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FROM THE EDITORS

The Marketing Management Journal, first published in Fall, 1991, is dedicated as a forum for the exchange of ideas and insights into the marketing management discipline. Its purpose was and continues to be the establishment of a platform through which academicians and practitioners in marketing management can reach those publics that exhibit interests in theoretical growth and innovative thinking concerning issues relevant to marketing management.

Submissions to *The Marketing Management Journal* are encouraged from those authors who possess interests in the many categories that are included in marketing management. Articles dealing with issues relating to marketing strategy, ethics, product management, communications, pricing and price determination, distribution sales management, buyer behavior, marketing information, international marketing, etc. will be considered for review for inclusion in *The Journal*. *The Journal* occasionally publishes issues which focus on specific topics of interest within the marketing discipline. However, the general approach of *The Journal* will continue to be the publication of combinations of articles appealing to a broad range of readership interests. Empirical and theoretical submissions of high quality are encouraged.

The Journal expresses its appreciation to the administrations of the College of Business Administration of the University of Akron and the College of Business of Missouri State University for their support of the publication of *The Marketing Management Journal*. Special appreciation is expressed to Lynn Oyama of HEALTHCAREfirst, Inc. and the Center for Business and Economic Development at Missouri State University for contributing to the successful publication of this issue.

The Co-Editors thank *The Journal's* previous Editor, Dub Ashton and his predecessor David Kurtz, *The Journal's* first Editor, for their work in developing *The Marketing Management Journal* and their commitment to maintaining a quality publication.

MANUSCRIPT AND SUBMISSION GUIDELINES
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Scope and Mission

The mission of *The Marketing Management Journal* is to provide a forum for the sharing of academic, theoretical, and practical research that may impact on the development of the marketing management discipline. Original research, replicated research, and integrative research activities are encouraged for review submissions. Manuscripts which focus upon empirical research, theory, methodology, and review of a broad range of marketing topics are strongly encouraged. Submissions are encouraged from both academic and practitioner communities.

Membership in the Marketing Management Association is required of the author or at least one co-author of each manuscript accepted for publication. A page fee is charged to support the development and publication of *The Marketing Management Journal*. Page fees are currently \$15 per page of the final manuscript.

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EXPLORING THE RECIPROCAL EFFECT OF NEGATIVE INFORMATION OF BRAND EXTENSIONS ON PARENT BRAND

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RONALD D. TAYLOR, *Mississippi State University*

This research focuses on how negative information on brand extensions impact customers' attitude towards the parent brand. It attempts to clarify the previously mixed findings on reciprocal effects of brand extension. More importantly, it endeavors to investigate such effects over several moderators: brand extension fit, information negativity, and association set size with parent brand. Two studies (using student samples and non-student samples) both confirmed that brand extension's negative information has a dilution effect on the parent brand. In addition, information negativity and association set size were shown to be two important moderators while brand extension fit did not have a significant moderating effect. These results were consistently observed in both of low-involvement and high-involvement products treatments.

INTRODUCTION

Brand equity has been highlighted as one of the most valuable assets a company possesses (Aaker and Keller 1990). One popular strategy that companies use to build and leverage equity is using brand extensions that launch new products with the original brand names (Aaker and Keller 1990; Bottomley and Holden 2001; Desai and Keller 2002; Meyvis and Janiszewski 2004). Successful extensions can provide benefits, such as reducing cost of introduction, gaining distribution and customer trial, and minimizing the risk of new product failures (Aaker and Keller 1990). Negative information related with brand extension, such as brand extension failures, can lead to negative perceptions, which may be difficult to reverse. Therefore, it is of critical interest for managers and academicians to have a better understanding of the effect of brand extension on the parent brand, especially its negative effect. In this research, the focus is to investigate the feedback effect of negative information of brand extension on the parent brand.

One important factor that has been consistently overlooked is the severity of negative information. Both the category and the associative network theories suggest that the level of perceived congruity will influence the processing of the new information, and thus the existing category or schema (Del Vecchio and Smith 2005). However, previous research focused only on the perceived fit between the parent brand and brand extension as the determinant for perceived congruity (Martinez and Pina 2003), while ignoring the level of the severity of negative information. The level of negativity might contribute to a great extent to whether the information is considered as congruent or incongruent with the parent brand.

Another factor that lacks research attention is the association set size of the parent brand. As the size of an association set for a given concept increases, the likelihood of any given associated node being activated is reduced. Thus as more nodes are activated, the lower the chance other nodes will be activated (Anderson 1983; Nelson, Bajo and Casanueva 1985). Learning additional facts about a concept takes strength away from already known facts (Anderson 1983). In view of that, the activated nodes associated with the brand when the consumer makes the evaluation will influence the impact of the negative information on the

parent brand. When this factor is omitted, the explanatory power of any model will likely be reduced.

In sum, this research's main objective is to investigate the effect of negative information of brand extension on the parent brand. Specifically, three moderators are considered: namely, the perceived fit between parent brand and brand extension, the severity of negative information, and the association set size of the parent brand.

THEORY BACKGROUND AND HYPOTHESES

Mandler's (1982) schema congruity model seems to provide an insightful and detailed explanation by varying the level of incongruity. The schema congruity model (Mandler 1982) suggests that individual's existing schema serves as a frame of reference and guides the processing of incongruity. Thus, the degree of fit with the activated schemas (i.e., level of congruity) is likely to determine what specific internal process people use when they are faced with new information. In addition, attitudes and evaluations are affected through the process of resolving incongruity. Therefore, how successful individuals are in resolving an incongruity within their cognitive schema network will likely influence their affective responses.

Specifically, Mandler (1982) began with the proposition that congruent information tends to be accepted with mildly favorable response because it does not require resolution and, therefore, is generally predictable and satisfying. In this situation, the congruent information fits in with the existing schema quite readily, and thus does not require engaging in the resolution process to solve discrepancies. As a result, the simple process involved makes it easier to integrate congruent information into the existing schema.

In contrast with congruent information, information that contains mild incongruity is believed to generate more extensive processing

because people attempt to resolve and find meaning in the incongruity (Mandler 1982). Usually, moderate incongruities are solved or made sense of by enacting minor changes in one's memory. Therefore, when facing moderately incongruent information, individuals tend to either assimilate the new information or use an alternative schema. Assimilation refers to the placement of the incongruent information into an existing schema, which is likely to occur when the new information is slightly incongruent with the existing schemas and thus can be easily incorporated into the schema (Mandler 1982). Alternative schema refers to utilization of other schemas by analogical reasoning. Alternative schema involves forming new connections and/or transferring prior knowledge to resolve incongruity, which does not involve drastic changes in current schema structure (Mandler 1982). This is consistent with the schema-plus-tag model proposed and tested by Graesser and Nakamura (1982) which suggests that new incongruent information is stored with prior knowledge (i.e., existing schema) but attached with a set of tags indicating that it is atypical and irrelevant. Atypical events that are specifically tagged are therefore more easily recognized. This salience tends to result in relatively bigger impact of incongruent information on individuals' schemas and attitudes.

Assume that one has a favorable and positive perception of a brand, and then this individual is exposed to new negative information about the brand extension. Because the parent brand and the brand extension are linked through the same brand name, by spreading activation of connected links (Anderson 1983), the linkages between parent brand and the negative information may be forged and triggered. When the negative information is mildly incongruent with the existing perception of the schema, it will be assimilated or processed by analogical reasoning to become a part of the existing schema. Besides, it will be put together with a set of tags, indicating that it is atypical and making it more conspicuous and accessible. Therefore, the existing schema of and attitude

toward the brand are more likely to be changed by the negative information.

However, if one is faced with severe incongruity, the individual cannot use analogy or transfer prior knowledge from an existing schema to the target incongruity as in assimilation or alternative schema (Mandler 1982). A new schema is required for this kind of situation. Specifically, in response to severe incongruities, one might restructure his/her knowledge schema or build new associative links between existing schemas that were not previously connected. As distinguished from simple assimilation and alternative schema, people will typically build a new subcategory and separate the new information from the existing schemas to resolve the severe incongruity. This information processing is consistent with the Sub-typing model, developed by Weber and Crocker 1983, which indicates that when people respond to new information by seeing it as exceptions to the rule, they place the new information in a subcategory apart from existing knowledge. When the negative extension information is perceived to be severely incongruent with the existing positive schema of the brand, instead of modifying the existing schema of the brand, the individual tends to form a new and separate subcategory for this incongruent information. Consequently, the schema of and the attitude toward the brand remain relatively unchanged,

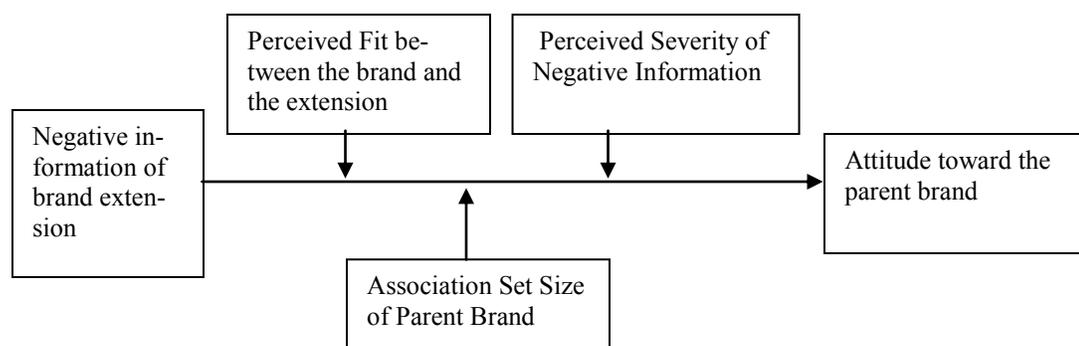
and the negative information, together with the brand extension, will be seen as separate and different from the parent brand.

Based on the previous discussion, a research model is presented here (see Figure 1). The perceived congruity between the negative information and the parent brand will be influenced by the perceived fit between parent brand and brand extension and the level of negativity of the new information. The research model also identifies that the relationship between negative information of brand extensions and attitude toward the parent brand can be modified by the association set size of the parent brand.

The Impact of Negative Information

It is intuitive to speculate that negative information about an extension would be detrimental to the family brand. This is evident from the broad support for the potency of negative information throughout the behavioral and marketing literature. For instance, research has found that negative adjectives are more powerful than positive adjectives (Anderson 1983), and the weights given to negative adjectives have exceeded the weights given to positive adjectives (Romeo 1991). Unfavorable ratings, as compared to favorable product ratings, prompt significantly strong attributions to product performance, belief strength, and

FIGURE 1
Research Model



affect toward products (Till and Shimp 1998). Literature in various psychological traditions has theorized and/or shown empirically that negative information has disproportionate influence on consumers' beliefs and evaluative judgments (Judd, Drake, Downing and Krosnick 1991).

