expenditures on Facilities**

Table 3 presents the results of the analyses involving expenditures on facilities. The discriminant analysis using data from 207 respondents produced a Wilks' lambda of .786, significant at  $p=.022$ , with one significant function. The canonical variate is defined primarily by these five variables: Task design, Task incentives, Sense of competence, Ego incentives, and Health incentives. While the canonical variate is generally similar to those derived in the first two analyses, it also differs somewhat, primarily from the variate for clothing expenditures. As might be expected from the vary nature of a "facility," Perceived barriers exerts a lesser influence. Also, Health Incentives makes a greater (inverse) contribution. In sum, the canonical variate represents an internally motivated commitment to the task itself, one based on perceived competence and a drive to achieve physical excellence more than health benefits. The function best describes the segments in the order of Heavy ( $n=32$ ), Light ( $n=41$ ), and None ( $n=134$ ).

ANOVAs reached significance ( $p<.051$ ) for all five of these variables but Health incentives. The Heavy segment stands highest and the None segment lowest on the four variables, which largely duplicate the findings from the discriminant analysis, except for a lack of influence from health concerns. We note that the market for facilities comprises fewer persons that does that for exercise clothing. Again, the data characterize the Light segment as a less-committed version of the Heavy segment.

### **Expenditures on Equipment**

The discriminant analysis using expenditures on equipment did not produce a significant root, reaching only  $p=.145$ . However, ANOVAs for seven of the 15 variables reached significance at  $p<.05$ , in this decreasing order of significance: Information, Social identity, Sense of competence, Task incentives, Personal experiences, Task design, and Perceived barriers. For all seven variables, the Heavy segment stands highest (recognizing the inverse nature of Perceived barriers) and the None segment stands lowest. The general nature of the segments thus described is similar to that reported for the preceding three criterion variables, although the significant influence from Social identity found here is missing for expenditures on both clothing and facilities. Apparently, the relatively higher expenditures required to buy exercise equipment draw important other persons into the decision process.

### **Implications for Marketers**

These empirical findings suggest several implications for marketing strategy. Managers can use the findings from one or more of the PIT motivators in making decisions regarding communication strategies and the delineation of target markets. To illustrate, consider one of the elements we found to be salient in our analysis, the propensity of some persons to be attracted by the intrinsic rewards gained from their involvement in a fitness-related task (Task incentives). Assume that certain marketers have empirical support for the effectiveness of Task incentives as a motivator. As a result, in forming their communication strategy, we suggest they select a theme and medium that will stimulate this motivator in their target audience. Their communication would appropriately inform their target audience about how their product/service helps one to become more easily and more fully involved in tasks they consider salient. Of course, rather than simply examining a single construct, a fuller application of PIT would likely

generate considerably more information relevant to market segmentation than that from a single element.

The present study demonstrates that marketers might find it useful to employ many or most of the multiple elements suggested by PIT to delineate their target market. All 15 PIT constructs (except Extrinsic rewards and Social expectations) contribute to explaining Personal investment for one or more criterion variables, whether fitness activities, clothing expenditures, facilities expenditures, or equipment expenditures. Focusing first on the Exercise participation segments, the empirical results indicate that all but two components of PIT help explain participation in exercise. Consequently, three implications of these findings are suggested.

First, regarding Antecedents to Meaning, the findings indicate that persons' involvement in exercise is directly related to past history of involvement and the present context within which they derive current Meaning. Their participation also increases to the extent they find their exercise task to present an attractive challenge and as they attend to information relevant to exercise. Thus, marketers should design their communication and pricing strategies to motivate potential customers to develop strong exercise habits, and thus help to create a long-term relationship. Marketers should provide potential exercisers with meaningful and suggestive information that will strengthen their continuing motivation to participate.

Second, exercisers' participation reflects their perception that their involvement provides benefits of both intrinsic and extrinsic nature (although intrinsic incentives are considerably stronger motivators than extrinsic ones). Third, their participation reflects certain aspects of their self-perception that they are able to succeed on an individual basis, namely their Sense of competence, Self-reliance, and Goal-directedness. Thus, heavy exercisers are strongly committed to a task they feel they can conquer on an individual basis. Clearly, these findings provide the core description of a self-motivated segment that is strongly and confidently committed to exercise. Consequently, marketers should design their product/service offerings and supporting communication campaigns to emphasize the functional aspects of the exercise task. They should remind prospective customers that satisfaction would result from excelling at their chosen task. For example, marketers should promote that vigorous participation and the success it inevitably brings lead to a feeling of well being--in terms of higher self-esteem, improved health and fitness goal achievement.

To summarize, the findings regarding Exercise participation indicate that marketers should recognize that their core market comprises currently active exercisers who have a history of participation. Further this market includes persons who inform themselves about available methods and options for reaching their goals, and who believe they are competent to individually succeed at the tasks they select. In short, marketers should target those who exhibit a "can do" and "will do" spirit. These findings should remind managers that not only customers, but marketers too, are involved in a process of long-term investment. They should invest in their future market through an organized, long-term process of developing a cadre of experienced and physically competent customers.

Regarding specific product categories, the preceding description of the Heavy segment of exercisers generally applies to purchasers of clothing and footwear, as well. Heavy purchasers display a strong sense of experience-based commitment to their chosen exercise task and express strong confidence in their ability to succeed with this task. These purchasers also attend to information pertinent to the task; recognize opportunities and downplay barriers to participation. Here too, social influences do not contribute to performance, a finding counter to what would be expected for *fashion* clothing. The PIT model as a whole remains viable for this product category as well, but the empirical findings do suggest that marketers should use a more limited set of PIT constructs in forming their communication and pricing strategies.

The implications regarding the facilities and equipment markets follow accordingly. Marketers should concentrate on exercise participants whose characteristics follow the general descriptions given above, again recognizing certain variations idiosyncratic to these markets. Space limitations preclude detailed treatment of these illustrative markets, but the core market of facilities users can be firmly identified as ego-involved and confidently focused on their exercise task, in part because they believe exercise contributes positively to their health. The market for equipment follows similarly, but here heavy purchasers are more influenced by information sources and by significant other persons. Marketing communication strategies should reflect this knowledge.

Therefore, marketers can use PIT to generate a core description that underlies all markets examined in this study. But because the usefulness of some of the elements of PIT varies with the market in question, marketers must be alert to modify that core description to better fit their target market. Thus, Marketers initially should consider all the constructs of both the Meaning and Antecedents segments of PIT as they attempt to characterize their target market. They should then conduct their own empirical research studies to find that more parsimonious *subset* that effectively describes their target market.

A caveat for marketers is in order. This study has adapted PIT to a particular illustrative market, the market

for fitness-related products and services. Conceptually, how many and which elements of PIT is most useful will likely change with the extent to which the focal behavior in question requires customers to invest of themselves. For instance, the use and purchase of a means of transportation obviously requires a greater investment than the use and purchase of snack foods. Thus, marketers' ability to describe the core market in terms of *basic* activities (here, as exercise) and to then modify that description in terms of *purchases to support* these activities (here, e.g., as purchase of exercise clothing) can be expected to differ with the industry in question.

For this reason, future research should examine the application of PIT to various other decision contexts; e.g., the site where the purchase is made and the type of product or service that is purchased. Additionally, describing a target segment is one thing, while its responsiveness to marketing strategy is another. Thus, researchers should determine which of the motivators suggested by PIT most readily respond to stimulation in the marketplace. Further, while this study demonstrates PIT's explanatory power in absolute terms, researchers should investigate its relative explanatory power and usefulness in comparison with more traditional segmentation variables, such as demographics.

### Summary and Conclusions

The results of this empirical study indicate that PIT holds important implications for marketing strategy. Our findings indicate that customers are motivated to invest some combination of their time, effort, money, etc. to obtain the benefits they desire by the Meaning they create within the context for decision-making and by its Antecedents. This study demonstrates the viability of PIT for characterizing the market served by the fitness-related industry, clearly supporting the connection between 13 of 15 motivators suggested by PIT and potential customers' investment in fitness activities and supporting products and services. However, marketing strategists must first learn the appropriate set of motivators to use for characterizing *their* target market, they must sponsor marketing research to collect the necessary information, and they must correctly interpret their findings to guide the generation of an appropriate strategy.

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## The Effect of Market Orientation on New Product Performance

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### Abstract

This paper investigates the relationship between market orientation and new product performance. The results show a strong positive relationship between market orientation and the overall performance of new products. Market orientation is also shown to have a strong positive effect on the market performance and project performance of new products. The managerial implications and the limitations are discussed.

New products are essential for the survival and long-term growth of any firm. Success in product development is a critical management issue particularly in the technology driven firms. Managers of new products have little guidance on how to improve or redirect their organizations' external orientation towards their product target markets. Product managers generally take for granted that by engaging elite sales forces and the proper handling of the four marketing mix variables, they can expect to reap the fruits from their portfolio of new products. In many cases, the new product development curtails early. There has been a number of studies linking market orientation and performance in business and industry, there is little empirical evidence to support the role of market orientation on new product performance. This leads to the focal issue of this research, namely, to determine whether market orientation is an important contributor to new product success. Thus, the objectives of this study are to examine the relationship between market orientation and new product performance.

For this study, the data was collected from companies in the Singapore. A stratified random sampling method was used. Companies offering both consumer and industrial products or services were included. The sample consisted of 350 firms comprising both services and manufacturing firms and covered single (independent) firms as well as business units of large multi-national firms. Data of companies from the different industry was obtained from the Trade Development Board and Economic Development Board, which is accessible from the webpage.

The study results provide strong support for the basic proposition that market orientation influences the overall performance of new products. Moreover it is the market information and marketing strategy formulation dimensions that appear to be critical to overall performance providing an  $R^2$  of 0.53 ( $p < 0.01$ ). Thus while the implementation of marketing strategy could be important, it is the collection and dissemination of market information and the formulation of appropriate marketing strategies that are very critical for the overall success of new products. Devoting resources to ensure better collection of market information and in the formulation of marketing strategies would appear to be worthwhile goal of management as these resulting an improvement in overall performance of new products.

The results also show that there is no significant difference in the level of market orientation and in the performance of new products between respondents from consumer products and industrial products firms in the context of Singapore. This could presumably be due to the small size of Singapore and the homogenous nature of business activities in the country.

The first managerial implication concerns the findings that market orientation has a significant positive relationship with new product performance. Firms hoping to initiate new product should take note of the impact of market orientation. Further understanding of the customer's requirement and collection of information from the market becomes the predominant activities of new product predevelopment.

The second implication is that firms that are market orientated should further strengthen their organisation orientation in marketing to improve the chances of success of the new product performance. Increased efforts in market orientation would mean more regular research on the customers' new and changing expectation. Information collected should be the primary input to the new product development stage so that its ability to meet customer needs are greater and thus a better performance is achieved.

# Public Art Policy and the Role of Relationship Marketing in Local Government

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## Abstract

The development of a Public Art Policy for a local government organisation requires the principles of relationship marketing to be considered in order to establish the role of the community in the process of making art in the public environment. Market research conducted for Willoughby City Council in Australia revealed that the traditional methods of community consultation favoured by local government and community cultural development workers were not favoured by the Willoughby City community. As community consultation is integral to the development of local government public policy, the research findings have implications for effective public policy development.

## Introduction

This paper explores the issues in marketing public art, more specifically the effectiveness of relationship marketing as a strategy for government in delivering art in the public environment. The issues of marketing public art differ from the issues facing government owned arts centres involved in delivery of the arts to the public. Art in the public environment is not revenue resourced. Its relationship with audiences differs from that experienced in venue-based performing and visual arts. Audiences cannot select to engage with art in the public environment as per usual consumer decision-making marketing models. Public art consumption does not always operate in the widely accepted industry model comprised of 'the arts organisation/producer – the state – the market', at which much arts marketing discussion is focused. It operates in the public domain, but outside the accepted understanding of the 'marketplace'. The producers of art in the public environment are not subject to the usual demands of the marketplace. Therefore, the marketing issues faced by the producers of art in the public domain may be considered unique, requiring a specific application of marketing principles.

Currently, the majority of national and international discussion on art in the public environment is focussed on artistic processes and physical outcomes (Lewis 1990; Miles, 1989; Raven 1989; Sawyer *et al* 1993; Winikoff 1995). The role of the public, for whom the art is intended and by whom it is totally or partially financed, is an important but under-researched element in the equation of creating successful public art outcomes. The public is a complex and heterogenous concept that affects, and even determines, the success of public art projects. It is in the interest of local governments to establish long-term strategic relationships with their communities to ensure successful outcomes.

## Research Questions

This research aims to apply relationship marketing principles to the process of making art in the public environment from the perspective of local government as the commissioning agent. It contributes to the debate regarding government's role in art in the public environment and explores further application of marketing principles to the arts and cultural industries. The research is the outcome of two questions. Firstly, if local government is directly responsible for the development of art in the public environment, then is local government directly responsible for effectively marketing that art? Secondly, will a relationship based marketing approach be the most effective?

## Defining Public Art

Public art or art in the public environment are considered inclusive terms for art of any form which is located permanently or temporarily in the public domain (City of Melbourne; City of Sydney; Lewis 1990; Miles, 1989; Queensland Government 1999; Raven 1989; Sawyer *et al* 1993; Senie and Webster 1993; South Sydney Council; Winikoff 1995). The public domain or public space may be understood as any space, which is freely accessible to members of the public, whether it is publicly or commercially owned. The term public refers to the heterogenous groups of people or individuals who use public spaces, and as such each space may contain hierarchies of user groups. The public may also be considered a conceptual term and as such may not directly relate to specific people.

Relationship marketing is defined as the model of marketing succeeding the transaction marketing model and focussed on the development of long-term strategic customer relationships based on the principle that the better the customer perceives the relationship as opposed to simply the product or service, organisational loyalty is increased (Christopher *et al* 1991; Maister 1989; Shostack 1985). While the outcome of accepted relationship marketing is to improve profitability (Christopher *et al* 1991; McKenna 1991; Shostack 1985), the goal for local government is more efficient delivery of improved services to the community, and the satisfaction with the content, process and outcomes of that service.