When a consumer thinks about a brand, the link with the brand extension node is activated to a certain level through spreading activation (Anderson 1983). The joint activation of the parent brand and the brand extension provides a path over which one's evaluation of the brand extension has an opportunity to transfer to the brand. The key to the process is the simultaneous activation of the parent brand and the brand extension nodes. Negative information about the brand extension activates the brand extension node, which then activates the parent brand to some degree and allows reduced evaluation of the brand extension to transfer to the parent brand.

H₁: Given a sufficiently strong associative link between a parent brand and brand extension, subsequent negative information about the brand extension will result in lowered evaluations of the parent brand.

Moderator 1: Degree of Perceived Fit

Mandler's schema congruity model (1982) differentiates routes of information processing based on the level of incongruity between the new information and the existing schema. In the case of our research problem, the effect of negative extension information on the attitude to the parent brand, two major factors influencing the level of the incongruity between the negative brand information and the existing schema of the brand are identified: namely, "perceived fit between the brand and the extension" and the "severity of the negative information." The first factor has been widely used in research on reciprocal effects of brand extension (Martinez and Pina 2003).

The reasoning on the role of fit is as follows. The negative information alone already

represents incongruity to the existing positive schema of the brand (assume the consumer has a prior attitude toward the brand which is positive). When there is a low fit between the parent brand and the extension, information related to the extension is considered less relevant to evaluating the parent brand than when the fit between the core brand and an unsuccessful extension is high. Therefore, in this low-fit situation, the incongruity between the negative information and the parent brand is deemed mild and is likely to be either assimilated or processed according to Mandler's schema congruity model (Mandler 1982). On the other hand, when there is a high fit between the parent brand and the extension, information related to the extension is considered more relevant to evaluating the parent brand and there is a greater negative effect from the extension to the parent brand. This, in turn, would imply that the damage to the core brand would be greater when the extension is fit to the parent brand than when it is not.

Although several previous studies (Keller and Aaker 1992; Romeo 1991) on this moderator for the brand dilution effect did not find significant support, methodological issues might have hindered their investigations. The present study employs the same hypothesis while at the methodological issues are considered and improved as discussed later.

H₂: If negative information is attached to brand extension, consumers are more likely to have negative evaluation of the parent brand when they perceive a strong fit between the parent brand and the brand extension than when the perception is of a weak fit.

Moderator 2: Severity of the Negative Information

Mandler's schema congruity model (Mandler 1982) suggests that the level of incongruity between new information and the existing schema will moderate the effect of the new information on the changes of the existing schema. Severity of the negative information is

also a determinant for the level of perceived incongruity. Assuming that the consumer already has a positive perception of the brand, the more severe the negative information is the more incongruent the new information is with the existing schema. According to the schema incongruity model, when the new information is considered mildly incongruent with the existing schema, people tend to either assimilate the new information or use an alternative schema. Accompanied with this process, consumers' attitude towards the parent brand will be negatively changed. However, if the negative information is severe, the incongruity between the new information and the existing schema is difficult to resolve as consumers are more likely to form a sub-category for the negative information. Consequently, the strength of the association between the negative extension and the parent brand is unlikely to be strong, and the impact of the negative information on attitude toward the parent brand is not likely to be high. Thus, mildly negative information will have a higher impact on parent brand than will severely negative information. Therefore, the following hypothesis is proposed.

H₃: If negative information is related to the brand extension, consumers are more likely to have negative evaluation of the parent brand when the negative information is mild than when it is severe.

Moderator 3: Size of Association Set

An association set represents the preexisting associates, or group of concepts, that are related meaningfully to an object (Nelson, Schreiber and McEvoy 1992). As the size of an association set for a given object increases, the likelihood of any given associated node being activated is reduced; the greater the number of concepts activated, the less intensively each will be activated (Anderson 1983; Nelson et al. 1985). Activation of a set of nodes can inhibit the activation of related nodes (Martindale 1991). This basic principle is known as the fan effect.

Interference will be more pronounced for brand names with large association sets, because a greater number of diverse associations might interfere with the activation of specific links. Thus, memory for brand information may be poorer for those brands with a large rather than a small association set (Meyers-Levy 1989).

In the situation where the association set is smaller there is less pronounced interference and the connection between brand extension and parent brand is strong. Hence, the negative information may easily trigger the link to parent brand and bring the parent brand name into consumers' memories. As a result, negative information can have an adverse effect, through lowered brand evaluations of the parent brand. However, when the parent brand has a larger association set, due to the more pronounced interference, the likelihood for the negative information to trigger the link to parent brand is reduced. Consequently, the negative information will not have a significant detrimental effect on the parent brand. This speculation is crucial in that negative information about a brand extension may be problematic for the parent brand only when consumers have scant association sets, or knowledge structures for the parent brand. The negative reciprocal effect of brand extension caused by negative information can be limited if the parent brand already has a large set of positive associations.

H₄: If brand extension is related with negative information, consumers are more likely to have negative evaluation of a parent brand when the association set with the parent brand is small than when it is large.

METHOD

The experiment used a 2 x 2 x 2 x 2 mixed factorial design. The between-subject variables were severity of negative information (mild/severe), parent brand's association set size (large/small), and category fit between parent brand and brand extension (same category/different category). A replication of two product categories (high involvement and low involvement product) was used as a within-

subject variable. Each subject received a subset of two of the total set of 16 scenarios. These were designed to vary in terms of product category and category fit. To increase the generalizability, two studies using different subjects were conducted. Similar to most of the brand extension research to date (Brudvig and Raman 2006; Dawar 1996; Martinez and Pina 2003; Meyvis and Janiszewski 2004), a student sample was used in the first study. Undergraduates from a large southern university were recruited to participate and were randomly assigned to one of the study conditions. Following this study, a small non-student sample was also used to validate the results. Both studies used the same questionnaires except for the demographic questions.

An important decision was whether to use real or fictitious brands. Both have strengths and weaknesses. When using fictitious brands, the problem of projecting the results to the real marketing situation is evident (Klink and Smith 2001). Nevertheless the elevated control of the experimental conditions makes it possible to have greater internal control (Martinez and Pina 2003) because the effect of other relevant factors is minimized (Churchill and Iacobucci 2002). After the decision was made to use fictitious brands, a series of pretests were conducted to (1) select the two product categories; (2) select the brand names; (3) measure perceived fit between parent and brand extension, and (4) measure the perceived negativity of the negative information.

Desktop computers (brand name is I-Machine or simplified as I) and manual toothbrushes (brand name is CompleteTeeth or simplified as C) were selected as the high involvement and low involvement product categories respectively. The selection of brand extensions was based on two standards: (1) extensions in the same and different categories, and (2) real problems reported in the past based on product recalls and alerts on the website of the U.S. Consumer Product Safety Commission. The two extensions chosen for desktop computers were laptop computers (same product category)

and plasma televisions (different product category). For manual toothbrushes the extensions were electronic toothbrushes (same product category) and electronic flossers (different product category). Poor product reviews were chosen as mild negative information and product recall announcements and information involving serious bodily injuries caused by the product and potential shock or electrocution hazard were chosen as severe negative information.

Variables used were as follows:

Perceived Fit. The degree of extensions' category fit was assessed with a three-item, seven-point scale (brand extension similarity, brand extension representation, and brand extension consistency) (Broniarczyk and Alba 1994; Keller and Aaker 1992; Loken and Roedder 1993, Park, Miberg and Lawson 1991).

Perceived Negativity. Since Yoon's (2003) three-item seven-point semantic differential scale exhibited problems with face validity and reliability, a four-item seven-point semantic differential scale was developed (negative/not negative; damaging/not damaging; harmful/not harmful; destructive/not destructive).

Brand Attitude. Yi's (1991) scale measuring brand attitude (good/bad, unfavorable/favorable, and like/dislike) was used to measure attitude toward the brand both before and after the exposure to the negative information in the experiment.

Product Involvement. To determine the product involvement level, a six-item, semantic differential scale (Srinivasan and Ratchford 1991) was used. These items were: I have a great/no interest in it; It is/isn't fascinating; I have/don't have a compulsive need to know more about it; I am/am not crazy about it; I like/don't like it; and I like/don't like to engage in conversation about it.

RESULTS

Study I:

A total of 384 treatments were administered to students at a large southern university, yielding 362 usable questionnaires for a 94.3 percent usable response rate. A proper data screening procedure was conducted before analysis of the data. All missing variables were replaced with their group mean values as Tabachnick and Fidell (1996) suggested.

Manipulation Checks. Three measures of brand extension fit were taken: brand extension similarity, brand extension representation, and brand extension consistency (1=very similar, representative and consistent, 7=very dissimilar, unrepresentative and inconsistent). These three items were averaged to form a composite measure of brand fit (Cronbach's $\alpha = .839$ for C and $\alpha = .887$ for I; C as CompleteTeeth scenario and I as I-Machine scenario). As expected, brand extension fit was successfully

manipulated for C ($\bar{X}_{high} = 2.15$, $\bar{X}_{low} = 3.20$, $F^{(1,360)} = 51.75$, $p = .000$) and for I ($\bar{X}_{high} = 2.59$, $\bar{X}_{low} = 4.09$, $F^{(1,360)} = 92.70$, $p = .000$).

Information negativity was measured with four items: negative, damaging, harmful and destructive. All of the items ranged from 1 to 7 with 1=very negative and 7=very positive, except for item "negative" which is reverse coded. These four items were averaged to form a composite measure of information negativity (Cronbach's $\alpha = .933$ for C and $\alpha = .944$ for I). As expected, information negativity was

successfully manipulated for C ($\bar{X}_{severe} = 4.13$, $\bar{X}_{mild} = 2.93$, $F^{(1,360)} = 60.51$, $p < .001$) and for I ($\bar{X}_{severe} = 4.34$, $\bar{X}_{mild} = 2.91$, $F^{(1,360)} = 106.02$, $p < .001$).

The scale developed by Srinivasan and Ratchford (1991) was used to measure product involvement. It includes six semantic differential items (ranges from 1-7; 1= very high involvement and 7= very low involvement). These six items were averaged to form a composite measure of product involvement (Cronbach's $\alpha = .857$ for C and $\alpha = .891$ for I). As expected, subjects had low involvement with toothbrushes and related

products ($\bar{X}_c = 4.68$) and high involvement with desktop computers and related products ($\bar{X}_i = 3.92$).

Also, involvement with toothbrushes and related products was significantly different from involvement with desktop computers and related products ($t^{362} = 70.01$ for C, $t^{360} = 53.82$ for I, $p < .001$).