### **The Research Process**

The research methodology for this study comprised qualitative and quantitative techniques. It was designed to understand public art issues of importance to the Willoughby community (questionnaire survey) in relation to Council's existing public policies (case study analysis), and the broader movements in public art nationally (in-depth interviews with public artworkers) and internationally (literature review).

The literature search conducted in the areas of relationship marketing, public art and cultural policy did not reveal any information or data directly related to marketing art in the public environment. The majority of relationship marketing literature focused on traditional industry applications of the principles of systems integration, customer service, strategic planning and total quality management (Berry 1983; Berry and Gresham 1986; Christopher *et al* 1991; Gronroos 1990; Maister 1989; McKenna 1991; Parasuraman *et al* 1995; Shostack 1985). British authors Hill *et al* have applied the principles of relationship marketing to marketing the performing, visual and community arts, however art in the public environment was not considered (1995). In the public art area, American authors Senie and Webster recognised communication as the single most important challenge to face public art throughout the nineties (1993), however most writing in this area focussed on aesthetics, process and outcome (Lewis 1990; Miles; 1989; Raven 1989; Sawyer *et al* 1993; Winikoff 1995). Of the seven Australian public art policies reviewed, (Brisbane City Council; City of Adelaide; City of Melbourne 1998; City of Sydney; Fairfield City Council; Queensland Government 1999; South Sydney Council) marketing when mentioned mainly referred to selling and promoting public art works, the culture and the city itself.

In-depth interviews were conducted in a standardised schedule with the Manager of the Community Cultural Development Fund, Australia Council (federal government arts funding and advisory body); Executive Officer, National Association for the Visual Arts (national peak body); Arts & Cultural Development Co-ordinator, South Sydney Council (local government); Public Art Manager, City of Melbourne (local government); and the Executive Officer, Public Art Agency, Queensland (state government). The interviewees were selected to form a complementary whole, thus providing an overview of contemporary Australian public art practices and identification of major issues. Prior to the interview process, a series of questions were developed according to relationship marketing principles as identified by established researchers in this area (Berry 1983; Berry and Gresham 1986; Christopher *et al* 1991; Gronroos 1990; Maister 1989; McKenna 1991; Parasuraman *et al* 1995; Shostack 1985). These principles included customer service focus, communication and feedback systems, quality assurance, strategic planning, integrated systems, and the development of product intangibles as well as tangibles. The case study of Willoughby City was developed through participant observation and analysis of secondary data, such as existing public policy relevant to the research area.

The questionnaire survey of Willoughby residents was designed to gather information on the community's level and sources of civic pride; the perceived benefits, preferred content, location, form and funding of art in the public environment; preferred community means of involvement and participation in the process of public art; as well as behavioural and demographic characteristics of the population. The questionnaire was developed according to the relationship marketing principles as listed above and included other questions on demographic and behavioural characteristics of Willoughby residents, as identified by Hill *et al* and McKenna (1995; 1991).

Telephone questionnaire was selected as the preferred method of data collection, as higher response rates were expected than those achieved with self-completion questionnaires by mail. Case study data revealed that three community mail surveys conducted in Willoughby City between 1997 and 1999 returned participation rates of 25% or less. The questionnaire sample of 300 residents was drawn from the Willoughby City Local Government Area comprising a total population of 53,735, and comprised anyone 15 years of age or over. The male / female distribution was based on the 1996 Australian Bureau of Statistics Census figures of 46.7% males (140 respondents) to 53.3% females (160 respondents). Informal pre-tests were conducted with the Willoughby community through questions provided for the 'Vox Populi' segment of Council's weekly radio program and with locally based telephone interviewers. This revealed difficulties with terminology related to public art and community cultural development, which were substituted with more accessible language prior to administering the survey. The twelve minute survey was conducted in June 1999.

### **Research Results**

The in-depth interview process revealed broad changes in the Australian practices of public art and community cultural development over the past twenty years. All five interviewees commented on the need for increased professionalisation, in which goal orientation has moved from broad-based participation, such as community arts processes, to the artistic process and quality outcomes common to public art and urban cultural policy-making. This correlated with Australian, British and American literature on the subject (Lewis 1990; Miles; 1989; Pick 1988; Raven 1989; Senie and Webster 1993; Barrett-Leonard 1992; Winikoff 1995). Further change is also appearing in the way the government perceives its role in and responsibility to the arts. All five

interviewees recognised local government as an important provider of art in the public environment, which was best-placed to interact with specific communities.

While four of five interviewees agreed that marketing was the responsibility of local government, the same four interviewees also attributed importance to the role of the artist in establishing a successful marketing process. Cross-disciplinary terminology proved to be an issue, with all five interviewees indicating they interpreted the concept of marketing as selling and promotion. Following explanation of the term 'relationship marketing', four of five interviewees conceded that relationship marketing was similar to 'pure marketing', understood as a communication process, and was therefore applicable to the process of public art. The fifth interviewee rejected the thesis outright on the grounds that marketing was not appropriate to public art. Four of five interviewees indicated that relationship marketing was likely to be effective in improving community understanding, acceptance and involvement. Four of five interviewees also agreed that community consultation could be considered an element of a comprehensive marketing process. Three of five interviewees indicated that there was a perceived need for more effective community consultation processes. The criticism of traditional consultation approaches, such as mail surveys and public meetings, centred on the failure of these processes to collect a realistic diversity of community attitudes and opinions commensurate to those existing in communities.

The case study of Willoughby City Council highlighted the unique position of the municipality. Willoughby City, located on the Sydney's lower north shore, is a higher socio-economic, politically and socially conservative area. Traditional models of community arts practice developed in lower socio-economic areas such as Western Sydney have not been successfully established in Willoughby, with the community largely reluctant to participate in community arts activities. Also, there are less than ten examples of public art in the city, despite the municipality's existence since 1865. Existing public policies relevant to the research area, such as the Cultural Plan and Draft Chatswood CBD Masterplan, were developed with traditional consultation processes, such as public meetings, mail surveys and workshops. While these policies advocate art in the public environment as beneficial, the documents do not provide a cohesive or comprehensive approach to the development of public art in the city, but rather focus on aspects of public art such as location and form, as opposed to content or community participation.

The results of the community survey confirm that Willoughby residents do not respond to the traditional consultation methods generally used by local government and as contained in traditional community arts and community cultural development practices such as public meetings, seminars and workshops and active participation. The data indicates that while participation in the process of public art was important to Willoughby residents, they prefer passive or non-participatory forms of participation and education. Notably, 60.7% of respondents desire the opportunity to comment on public art proposals, 73.3% of respondents wish to be notified about how to comment and 70.0% of respondents wish to receive information on public art. In contrast, only 21.3% of respondents wish to be actively involved in projects, 21.0% wish to attend seminars and workshops, and 38.3% wish to attend public meetings. The data also indicates that the respondents prefer traditional print media for communication such as the quarterly Council publication (93.3%) and the local newspaper (91.0%), possibly indicating a desire to choose when information is consumed. Anomalies in the survey sample when compared with the 1996 Australian Bureau of Statistics Census should be considered in relation to the results. While the questionnaire was sex weighted, 7.4% of the survey sample within the selected age ranges were older than that contained in 1996 ABS Census figures. Other demographic data such as annual income (average \$70,292.75), education (61.4% completed tertiary training) and ethnicity (35.7% overseas born) were representative of the Willoughby City population, as represented in the 1996 ABS Census figures. Behavioural data, focussed on participation and consumption of arts generally, indicated high arts consumption rates (74.3%). Participation rates in personal arts practice were also high with 40.0% of respondents practising some form of art.

### **Implications for Public Art Policy Development**

In summary, the research results provide a clear direction for the development of public art policy in Willoughby. Firstly, the literature review confirms that communication is a significant issue for contemporary public art practice, which has not been substantially addressed in the literature to date. Secondly, the in-depth interviews with industry professionals revealed that local government is regarded as an important provider of art in the public environment and as such is best positioned to market public art. Further this process confirmed that a relationship marketing approach was likely to be effective in improving the process of public art. Thirdly, the case study of Willoughby City demonstrated that the city was unique and traditional consultation methods have not been entirely successful. Fourthly, the community survey confirmed this observation, and highlighted communication, education and participation methods as important issues to the development of the public art policy for the city.

The research results have implications for community consultation methodology used in the process of art in the public environment and possibly other areas of municipal service delivery. Given the marked trend towards passive participation in the Willoughby community survey, it appears that a Willoughby specific consultation methodology, or market research and feedback systems, is needed to effectively inform public policy development. As such it may be inferred that individualised communication models responsive to and reflective of heterogenous communities are necessary to the realisation of a valid public art policy.

The case represents a specific application of relationship marketing principles including a long-term strategic planning approach with a customer service orientation, and an on-going two-way communication process in which public art is perceived as the delivery of a community service via integrated organisational systems. The research indicates current public art processes, based on outcomes and integrated cross-disciplinary teams, need to be further developed to include the public in a central role. Based on principles of relationship marketing, the specific means in which the public is included in the public art process should be tailored to specific communities and the groups within those communities. It is possible that this approach will improve the acceptance rates, and therefore success rates, of public art projects. It is appropriate that public art policy is developed according to these principles and that these principles are contained in policy statements. While it is recognised that the marketing and consultation needs for art in the public environment are specific to that area, the results may be of interest to the development of public policy in other local government areas.

### **Issues for Further Research**

Further research is needed to define the role of community consultation as an effective market research tool for local government in policy development and to test the proposition that individualised communication models are necessary for informing public policy. In addition longitudinal studies are needed to evaluate the application of relationship marketing principles to the process of public art and policy development.

### **Conclusion**

The methodology applied to test the question of the effectiveness of relationship marketing as a strategy for government in delivering art in the public environment has provided sufficient evidence of the value of this approach.

The service elements of civic pride, cultural identity and improved aesthetic amenity must be satisfied through two-way education, communication, information and participation. This approach will improve the acceptance of public art and long-term community loyalty to government's strategic plans and policy development.

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**TABLE A: Summary of Selected Community Survey Results**

<b>ISSUE:</b>	<b>RESPONSE AS % (RATED: VERY IMPORTANT / IMPORTANT)</b>
<b>Communication of Public Art</b>	
Receiving information on up-coming public art projects	65.3
Receiving regular information on public art projects	70.0
Receiving notification about means of commenting on projects	73.3
Receiving information through Council publication	93.3
Receiving information through local newspaper	91.0
Receiving information through council offices	87.3
Desire to attend public meetings	38.3
<b>Participation in Public Art Projects</b>	
Opportunity to express ideas for content and themes	39.7
Opportunity to comment on proposals	60.7
Opportunity to be actively involved in projects	21.3
Not interested in public art	38.7
<b>Demand for Public Art Education</b>	
Opportunity to learn more about public art generally	48.0
Access to seminars, workshops in public art	21.0

Source: Willoughby City Council Public Art Survey, June 1999

# The Measurement of Service Quality in Provincial Hospitals in South Africa

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## 1 Introduction

The South African government is responsible for the provision of primary health care to amongst other all population groups who cannot afford it. According to the results of this survey the majority of patients in provincial hospitals are not members of a medical aid fund or have sufficient funds to cover their health expenses. The government has an obligation to provide acceptable primary health care to people in need, irrespective of their ability to pay and also to provide excellent medical care to the community. According to numerous newspaper and magazine reports the quality of primary health care, which is provided by provincial hospitals, is unsatisfactory. Strong allegations have been made in reports alluding to the incompetence of various provincial hospitals to provide basic primary health care. It could lead to an intolerable situation, because private hospitals are not an option for those who do not have the financial means. Whether the allegations are true or only limited to isolated incidences, have to be investigated.

**The purpose of this study is to measure the rate of importance and the perceptions of patients regarding the service quality of primary health care in provincial hospitals in South Africa.** A distinction is made between hospital in- and outpatients and private in- and outpatients. The latter have a medical aid fund or they can afford to pay for these medical services. By investigating these aspects an attempt can be made to determine problem areas and to make suggestions to improve the quality of service where deviations occur between the rate of importance and perceived quality of the services provided by provincial hospitals in South Africa. By succeeding in the provision of excellent service it may be possible to develop a positive national, and international image and consequently attract more financially independent patients. This may contribute to the overall efficiency of health care in a competitive world market. Currently it seems as if private patients prefer to support private hospitals due to the alleged inferior services provided by provincial hospitals. Although it appears that quality control is only relevant to the private sector, it can be concluded after reviewing some relevant literature, that satisfied clients are more likely to accept and continue to support primary health care services. Mitchell (1998:3) pointed out that patient satisfaction is important in the public sector because it can influence compliance. However, the Government bears the responsibility to provide satisfactory primary health care service, or at least the best, which can be provided with the resources available.

## 2 Problems experienced by provincial hospitals in South Africa.

Tremendous pressure is placed on the government's budget with their acceptance of providing primary health care to citizens in South Africa who qualify. Mitchell (1992:2) however, points out that managed care organisations need to prove to their clients that cost containment does not necessarily imply that the quality of services rendered, is being compromised. The majority of patients in provincial hospitals are patients who qualify in terms of income and do not have a choice as to where they obtain primary health care without financial constraints. This may be a result of the negative publicity that is discouraging private patients, who can contribute in financial terms, to making use of provincial hospitals. In this way the burden on the government could be eased. Two of the hospitals, which were included in the survey, are medical training hospitals and needless to say their image is negatively affected by the perception towards provincial hospitals in the country due to negative publicity. According to van Rensburg et al. (1992:61-64) several other problems are also evident and may result in unsatisfactory service quality. These include problems of unavailability of services, inaccessibility, unacceptableness and inequality.

Technikon Pretoria is currently participating in a project, which they are attempting to improve the health care services in South Africa to world-class standards. It is therefore imperative that attention should be given to ways to increase the quality of services provided by the health care sector in South Africa. The following should be investigated: the patients' expectations, the extent of how important they regard service quality attributes and their perceived attitude towards the service provided.

## 3 Measuring service quality in health care services

Service quality is an important ingredient in the success of all service organisations. According to Devlin & Dong (1994:562) research has shown that the provision of high quality service is directly related to increased profits, market shares and cost savings. Friedenbergl (1997:31a) points out that the third and latest revolution in medical care was supposedly the era of quality control, quality of service and effectiveness of medical treatment. According to this author this was the theme used by those who were effecting the change to managed care. Unfortunately the people who were living through the beginning phase of this change felt only the stringent cost control, with very few positive changes, other than oral statements about quality of services.

Donabedian (1988:1747) argues that a requirement for measuring quality is to translate the theoretical concepts into more concrete representations that can be quantified. This author concludes by pointing out that these representations are the criteria and standards of structure, process and outcome.

Dyck (1996:541-549) points out that knowing what clients expect is the first and most critical step in delivering quality care. Furthermore she states that service quality can be determined by the extent of the discrepancy between client expectations or desires and their perceptions of the services they receive. This issue will be addressed after a brief discussion about the concepts of expectations and the final outcome, which may result in satisfaction or dissatisfaction. Zeithaml & Bitner (1996:118) and Devlin & Dong (1994:562) point out that organisations have to be aware of clients expectations and their perceptions of aspects such as reliability, willingness to help, knowledge, courteousness of employees, interest in members affairs, the physical appearance of personnel, equipment, communication and the accessibility of services. Band (1991:25) calls the above elements a definition of service quality. These elements are investigated in this study.

In an attempt to determine service quality the patients were given an opportunity to air their views and to make use of their consumer rights. According to Carr-Hill (1992:240) consumerism can help authorities to advance from considering individual members of the public as passive clients or recipients of services (who get what they are given for which they must be thankful) regarding them as customers with legitimate rights and preferences as well as responsibilities. This idea recently came into place in South Africa with the acceptance of a proposal by the government that patients in the country have basic consumer rights in terms of medical care. This may be a step in the right direction to ensure that patients are entitled to certain rights and preferences but along with certain responsibilities.

#### **4 Expectations and importance ratings**

The expectations of consumers play an important role in assessing the services of an enterprise. This implies that service quality is assessed by clients by comparing what they want or expect, and their perception of what they get (Berry & Parasuraman, 1991:57). Because of the above mentioned, it is important for any service rendering business to be constantly aware of the needs and expectations of their clients in an attempt to deliver expected service quality. This is also applicable to hospital patients. Berry & Parasuraman (1991:63) point out that an organisation is able to manage their consumers' expectations by applying the following principles: ensuring that promises reflect the reality, emphasis on reliability and communicating with consumers.

The measurement of patients' expected service and the actual service in health care is a complex phenomenon. It is assumed that all patients have a certain level of expectations of health care before going to a health care provider. These expectations may differ from patient to patient and if the expectations are for some or other reason not met, dissatisfaction results. Various factors influence the expectation levels of people. This makes the issue very complex. The outcome of the process (being satisfied or dissatisfied) will differ for each person and makes measuring of satisfaction very complex.

Friedenberg (1997:31a) and Carr Hill (1992:242) have strong feelings about this issue and the latter points out that the additional complexities, involved in measuring patient satisfaction, mean that those who set out to measure satisfaction are probably on a hopeless quest. However, the authors feel that the above-mentioned issue must not result in not measuring these important tendencies. Oswald & Turner (1998:18) point out that it is extremely difficult for consumers to evaluate health care quality because they lack the expertise to gauge the clinical aspects. Consumers therefore rely on their own attitudes toward caregivers and the facility itself when making an evaluation. This is a process quite different from the ones used when buying an automobile or selecting a day-care provider.

For the purpose of this study, the rate of importance of certain pre-identified service quality elements was measured and compared with the extent of satisfaction experienced by the patients with the service provided. Hill and McCrory (1997:231) argued that expectations may be inferred from importance ratings on the grounds that if a consumer believes a service attribute to be important he/she would expect the quality of that attribute to be good. Carman (1990:33-45) points out that for most service providers, the importance of a particular service attribute to consumers seems more relevant than its expected level. For this reason the decision was made to measure importance rather than expectations. However it is agreed that measurement of the latter is also important and interrelated in the measurement of service quality.

Kotler & Clark (1987:76) suggest a satisfaction-measuring device, which rates the importance of the different services and the ability of the organisation to perform the services. The rating of services according to their perceived importance and performance provides the organisation with guidelines as to where it should concentrate its efforts. The method followed in this study was based on this model. However, minor adjustments were made in order to measure the rate of importance of services delivered compared to the rate of satisfaction of services provided.

## 5 Satisfaction

According to Kotler & Andreason (1996:604) satisfaction is the state felt by a person who has experienced a performance (or outcome) that has fulfilled his or her expectations. According to these authors, satisfaction is thus a function of the relative levels of expectations and perceived performance. Three states of satisfaction can be experienced: if a situation occurs where results exceed a person's expectation, that person is highly satisfied; if the results of the experience match the expectations, the person is satisfied; if the results do not meet the expectations, the person is dissatisfied. In the survey conducted for this study, it is evident that it is not very easy to generalise the extent of satisfaction for a group of people.

Zeithaml & Bitner (1996:124) point out that satisfaction is an internal and personal matter and is influenced by perceptions of service quality, product quality, price, situation and personal factors. This is a much broader concept than service quality, because a perception of the latter influences consumer satisfaction. Friedenbergl (1997:31a) argues that a limitation of satisfaction surveys is that patients have no yardstick to measure quality by, with the result that their perception of quality may relate more to convenience and cost factors - the quality that they might expect in a department store or hotel, rather than the quality of medical care. However Zeithaml & Bitner (1996:113) give three important guidelines to be bear in mind, which influence a client's perception with regard to an organisation. These are: service encounters, service evidence and the image of the organisation. In this investigation the above-mentioned issues may be influenced by the negative reports regarding the provision of primary health care by provincial hospitals in South Africa.

Band (1991:25) points out that consumers are more tolerant with regard to problems experienced with service rendering if they are treated with respect. Bearden et al. (1995:123) feel that dissatisfied customers, who complains should not be ignored as they speak to other people and that most of the dissatisfied people do not lodge their complaints directly to the service rendering institution. This may impact negatively on patients' expectations.

In one of his investigations Carr Hill (1992:242) came to the conclusion that patient satisfaction was considerably higher if the doctor was friendly and the patients' expectations were fulfilled. Friedman (1997:31a) agrees with this statement and argues that patients need to identify with their physician because an important part of the healing process occurs when patients trust and have faith in their physician.

## 6 Empirical evidence

Empirical research was undertaken at provincial hospitals, including two academic training hospitals in Gauteng (one of nine provinces in the country). A total of 610 personal interviews were conducted by students among in- and outpatients. The attitudes of 610 patients were tested regarding certain service quality aspects of the provision of health care. A total of 580 valid questionnaires could be used for analysing purposes. Although an attempt was made to select the patients randomly it was not always possible due to patients who were not able to complete the questionnaires. In such cases substitutes were used to overcome the problem of no responses. A five-point scale was used to test the extent of importance and the extent of satisfaction of a number of pre determined elements. The measurement scale included (1) very important / very satisfied, (2) important / satisfied, (3) neutral, (4) not important / not satisfied and (5) not important at all / not satisfied at all). A mean closer to one (1) is regarded as a more desirable situation compared to a mean close to five (5).

The empirical approach was based on the model of Kotler & Andreasen (1996:610). A rank method was used to compare certain findings. With regard to interpreting the tables it is important to take note of the following issue. While the extent of importance and the extent of satisfaction may both rank the same (e.g. 1 or 2) for a certain attribute, the means for the extent of importance were **always** lower compared to the means, which indicated the extent of satisfaction. Even where the extent of satisfaction in terms of ranking, exceeded the extent of importance, it was never exceeded in terms of the mean. This implies that the level of importance was never met. Thus, the calculated means for satisfaction was **always** higher (less favorable) compared to the calculated means, which indicate the extent of importance for the different attributes. To overcome this burden, the ranking system was used to indicate where the patient's expectations were partially met.

A factor analysis was carried out, but no logical grouping could be identified. The individual factors were eventually categorized after consulting with the hospital management. An item analysis was carried out to test the validity and the reliability of the questionnaire and an overall Cronbach coefficient Alpha of a 0,9 was measured. The statistical t-test was performed in order to determine significant differences between the hospital in- and outpatients and the private in- and outpatients separately. Overall there seem to be only a few statistical significant differences ( $p < 0,05$ ) on a 5% level of significance. These items are indicated in the tables with a "\*" . These differences will be discussed as well as some of the results by following the rank method. The Spearman correlation coefficient was calculated to determine the correlation between the extent of importance and the extent of satisfaction regarding the different variables. These findings are illustrated in Appendix A.

## 7 Findings of the study

With regard to the following tables it is important to take note that while the extent of importance and the extent of satisfaction may both be ranked first, it occurs in all cases that the mean of the experienced extent of importance was considerably lower compared to the extent of satisfaction. This implies that for all cases and for all samples the extent of satisfaction was lower than the extent of importance. Also import is to take note that even where the extent of satisfaction exceeded the extent of importance in terms of rank, the mean were throughout higher with regard to the extend of satisfaction which means that the level of importance was never met.

Statistical significant differences ( $p < 0.05$ ) were measured in terms of satisfaction with the accessibility of the toilets between hospital in- and outpatients, where hospital outpatients were less satisfied compared to the hospital inpatients (see table 1). Statistical differences were measured in terms of the importance of the general hygiene in the hospital between private in- and outpatients, where private inpatients were less satisfied.

**TABLE 1: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARD TO THE GENERAL CIRCUMSTANCES OF THE HOSPITAL**

	OVERAL	HOSPITAL n=443				PRIVATE n=113			
		Weigh & Rank	INPATIEN		OUTPATIE		INPATIEN		OUTPATIEN
		Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
General condition of the hosptial	I (47) (5) S (75) (3)	1.75 2.15	5 3	1.80 2.16	5 2	1.69 2.17	4 4	1.67 2.11	5 2
Neatness of the hosptial	I (75) (3) S (85) (2)	1.66 2.08	3 2	1.69 2.18	3 3	1.78 2.07	5 1	1.49 2.11	2 2
Accessibilitv of the hosptial	I (21) (6) S (100) (1)	1.93 2.05	7 1	1.81 2.11	6 1	1.8 2.07	6 1	1.90 1.96	7 1
Accessibilitv of dispensary supplies	I (21) (6) S (25) (6)	1.87 2.31	6 6	1.87 2.36	7 5	1.87 2.43	7 7	1.87 2.58	6 7
Accessibilitv of the toilets	I (57) (4) S (54) (4)	1.72 2.21*	4 5	1.71 2.45*	4 6	1.58 2.16	1 2	1.63 2.32	4 4
General hvgiene in toilets	I (79) (2) S (21) (7)	1.68 2.40	2 7	1.68 2.49	2 7	1.62 2.41	3 6	1.55 2.53	3 6
General hvgiene in hosptial	I (100) (1) S (50) (5)	1.63 2.19	1 4	1.54 2.34	1 4	1.58* 2.18	1 3	1.28* 2.37	1 5

I = mean importance rating

S = mean satisfaction rating

\* Statistical significant difference ( $p < 0.05$ ) on a 5% level of significance between in- and out patients.

In general terms the hygiene in the hospital was ranked as the most important issue, but came fifth in terms of satisfaction. It was the private inpatients who ranked it closest to the desire with a rank of three, while the private outpatients were less satisfied and ranked it fifth. Both hospital in- and outpatients ranked it in fourth position in terms of satisfaction. The second most important attribute was the general hygiene in the toilets. However in terms of satisfaction it was placed seventh by both hospital in- and outpatients and sixth by both private in- and outpatients.

**TABLE 2: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARDS TO THE MEDICAL STAFF**

	OVERAL	HOSPITAL n=443				PRIVATE n=113			
		Weigh & Rank	INPATIEN		OUTPATIE		INPATIEN		OUTPATIEN
		Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
The concern of the medical staff	I (83) 1 S (58) 3	1.66 1.96	2 3	1.73 2.14	3 4	1.60 2.03	2 6	1.62 2.14	1 1
Expertise of the medical staff	I (79) 2 S (83) 1	1.62 1.93	1 1	1.69 1.98	2 1	1.70 2.00	4 5	1.64 2.14	2 1
Reputation of the medical staff	I (21) 6 S (58) 3	1.82 1.99	6 6	1.82 2.10	6 3	1.88 1.95	6 2	1.89 2.20	5 3
Availabilitv of medical staff	I (75) 3 S (54) 5	1.70 1.94*	3 2	1.66 2.23*	1 6	1.63 1.96	3 3	1.78 2.22	4 4
Friendliness medical staff	I (63) 4 S (67) 2	1.79 1.96	5 3	1.77 2.06	4 2	1.48 1.80*	1 1	1.74 2.34*	3 6
Qualitv time spent by medical staff	I (33) 5 S (38) 6	1.74 1.98*	4 5	1.81 2.22*	5 5	1.78 1.97	5 4	1.93 2.27	6 5

I = mean importance rating

S = mean satisfaction rating

\* Statistical significant difference ( $p < 0.05$ ) on a 5% level of significance between in- and out patients.

Statistical significant differences ( $p < 0.05$ ) on a 5% level of significance between hospital in- and outpatients in terms of the importance of the availability of the medical staff and the quality time spent by the medical staff

were measured. In both cases the hospital outpatients were less satisfied compared to the hospital inpatients. In terms of the satisfaction with the friendliness of the medical staff, it was also noticed that statistical significant differences ( $p < 0.05$ ) exist between private in- and outpatients. Private outpatients were less satisfied compared to private inpatients.

The concern of the medical staff was ranked as the most important issue in this regard. The hospital outpatients ranked this issue third, while they ranked the availability of the medical staff first. The expertise of the medical staff was overall ranked second most important issue, while the hospital inpatients ranked it first and the private inpatients fourth. In terms of satisfaction this issue was overall ranked first, resulting in higher satisfaction than regarded as important (although in terms of the mean this was not true). The only exception in this case was experienced by private inpatients who were less satisfied with the expertise of the medical staff.