The last independent variable is the association set size the consumer previously had with the original brand. It is manipulated by providing a detailed or a brief case study of the brand to the subjects. Therefore, there is no variable measuring the perceived size of the association set.

General hypothesis about attitude change. T-tests suggest that this hypothesis was supported both for the first brand (CompleteTeeth;

thereafter refers to as C) ($\bar{X}_{c1} = 3.18$, $\bar{X}_{c2} = 4.03$; $t_1 = 59.07$, $t_2 = 64.00$; $p < .001$) and for the second brand (I-Machine; thereafter refers to as

I) ($\bar{X}_{i1} = 2.76$, $\bar{X}_{i2} = 3.73$; $t_1 = 50.73$, $t_2 = 59.31$; $p < .001$).

The other three hypotheses examined the relationships between each of the three independent variables (brand extension fit, information negativity, and association set size

of brand), and respondents' attitude changes to the brand. Due to potential interrelated relationships among the independent variables, a three-way ANCOVA was taken to test for the relationships. The dependent variable is the attitude change (the difference between \bar{X}_2 and \bar{X}_1).

Hypothesis about brand extension fit. The second hypothesis focused on the relationship between brand extension fit and attitude change. In the case of C ($F_{(1, 352)} = 1.59, p = .208$), significant effect of brand extension fit on attitude change was not found. This was also found to be the case with regard to I ($F_{(1, 352)} = 2.43, p = .12$).

Hypothesis about information negativity. The third hypothesis dealt with the relationship of the severity of negative information and the attitude change. As expected, for C ($F_{(1, 352)} = 27.75, p < .001$), the results suggested that there was a significant relationship between the severity of negative information and the attitude change. Consistent with C, significant relationship between the severity of information and attitude change of parent brand was also found for I ($F_{(1, 352)} = 8.77, p = .003$). Mean comparisons for I-Machine suggested there was a significant relationship between extension information negativity and attitude change. However, mean comparisons revealed opposite directions for the hypothesized relationship. Namely, the attitude change caused by severe negative information is higher than that caused by mild negative information both for C (

$\bar{X}_{change-severe} = 1.146, \bar{X}_{change-mild} = .653$) and for I ($\bar{X}_{change-severe} = 1.250, \bar{X}_{change-mild} = .443$).

Hypothesis about association set size. The fourth hypothesis focused on the last independent variable. It proposed that the

association set size of the parent brand influenced the extent of brand attitude change. For I ($F_{(1, 352)} = 4.21, p = .041$), significant relationships were found. Similarly, marginally significant relationships were also found for C ($F_{(1, 352)} = 3.86, p = .050$). Namely, the attitude change when the respondent has small association set size is higher than when the respondent has large association set size both for the computers, the high involvement

product ($\bar{X}_{change-large} = .698, \bar{X}_{change-small} = 1.001$) and for I ($\bar{X}_{change-large} = 1.055, \bar{X}_{change-small} = 1.409$).

No interaction effects between independent variables were hypothesized. Correspondingly, most interactions (two-way and three-way interactions) were not significant. One exception was for CompleteTeeth --- one interaction between brand extension fit and association set size was found marginally significant ($F_{(1, 352)} = 3.49, p = .062$). By examining the profile plot, it was found that when subjects have a large association set with the parent brand, subjects have larger attitude changes when the brand extension fit is high (vs. low). On the other hand, when subjects have a small association set with the parent brand, subjects have a smaller attitude changes when the brand extension fit is high (vs. low).

Study II:

A total of 174 treatments were administered to students at a small midwestern university. Students were asked to find non-student respondents to answer the questionnaires. A total of 138 questionnaires were returned and 132 were usable, accounting for a 75.9 percent response rate. A proper data screening procedure was conducted before analysis of the data. All missing variables were replaced with

their group mean values as Tabachnick and Fidell (1996) suggested.

Manipulation Checks. Three measures of brand extension fit were averaged to form a composite measure of brand fit (Cronbach's $\alpha = .869$ for C and $\alpha = .921$ for I). As expected, brand extension fit was successfully manipulated for

C ($\bar{X}_{high} = 2.15$, $\bar{X}_{low} = 2.81$, $F_{(1,137)} = 9.06$, $P = .003$) and for I ($\bar{X}_{high} = 2.20$, $\bar{X}_{low} = 3.12$, $F_{(1,137)} = 15.05$, $P = .000$) in this study.

The four items measuring information negativity were averaged to form a composite measure of information negativity (Cronbach's $\alpha = .922$ for C and $\alpha = .933$ for I). As expected, information negativity was successfully

manipulated for C ($\bar{X}_{severe} = 3.91$, $\bar{X}_{mild} = 2.91$, $F_{(1,131)} = 18.08$, $P = .000$) and for I ($\bar{X}_{severe} = 4.34$, $\bar{X}_{mild} = 2.91$, $F_{(1,131)} = 25.56$, $P < .001$).

The six items measuring product involvement were averaged to form a composite measure of product involvement (Cronbach's $\alpha = .899$ for C and $\alpha = .898$ for I). As expected, subjects had a low involvement with toothbrushes and related

products ($\bar{X}_c = 5.23$) and a high involvement with desktop computers and related products ($\bar{X}_i = 4.24$).

Also, involvements with toothbrushes and related products were significantly different from involvement with desktop computers and related products ($t^{138} = 55.49$ for C, $t^{138} = 35.98$ for I, $p < .001$).

General hypothesis about attitude change. This hypothesis proposed that there is significant difference between respondents' original attitudes toward the brand and their attitudes to the brand after exposure to negative information related to the brand extension. This

hypothesis was supported for C ($\bar{X}_{c1} = 3.17$, $\bar{X}_{c2} = 4.40$; $t_1 = 42.75$, $t_2 = 39.80$; $p < .001$) and for I ($\bar{X}_{i1} = 2.69$, $\bar{X}_{i2} = 4.07$; $t_1 = 31.43$, $t_2 = 37.69$; $p < .001$).

Hypothesis about brand extension fit. The second hypothesis focused on the relationship between brand extension fit and attitude change. In the case of C ($F_{(1,129)} = 6.09$, $p = .015$), significant effect of brand extension fit on attitude change was found. High-fit brand extensions caused larger changes of brand attitude toward the parent brand D ($\bar{X}_{change-highfit} = 1.492$, $\bar{X}_{change-lowfit} = 1.054$).

However, with regard to I, no evidence was found to support the significant effect of brand extension fit on attitude change ($F_{(1,129)} = .507$, $p = .478$).

Hypothesis about information negativity. The third hypothesis dealt with the relationship between the severity of negative information and the attitude change. As expected, for C ($F_{(1,129)} = 28.02$, $p < .001$), the results suggested that there was a significant relationship between the severity of negative information and the attitude change. Similarly with C, significant relationship between the severity of information and attitude change toward the parent brand was also found for I ($F_{(1,129)} = 27.98$, $p < .001$). However, mean comparisons revealed opposite directions to the hypothesized relationship. Namely, the attitude change caused by severe negative information is higher than that caused

by mild negative information both for C

$$\bar{X}_{change-severe} = 1.825, \bar{X}_{change-mild} = .764) \text{ and}$$

for I ($\bar{X}_{change-severe} = 1.927, \bar{X}_{change-mild} = .795$).

Hypothesis about association set size. The fourth hypothesis focused on the last independent variable. It proposed that the association set size of the parent brand influences the extent of brand attitude change. For C ($F_{(1, 129)} = 4.62, p = .033$), significant relationships were found. Congruently, marginally significant relationships were also found for I ($F_{(1, 129)} = 3.60, p = .060$). Specifically, the attitude change when the respondent has small association set size is higher than when the respondent has large

association set size both for C ($\bar{X}_{change-large}$
 $= .763, \bar{X}_{change-small} = 1.231$) and for I ($\bar{X}_{change-large}$

$= 1.525, \bar{X}_{change-small} = 2.049$). Most interactions (two-way and three-way interactions) were not significant. One exception was for CompleteTeeth, one interaction between brand extension fit and information negativity was found to be significant ($F_{(1, 130)} = 20.87, p < .001$). By examining the profile plot, it was found that when subjects received severely negative product information, they had larger attitude change when the brand extension fit was high (vs. low). On the other hand, when subjects received mildly negative information, they had smaller attitude change when the brand extension fit was high (vs. low).

DISCUSSION

Although prior research in which consumers received negative information about a brand extension has generally shown only limited dilution effect to overall brand attitude (Keller and Aaker 1992) and brand beliefs (Loken and

John 1993; Romeo 1991), this research found significant attitude change between before and after the respondents were exposed to negative brand extension information. Reciprocal effects of negative information of brand extension to the parent brands were found in both student samples and non-student samples and across both high-involvement (computers) and low-involvement products (toothbrushes). The significant finding might have been due to the detailed brand, extension, and negative information provided to the subjects. One limitation of previous studies was the small amount of information provided to subjects about the parent brand. In general, subjects have been told only the name of the extending brand and the product category of the new product, and then asked to form evaluations about the parent brand. The lack of detailed descriptive information about the extension may have resulted in subjects being fairly uninvolved and uninterested in the task (Viswanathan 1997).

Brand Extension Fit. Research results from both studies and both product categories indicated that the level of category fit between the parent brand and the brand extension did not have a significant impact on the reciprocal effect of negative brand extension information (the exception was found with the toothbrush treatments in non-student samples). This finding is consistent with some of the past studies examining how an unsuccessful or unfavorable brand extension dilutes its parent brand. For example, Loken and John's (1993) and John, Loken, and Joiner's (1998) research revealed that dilution effects on brand beliefs do emerge when brand extension attributes are inconsistent with the family brand, *regardless of the category similarity of brand extensions*. While Keller and Aaker (1992) concluded that the core brand image is not affected by unsuccessful brand extensions, they still found that the level of how the brand extensions are perceived as typical of the core brand did not have a differential impact, either.

However, the findings about brand extension category fit were not consistent with the

prediction based on the Mandler's Schema Congruity Model. Mandler's model suggests that an individual's existing schema serves as a frame of reference and guides specific types of internal processes according to different levels of incongruity. Negative information of a brand extension of the same product category could be considered as moderately incongruent information and thus should be assimilated with existing schema. While negative information of a brand extension of a different product category, considered severely incongruent information, should be filtered out from existing schema and encoded as a separate case. Therefore, high (vs. low) category fit brand extension should have a more significant influence on the attitude change of parent brand.

The difference between the hypothesis and the experiment results might be due to the lack of difference of level of fit between brand extensions. The research intended to investigate the reciprocal effect caused by negative information rather than that caused by dissimilarity between the brand and the extensions. Thus, when choosing brand extensions, extremely dissimilar brand extensions were intentionally dismissed as to avoid introducing reciprocal effect cause by unfit brand extensions. Therefore, although the levels of fit of the brand extension are statistically different, they might still fall under the moderate fit category.