**TABLE 3: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARDS TO THE NURSING STAFF**

		OVERALL Weigh & Rank	HOSPITAL n=443				PRIVATE n=113			
			INPATIEN		OUTPATIE		INPATIEN		OUTPATIEN	
			Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
The concern of the nursing staff	I	(75) 2	1.73	2	1.74	1	1.69*	3	1.86*	4
	S	(46) 5	2.13	4	2.20	2	2.22	5	2.41	6
Expertise of the nursing staff	I	(75) 2	1.78	3	1.74	1	1.73	4	1.74	2
	S	(83) 1	2.12	3	2.24	3	2.05	1	2.25	1
Reputation of the nursing staff	I	(25) 6	1.85	6	1.91	6	1.77	5	2.04	5
	S	(71) 3	2.09*	2	2.28*	5	2.17	3	2.25	1
Availability of the nursing staff	I	(88) 1	1.71	1	1.77	3	1.68	2	1.71	1
	S	(75) 2	2.07	1	2.24	3	2.14	2	2.37	4
Friendliness/courtesy of the nursing	I	(67) 4	1.84	5	1.77	3	1.65	1	1.77	3
	S	(63) 4	2.13	4	2.18	1	2.17	3	2.40	5
Quality time spent by the nursing staff	I	(29) 5	1.80	4	1.84	5	1.86	6	1.86	6
	S	(42) 6	2.13	4	2.32	6	2.29	6	2.32	3

I = mean importance rating

S = mean satisfaction rating

\* Statistical significant difference ( $p < 0.05$ ) on a 5% level of significance between in- and out patients.

Statistical significant differences ( $p < 0.05$ ) on a 5% level of significance were measured in terms of satisfaction with the reputation of the nursing staff (table 3). The hospital outpatients were less satisfied compared to the hospital inpatients. Statistical significant differences were also measured in terms of satisfaction with the concern of the nursing staff. Private outpatients were less satisfied compared to the private inpatients.

The availability of the nursing staff was overall ranked the most important issue in this regard, while it was ranked second in terms of satisfaction. While three of the four samples' needs were met, it was the private outpatients whose satisfaction was not met. While this issue was ranked most important it was ranked fourth in terms of satisfaction. The concern of the medical staff was ranked second in general terms, while the extent of satisfaction was ranked fifth. While the hospital outpatients ranked this issue as most important, it was ranked second in terms of satisfaction. This issue was ranked fourth by private outpatients, while it was ranked sixth in terms of satisfaction.

**TABLE 4: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARDS TO GENERAL SERVICES**

		OVERALL Weigh & Rank	HOSPITAL n=443				PRIVATE n=113			
			INPATIEN		OUTPATIE		INPATIEN		OUTPATIEN	
			Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Quality of medical services rendered	I	(95) 1	1.68	1	1.71	1	1.67	1	1.55	2
	S	(95) 1	2.07	1	2.17	1	2.04	1	2.27	4
After-care service rendered	I	(55) 3	1.84	4	1.98	4	1.75	2	1.66	3
	S	(45) 4	2.14	3	2.30	4	2.32	3	2.64	5
Range of medical services under one	I	(55) 3	1.83	3	1.83	3	1.90	3	1.81	4
	S	(65) 3	2.07	1	2.26	3	2.51*	5	2.27*	2
General safety of patients	I	(65) 2	1.71	2	1.72	2	1.92*	4	1.46*	1
	S	(75) 2	2.22	4	2.22	2	2.31	2	2.26	1
Porter services	I	(20) 5	2.20	5	2.11	5	1.93	5	2.29	5
	S	(30) 5	2.37	5	2.48	5	2.49	4	2.52	4

I = mean importance rating

S = mean satisfaction rating

\* Statistical significant difference ( $p < 0.05$ ) on a 5% level of significance between in- and out patients.

Statistical significant differences ( $p < 0.05$ ) on a 5% level of significance were measured in terms of satisfaction with the range of medical services under one roof (table 5). Private inpatients were less satisfied compared to

the private outpatients. Statistical significant differences were also measured in terms of the importance of the general safety of the patients, where private inpatients were less satisfied compared to the private outpatients.

With regard to general services the quality of medical services rendered was overall ranked first in terms of importance as well as satisfaction. Three of the four samples were unanimous in ranking the extent of importance as well as the extent of satisfaction first. It was however the private outpatients who ranked this issue second in terms of importance and fourth in terms of satisfaction. It is important to note that there was considerable difference between the extent of importance and the extent satisfaction in terms of the mean.

**TABLE 5: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARDS TO THE WAITING TIME AND PROCEDURES**

		OVERAL Weigh & Rank	HOSPITAL n=443				PRIVATE n=113			
			INPATIEN		OUTPATIE		INPATIEN		OUTPATIEN	
			Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Waiting time for treatment/help	I	(81) 1	1.90	1	1.85	2	1.81*	1	2.02*	3
	S	(44) 3	2.28*	2	2.83*	4	2.59*	3	3.12*	4
Waiting time for dispensary supplies	I	(63) 2	1.92	2	1.93	3	2.04	2	2.02	3
	S	(44) 3	2.41*	3	2.65*	3	2.70	4	2.98	3
Patients flow in general (time aspects)	I	(56) 4	1.99	3	1.98	4	2.11*	3	1.91*	1
	S	(88) 1	2.25*	1	2.61*	2	2.46	1	2.82	2
Registration procedures	I	(63) 2	1.99	3	1.84	1	2.14	4	1.87	2
	S	(75) 2	2.33	4	2.44	1	2.49	2	2.62	1

I = mean importance rating

S = mean satisfaction rating

\* Statistical significant difference (p<0.05) on a 5% level of significance between in- and out patients.

Statistical significant differences (p<0.05) on a 5 % level of significance were measured between hospital patients in terms of satisfaction with the waiting time for treatment, waiting time for dispensary supplies and patient flow. Hospital outpatients were in all cases less satisfied compared to the hospital inpatients. Statistical significant differences (p<0.05) were measured between private patients in terms of both importance and satisfaction of the waiting time for treatment. Statistical differences were also measured between private patients in terms of the importance of the patient flow, where outpatients were more satisfied.

Waiting time for treatment / help was placed first in terms of importance, while it was ranked third in terms of satisfaction. It was the private outpatients however who ranked this issue third in terms of importance and fourth in terms of satisfaction.

While patient flow was ranked fourth in terms of importance it was ranked first in terms of satisfaction. It was however only the private outpatients who ranked the extent of satisfaction lower than the extent of importance.

In table 6 all the samples, excluding private outpatients, ranked all the issues in the same order of importance. Specialized equipment was regarded as the most important issue by the total sample. Three of the samples agreed, while it was ranked second most important by the private outpatients. This was unanimously regarded as the most satisfactory attribute.

**TABLE 6: THE EXTENT OF IMPORTANCE AND SATISFACTION REGARDING THE PHYSICAL FACILITIES**

		OVERAL Weigh & Rank	HOSPITAL n=443				PRIVATE n=113			
			INPATIEN		OUTPATIE		INPATIEN		OUTPATIEN	
			Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Parking facilities	I	(55) 3	2.13	4	2.01	4	1.98	4	1.48	1
	S	(45) 4	2.42	5	2.34	3	2.36	2	2.62	5
Restaurant facilities	I	(20) 5	2.28	5	2.17	5	2.26	5	2.16	5
	S	(30) 5	2.40	4	2.38	5	2.47	5	2.46	4
Specialised equipment in general	I	(95) 1	1.92	1	1.77	1	1.95	1	1.63	2
	S	(100) 1	2.21	1	2.16	1	2.29	1	2.35	1
Telephone facilities	I	(55) 3	2.08	3	1.96	3	1.95	3	2.05	4
	S	(75) 2	2.25	2	2.32	2	2.36	2	2.43	3
Availabilty of waiting rooms	I	(75) 2	2.06	2	1.90	2	1.85	2	1.75	3
	S	(65) 3	2.33	3	2.36	4	2.38	4	2.39	2

I = mean importance rating

S = mean satisfaction rating

No statistical significant differences (p<0.05) on a 5 % level of significance were measured between the individual patient groups for this category.

All the samples ranked restaurant facilities as the least important and in general terms it was also ranked as the least satisfactory. Private outpatients rated parking facilities as the most important physical facility, the reason is that they most probably make use of their own car as transport. They also regarded the parking facilities as the

least satisfactory. The sample in general ranked this attribute as the third most important and fourth most satisfactory in this category.

**TABLE 7: THE EXTENT OF IMPORTANCE AND SATISFACTION REGARDING THE PROVISION OF INFORMATION**

		OVERALL	HOSPITAL, n=443				PRIVATE, n=113			
			Weight & Rank	INPATIENT Mean Rank	OUTPATIENT Mean Rank	INPATIENT Mean Rank	OUTPATIENT Mean Rank			
Helpfulness of reception staff	I S	(50) 4 (20) 5	1.86 4 2.31 5	1.70 3 2.46 5	1.81 2 2.58 5	1.91 5 2.66 5				
Arrangements for follow up visits	I S	(35) 5 (60) 3	1.96 5 2.17 3	1.87 5 2.24 4	1.95 4 2.30 3	1.77 3 2.20 2				
Sufficient information prior to	I S	(60) 2 (60) 3	1.80 3 2.19 4	1.69 2 2.23 3	1.85 3 2.07 1	1.85 4 2.44 4				
Information on the use of medication	I S	(100) 1 (95) 1	1.79* 1 2.04 1	1.50* 1 2.01 1	1.71 1 2.11 2	1.40 1 1.98 1				
Handling of enquiries by staff	I S	(60) 2 (65) 2	1.79 1 2.15 2	1.78 4 2.21 2	2.02 5 2.32* 4	1.72 2 2.56* 3				

I = mean importance rating

S = mean satisfaction rating

\* Statistical significant difference (p<0,05) on a 5% level of significance between in- and out patients.

Statistical significant differences (p<0,05) on a 5 % level of significance were measured between hospital patients in terms of the importance of information on the use of medication. Hospital inpatients were less satisfied compared to the hospital outpatients. Statistical differences were also measured between private patients in terms of the extent of satisfaction of handling inquires by the staff.

All samples were unanimous about the issue that the information on the use of medication was the most important. This issue was ranked as the most satisfactory by three of the sample groups, while the private outpatients ranked it in second place.

Sufficient information prior to treatment was regarded as the second most important and as the most satisfactory issue in overall terms. The private outpatients however ranked this issue fourth in terms of importance and satisfaction, while the private inpatients ranked it third in terms of importance but first in terms of satisfaction.

The sample in general rated the helpfulness of reception staff as fourth most important issue, while the sample in general as well as all the individual sample groups agreed that this was the least satisfactory. The private inpatients however ranked it as second most important issue but the least satisfactory.

Statistical significant correlations (p<0,05) on a 5 % level of significance between satisfaction and importance on all the different variables were measured at the following rates: 90% for hospital inpatients, 85% for hospital outpatients, 46% for private inpatients and 54% for private outpatients. (See Appendix A)

## 8. Conclusion

In the empirical study, measures were taken to assess the perceived importance and the perceived level of satisfaction with regard to selected service quality elements. It was found that none of the means in terms of experienced satisfaction exceeded or even met the means of the extent of importance. This applies for the total sample as well as for all four sub-samples. Because of this limitation a further step was taken to calculate the rank of importance and the rank of satisfaction of individual attributes in order to compare them.

Following this method, emphasis is placed on the biggest negative difference in rank between the extent of importance and the extent of satisfaction for the total sample and for private- and hospital patients. Overall differences in rank order of three and more are mentioned – starting with the overall gap and then followed by mentioning the difference in the sub-samples where applicable.

- **General circumstances of the hospital**

- General hygiene in toilets
- General hygiene in hospital

- **Medical staff**

- Availability of medical staff - the highest deviation was noticed for hospital outpatients.
- Concern of the medical staff - highest differenced for private inpatients.

- **Nursing staff**

- Concern of the nursing staff - With the exceptions of hospital outpatients all the other samples indicated a difference of at least two ranks between importance and satisfaction (negatively).

- **General services**

- No significant differences were noticed.

- **Waiting time and procedures**

- No significant deviations were experienced.

In conclusion immediate attention should be given to the following aspects:

- General hygiene in hospital
- General hygiene in toilets
- Availability of medical staff
- Concern of the medical staff
- Concern of the nursing staff

Action plans should be drawn up in order to address the above-mentioned problems. The South African government has already started to address some of the serious problems. Legislation has been accepted for a period of one-year compulsory service by doctors who have just completed their studies. Investigations are already taking place to include pharmacists and other medical services to the system. Regarding other problem areas like the hygiene aspects, plans should be made immediately to address these aspects.

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**APPENDIX A**

**TABLE 1: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARD TO THE GENERAL CIRCUMSTANCES OF THE HOSPITAL**

	HOSPITAL n = 443		PRIVATE n = 113	
	INPATIENT	OUTPATIE	INPATIENT	OUTPATIE
General condition of the hospital	*	*	*	
Neatness of the hospital	*	*	*	
Accessibility of the hospital	*	*		*
Accessibility of dispensary supplies		*		
Accessibility of the toilets	*			
General hygiene in toilets	*			
General hygiene in hospital	*			

\* Statistical significant correlation (p<0,05) on a 5% level of significance between satisfaction and importance for individual patient groups per variable.

**TABLE 2: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARDS TO THE MEDICAL STAFF**

	HOSPITAL n = 443		PRIVATE n = 113	
	INPATIENT	OUTPATIE	INPATIENT	OUTPATIE
The concern of the medical staff	*	*	*	*
Expertise of the medical staff	*	*	*	*
Reputation of the medical staff	*	*	*	*
Availability of medical staff	*	*		*
Friendliness medical staff	*	*	*	*
Quality time spent by medical staff	*	*	*	

\* Statistical significant correlation (p<0,05) on a 5% level of significance between satisfaction and importance for individual patient groups per variable.

**TABLE 3: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARDS TO THE NURSING STAFF**

	HOSPITAL n = 443		PRIVATE n = 113	
	INPATIENT	OUTPATIE	INPATIENT	OUTPATIE
The concern of the nursing staff	*	*	*	
Expertise of the nursing staff	*	*		
Reputation of the nursing staff	*	*	*	*
Availability of the nursing staff	*	*		*
Friendliness/courtesy of the nursing staff	*	*	*	*
Quality time spent by the nursing staff	*	*		

\* Statistical significant correlation (p<0,05) on a 5% level of significance between satisfaction and importance for individual patient groups per variable.

**TABLE 4: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARDS TO GENERAL SERVICES**

	HOSPITAL n = 443		PRIVATE n = 113	
	INPATIENT	OUTPATIE	INPATIENT	OUTPATIE
Quality of medical services rendered	*	*		
After-care service rendered		*		*
Range of medical services under one roof	*	*	*	*
General safety of patients	*	*	*	
Porter services	*	*	*	*

\* Statistical significant correlation (p<0,05) on a 5% level of significance between satisfaction and importance for individual patient groups per variable.

**TABLE 5: THE EXTENT OF IMPORTANCE AND SATISFACTION WITH REGARDS TO THE WAITING TIME AND PROCEDURES**

	HOSPITAL n = 443		PRIVATE n = 113	
	INPATIENT	OUTPATIE	INPATIENT	OUTPATIE
Waiting time for treatment/help	*			
Waiting time for dispensary supplies	*			
Patients flow in general (time aspects)	*			
Registration procedures	*	*	*	

\* Statistical significant correlation (p<0,05) on a 5% level of significance between satisfaction and importance for individual patient groups per variable.

**TABLE 6: THE EXTENT OF IMPORTANCE AND SATISFACTION REGARDING THE PHYSICAL FACILITIES**

	HOSPITAL n = 443		PRIVATE n = 113	
	INPATIENT	OUTPATIENT	INPATIENT	OUTPATIENT
Parking facilities	*	*	*	*
Restaurant facilities	*	*		*
Specialised equipment in general	*	*	*	*
Telephone facilities	*	*		*
Availability of waiting rooms	*	*		*

\* Statistical significant correlation ( $p < 0,05$ ) on a 5% level of significance between satisfaction and importance for individual patient groups per variable.

**TABLE 7: THE EXTENT OF IMPORTANCE AND SATISFACTION REGARDING THE PROVISION OF INFORMATION**

	HOSPITAL n = 443		PRIVATE n = 113	
	INPATIENT	OUTPATIENT	INPATIENT	OUTPATIENT
Helpfulness of reception staff	*	*		*
Arrangements for follow up visits	*	*	*	*
Sufficient information prior to treatment	*	*		*
Information on the use of medication	*	*	*	*
Handling of enquiries by staff	*	*	*	

\* Statistical significant correlation ( $p < 0,05$ ) on a 5% level of significance between satisfaction and importance for individual patient groups per variable.

## **An Item Response Theory Analysis of Rosenberg's Self Esteem Scale**

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### **Abstract**

Traditional scale purification methods and an Item Response Theory (IRT) approach (Testgraf) are applied to a 5 item unidimensional composite, the abridged Rosenberg Self-Esteem scale. Traditional methods indicate that the scale is highly reliable in its English and Chinese language versions. On the other hand, IRT analysis identifies anomalies with individual scale items. In particular, items tend not to discriminate well between individuals who score highly on self-esteem and those whose score is lower. Moreover, Differential Item Functioning (DIF) appears for some items in comparisons between Chinese and English versions of the scale. It is argued that IRT analysis capabilities augment the current measure development paradigm.

**Probing for Latent Variable Interactions and Quadratics Involving  
Unobserved Variables and Survey Data**

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**Abstract**

Substantive researchers frequently observe non significant (NS) associations in model tests involving unobserved or latent variables (i.e., variables that have multiple observed variables or indicators which are measured with error) and survey data. Authors have argued that these NS associations frequently are the result of an interaction or quadratic that is attenuating an otherwise significant association (e.g., Cohen and Cohen 1975, *Applied Multiple Regression/Correlation Analyses...*, Erlbaum). However, substantive researchers are frequently unaware of this possibility. Those who are, usually resort to OLS regression (which is biased) to probe the many interactions and quadratics for significant ones that might explain things before they re estimate the model using covariant structure analysis (CSA) (e.g., LISREL) and candidate interactions and/or quadratics.

The paper suggests an accessible alternative to OLS regression for probing for significant interactions and quadratics among latent variables using survey data, along with an example, that may be useful to substantive researchers. The suggested approach involves specifying the interactions and quadratics of interest using reliabilities and CSA. Specifically, these interactions and quadratics can be specified using a single indicator each as Ping (1995, *JMR* 32, 336-347) suggested. Each of these single indicators has an estimated loading and error term that involves reliabilities that were derived by Busemeyer and Jones (1983, *Psych. Bull.* 93, 549-62), and these estimated loading and error terms are fixed or invariant during structural model estimation.

Kenny (1979, *Correlation and Causality*, Wiley) suggested a CSA procedure that uses reliabilities to determine the loading and measurement error of an indicator that is the sum of items. Variations of this procedure have been used in the social sciences for some time, but it remains generally unfamiliar to substantive researchers. The procedure involves using a single (summed or averaged) indicator of a construct, and it was originally proposed to eliminate interpretational confounding by separating measurement from structure in structural equation models as regression does (see Anderson and Gerbing 1988, *Psych. Bull.* 103, 411-23 for a consistency-based approach to separating measurement issues from model structure).

Using Kenny's suggestion, Busemeyer and Jones' derivation of the reliability of an interaction, and Anderson and Gerbing's observation that for unidimensional measures there is little practical difference between coefficient alpha ( $\alpha$ ) and latent variable reliability  $\rho$ , the loading,  $\Lambda_{XZ}$ , and the measurement error variance,  $\theta_{XZ}$ , of the interaction XZ can be approximated by

$$\Lambda_{XZ} = \frac{r_{XZ}^2 + \alpha_X \alpha_Z}{\sqrt{r_{XZ}^2 + 1}}$$

and  $\theta_{XZ} = \text{Var}(X)\text{Var}(Z)(1 - \alpha_X \alpha_Z)$ , where  $r$  denotes correlation and  $\text{Var}$  denotes variance, both available in SPSS, SAS, etc. The loading and error terms for a quadratic are similar and can be derived by replacing Z with X in the above.

As a result, interactions and quadratics of interest could be added to a CSA model using the single indicators suggested by Ping (1995) (i.e., for an interaction, the averaged indicators of X times the averaged indicators of Z), and the loadings and measurement error variances of these single indicators could be specified by fixing the loadings and error variances to the calculated values from the approximations given above. The structural model could then be estimated by adding significant interactions and quadratics one-by-one using LISREL 8's modification indices in a procedure that is similar to stepwise regression. To accomplish this, all the interactions and/or quadratics of interest are added to the model, but the path coefficients (i.e.,  $\gamma$ 's or  $\beta$ 's) for the paths between the dependent variable(s) and each of the interactions and quadratics are initially fixed at zero. Then the interactions or quadratics are "stepped in" one-by-one using modification indices according to which interaction or quadratic has the highest modification index. This procedure is repeated until the next interaction or quadratic stepped is not significant. All the variables, including the interactions or quadratics and the endogenous or dependent variables they affect, should be mean centered so they have a mean of zero. Otherwise, the structural coefficient estimates (i.e.,  $\gamma$ 's or  $\beta$ 's) will be biased because an term intercept is not modeled. In addition, all the exogenous or independent variables should be intercorrelated, including the interactions and quadratics. Finally, the variances of the interactions or quadratics should be freed, not constrained to the product of their constituent variables as is customarily done (see Kenny and Judd 1984, *Psych. Bull.*, 96, 201-10).

## Developing a Scale to Measure the Perceived Quality of an Internet Shopping Site (PQISS)

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### Abstract

Internet shopping sites must be of high quality to attract consumers and influence their shopping decisions. We have developed a scale to measure the perceived quality of an Internet shopping site (PQISS). This scale can be used to evaluate Internet shopping sites and to examine the relationships between the site quality and relevant variables.

The purpose of this study is to develop a psychometrically sound instrument to measure the perceived quality of an Internet shopping site (i.e., PQISS). We generated items purely based on consumers' own descriptions because PQISS should measure consumers' perceptions of quality. Students in two marketing classes in a major state university participated in the study. They listed the characteristics of Internet shopping sites that succeeded or failed to make them purchase by responding to open-ended questions. The participants named a total of 92 descriptions of site characteristics. With obviously overlapping descriptions excluded, 54 descriptions were retained as the pool of candidate items of PQISS. The descriptions were reworded in short, clear sentence form for evaluations.

A two-page questionnaire was developed to evaluate the 54 descriptions of site characteristics, using five-point Likert scales anchored at 1 = "strongly disagree" and 5 = "strongly agree." The descriptions were randomly arranged to avoid the systematic order effect or the cluster answering effect.

The questionnaire was distributed to 94 students in three marketing classes. Participants were asked to visit and interact with any three Internet shopping sites of their own selection and then rate the 54 descriptions for each site. A total of 69 participants (73% response rate) completed the questionnaire, which resulted in 207 evaluations. Sites for books, music, videos, apparel and accessories, department stores, travel, and automobiles received the most visits, but no single category was dominant. This wide variety of site categories enhances the cross-site applicability of the scale.

To reduce the length of the description set while maintaining the diversity of site quality perceptions, we conducted exploratory factor analysis. As a result of a careful examination of eigenvalues, proportion of variance explained, and scree test, nine distinct factors were identified. These factors exceeded one eigenvalue each, showed rapid increments in the scree curve, explained 75 percent of the variance, and, more importantly, showed a clear factor-loading pattern. Based on the shared meaning of the items of each factor, the nine extracted factors or dimensions were labeled as aesthetic design, competitive value, ease of use, clarity of ordering, corporate and brand equity, security, processing speed, product uniqueness, and product quality assurance.

The PQISS measurement model of 20 items estimated by confirmatory factor analysis was supported by values of fit. First, CFI and IFI were .90 and .91, respectively. SRMR was .052. RMSEA was .079. The chi-square statistic was 306.59 with 133 degrees of freedom. Second, despite the large number of items considered, no substantial departures from unidimensionality were observed. Every other modification index was less than 10. Third, all items were loaded on their corresponding constructs. The loadings of the items on their corresponding dimensions ranged from .60 to .96. The smallest t-value of the loadings was 7.63, which exhibits the high significance of the loadings. Fourth, the composite reliability estimates, computed from LISREL results as evidence of convergent validity, were satisfactory, ranging from .70 to .93. In addition, the average variance extracted for each dimension ranged from .47 to .87.

# **A new Approach to compute Interactions of Latent Variables in Structural Equation Models - Results of an empirical Study**

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## **Abstract**

The purpose of the paper is threefold. First, some of the most popular approaches to compute interactions of latent variables will be discussed and a new technique, the factor score regression will be presented and applied. Second, we generate hypotheses based on the theory of planned behavior to explain ecological buying behavior and test these hypotheses empirically. Another purpose of the paper is to analyze all expectancy-x-value models of the components of planned behavior theory as elements of a complex non-linear structural model.

## **Introduction**

Structural equation models are very popular in marketing research to analyze the relationship between factors that are not directly observable (Malhorta, Peterson & Kleiser 1999). In most of the studies the linearity postulated between the relevant construct holds. In the recent past the relations between the non-observable variables are modeled on the base of the non-linearity premise. In this context much has been written on interactions in multiple regression and in log-linear analysis. Yet, when we turn to the Structural Equation Models, the literature is relatively sparse. The purpose of the paper is threefold. First, some of the most popular approaches will be discussed and a new technique, the factor score regression will be presented. This technique avoids many of the problems associated with other methods. Second, to show the strength of this approach an empirical study was conducted. We generate hypotheses based on the theory of planned behavior developed by Ajzen (1985) to explain ecological buying behavior. Hypotheses are tested about the effects of expectancy-value measures and attitudes toward the act on intentions and subsequent ecological buying behavior. The LISREL approach will be used to quantify the influencing variables of the ecological buying behavior. Another purpose of the paper is to analyze all expectancy-x-value-models of the components of planned behavior theory as elements of a complex non-linear structural model. This expands Baumgartner and Bagozzi's (1995) approach decisively. Implementation of the factor score regression method as developed only recently is a prerequisite for including several interaction effects. The last sections give implications for companies to stimulate ecological buying behavior.