Thus, to state the findings about brand extension fit from this research more precisely: if the association between the brand and the brand extension is strongly established, and there are no extremely unfit links between the brand and the brand extension, the relative variations of level of fit between the parent brand and the brand extension will not have a significant differential effect on the evaluation of the parent brand. Under this condition, the respondents can assimilate negative information and adjust their attitude to the parent brand accordingly; no negative information is rejected as too incongruent, and thus separated from the original schema.

Information Negativity. Research results from both student samples and non-student samples indicated that the level of information negativity significantly influenced the effect of negative extension information on customer attitudes toward the parent brand, regardless of the product's involvement level. However, the direction of the vector is opposite to the hypothesis. The hypothesis based on Mandler's schema congruity model suggested that when severe negative information about the brand extension is exposed to respondents, the impact would be smaller than when consumers are exposed to mild negative information about the brand extension. The logic is that severe negative information is viewed as more incongruent with the schema, and might be rejected as temporal or unrelated, therefore the severe negative information is established as a subtype and separated from the existing schema. However, in this research, severe negative information is found to lead to more attitude change, whereas mild negative information leads to less attitude change.

One explanation of this unexpected finding might be due to the use of fictitious brand. Although large amounts of information about the brand and brand extension were presented to subjects, attitudes toward the brand were formed shortly before the introduction of negative information. Even with the intervening task that removed the carryover effect of the brand attitude, the short-lived attitude was likely to be easily changed by subsequent negative information.

As mentioned previously, the brand extension in the research did not reach to an extremely dissimilar level, the brand and the brand extension still have bases for associations other than the brand name alone. Negative information of the brand extension could not be isolated from the original brand schema just because of the severity of the negative information. Hence, mild negative information would have a less significant effect than severe negative information on consumer's attitude toward original brands. Because both are assimilated to the original brand schema, severe

negative information might require more effort and more adjustments to maintain consistency across the links within the schema, and consequently would have a stronger influence on the attitude to parent brand. Thus, for highly to moderately consistent brand extensions, severe negative information of brand extension causes more negative customers' attitude change toward the parent brand. It is speculated that when the brand extensions are extremely different, and/or the negative information is extremely severe, subjects might have difficulty assimilating the extremely discrepant information with existing brand schema. They might ascribe the cause of the negative information either to difficulty of transferring the company's capability to the new brand extension, or to factors beyond the brand's control. In the above situations, the negative extension information may not have a severe effect on the brand attitude.

Association Set Size. As predicted by the corresponding hypothesis, the research results from both studies illustrated that association set size of parent brand was a significant factor moderating negative brand extension's reciprocal effect on parent brand, and this effect was observed in the cases of both of low-involvement product (toothbrushes related) and high-involvement product (computers related). When consumers have a large association set with the parent brand, they have a greater number of links associated with the brand. Thus, the interfering effect of other activated related nodes reduces the chance and intensity of the negative information to be processed. The detrimental effect of the negative information on parent brand is small. However, when consumers have a smaller association set, they do not have many activated nodes and interfere with the processing of the negative information will be less. As a result, the effect of negative information is large.

This finding is crucial in that negative information about a brand extension will be more problematic for the parent brand when consumers have scant association sets, or knowledge structures for parent brand. On the

other hand, the negative reciprocal effect of brand extension caused by negative information can be limited if consumers already have a large set of positive associations with the parent brand. Consumers' rich and varied cognitive structures of the brand can isolate the brand from negative press. This finding is consistent with other research findings which suggest that brands for which consumers have higher commitment and stronger associations are more resistant to negative publicity (Ahluwalia, Burnkrant and Unnava 2000) and product harm crises (Dawar and Pillutla 2000).

This study has several implications. In general, the significant impact of negative information on parent brand evaluation has been enlightened by this research. This significant finding supplemented the previous findings with the improved experimental design and more details provided for parent brand and brand extensions. This finding is an important addition to brand extension research suggesting a significant relationship between negative brand extension information and the evaluation of parent brand. This sends a message to brand managers who are facing a proliferation of brand extensions that the potential of getting involved with negative extension information increases the chances of the damaging the parent brand. Corporations should carefully manage new brand extensions and, thus, reduce the potential damage to the established original brand.

Second, there no studies that had evaluated the role of severity of negative information in the context of brand extension before. This research extended the application of schema theory to brand extension from merely conceptualizing the congruity in terms of perceived fit between parent brand and brand extensions to the congruity influenced by the severity of negative information. Research findings indicate that severity of negative information is a significant moderator for the relationship between brand extension negative information and consumers' attitude change toward parent brand. This significant finding has great implication for negative information

research since severity of information has always been overlooked as an important dimension. It provides new avenues for negative extension information research.

The findings about negativity of brand extension information also have important managerial implications. Depending on the level of severity of the information, consumers would take different routes for information processing, creating different levels of change in consumer attitudes toward the brand. Thus, the estimation of the damage to brand equity of the parent brand also would depend on the severity of brand extension negative information. Also, it implies that facing different level of severity, the company might need to use different methods and techniques to respond to negative information.

Third, the association set size is another newly introduced concept to brand extension research. This variable reflects the conflicting and interfering effects by other associative nodes of a concept. The more nodes associated with the brand, the less likely one specific node will have a great impact on the overall evaluation of the concept because all activated nodes will compete for attention and processing capacity. The findings related with association set size of the brand also provide significant practical implications. More specifically the findings suggested that if the consumers already have a large set of well-defined association with the brand, then negative information would not hurt the brand to a large extent. It implies that company should engage in pre-cautious activities, which means even before actually encountering any possible negative information, the company should try to create and manage a positive and extensive association network with the brand. High brand equity probably will shield the company from future negative information.

Fourth, another significance of this study involves methodological issues. Several of the previous reciprocity studies on brand extension have methodological limitations. In particular, one limitation of the previous studies is the

amount of information provided to subjects about the parent brand. In general, subjects have been told only the name of the extending brand and the product category of the new product, and then asked to form evaluations about this extension. The lack of more complete descriptive information about the extension may have resulted in subjects being fairly uninvolved and uninterested in the task (Viswanathan 1997). This low involvement may have contributed to the insignificant reciprocal effects findings. However, this research avoids this limitation by varying the involvement level with the product category when designing for product replicates, and providing an expanded brand and extension description to subjects.

STUDY LIMITATIONS

Several characteristics of the study itself limit the generalization ability of the results. This research did not use extremely unfit brand extensions to test the hypotheses so as to avoid introducing confounding effect caused by unfit extensions other than by negative information. This manipulation might be a causing factor for the insignificant findings about brand extension fit. Future research should include different levels of unfit extensions in the experiment to investigate brand extension fit's moderating effect.

In addition, this research utilized fictitious brand names in two product categories. Future studies should examine negative reciprocal effects for real brands in other product categories. For instance, would these same results apply to real brands? Would these results apply to very dissimilar brand extensions? Future studies may find that extension fit have influence on the attitude change if the effect of negative information and effect of unfitting brand extensions can be separated.

Another limiting factor is the compressed time in which the phenomenon was examined. Each complete experiment, which involved learning about the brand, developing the association

between the brand and brand extension, and reacting to exposure to the negative information, was done in 35 to 45 minutes. In the marketplace, the process would occur over weeks, if not years. Future research may investigate how negative information's effect on parent brand change over time.

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COMPETENCY CODES: MARKETING MANAGEMENT FOR THE DIGITAL FUTURE

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The digital market demands new marketing management competencies. This study advances new marketing management competencies to meet the challenges of an evolving digital market. Until recently, digital marketing strategy has focused on information control and the advantages of computing technology. Future strategic value, however, will be largely derived from collaborative intelligence and applications of intelligent digital content. These future trends point to emerging marketing management information competencies comprised of cross-disciplinary techniques which leverage the malleability of digital content, most notably the confluence of enterprise and ethics intelligence.

INTRODUCTION

Digital market value is derived from shared information content, whereas traditional market value is determined by information control. Traditionally, marketing management intelligence has been separated to control strategic decision making. In other words, strategic micromarketing factors, such as market share performance, target customer profiles, brand preferences, and competitor tactics are parsed from societal macromarketing factors like social ethics and community well being. However, because digital content commingles strategic and societal purposes, it enables a more confluent approach towards managing market intelligence aimed at both enterprise objectives and ethical outcomes. In terms of enterprise objectives, the plasticity of digital market content blurs the line between the commercial and community strategy. In terms of ethical outcomes, collaborative digital market interaction erases the boundary between the private and public sectors of society. Consequently, confluent digital market content requires marketing management competencies that cultivate intelligence, not control information.

A recent Wall Street Journal ad by the information media conglomerate Thomson Reuters epitomizes this digital market competency imperative.

Information, the world runs on it. Industries are built on it. And for decision makers, it's as vital as oxygen. But, information is not what it used to be. It has evolved. It lives in a world of data agents, semantic understanding and embedded metadata. It thinks. It finds you. We call it intelligent information. And for people who make decisions that matter, it is their next great advantage.

(Thomson Reuters *Wall Street Journal* May 1, 2005, p. A5)

Although this newfound digital content intelligence liberates marketing managers from traditional thinking, it must be first understood within the context of digital market evolution. The ascendance of marketing management techniques typically parallels actual market transformations. Brodie, et al. (2007) examine the penetration of "e-Marketing" using Coviello, et al.'s (2001) five practice descriptors of transaction, database, electronic, interaction, and network marketing. Generally, this evolution tracks the progression from arms length transaction strategies and relational network business models. Echoing the previous e-Business research (Wu, et al. 2003), increased e-Marketing penetration is found to improve the strategic performance of marketing management techniques. More importantly,

these emerging digital marketing competencies are attributable to the internet-related cognitions of marketing managers (Celuch, et al. 2007). Although Brodie, et al. (2007) chart a path towards relational practices, the concurrent digital market trend towards confluent strategic and societal competencies is not well addressed. Therefore, the following literature review chronicles digital market progression towards confluent intelligence to help marketing management scholars discern future information competencies.

LITERATURE REVIEW: DIGITAL MARKET COMPETENCY EVOLUTION

Each stage of digital market evolution has maintained equilibrium between enterprise and ethics. The balance between strategic goals and societal gains during the progression depends on developments in *information computing technology* and *information competency techniques*. At its inception, the digital market coupled micromarketing participants and macromarketing policy (Milne 2000; Peterson, et al. 1997; Bloom, et al. 1994). As Figure 1 shows the early digital market stages are conditioned by an *information computing technology* orientation. Marketing managers applied computing technology to improve information value chains (Blattberg, et al. 1994; Porter and Millar 1979). For this *information computing technology* period, an arms length relationship balanced strategic opportunity and societal uncertainty (Clemmons and Bradley 2001; Barabba 1995).

The earliest *independent mode* of the digital market availed access to customer data (Hegel and Rayport 1997) to support traditional marketing management strategies, using “interactive” techniques (Deighton 1996). Digital ethics at this juncture enforced fairness principles regarding consumer rights and proprietary company data (Nowak and Phelps 1997; Malone 1997; Milberg, et al. 1995). These protections constitute “data bank” competency, because they safeguard autonomous and independent digital market activity (Carter and Goel 2005).

This *independent mode* of the digital market is clearly chronicled by the marketing management literature. The strong information computing orientation is highlighted by Chen, et al.’s (2001) analysis of information privacy determinants among customers. These contributions evolve incipient digital marketing strategies, such as e-tailing and online relationship management programs. Consumer information privacy constituted a wedge issue between enterprise strategies relying on data mining and ethics stakeholders regulating data manipulation. By protecting the “data base,” the benefits of digital markets to support traditional market exchanges are preserved.

Later research examined time-and-location-free interaction in the digital market’s *immersive* or *marketspace mode* (Hoffman, et al. 1999b; Rayport and Sviokla 1996, 1994). Greater acceptance of electronic presence made market participants accustomed to exchanges that transpire entirely in digital space. Traditional marketing mix elements were recast for an immersive digital context commonly referred to as a “hypermedia computer-mediated environment” (Hoffman and Novak 1996). *Marketspace* theory transforms marketing management functions into digital network competencies for operating cybermediaries (Sarkar, Butler and Steinfield 1998). For instance, product element factors are realigned with *marketspace* information search methods to combine digital brand content with digital transaction channels (Venkatraman and Dholakia 1997). Likewise, *marketspace* models for *immersive* Internet service pricing were developed to reflect the information currency of digital markets (Gronroos, et al. 2000). Place element physical market logistics functions were reconfigured to fit digital content transmission networks (Crowley 1998). Promotion element management in the *marketspace* designs web advertising and sales content (Berthon, et al. 1997). Additionally, digital customer relationship techniques expand to embrace both enterprise and ethics intelligence management (Dutta, Kwan and Segev 1997).

FIGURE 1
Progression of Digital Marketing Management Enterprise/Ethics

Digital Market Modes			
Information Computing & Technology		Information Competency & Techniques	
Independent ("Data Bank")	Immersive ("Marketspace")	Relational ("Data Blank")	Confluent ("Digital Well Being")
<ul style="list-style-type: none"> • Chen, et al. 2001 • Clemmons & Bradley 2001 • Caudill & Murphy 2000 • Sheehen & Hoy 2000 • Milberg, et al. 1995 • Hagel & Rayport 1997 • Malone 1997 • Nowak & Phelps 1997 • Peterson, et al. 1997 • Steinke & Leamon 1996 • Deighton 1996 • Barabba 1995 • Millberg, et al 1995 • Bloom, et al. 1994 • Jones 1991 • Porter & Millar 1979 	<ul style="list-style-type: none"> • Martinez, et al. 2001 • Gronroos, et al. 2000 • Rolland, et al. 1999 • Hoffman, et al. 1999b • Sarkar, Butler & Steinfield 1998 • Crowley 1998 • Sheth & Sisodia 1997 • Venkatraman & Dholakia 1997 • Hardwick & Bolton 1997 • Dutta, Kwan & Segev 1997 • Berthon, et al. 1997 • Hoffman & Novak 1996 • Benjamin & Wigand 1995 • Rayport & Sviokla 1994, 1996 	<ul style="list-style-type: none"> • Clemmons, et al. 2003 • Luo 2002 • Schoenbachler & Gordon 2002 • Chen, et al. 2001 • Fletcher 2001 • Franzak, et al. 2001 • Gauzente & Ranchhod 2001 • McKnight & Chervany 2001 • Phelps, et al. 2001, 2000 • Wind, et al. 2001 • Petty 2000 • Haeckel 1999 • Hoffman, et al. 1999a • Milne & Boza 1999 • Bradley & Nolan 1998 	<ul style="list-style-type: none"> • Wirtz, et al. 2007 • Lwin, et al. 2006 • Ashworth & Free 2006 • Rao, et al. 2006 • Sirgy, et al. 2006 • Biennier & Favrel 2005 • Bechwati & Eshghi 2005 • Chellappa & Sin 2005 • Hoffman & Novak 2005 • Inks & Loe 2005 • Wood, et al. 2005 • Milne, et al. 2004 • Zwick & Dholakia 2004 • Culnan & Bies 2003 • Pitta, et al. 2003 • Sarathy & Robertson 2003 • Koehn 2003

Virtual enterprise and virtual value chain approaches typify the *immersive mode* of digital marketing management. Rayport and Sviokla's (1994) "marketspace" paradigm transformed Porter and Millar's (1979) early electronic marketplace information value chain theory into a wholly digital process consisting of virtual content, conduits, and constituents. Leading business strategy scholars (Rayport and Sviokla 1996; Benjamin and Wigand 1995) coined the term "virtual value chains" to capture the immersive context and inclusive character of emerging digital networks. This virtual value intelligence does not distinguish between enterprise and ethics content. Accordingly, the digital market's *immersive mode* rewards information competencies that balance strategic and societal considerations. Marketing management scholars have shown that a considerate enterprise strategy can lead to strong ethical ties (Gehani 2001). Ethical returns described as "reputational capital" increase when enterprise strategy is executed in an innovative and complementary manner.

The bond between digital commerce and digital community is further solidified in the next digital market stage, which transitions to *information competency techniques* from *information technology computing*. This more recent digital market period encompasses two modes that emphasize both digital collaboration and intelligent digital content. When the digital market business model becomes the adaptive enterprise (Haeckel 1999) collaboration among digital market constituents replaces contention. Likewise, sense and respond strategies (Bradley and Nolan 1998) cause intelligent content to replace intelligent network conduits as the primary source of marketing management competency. These information competency modes depict the digital market's progression towards inclusive interaction.

The *relational mode* is the first digital market stage with an *information competency* orientation. Eventually, an explicit trust construct emerged (McKnight and Chervany 2001; Hoffman, et al. 1999a) reflecting the implicit tradeoffs associated with information

transactions (Schoenbachler and Gordon 2002; Phelps, et al. 2001; Franzak, et al. 2001). Digital marketing managers developed customer relationship management (CRM) strategies by balancing the risk of information sharing (Larson, et al. 2004; O'Malley, et al. 1999) against the reward of trusted relationships (Petty 2000; Phelps, et al. 2000). Marketing management studies reinforce the strategic importance of trust for both traditional and digital brand customers (Bechwati and Eshghi 2005; Chatterjee and Chaudhuri 2005) for forging one-to-one customer relationships (Luo 2002). Likewise, trust enhances the relational potential of web advertising to anchor multimedia strategies (Choi, et al. 2006), and trust provides data assurance to vulnerable digital customers (Clemmons, et al. 2003). Consequently, trust incubates the relational mode's inclusion of both enterprise and ethics considerations.

In the digital market's *relational mode*, fast paced and widespread participant data exchange increases the ethical value of privacy and anonymity, as trust endowed content properties. In contrast to the individual mode "data bank," relational mode privacy ethics secures digital market participants with a "data blank" (Carter and Goel 2005). Specifically, relational mode participants gain control by losing their identity rather than locking away their data. Competencies that disguise relationship participants ("blank") are less limiting than controls that guard relational data ("bank"), when information exchange is essential for digital market engagement. Privacy and anonymity, therefore, are operationalized measures of trust embedded by *relational mode* competencies (Fletcher 2001).

Presently, the digital market's *confluent mode* extends relational principles to build stronger enterprise and ethics connections (Sarathy and Robertson 2003). The conditions for online trust (Koehn 2003) create confluence between digital strategy aims and digital society assurances (Culnan and Bies 2003). These confluent marketing management competencies are primarily attributable to an aptitude for

coding intelligent digital content (Lessig 1999) and contributing to digital well being (Sirgy, Lee and Bae 2006). Strategically, code enables marketing managers to extract information competency from digital content, instead of digital computing. As a standard for societal ethics, digital well being equips marketing managers with a competency for interacting in a more inclusive online environment.

Increasingly, marketing scholars are advancing confluent information competency practices for balancing digital strategy and society concerns (Zwick and Dholakia 2004; Pitta, et al. 2003; Gauzente and Ranchhod 2001). The American Marketing Association Code of Ethics (2004), as well as forward thinking paradigms for ethical marketing (Rao, et al. 2006) provide the premise for balancing the digital marketing system and digital society well being. This growing recognition of information competency in the marketing field demonstrates the strategic and societal merits of “information value” (Baye, et al. 2003) for balancing the uncertainty of online interaction with the benefits innovative web-based business models (Hoffman and Novak 2005; Clemmons and Bradley 2001).

Digital market confluence imputes ethical properties into enterprise practices to benefit both companies and consumers. At the marketing management level, “cognitive moral development” (Goolsby and Hunt 1992) is an ethics control competency for guiding enterprise conduct (Deconinck 2005). From a customer orientation perspective, digital market confluence improves trust in online transactions to resolve the paradox between technology virtue and data vulnerability (Jiang, et al. 2008; Johnson, et al. 2008). These confluent strategic and societal goals underscore both traditional and digital marketing ethics (Engelland and Eshee 2007), particularly in sales and interactive service situations (Eckert and Rinehart 2005; Inks and Loe 2005). Moreover, the digital market heightens the role of ethics and social responsibility as a unique brand dimension (Madrigal and Boush 2008).

Accordingly, *confluent mode* competencies are vital to marketing managers seeking to optimize digital content *form, flow, and function*.

INTELLIGENT DIGITAL MARKET CODE

The confluent coding of enterprise and ethics intelligence is conceptualized using a digital content paradigm, known as “code.” Lessig’s (1999) code concept is the nomological and epistemological foundation for the proposed Information Competency Codes Typology (ICCT). Nomologically, code captures the purpose of intelligent digital content, as well as the combinatorial propensity of confluent enterprise and ethics patterns. Epistemologically, code designates a new intelligent digital content philosophy. It prescribes how enterprise and ethics competencies are aligned with the philosophical character of digital presence.