## **Methods for estimating latent interaction effects**

In general, an interaction effect exists whenever the character of the relationship between variables A and B is affected by the level of variable C. We can demonstrate this by examining a multiple regression equation without interactions: (1)  $A = \beta b_1 \times B + b_2 \times C + e$ . The first partial derivatives of this equation with respect to B and C describe how a change in the level of one predictor affects the level of A, when the other predictor is held constant. These predictors are  $b_1$ ,  $b_2$ . They show in our example, that the only effect of a change in B on variable A is the 'main' effect through  $b_1$ . By contrast, consider a regression equation with an interaction term: (2)  $A = b_1 \times B + b_2 \times C + b_3 \times B \times C + e$ . Now the first partial derivatives are  $b_1 + b_3 \times C$  and  $b_2 + b_3 \times B$ . In other words, a change in B now affects A not only through B's main effect but also as a function of the level of C. Pioneering work to model non-linear phenomena with the help of causal analysis was done by Kenny and Judd (1984). Their indicant product approach to latent variable interactions involves modeling an 'interaction construct', say  $x_1 \times x_2$ , which is a function of the 'main effect constructs',  $x_1$  and  $x_2$ . To create the interaction construct they suggest to multiply the indicators of the latent variables. This estimation techniques for interaction and quadratic latent variables in structural equation models can be classified as a direct estimation approach. In contradiction to the indirect approach (Jöreskog 1971, Hayduk 1987, Wong & Long 1987 and Ping 1995), the direct estimation (Jaccard & Wan 1990, Ping 1996, and Jöreskog & Yang 1996) produce structural coefficient estimates without introducing additional convenience variables to the model. The market researcher integrates the interaction term directly in the structural equation. As often criticized, the specification of a simple LISREL model is not easy and becomes even more tedious with larger models. In addition, for larger models, the size of the covariance matrix created by the addition of product indicators, and the number of addition variables implied by the constraint equations, can create model convergence and other model estimation problems. Furthermore the use of the product indicators introduces nonnormality into the system of equations, so the standard errors are in question. This introduction of product indicators violates the normal distribution assumption

upon which the maximum likelihood estimation is based. In this respect, the authors named above carried out extra estimations of the non-linear causality model using the distribution-free WLS (Weighted Least Square) or, like Jöreskog and Yang (1996) did, using the WLSA (Weighted Least Square based on Augmented Moment Matrix) methods (Yang Jonsson 1997, 1998). When the number of observed variables to be considered is high, the required generation of the asymptotic covariance matrix or augmented moment matrix needs a sample size that most social sciences facilities cannot fulfill. In addition, specification of even the simple LISREL model proves to be difficult because numerous restrictions have to be taken into account. For these reasons, the non-linear cause-effect interdependencies which had been estimated using the Kenny-Judd method were very small models that included few constructs only (Baumgartner & Bagozzi 1995). It is because of these problems that the indirect estimation methods for non-linear causality models such as Bollen's two-stage least square approach (1995), Ping's two-step method (1996), and Yang Jonsson's factor score regression method (1998) are becoming increasingly popular. With indirect estimation approaches several estimation steps are required. Although these approaches basically allow the quantification of interaction effects, the two former methods are criticized for the fact that two-stage least square estimations do not provide statements on the overall fit of the model, and that the dependent latent variable can only be represented by an indicator, or, like in Ping's method, estimated values are distorted. The most promising method with regard to the incorporation of non-linear partial models in a complex network of relations is the factor score regression method (Cf. Yang Jonsson 1998). The measurement models of all latent constructs are estimated in a first step using a confirmatory factor analysis. The factor values of the interaction term can be calculated using the individual factor values of the latent variable. The factor value of the product term and the factor values of the other latent variables are input in an OLS regression. The estimated regression value and the determined variance of the error term can now be taken into account in the overall model. The approach presented by Yang Jonsson (1998) provides a reliable estimation of non-linear relationships between latent variables when working with complex structural equation models and a small sample size ( $n < 200$ ). Furthermore in contradiction to the 'two stage least squares'-method one indicator or many observable variables are representatives for the dependent construct and it is possible to evaluate the overall model with global fit indices. With regard to the pros of this technique it seems reasonable to test the performance of the "factor score"-regression empirically.

### **An empirical application of the non-linear causal model**

#### **Some basic remarks on the TOPB**

The TOPB (Cf. Ajzen 1988) is based on the theory of reasoned action and represents the latest structural model in socio-psychological attitudinal and behavioral research. Ajzen (1985) refers to the findings of self-efficacy theory (Cf. Bandura 1977) and action research (Cf. Kuhl 1981) to overcome the fundamental assumption of the theory of reasoned action that each behavior that can be explained took place under complete intentional control on the part of the person who states an intention to act. Another determinant of behavioral intention is perceived behavioral control in addition to an attitude towards the action and subjective norms. This construct represents an individual's assessment to what extent factors he or she cannot fully control facilitate or aggravate a way to behave. The perceived behavioral control, the attitude towards the action, and any subjective norm are the result of interaction or the product of a value and an anticipation variable (Cf. Ajzen 1988). In accordance with the expectation x value model developed by Fishbein (1975), the attitude towards the action results on the one hand from the expectation that the intended behavior will have consequences, on the other hand from the assessment of these consequences by the individual.

The product of the expectations of the members of a reference group regarding the behavior of an individual (normative beliefs) and this individual's motivation to comply with these standards determines the subjective norm. In the same way, control beliefs determine perceived behavioral control. Under the proviso that partial information is independent, the expectation x value approach shows how individuals compose an overall judgment from several pieces of partial information. Fishbein and Ajzen (1975) expressed the view that index formation and regression analysis are suitable methods for quantifying the influencing variables of the determinant that result in the overall judgment. All studies that are based on the expectation x value model for measuring attitudes, however, have confirmed a weak connection only between the assessed expectations with regard to consequences of behavior and attitude. It is also because of these findings that the adequacy of the expectation x value approach is questioned (Cf. Ajzen 1991). Criticizing the basic assumption of the model of independent partial information, Bagozzi (1982) has worked out an "extended true-score" model for predicting attitudes based on the works by Lord and Novick (1968). Assuming that expectations and their assessment are "mental events", Bagozzi regards these two determinants of attitudes no longer as observable variables like Fishbein or Fishbein and Ajzen did, but as constructs (Bagozzi 1982). The generation of

hypotheses and empirical testing of the "extended true-score"-model was first done by Baumgartner and Bagozzi (1995) on the base of the Kenny and Judd approach. Founded on the expectancy-value theory (Fishbein 1967) they tested if the latent interaction term influences the attitude construct in a positive manner. They also postulated on the base of Fishbein's theory a positive relationship between value and attitude. Still, Baumgartner and Bagozzi assume based on plausibility considerations that the non-linear expectation x value approach comprises a positive impact relationship between the value construct and attitude. Based on the TOPB and the non-linear causality-analytic expectation x value approach the following model can be postulated:

### **Empirical testing of the model of ecological buying behavior**

An empirical study held in January 1999 was to conduct a test of the formulated model of ecological buying behavior in real life. 102 students took part in the main written poll. The authors carried out exploratory in-depth interviews with 60 respondents to identify the expected consequences and obstacles of their behavior. The items that went into the questionnaire for the main study were selected based on the results of this pilot study.

The constructs were operationalized in accordance with Ajzen and Fishbein (1980) or Ajzen (1988). The respondents assessed the items on a rating scale of eight. Confirmatory factor analyses using LISREL 8.3 were carried out to review and adjust the models of measurement. The items of the overall model were selected using an iterative procedure in which items with low factor loadings and correlated errors of measurement were continuously removed from the model. Selected parameters for evaluating the models of measurement are listed in the appendix. As none of the variables was normally distributed, the data had to be normalized first (Cf. Jöreskog et al 1999). For mere efficiency reasons the items measuring the actually shown buying behavior were collected at the same time as the other variables of the study (cf. Ajzen & Fishbein 1980). The perceived ability to overcome obstacles and perceived behavior control were measured using an item in accordance with Doll (1987) and Wortmann (1994).

The three non-linear expectation value models were estimated using factor score regression (PRELIS 2.3 software was used for estimation). The whole approach was reviewed based on the expectation-x-value model using LISREL 8.3. The results are reflected in [Figure 2](#). However, the global fit indices just point to a medium adjustment of the empirical data to the model. The modification fit indices show what other relationships the data allow. However, only those connections may be included in the model that can be put on a theoretical foundation (on this approach see Voss & Parasuraman 1998). The modification indices reveal a connection between the attitude towards ecological buying behavior and actually implemented ecological buying behavior (see therefore Bentler & Speckart 1979; Kelly & Mirer 1974), and a relationship between the first construct and perceived behavioral control (see therefore Ajzen & Madden 1986). Moreover, the parameter points to an influence of control capability and the actual purchase of an ecological product. Ajzen and Madden (1986) added the correlation between the two constructs to the original model of the theory of planned behavior. In addition, he points out the recursive nature of the relationship between behavioral intention and perceived behavioral control. If an individual has the distinct intention to implement a behavior, he or she will more readily believe to be able to control behavior. The modified model of ecological buying behavior with recalculated parameters is reflected in [Figure 3](#).

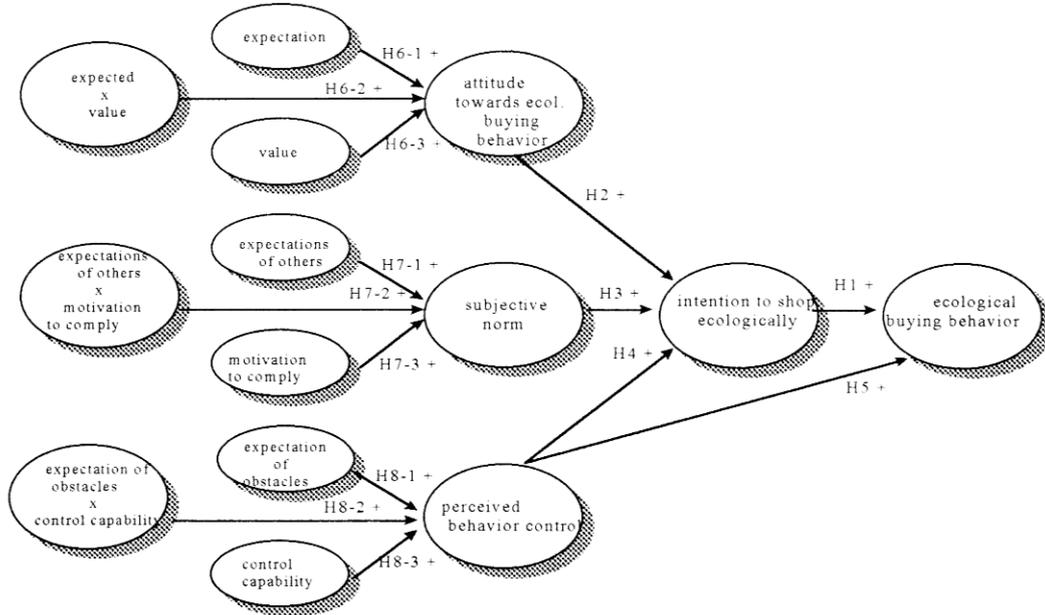
### **Implications for marketing ecological products**

It is mainly dependent on a consumer's attitude towards shopping ecologically whether or not he or she really buys ecological products. Especially it is important for the formation of this attitude that ecological buying behavior is expected to increase satisfaction with oneself and to buy healthier food products. Quality losses associated with organic or ecological products cause a negative attitude towards ecological buying behavior. It is therefore important in any marketing campaign to make it clear to the customers that the purchase of ecological products increases a person's self-satisfaction and contributes to a healthier diet but does not imply a loss of quality. However, the most important determinant of attitude was the value construct. So the consumers should learn through advertising that most important aspects when deciding between buying ecological or non-ecological products are increased satisfaction and a healthy diet. The quality of the products, however, does not have to be emphasized when addressing customers. Another major determinant of ecological buying behavior is the control capability. It is recommendable to strengthen a customer's belief he or she could really control ecological buying behavior if he or she wanted. In addition, manufacturers of ecological products should cooperate with retailers to remove any obstacles that might prevent people from buying. For example, comprehensive information should be provided. Another potential hindrance manufacturers of ecological products have to fight is the consumers' habitual behavior. They should provide incentives such as favorable prices to bring customers round to their first buy and break the chain of habitually buying non-ecological products.

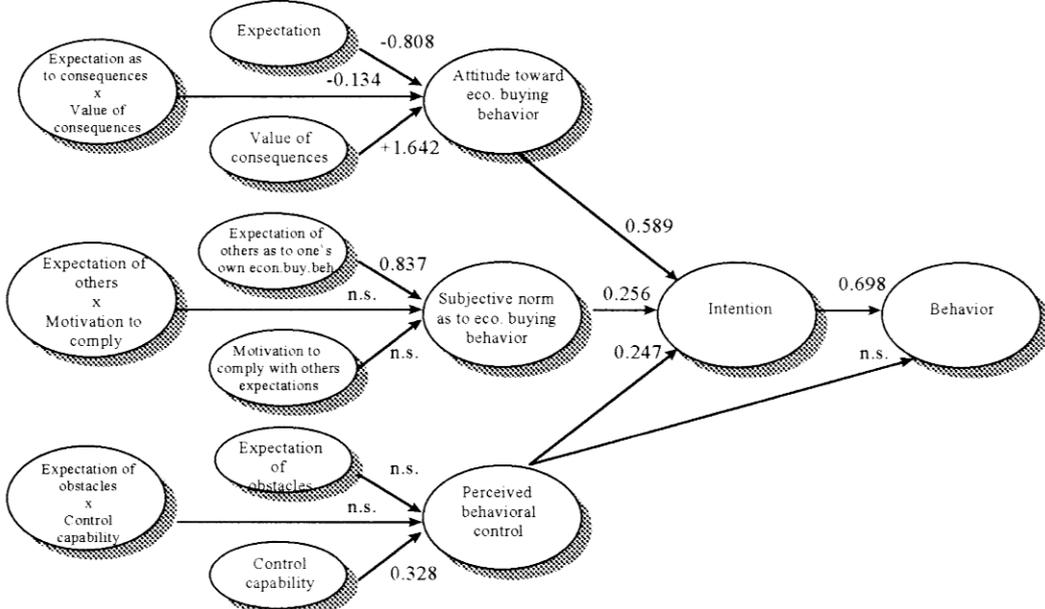
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**FIGURE 1: OVERVIEW OF THE SYSTEM OF HYPOTHESES**