Code is Law. This code presents the greatest threat to liberal or libertarian ideals, as well as their greatest promise. We can build, or architect, or code cyberspace to protect values that we believe are fundamental, or we can build, or architect, or code cyberspace to allow those values to disappear. (Lessig 1999, p. 6)

Code maps the architecture of digital “infosphere” presence in a similar manner as genetic code maps the architecture of biological eco-domain presence (Floridi 1999). The computer ethics literature (Bynum 2000) programs code with ethical properties to enrich its utility. Unlike conventional marketing ethics appraisals of digital content and processes, computer ethics principles consider the future possibilities of “information objects” with intelligence (Floridi 2002). Research assessing the implications of digital representation and identity (Matthias 2004; White 2002; Coleman 2001; Brey 1999) affirm the inherent confluence of enterprise and ethical intelligence in code. As a combinatorial index, code deconstructs content to liberate the

composition of *digital identity, interactions, and idioms*.

Likewise, the intangibility of code decouples digital content intelligence from the material world's time/place locus. This frees societal conditions for *individual, institutional, and inclusive digital well being*. Specifically relevant for this study's purpose, are code properties that actualize digital market aims and affirm moral values in cyberspace (Spinello 2001). Computer and information ethics guidelines embrace confluent strategic and societal digital content codes, including values for self directed software agents and morality rules (Gert 1999; Steinhart 1999).

FRAMING CONFLUENT DIGITAL MARKETING

Having clarified the nature of digital code, the proposed Information Competency Codes Typology (ICCT) can be presented (see Figure 2). Conceptually, the proposed ICCT intersects the two main vectors of *strategic digital market dimensions* and *digital well being society domains*. By expanding the "strategic orientation" typology (Engelland and Summey 1999) to address confluent digital market parameters, the ICCT wedes strategic dimensions and societal domains. From a marketing management perspective, the strategy and society vectors parallel the micro-marketing and macro-marketing realms in general marketing theory (Shaw and Jones 2005; Dixon and Wilkinson 1982; Hunt and Burnett 1982; Hunt 1976; Bartels 1968). Both vectors comprise a three category continuum. For the *digital strategy dimensions* the continuum categories are *identity, interaction, and idiom*. *Identity* addresses the autonomous factors that characterize digital market presence. *Interaction* aligns digital content exchanges conducted by digital market participants. *Idiom* encodes information competencies into intelligent digital content, reflected in a wide array of form and function properties.

Similarly, the continuum of *digital society domains* includes the three categories of *individual, institutional, and inclusive* digital presence. The *individual domain* constitutes the enterprise aims of consumers, as well as the ethical aspirations of citizens. The *institutional domain* comprises the enterprise goals of commercial organizations and the ethical guidelines of civic organizations. *The inclusive domain* captures the collective digital market commercial presence and the digital market's collective community presence. Digital well being in the *inclusive domain* insures distributive justice for digital market participants, as articulated in the macromarketing literature (Ferrell and Ferrell 2008; Lacznik and Murphy 2008), to achieve "constructive conflict outcomes" (Eckert and Rinehart 2005) among collective/community stakeholders. Therefore, the ICCT is a normative framework comprised of two vectors, one affirming digital society ethics and the other achieving digital strategy enterprise.

CODING MARKETING INFORMATION COMPETENCY

Digital market strategy is executed according to the three sequential dimensions of *identity, interaction, and idiom* (See Figure 2). These *digital strategy dimensions* are coded with information competencies that allow marketing managers to execute confluent enterprise and ethics plans, primarily by harnessing the power of intelligent digital content. Whereas *digital society domains* draw the boundaries of digital market activity (e.g., individual, institutional, inclusive), *digital strategy dimensions* depict how information competency is leveraged to code intelligent digital content. This "dominant logic" accentuates Vargo and Lusch's (2004) assertion that; "specialized skills and knowledge is the fundamental unit of exchange" (p.6). Consequently, Figure 2 also serves as a marketing management heuristic for generating scenarios that result from the dialectic between *digital strategy dimensions* and *digital society domains*. In each scenario, digital content is coded with confluent enterprise and ethics intelligence to reveal the

“dominant logic” of particular information competencies.

ICCT *strategy dimensions* chart a marketing management continuum that begins by coding digital *identity* forms. These *identity dimension* forms populate all three digital society domains. As a result, marketing managers must simultaneously code the *digital identity* of individuals, institutions, and the inclusive society as a whole. From a traditional standpoint, these *digital identity* forms comprise a target market profile. However, for future marketing managers, the time and location free context of electronic markets will code *identity* as a more fluid state of digital autonomy. For these future digital autonomy states, information competencies enable marketing managers to code *identity* forms of individuals, institutions, and inclusive society by modeling intelligent digital content.

The *identity dimension* scenario addresses the vital practice of market segmentation. The strategic necessity of parsing digital content and information entities into targeted and non-targeted *identities* is accomplished using data

mining skills. Data mining translates physical identity characteristics into *digital identity codes*, using advanced algorithms for filtering and finding information patterns (Weiss 1997). Although data mining competencies segment *identity dimension* descriptors, they also bring potential threats to digital well being ethics (Saban, et al. 2001). Therefore, additional competencies are applied to model *digital identity* forms with confluent enterprise and ethics intelligence.

Broadly speaking, these additional information competencies help marketing managers code, not just classify, *digital identity* forms. Wilkinson and Young (2005) advance a similar marketing management logic called “soft-assembled strategies,” by drawing upon the cognitive systems literature (Clark 1997). “Soft assembly” information competencies direct marketing managers to model *digital identity codes* based on adaptive intrinsic properties, rather than static extrinsic parameters as employed in data mining. These collaborative “wikinomics” techniques (Tapscott and Williams 2005) inherently encode *digital identity* with confluent enterprise and ethics

FIGURE 2
The Information Competency Codes Typology (ICCT)

	Digital Marketing Management Strategic Dimensions (Enterprise Competencies)		
Digital Well-Being Society Domains (Ethics Competencies)	(a) Identity (Autonomy)	(b) Interaction (Alignment)	(c) Idiom (Artificial)
a) Individual -- Customer/Citizen	Digital Form Attributes	Digital Flow Activity	Digital Function Architecture
b) Institutional -- Commercial/Civic	Data Mining (pattern algorithms)	Network Functionality (sense & respond)	Memetic Mapping (digital DNA)
c) Inclusive -- Collective/Community	Collaborative Modeling	Agency Channeling	Semiotic Design
	Soft-Assembly Strategy	Transparency & Authentication	Information Branding

intelligence. Kalyanam, et al. (2008) use a similar identity coding dynamic to explain the merit of adaptive experimentation in interactive marketing.

Likewise, the “interactive personalization” framework advanced by Miceli, et al. (2007) demonstrates the efficacy of coding collaborative “E-customer profiles.” Even the institutional domain of business-to-business interactions have moved towards more freely configured third-party electronic marketplaces to accrue the strategic benefits of collaborative trade relationships (Fu, et al. 2008).

Next, digital market strategy engages the *interaction dimension* to align digital intelligence sharing among participants. After collaboratively modeling autonomous *digital identity* forms, marketing managers must chart digital channel flow. Digital networking is the property that characterizes the *interaction dimension's* role in the strategic process. These navigational flow phenotypes are coded with the “dominant logic” of network connection patterns.

The networks of relationships in which firms are embedded may be viewed as extended phenotypes in which the resources of the firms comprising the network directly and indirectly contribute to its pattern of organization and behavior as well as to the reinforcement and reproduction of the resources required to continue this pattern depending on which patterns succeed. (Wilkinson and Young 2005, p. 383)

For this *interaction dimension* phenotype, a digital market intelligence delivery scenario is posed. For instance, a strategic interaction may need to be aligned between a provider and procurer of medical treatment content. Yet, simultaneously, the same digital interaction participants would channel an inverse flow of health insurance content. These dynamic patterns among digital market participants align shared intelligence through what Ballantyne and Varey (2006) regard as “value-in-use”

information competencies, based on seminal “value constellation” research (Normann and Ramirez 1993).

Comparable “sense and respond” competencies for coding the *interaction dimension* (Haeckel 1999; Bradley and Nolan 1998) are described by Wilkinson and Young (2005) as “network functionalities” required to manage interconnectivity through generative relations.

Strategy becomes more about searching via interaction processes to discover and respond to opportunities and threats, rather than about designing and controlling resources to achieve desired outcomes. Network positioning and repositioning become key strategic issues as firms seek to identify and engage in generative relations, through which they sense, interpret and reinterpret their world and act to respond to it. (Wilkinson and Young 2005, p. 389)

Agency techniques represent another type of information competency to enhance the *interaction dimension's* “network functionality.” In the context of digital market strategy, this *interaction dimension* agency can be characterized as intelligence channeling. Arrow (1986, 1984, 1962) formulates agency theory as an interaction agreement which is directly applicable to digital market providers and procurers. Shapiro's (2005) contemporary agency research identifies three techniques to “bridge information asymmetries”: knowledge monitoring, participant control, and shared interest incentives. These risk management competencies can be coded directly in digital content properties to achieve strategic *interaction dimension* objectives.

For instance, meta-tags and spy-ware are digital content monitoring properties that can reduce the strategic agency risks of digital market interaction evaluation and execution (Andrejevic 2007; Spinello 2002). Similarly, algorithms can be encoded with learning properties that coordinate participant interaction. Further, premium hyper-links and

monetization models (e.g., affinity program point systems) code intelligent digital content with incentives for shared interest. Marketing scholars have also applied agency competencies to the management of relational market patterns, including sales (Bergen, Dutta and Walker 1992; Basu, et al. 1885). Artificial intelligence research has shown that coding these types of agency competencies into digital content can improve interaction by aligning the “knowledge representation” of provision and procurement activities (Agre 1995). However, generally speaking, these information competencies are best explained by the concept of “embedded agency”:

Embedding agency relationships in an ongoing structure of personal [*digital*] relationships solves the problem of adverse selection ... through members [*content*] of social networks in which both principal and agent are embedded. (Shapiro 2005, pp. 276-277)

Agency properties are reinforced by another information competency for improving strategic *interaction dimension* value delivery called transparency. As a confluent element of digital enterprise strategy, transparency opens the opportunity for complementary alliances among digital ethics stakeholders. Confluence is achieved because transparent enterprise data creates trusted public access. Thus, transparency skills strategically align digital intelligence *interactions* to improve digital well being.

Authentication is a good example of a competency code that strategically controls *digital interaction* transparency. In order to preserve the security of digital intelligence sharing (Bramall, et al. 2004; Luo 2002; Hoffman, et al. 1999a; Schneider 1999), marketing managers align digital intelligence content and digital market participants. Drawing from Grant’s (1998) digital network competencies, the entire authentication protocol sequence is presented by Lessig (1999) as the “architecture of trust.”

This architecture would have to provide
(1) authentication, to ensure the identity

of the personal you are dealing with, (2) authorization, to ensure that the person is sanctioned for a particular function, (3) privacy, to ensure that others cannot see what exchanges there are, (4) integrity, to ensure that the transmission is not altered en route, and (5) nonrepudiation, to ensure that the sender of a message cannot deny that he sent it. (Lessig 1999, p.40)

The digital marketing strategy literature combines these networking, agency, and transparency/authentication competencies in the property of interactivity. Digital market success depends on the strategic coding of interactivity into electronic commerce networks, online websites, and virtual communities (Song and Zinkhan 2008). In fact, enhanced interactivity is an essential for digital customer relationships to thrive. The strategic viability of web-based relationships (Yoon, et al. 2008), as well as entirely “virtual customer environments” such as Second Life have been linked to competencies for coding advanced “interaction facilities” (Nambisan and Baron 2007). More broadly, these *interaction dimension* competencies support the inherent web service quality experience (Yi and Gong 2008; Fassnacht and Kose 2007).

The role of *interaction dimension* “code” architecture in facilitating favorable web experiences leads logically to the strategic competencies for the digital *idiom dimension*. The first two strategic dimensions address digital market identity forms and interaction flows, but not the properties of digital content functions. *Idiom* competencies code digital property functions to deliver intelligence value. In essence, *idiom* contributes artificial intelligence ingredients to the digital strategy mix.

Digital content intelligence is constructed with symbolic meaning, just as biological content intelligence is comprised of genetic markers. Memes is a term that designates units of meaning for cognitive, social, and digital intelligence. Derived from the Greek word for

meaning, “mneme,” memes constitute the basic unit of a “memetic” system model that is used across fields of study to map networks for idea sharing (Blackmore 1999; Brodie 1995; Dawkins 1976). In the *idiom dimension*, artificial intelligence memes code digital market messages with “actual information content” (Lynch 1999). Because the meaning content of memes is analogous to the biological content of genes, *idiom* information competency can be construed as coding digital DNA.

“Memes, as coined by Richard Dawkins to denote units of memory, culturally analogous to genes, can be simply understood here as nodes in the associative networks of memory. Like a kind of semantic DNA, clusters of memes in the semantic networks of memory provide a recipe of meaning, allowing us to imbibe objects, including trademarks, with meaning.” (Marsden 2002, p. 307)

Marketing scholars have embraced memetics as an instrumental system for coding and decoding strategic message content. The *idiom dimension* extends these information competencies to the coding of digital content functions (Krishnamurthy 2006). As an inclusive paradigm for understanding the attribution of shared meanings (Richins 1994) and consumer behavior interactions (Williams 2002; Marsden 1998), memetics contributes a useful competency for interpreting the value and influence of digital content properties. Further, memetics techniques that improve traditional brand analysis and affinity (Wu and Ardley 2007) are directly transferable to digital content properties. Similarly, the use of memetics to manage the meaning content in traditional marketing functions (Williams 2000) supports the proposed coding of strategic functions as intelligent *digital idiom* properties.

A strategic scenario for composing electronic apparel shopping content can clarify how *digital idiom* functions are coded. First, when considering how digital content functions can best convey apparel features to online shoppers,

memetics would map the cognitive topography of digital idiom meanings. Moreover, since the digital medium externalizes cognitive associations in a hypermedia environment (Riva and Galimberti 1997; Hoffman and Novak 1996), memetic patterns can actually be coded into intelligent content objects. Much like the traditional concept of “associative networks” as patterns that activate cognitive meaning (Collins and Loftus 1975; Anderson and Bower 1973), memetic codes can design apparel shopping websites where digital mannequins and material mirror the mind of the market.

For instance, the three shopping factors of person, purpose, and product could be plotted as *digital idiom* codes. Person factors helps shoppers navigate based upon content that characterizes themselves and others. Purpose factors helps shoppers navigate based on the reason, situation, or occasion for shopping. This purpose content might be further charted using motivational and temporal coordinates for hedonic pleasure and utilitarian necessity. Product factor codes could then array content representations of apparel items and services both within and apart from the person and purpose factors. Similarly, codes for person and purpose factors could link selected merchandise to themes like men’s, women’s, or holiday apparel. Of course, product codes can also link apparel features to prices. This scenario merely shows how memetic maps might code *digital idiom* functions for a wide variety of digital market content.

Additional insight into *digital idiom* competency can be found in the field of semiotics. Derived from the Greek “*semeiotikos*,” semiotics refers to the interpretation of sign systems (Eco 1976). As a logical system for specifying elements of meaning, semiotics is uniquely capable of improving *digital idiom* architecture. In simplified form, semiotic competencies triangulate the meaning of “signs,” the “objects” being signified, and the human (or digital) “interpretant.” (Pierce 1934). This triangulation codes *idiom* competencies,

because digital content properties have linguistic functions. As such, Morris' (1938) semiotics triad of "syntax, semantics, and pragmatics" is a *digital idiom* protocol.

Semiotics competencies are well grounded in the marketing literature. Early on, Levy (1959) called attention to the composition of symbols for market interaction. This symbolic coding of marketing stimuli (Mick 1986; Solomon 1983) for traditional markets can be logically extended to code signs in the digital market *idiom*. Umiker-Sebeok (1987) compiled an array of semiotics studies examining the meaning of signs in marketing. Pragmatic uses of semiotics have been devised to construct symbol rubrics for products design (Mick 1986), as well as to discern symbolic consumer behavior (Holbrook and Hirschman 1993). More recently, semiotics elements have been employed to coordinate marketing relationship meanings (Duncan and Moriarty 1998). However, semiotics is most prevalent in advertising (Beasley and Danesi 2002; Floch and Bodkin 2001; Mick and Buhl 1992). Extending this marketing literature, as well as the concept of "semiotic-aware architecture" for hyper-media environments (Nack and Hardman 2002), a semiotics scenario is presented for the *digital idiom*.

Returning to the electronic apparel shopping scenario, Morris' (1938) semiotics triad guides digital marketing managers past semantic memes to also code the interactive digital syntax and pragmatics embedded in *digital idiom* properties. For example, digital semiotics competencies can convey the look and feel of information objects (Floridi 2002). In one respect this pertains to artificial intelligence coding of electronic shopping aesthetics like apparel color, size, shape, and pattern. Yet, in other respects it pertains to "artificial life" (Langton 1986) coding of animated digital object behavior, personality, and expression. The range of digital semiotics competencies includes visual, audio, and most recently tactile (touch screen and holographic) coding. Digital merchandise representations can be brought to life, with movement, voices, and even

personalities. Similarly, "intelligent agent" coding can create "shopping bots" and personified avatars to simulate human marketing functions (Wood, et al. 2005; Clark 2000; Maes 1995). Of course, each of these strategic semiotics competencies would also represent *digital idiom* functions with confluent enterprise and ethics properties (Brey 1999).

Ultimately, *digital idioms* like traditional marketing messages are constructed into strategic brand architectures (Keller 2003). *Digital idiom* brand architecture weaves the sign characters of semiotic design into the associational context of memetic meanings. Consequently, marketing managers use digital idiom brands to code confluent enterprise and ethics properties into intelligent content. Marketing management scholars regard brand identity as the primary construct for cohering intelligence properties such as "reputational capital" and innovativeness (Gehani 2001). Likewise, the information content comparisons for traditional marketing media (Choi, et al. 2006) help direct the intelligence content properties of *digital idiom* brands. The strategic capacity to facilitate shared intelligence is attributed by marketing management researchers to the property of brand trust (Chatterjee and Chaudhuri 2005), including confluent societal considerations like information privacy (Chen, et al. 2001).

Recent digital marketing studies have highlighted the importance of *digital idiom* competencies. At the level of digital content cues, Chang and Liu (2008) found that compatibility between the design of information formats and the depiction of online menu options directly impacts consumer choice. The strategic impact of visual content representation on consumer decision making has been widely affirmed (Kim and Lennon 2008; Larie and Mason 2007), including novel applications such as "sensory enabling technology" (Kim and Forsythe 2008) that permits virtual shoppers to tour spatial facilities, try on clothing, sample products, and engage in avatar interaction. These innovative *digital idiom* competencies include simulating

the sense of feel, referred to as “e-human touch” (Sivaramakrishnan, et al. 2007). Clearly, a strong information branding competency is required to coordinate and manage these new digital idiom possibilities. To that end, digital marketing scholars are modeling “cyber brands” (Saaksjarvi and Samiee 2007) and examining the implicit effects of web brand advertising (Yoo 2008).

CONCLUSION: CREATING THE INFORMATION COMPTENCY FUTURE

The digital market’s evolution has transitioned from a separate computing medium focused on individual transactions to a seamless content mode for collaborative sharing. This digital market life cycle signals a shift from traditional marketing management computing technology to digital marketing management competency techniques. Intelligent content capabilities encode the immersive digital presence of providers and procurers. Moreover, the transparency and pliability of digital content codes fosters confluence between strategic enterprise and societal ethics. This confluent coding of digital content avails marketing managers of a richer pool of intelligence than is afforded to traditional marketing managers. Venkatesh, et al. (1998) captures this richer and more confluent digital market intelligence content in the foreseeing inquiry “Cyberspace as the Next Marketing Frontier?”

“What we are creating is a world where we can lose ourselves and escape into the world of the hyperreal (or hype and real) manipulated by the ideologies and technologies of the digital. In this phantasmagoric world, in trying to relinquish the vestiges of modernism, we are preparing to enter a futuristic world replete, however, with the symbolism of the distant past.” (Vankatesh, Meamber and Firat 1998, p.301)

Consequently, the research problem for this study was identified as developing confluent digital marketing competency for the coming “phantasmagoric world.” The Information Competency Codes Typology (ICCT) is

advanced to classify confluent digital marketing skills based on strategic process dimensions and societal domains of digital well being. This ICCT serves as a marketing management heuristic for coding information competencies that cultivate confluent enterprise and ethics properties. This exploratory study of marketing management information competencies offers an initial conceptualization of intelligent digital content “code” as a potential source of strategic and societal confluence. The digital market’s evolution towards intelligent digital content signals a new marketing management frontier. Emerging marketing management research validates the complementary nature of strategic enterprise objectives and societal ethics outcomes (Sarathy and Robinson 2003), as well as the veracity of coding digital content to achieve those aims (Tung, et al. 2006; Baye 2003). This study’s synthesis of divergent literature streams supports these emergent research veins with new angles for examining digital marketing management possibilities. Most importantly, the proposed ICCT helps to steer future marketing management research aimed at identifying strategic digital competencies.