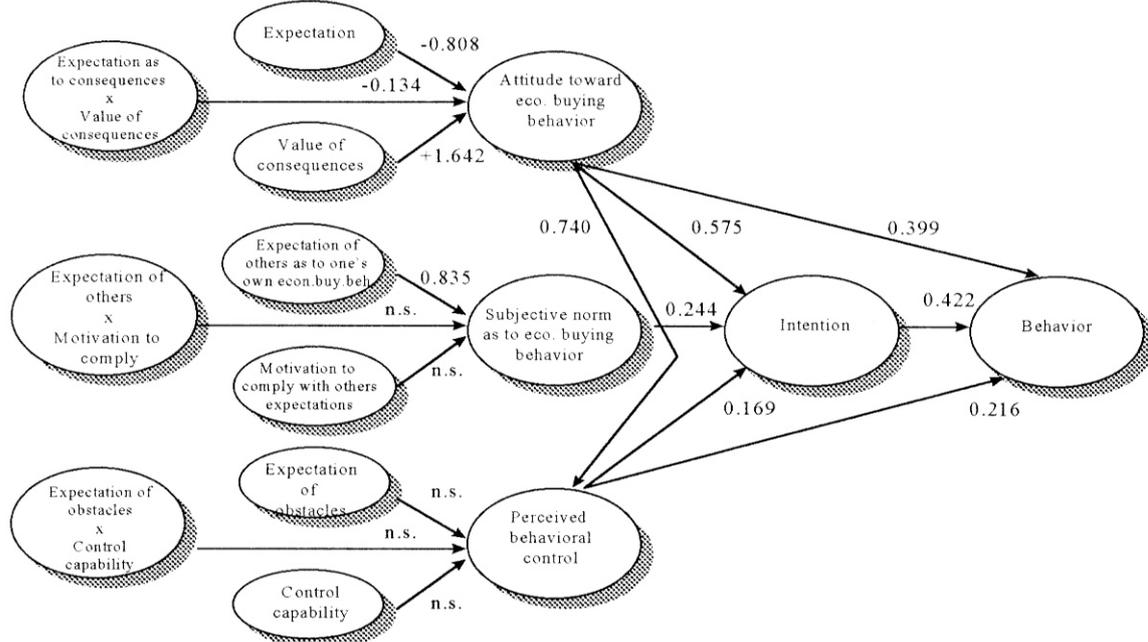


**FIGURE 2: MODEL OF ECOLOGICAL BUYING BEHAVIOR**



CHI SQUARE = 603.91 DF=209 P=0.0, RMSEA=0.0869, AGFI=0.755, NNFI=0.838, CFI=0.866, IFI=0.868

**FIGURE 3: MODIFIED MODEL OF ECOLOGICAL BUYING BEHAVIOR (STANDARDIZED ESTIMATED VALUES)**



CHI SQUARE = 403.87 DF=205 P=0.0, RMSEA=0.069, AGFI=0.80, NNFI=0.896, CFI=0.916, IFI=0.917

## **A Comparative Study of Political Risk in Export and Foreign Direct Investment: The Case of Canadian Firms**

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### **Abstract**

Political risk first received much attention in the 1960s and 1970s when businesses experienced significant losses due to expropriations such as happened after the fall of the Shah of Iran. Incidences of expropriation have declined significantly over the last 20 years (Minor 1994) and the capital at stake is no longer the biggest concern for firms. Since expropriation originally was the major concern, political risk has been defined for foreign direct investments (FDI) (for example, Pahud de Mortanges and Allers 1996; Rice and Mahmoud 1990; Kobrin 1979; de la Torre and Neckar 1988; Alou and Martin 1998).

Political risk for exports, however, has largely been ignored in the literature. Traditionally, political risk for exporters has been considered less important since less capital is at stake (Stapenhurst 1992). The loss of the actual facility due to expropriation however represents only a small part of the loss to a foreign direct investor. Lost sales to the expropriated subsidiary by the parent or other affiliates and the loss of expected future revenues are often much larger than the value of the expropriated assets (Gillespie 1989). Lost future sales are of a major concern to exporters. While exporters will not lose any investment, they face non-payments on goods already shipped. In fact, Gillespie (1989) finds that the largest settlements in disputes with Iran were for exports and not for foreign direct investment.

In this paper we extend the existing literature on political risk assessment in two ways. First, we examine how exporters evaluate the political risk factors involved in exporting and how it differs from foreign direct investors' evaluation of the FDI. Second, in light of the internationalization process and the recent emergence of trading blocs. We also examine how exporters cross-evaluate the political risk factors involved in FDI and how foreign direct investors cross-evaluate political risk factors for exporting. Within and between group MANOVA is employed. Results reveal critical factors for exporting are different from that of FDI and that exporters and foreign direct investors cross-evaluate differently. An interesting finding is the evolution of *red tape* in exporting as a critical factor and to a significant extent in FDI. It reflects the quality of bureaucracy and in extreme case corruption involving bribery.

*References available from the author upon request.*

## Comments on The Participative Service Consumer

Discussant -- Tim Christiansen, Purdue University

The choice of title for this session is interesting and actually provides a beginning for my comments. Since it is assumed that the service consumer must play a role in the construction of the service product, there must be some type of relationship constructed between the service provider and service consumer. While only one of the papers appears to be specifically based upon a relationship marketing foundation, two of the others implicitly are examining relationships. I would like to suggest that all three could be considered to be examining specific pieces of the more general model of relationships developed by Morgan and Hunt (1987).

The first paper dealing with servicescapes manipulated sources of information available to the consumer. The provision of information would fall within the general purview of communication, which is one of the antecedent variables in the Morgan and Hunt model. This research, however, has expanded on the more general forms of communication (written and oral) to include the information that is communicated to the consumer who enters the service facility, or the servicescape. While this research examined the effect of different information on purchasing, it seems logical that these different forms of information may also affect the level of trust in the service provider, and the level of commitment to the relationship. The addition of this type of information provision, along with written and oral, could be very useful in examining the Morgan and Hunt model for its applicability to service relationships.

The choice of servicescape in this paper is also interesting. While some people may still consider individuals who work on our vehicles to be "mechanics," they prefer to refer to themselves as "service technicians." The choice of title is important since it is also an important way of communicating with the consumer. Thus, these individuals would like the consumer to realize that they are not "shade tree mechanics" but are service professionals. And since they now charge from \$50 to \$80 an hour to service our vehicles I have no problem with considering them to be a service professional. Therefore, this line of research could also be extended to other service professionals such as doctors, lawyers, and financial advisors to examine whether the results from this study would be replicable in other professional areas.

The second paper also uses communication as a key construct in its work. Again an interaction with a professional service provider was the context. The addition of participation in the decision process is interesting and could provide an important addition to the Morgan and Hunt model. They did not specifically include this variable, although there are related concepts within their model. Morgan and Hunt suggested that a sharing of values was an important precursor of relationship commitment and trust, and cooperation was an important outcome, along with the idea of compliance or acquiescence. The inclusion of a measure of how participative the decision making process was seems to be a logical extension for the model.

The concept of participative decision making also seems to have a great deal of relevance for any number of professional service settings. And the compliance of the consumer is important for more than just prescription medicine. A financial advisor should consult closely with the client in developing financial goals and plans, but it is up to the consumer to actually enact the plans. A vehicle service technician can talk with the owner about guidelines for when certain maintenance procedures should be performed, but the consumer has to follow through. This line of research seems very important for the professional services area, but I would suggest that it may prove to be most influential if it were conducted within the relationship marketing paradigm and use the Morgan and Hunt model as a framework for thinking about the key constructs to include.

The third paper is directly based upon the relationship marketing paradigm and is probably the easiest to place within the general framework of the Morgan and Hunt model. Essentially, the paper supports the general notion that relationships will lead to a higher level of loyalty, or as Morgan and Hunt termed it, commitment. The research presented here included what could be viewed as a measure of opportunistic behavior. When the store owner knew that the video tape may be damaged, but was willing to rent it out anyway, that could be perceived as an opportunistic act. Morgan and Hunt found that opportunistic behavior had a detrimental effect on the development of trust and commitment in a relationship.

This paper is especially important as it demonstrates the role of relationship in mitigating the effects of product failure. Since services are a "high touch" product with a great deal of variability, it is important to identify what factors aid in keeping customers coming back when the last experience may not have been as satisfactory as prior experiences. An extension of this work may be to now consider how the relationship affects service recovery efforts. For example, if the video store offered a free rental as a means of dealing with the product failure, would the level of satisfaction with

this recovery effort vary with the level of relationship? Does it take more to make us happy if we have no relationship with the service provider versus if we have a relationship?

Services marketing is an important arena in marketing for research. And the papers presented here provide evidence that there is still ample fertile ground to plow in conducting this research. However, it is important to examine the tool used for plowing to make sure that it is an appropriate one. My suggestion is that placing the research within a broader context may provide more avenues for research. Morgan and Hunt build a persuasive case for the use of their model in examining any type of marketing relationship. To date, a broad program of study undertaking this task has not been undertaken. The services marketing area, because of its heavy emphasis on interaction between the service provider and the purchaser, seems a logical place to utilize this tool in examining services marketing relationships.

The fourth and final paper in this session is distinctly different from the others. Its relationship to services marketing is tenuous, but it does raise some interesting issues dealing with debt and the perception of debt. The authors might be able to use the large data set from the Survey of Consumer Finances in order to test some of their hypotheses with a much larger sample. It was very interesting that females tended to have the higher credit balances and that females also tended to be more misaligned regarding the impact of these balances on their overall financial well-being. The public policy implications from this type of research is readily apparent, however, its role in shaping managerial decision making is less clear.

Morgan, Robert M. and Shelby D. Hunt. 1987. "The Commitment-Trust Theory of Relationship Marketing." *Journal of Marketing* 58 (July): 20-38.

## The Personal Side of Relationship Marketing

Discussant -- Carol Bienstock, University of Memphis

The four papers presented in this session focus on what I call the “personal side” of relationship marketing. “Tangible and Intangible Dimensions of Supplier Performance and Business Marketing Relationships” highlights the importance of personal behaviors in developing relational exchanges with customers. “Sales Force Motivation and Outcome- or Behavior-Based Controls,” suggests how to motivate employees to perform those personal activities that are so important in relationship marketing programs. “Relationship Marketing – Who Benefits?” identifies individual as well as organizational benefits that accrue to relationship partners. The personal dimension of relationship marketing also plays an important role in internal marketing strategies, as suggested in “Operationalizing Internal Marketing.”

The goal of relationship marketing is to develop close, long-term relationships with buyers. In a close relationship, the customer is committed to one supplier, views the relationship as important and on-going, and perceives it as risky to switch to an alternative supplier. In the paper, “Tangible and Intangible Dimensions of Supplier Performance and Business Marketing Relationships,” the authors argue that buyer commitment develops only when trust in and cooperation with the supplier are high. Buyers begin to trust a supplier when they perceive benefits from the supplier’s performance on tangible dimensions such as product attributes, price, and delivery. They found, however, that the intangible dimensions of supplier performance, such as responsiveness to and concern for the customer, have a greater effect on trust and cooperation in a buyer-seller relationship than do tangible dimensions.

This paper highlights the important role that sales personnel play in implementing a firm’s relationship marketing strategy and achieving the goals of relationship marketing. Such efforts on the part of sales personnel and management are costly, however, and determining when these efforts are likely to yield profitable returns is important to the success of the supplier. I agree wholeheartedly with the authors when they urge further research to test the boundaries of their findings.

The context of this study is the motor vehicles industry and is characterized by relatively homogeneous products. In such an industry, suppliers must rely on intangibles to differentiate themselves from competition. However, customers can take advantage of personal services provided by one supplier and purchase from another. Further, not all customers may see benefits in committing to one supplier. Determining when the efforts of relationship marketing are most likely to be successful can result in a more efficient allocation of selling efforts.<sup>1</sup>

If the efforts of the sales force are critical in developing the trust and cooperation that leads to close, long-term relationships, then the firm must encourage those efforts in its salespeople. The paper, “Sales Force Motivation and Outcome- or Behavior-Based Controls,” reinforces a very important truism – you get what you pay for. To motivate salespeople to be responsive to and concerned for customers, firms therefore should use behavior-based controls.

Unfortunately, a firm’s controls may not be consistent with its goals. For example, account executives are responsible for developing and maintaining close, long-term relationships with customers. Motivating behaviors that lead to these relationships suggests that behavior-based controls are appropriate. But what happens when the account executive works with major account teams that include salespeople from the firm’s “generalized” sales force who are rewarded more for their sales results? Their motivation to expend considerable effort to call on and work with branch offices of major accounts may be minimal, particularly when sales from the branch office are low. The challenge, then, is to identify what kinds of controls are needed in different situations and to develop control systems consistent with those needs.

Further, the firm must determine that the behaviors it encourages from the sales force will, in fact, lead to desired outcomes – i.e., increased sales. The previous paper suggests that sales behaviors can lead to greater customer commitment. The challenge to the firm is to identify what behaviors are most likely to enhance trust, cooperation and customer commitment and, again, when these intangibles are particularly relevant in developing close relationships.

“Relationship Marketing – Who Benefits?” highlights the numerous benefits that accrue to both sellers and buyers that have close, long-term relationships. In her article, “Collaborative Advantage: The Art of Alliances,”

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<sup>1</sup> Jackson, Barbara Bund (1985), “Build Customer Relationships That Last,” *Harvard Business Review*, (November-December), 120-28.

Kanter<sup>2</sup> argues that partnerships are complex relationships, and successful partnerships involve collaboration at multiple levels of the organization. While firms often enter into relationships because of their strategic compatibility, *strategic integration* involves continued contact among top executives to ensure continued compatibility. *Tactical integration* brings together middle managers to develop plans for specific projects or joint activities and to identify changes that will link the partners. *Operational integration* provides ways for the individuals carrying out the work of the partnership to have access to the resources necessary to successfully complete their tasks. *Interpersonal integration* involves an ever expanding and strengthening network of interpersonal ties between partners. Finally, *cultural integration* involves the bridging of cultural differences.

We therefore might expect successful partnerships to yield benefits at multiple levels of the organization. In the paper "Relationship Marketing – Who Benefits," buyers and suppliers identified seven different kinds of benefits that they derived from their partnership. In addition to the expected strategic and economic benefits, buyers and suppliers perceived that their relationships yielded operational, symbiotic, customization, psychological, and social benefits. In fact, the total sample of buyers and suppliers in this sample ranked strategic and economic benefits as fifth and fourth, respectively.

The benefits perceived as important to buyers and suppliers in this sample were more "personal" in nature. Respondents ranked operational benefits as the most important benefit they derived from their close relationship with a partner. Psychological benefits were ranked second by buyers. Not only did buyers perceive their relationship with a supplier to enhance their operational systems and processes, but they also trusted the supplier's efforts in their interactions. Symbiotic benefits were ranked second by suppliers. Suppliers perceived a strong sense of understanding and collaboration with their relationship partner.

An examination of the sample may explain these findings. Respondents representing buyers were managers involved in the selection of the supplier with whom they had a close relationship. Presumably these respondents were more directly involved in the "operational" and "interpersonal" levels of the relationship. Although no information was provided about respondents from supplier organizations, they, too, may be involved with the "operational" and "interpersonal" levels of the relationship. Operational and interpersonal issues therefore may be more relevant and important to these respondents than strategic and economic benefits.

This paper supports the notion that successful relationships require the support of all levels of the organizations. Partnerships may be formed because of perceived strategic and economic benefits and be supported by top management. But successful relationships involve collaboration at multiple levels of the organization. The benefits of relationships, then, should extend beyond strategic and economic benefits and include benefits at all levels of the organization. We may find that individuals at different levels of the organizations weight the importance of these benefits differently, depending on the issues and tasks most relevant to them.

The last paper, "Operationalizing Internal Marketing" suggests that relationship marketing can be applied to internal "customers" as well as to external customers. Similar to "external" relationship marketing, the goal of "internal" relationship marketing is to develop close relationships between management and employees and to enhance employees' level of commitment to the firm. Consistent with the first paper discussed, this paper argues that it is the behaviors of management that can have the most positive impact on employee trust and commitment. The second paper, advises that such management behavior can best be motivated through the use of behavior-based controls. Finally, the third paper, suggests that the benefits of internal relationship marketing programs are likely to be numerous and to include both organizational and personal benefits. Testing these assumptions in the context of internal marketing awaits further study.

The papers presented in this session highlight the importance of personal interactions and the efforts of salespeople – "intangibles" – in relationship marketing strategies. Where do we go from here? As stated previously, it is important to determine the boundaries of these findings. When are the costs of relationship marketing most likely to yield significant benefits? When should sellers rely primarily on intangibles to differentiate themselves and develop close relationships with buyers and when do tangibles play an important role? Further, do the benefits of relationship marketing evolve as relationship partners become more integrated at multiple levels? How can a firm most effectively ensure that relationship partners achieve these benefits? Addressing these questions can further enhance our understanding of the personal side of relationship marketing.

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<sup>2</sup> Kanter, Rosabeth Moss (1994), "Collaborative Advantage: The Art of Alliances," *Harvard Business Review*, (July-August), 96-108.

## **The Outcome of Values Creation: Satisfaction and Patronage**

Discussan -- Andrea L. Dixon, University of Cincinnati

### **A Mean's End Approach to Investigating the Influence of Perceived Value on Consumers' Purchase Intentions**

These researchers, in examining the role of value in the decision process of hotel travelers, develop their theoretical framework on the central tenet underlying means-end theory (Gutman 1982). That is to say, they build their research on the premise that consumers seek to maximize the value of their hotel stays. Conceptually, they acknowledge that value is a higher-order construct representing underlying perceptions of quality and price. Though they examine a somewhat different set of relational structures in the empirical analysis, Kashyap and Bojanic's (2000) work suggests an opportunity to develop our knowledge in this important area of tourism, which may clearly generalize to similar industries/business sectors.

Some of the questions that this research prompts include:

- What is the role of customer loyalty programs in the value equation for the hospitality industry? Does the opportunity to earn award points change the types of factors that the consumer considers in assessing quality?
- If researchers truly model means-end theory in the context of these relationships, we must examine various hospitality segments based on goals. What are the various goals that consumers may seek to optimize in this category of consumption? Which of these types of goals, if any, reduce the effect size of price on value?
- Given comparable hotel properties (e.g., both four-star hotels), what other factors (beyond guestrooms, public areas, and services) drive quality perceptions?
- If the quality of the service staff has a significant effect on value perceptions (as this research maintains), what behavioral differences among the service staff besides friendliness and efficiency have significant impacts on quality perceptions? Are there lessons to be learned from the sales arena that might be brought to bear on the service arena?

### **The Role of Customer Value in Arriving at an Assessment of Satisfaction**

The authors examined the nature of customer value, discussed its theoretical relationship with customer satisfaction, operationalized value as a multi-dimensional construct, and provided an empirical test of proposed relationships. The authors' discussion of the relationships between satisfaction, quality and value provides the greatest opportunity for further discussion in the session. They identify that some research is based on the assumption: Satisfaction → Quality (cf., Gronroos 1990; Bitner 1990; Bolton and Drew 1991; Cronin and Taylor 1992; Parasuraman, Zeithaml and Berry 1985). However, this research is somewhat questionable as it assumes quality judgments are only formed within the context of consumption of a product/service.

As the authors summarize other research in this area, they suggest two alternative models for consideration. (1) Quality serves as a separate antecedent to satisfaction and to value; and (2) Value mediates the relationship between quality and satisfaction (quality → value → satisfaction). In the first model, distinguishing between satisfaction and value is paramount. It appears that these authors embrace the second model as their empirical test focuses on the value → satisfaction relationship.

They discuss operationalizing value along the dimensions of functional utility, emotional/ additional utility, out-of-pocket cost, non-monetary cost, and risk. The visual graphic included in the paper labels these dimensions as emotional components, practical components, logical components, and risk components.

Some questions that we might consider:

- How do these four dimensions of value (emotional, practical, logical and risk) relate to assessments of the quality?
- What potential moderators might influence the strength of the relationships between the value assessment and satisfaction? Should we consider:
  - o Respondent's knowledge or expertise of the service area
  - o Whether there are any threshold effects for "size of purchase" relative to disposable income/net worth
  - o Other moderators

### **Empowering the American Consumer: Generating Economic Quality of life**

The author paints a bleak picture of the future of the American economy. Building on an underlying premise that the concentration of economic power in American business results in decreasing choice, decreasing quality and increasing prices, the author contends that Americans are feeling more pressure today than ever before. Consumer pressures include financial pressures, pressures due to the increasing complexity of life issues, pressures due to job insecurity, an inflexible and unsupportive health care system and lack of opportunity to personal skill building.

However, one might stand on a slightly different angle from the same wall and see another structure. This prompts several research questions worth considering:

- If increasing complexity of life is related to increasing consumer choice (albeit this contradicts one of the author's underlying assumptions), what roles do various consumer approaches to consumerism play in relieving consumer stress? Specifically, does voluntary simplicity reduce consumer pressure? Does a collector mentality increase consumer pressure?
- If concentration of economic power is due to market efficiencies, presumably service quality should increase. Future research might examine differences across industries in which market concentration is occurring and for which indicators of service quality (e.g., Baldrige Award winners, JD Powers surveys) might be compared over time.

## Measurement Issues in Services Marketing

Discussant -- Robert F. Hurley, Fordham University

The three papers in the services measurement session offer some interesting perspectives on the dimensions of service encounters that researchers should focus on. More specifically, these papers offer researchers scales to measure some variables that have the potential to extend our knowledge of services marketing. The first paper, by Deborah F. Spake, and Sharon Beatty, *Customer Comfort with Service Providers: A Proposed Scale*, suggests that the concept of the consumers' perceived "comfort" with a service provider is a motive in purchase decisions and a factor affecting decisions to maintain a service relationship. The author suggests that "comfort" acts to reduce stress and ultimately is related to the important constructs of trust, commitment and satisfaction. The authors provide researchers with a valid scale for measuring comfort.

This paper poses some interesting issues for researchers. The authors make a credible case that comfort is a deep rooted psychological construct that is central to how consumers react to services. More importantly, where services are highly relationship oriented or there are high expectations for empathy, comfort may be more directly related to consumer choice than other more general constructs such as satisfaction or commitment. Researchers should carefully examine this work particularly where they are exploring consumer behavior in relationship oriented services.

The next paper, by Rachel K. Smith, *Developing an Economics of Information Measurement for Services*, examines the classification of services. Since there is a great deal of literature suggesting the variables operate differently in different types of services, developing a typology of services that can be measured offers great promise for researchers. Applying the economics of information theory, the author attempts to develop a scale to delineate search, experience and credence type services from a consumer perspective. The author finds that the scale differentiates search versus other types of services but that differentiating experience and credence services is more problematic. Interestingly, the author finds that it is important to control for the level of involvement or interest in differentiating services. Higher involvement levels alter the way in which the consumer views the service. The author makes the point that more research is needed in the classification of services to separate credence and experience type services.

The next paper, by Marla Royne Stafford and Ellen Day, *Measuring Service Involvement: An Adaptation of the Personal Involvement Inventory*, addresses the measurement of involvement in great detail. The authors make the case that there are reliable measures of involvement for products, however, researchers have not looked at measuring consumer involvement from a services standpoint. Involvement relates to the perceived relevance to the consumer of a service based on their inherent needs, values or interests. The authors test the PII scale for use in services and provide evidence of the usefulness of a modified version of this scale in a services setting. The fact that services often involve more participation and interaction than products the opportunities for involvement are different than in the product arena. Given the importance of involvement in services, researchers pursuing various topics in services will benefit from examining this involvement scale.

## Vulnerable and At-Risk Consumers

Discussant -- Ashwin W. Joshi, York University

### Introduction

The connection between the title of the session, “Vulnerable and At-Risk Consumers” and the papers, was not immediately apparent to me. Upon reflecting on the papers as a collectivity, though, I believe the title to be apt as it captures what lies at the heart of all three papers: a concern with vulnerable and at-risk consumers.

Indeed, on the surface, the differences between the papers are many. Arnold focuses on issues like suicide among rural and regional youth in Australia, Henderson and Lyons study on-line gambling among city-dwellers (also as it happens, in Australia), and Paswan and Chowdhury focus on consumers in India. Added to topical diversity is methodological multiplicity. Arnold reports on a multi-year and undoubtedly on-going ethnographic and action-research oriented project, Henderson and Lyons report on their results from a survey, and Paswan and Chowdhury build their model using recent historical and current issues from the business and political press. Yet, as I said at the outset, they converge on the topical concerns.

My first step in preparing these comments was to assess each paper individually. Rather than report on the five things I liked and the two things that I did not from each paper, I have thought it best to prepare in place what I have learned from the papers taken as a unity. My hope is that through this synthesis the individual authors will see how their work connects with that of the others – thus giving rise to an initial condition for synergy development.

### Synthesis

As illustrated in Figure 1, the focus is on understanding why do individuals engage in self-destructive behavior. Suicide is the ultimate manifestation of such behavior. Personally destructive behaviors such as compulsive gambling, compulsive shopping, and other forms of addictive consumption are also instances of self-destructive behavior since these behaviors systematically distort and undermine an individual’s self-worth, self esteem and self-image generally.

All three papers are informative on the factors that lead to such self-destructive behavior by individuals. Their insights are at both the macro- (Paswan and Chowdhury; Arnold) and micro-levels (Arnold; Henderson and Lyons). In terms of macro factors, changes in the natural, demographic, and cultural environments can all rupture the extant relationship that individuals share with their social context. Loss of contact with the world we know, can result in destructive behaviors that are a manifestation of an attempt to cope with the changed reality. At the micro level, the papers identify the individual’s instrumental orientation as a driver of destructive behavior – the behavior is an attempt to claim value for oneself. The Henderson and Lyons study also identifies the individual’s sense of powerlessness as a key determinant of destructive behavior.

The particular significance of the Paswan and Chowdhury argument is that it identifies mechanisms that can be instituted in society that can mitigate the effects particularly of the macro factors on destructive behavior. Specifically, they identify Non-Governmental Organizations (NGOs) as being potential bodies that can work to reconnect customers to their social contexts, thus curbing the destructive behavior that is resultant from such dislocation. Independent social agencies can also serve to influence peoples’ value orientations (e.g., church groups) and to help them work through their feelings of powerlessness (as evident in Alcoholics Anonymous step programs).

What I have learned from these papers is that vulnerable and at-risk customers cope – and unfortunately, their coping in many instances in ways that are inimical to their long-term interests. The papers have pointed to factors that I would have not thought about, factors such as changes in the natural environment, that can create conditions of helplessness. The papers also point to mechanisms that can be used to curtail the effects of these factors on the destructive behavior of individuals.

## Industrial Communications

Discussant – Julie Napoli, Curtin University of Technology

The papers presented in this session offer some interesting insights into developing effective marketing communication messages, both from an academic and practitioner perspective, and extend our current understanding of these issues.

Ewing, Jones, Money and Samouel provide an interesting discussion on how professionals within the Australian advertising industry view the nature and usefulness of advertising. By using the two opposing schools of thought on how advertising works, namely the “weak” theory, which is dominant in the United Kingdom, and the “strong” theory, which is prevalent in the United States, they have explored the philosophies and beliefs of both creative and non-creative advertising professionals in Australian agencies. Their findings suggest that whilst opinions tend to be weighted towards the “strong” theory, these views may be moving in the “weak” direction. As the authors point out, this has important implications for advertisers, agencies and educators alike. If this is the perspective held by advertising agency personnel, I think it would also be of interest to examine the philosophy and perception of advertisers themselves. Do advertisers hold the belief that advertising is a powerful market force that can persuade consumers (strong theory) or that it is only capable of nudging or reminding them of the brand and its benefits (weak theory)? Are there differences between the views of the agency and that of the advertiser?

The research by Miciak, Collins and West focuses on advertising creativity, and as highlighted by the authors, it is an area which, at times, does not attract much academic interest. However, given that creativity could be considered the essence of advertising, it is certainly a topic that should not be ignored. One interesting finding of this study relates to the relationship between product category and the number of advertising awards won – typically ads within the Food and Beverage category have “scooped” the awards. Overall, this study enhances our knowledge on how advertising agencies can improve their creative performance, particularly by giving more consideration to the composition of creative teams and the types of projects they are assigned. This in itself can perhaps improve the relationships agencies develop with their clients and the subsequent campaigns.

Developing effective communication strategies still remains one of the primary challenges of marketers, and it is becoming evermore complex in today’s environment. Agencies, advertisers and educators alike should continue to explore and question the prevailing attitudes and philosophies of advertising effectiveness and continue to build upon the current body of knowledge.

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