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A TYPOLOGY OF COORDINATION STRATEGIES EMPLOYED BY BUSINESS-TO-BUSINESS SALESPEOPLE

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Salespeople in business-to-business markets have a wide network of resources and personnel to coordinate both within their own organization and within the customer's organization. The salesperson's success in customer account management depends on achieving superior coordination of internal and external activities (Workman, Homburg and Jensen 2003). In general, regardless of the degree of formalization of account management structures, salespeople spend the majority of their efforts coordinating activities (Homburg, Workman and Jensen 2002). Yet very little is known about the coordination strategies employed by business-to-business salespeople. This study attempts to begin to address this gap by introducing a typology of coordination strategies.

INTRODUCTION

The conceptualization of selling in business markets has advanced from that of primarily an individual activity to that of an involved process requiring coordination across and within organizational boundaries (Cespedes, Doyle and Freedman 1989; Homburg, Workman and Jensen 2002). Business-to-business salespeople are responsible for organizing and managing a diverse array of internal specialists for each buying organization and particular buying situation. This creates a dynamic selling and delivery environment in which multiple experts from across organizational units and geographies are involved. The fluid participation of organizational members who contribute different types of expertise on the selling side coupled with the unique characteristics of each customer organization increase the complexity of coordination for the salesperson.

The sales literature suggests that salespeople create customer value by gaining access and leveraging talent found throughout the organization (Beverland 2001; Ustuner and Godes 2006). In these business-to-business environments, a salesperson's success depends on achieving superior coordination of internal

and external activities (Workman, Homburg and Jensen 2003). While coordination is one of the most discussed concepts in organizational theory, it is also one of the least developed (Cheng 1984). The theoretical distinction between coordination and cooperation is well-noted as far back as the classic work of Simon (1976) and Georgopoulos and Mann (1962), yet our marketing literature frequently uses the terms "teamwork", "cooperative mechanisms", or "collaboration" and "coordination" interchangeably. These semantic misuses become of concern in the development of theories of sales representative effectiveness given the fundamental importance of coordination strategies in account management.

Research on coordination to date has been isolated to the organizational or departmental level of analysis, and primarily suggests either the presence or absence of coordination, or emphasizes the degree of coordination within the organization (cf. Cespedes 1992; Cheng 1984; Jap 1999; Mohr and Spekman 1994; Sahadev 2008). Lacking in our literature is a unifying framework specifying the types of coordination strategies used by salespeople and the conditions that these strategies may be used. This research attempts to address this gap. The purpose of this paper is to present a typology of coordination strategies used by salespeople to integrate company resources in business markets. The resources may include people

(individual experts, teams, administrators, etc.), products/services, capital equipment, technology and finances. Coordination strategies of salespeople are defined here as *the ways in which salespeople decide and plan to bring together diverse organizational resources aimed at enhancing customer account performance*.

The typology of coordination strategies suggested offers a parsimonious framework extending our understanding of the behaviors of salespeople. Doty and Glick (1994, p. 244) note the critical benefit of typological theories is that typologies “allow us to move beyond traditional linear or interaction (i.e., contingency) theories” (p. 244). Typologies offer a classification of concepts, or ideal types, based on a collection of attributes of the phenomenon. Given the multiplicity of patterns associated with sales representatives’ approaches to account management, theories that describe relationships that encompass the synergistic and nonlinear sales environment are necessary. Typologies offer such an advantage.

The paper is outlined as follows: First, the relevant literature on coordination will be reviewed. Second, a description of typologies and a framework of strategy in general will be discussed. Third, a typology of coordination strategies will be proposed.

THEORY DEVELOPMENT

Coordination Activities

Salespeople have a myriad of activities to coordinate across multiple accounts and organizations. Activities include assessing account financials (including account penetration, share-of-wallet, and profitability), working with customers to reduce distribution costs, determining order and delivery status, establishing necessary upgrades, organizing and presenting information and resources on new or unused products and services to the customer, resolving account problems (including service, billing, and pricing), altering distribution needs for customers, acquiring information to increase

the customer value proposition, determining new customer needs, and making regular contact with decision-makers in the customer’s organization. The resources and competencies needed to manage a customer account are frequently spread throughout the salesperson’s organization and the customer’s organization, and/or nestled in pockets of the environment external to both firms. Further, coordination activities may be initiated for a wide-range of reasons. These reasons may include aims to solve customer problems, to take advantage of an organizational opportunity, or to counter an external threat. Thus, the complexity and diversity of activities engaged in to management customer accounts in the business-to-business environment make a typology of coordination strategies of even more value to gain a deeper understanding of account management and account performance.

Literature Review

Previous research on the concept of coordination has been focused on the organizational or departmental level (cf. Cespedes 1992; Hsieh, Chiu and Hsu 2008; Jap 1999; Olson, Walker and Ruekert 1995; Sivadas and Dwyer 2000; Van de Ven and Walker 1984). Unexplored are the specific types of coordination strategies used at the individual salesperson level. Previous literature, for example, has focused on the value and necessity of coordination for an organization. For example, Sivadas and Dwyer (2000) conceptualize coordination as a component of cooperative competency in interorganizational new product development relationships. They found coordination, as a part of the second-order factor cooperative competency, contributes to the success of new product development. Jap’s (1999) research on buyer-supplier relationships found the coordination efforts in collaborative exchanges enhanced profits and competitive advantage. In conditions where two firms provide modest investments to a project and have high uncertainty in the environment, Buvik and John (2000) found benefits to the firms from vertical coordination (or activities and information flow

organized purposefully in an interorganizational context).

In the sales management literature, Cespedes (1992) investigated normative and positive perceptions of organizational mechanisms (such as compensation and systems of governance) that encourage salespeople who call upon the same account to coordinate their activities. The exploratory research proposed that technologically complex products with shorter product life cycles and decentralized purchasing processes require greater coordination efforts. While identifying contextual factors that increase the need for coordination, isolation of coordination strategies was not explored.

Olson, Walker and Ruekert (1995) linked both formality and the participative nature of organizational coordination mechanisms to characteristics associated with new product development. One of the major findings of their research is the more experience a firm and customer has with the new product concept being developed, the more participatory the coordination mechanism. Further, the better the fit between experience and the coordination mechanism, the better the new product outcomes.

In a longitudinal study, Van de Ven and Walker (1984) examined the ad hoc coordination efforts between organizations. They found the most important stimulus of coordination activities between firms to be the perceived need for resources to accomplish organizational goals. Critical to the current study is their finding that the pattern of coordination differed across organizational activities depending upon the type of resources being coordinated. This suggests that there is not just one approach to coordination and gives credence to the existence of a collection of coordination strategies that may be relevant and effective in one condition, yet inappropriate and ineffective in other situations.

March and Simon's (1958) classic work suggests that there are two main approaches to

coordination: coordination by feedback and coordination by plan. Coordination by feedback involves linking activities in response to new information, constantly making adjustments to activities based on feedback. Coordination by plan follows pre-established schedules and routines. Hage, Aiken and Marrett (1971) suggest that both of these approaches are aimed at the same outcomes—integration of activities—they note, however, that the strategy of coordination is still unknown.

Yet, the literature on interorganizational coordination is clear—effective coordination enhances performance. Intra- and interorganizational processes are inherently grounded at the individual level, thus the individual is a natural referent point for analysis (Alter 1990). Further, given that “the strategic role of marketing arises as a result of the boundary-spanning nature of the function” (Varadarajan and Jayachandran 1999, p. 121), understanding the nature and diversity of coordination strategies employed by salespeople to integrate company resources and competencies to enhance customer account performance is central to developing a comprehensive theory of salesperson effectiveness.

TYPOLOGIES

Typologies as Theory-Building

Several typologies have been suggested in the sales management and marketing strategy literature, including a typology of avatars in e-shopping environment (McGoldrick, Kelling and Beatty 2008), a business socialization typology (Dorsch et al. 2001), a typology of marketing signals (Kirmani and Rao 2000), a marketing management support systems typology (Wierenga and Van Bruggen 1997), and a typology of interfirm governance (Heide 1994). However, given the common confusion in the social science literature on the difference between a typology and a classification system/taxonomy, it is useful to state clearly the definition and intention of a typology before moving further. A typology is a “conceptually

derived interrelated set of ideal types” representing unique combinations of attributes determining specific outcomes (Doty and Glick 1994, p. 232). This research identifies three ideal-type coordination strategies. Doty and Glick (1994) make clear that unlike a classification system, typologies do not provide decision rules for assigning organizational members to a mutually exclusive set of factors. Literature as early as Weber (1949) notes the use of ideal types, or typologies, in the creation of theory. The goal of this research is to produce a typology that guides the sales management literature in understanding the behavior of salespeople in coordinating internal and external activities that impact customer account performance.

Strategic Framework

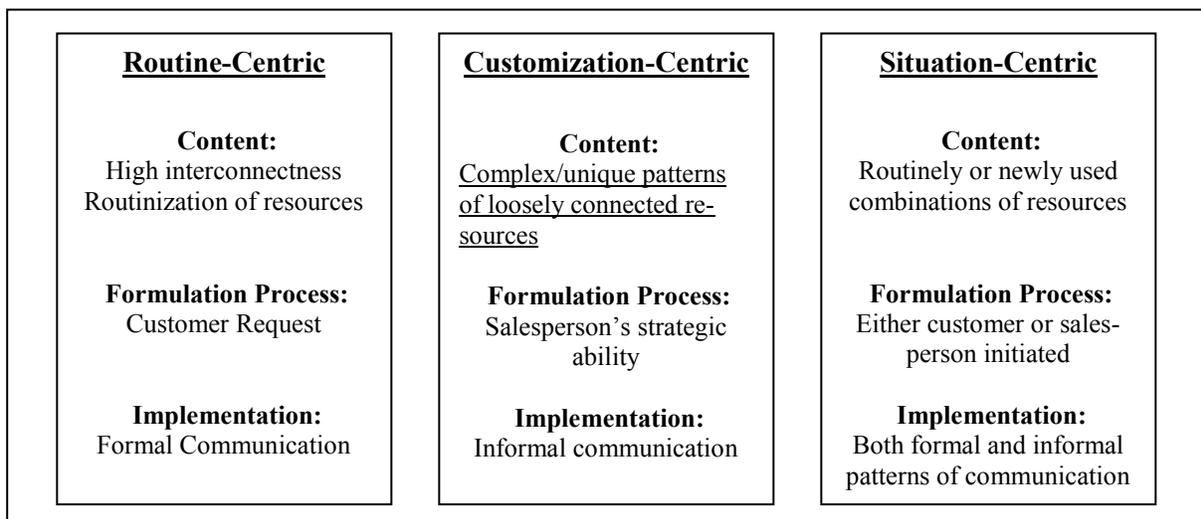
The focus of this research is on the creation of a typology of coordination strategies. A framework is needed to structure the explanation of each typology. The work of Varadarajan and Jayachandran (1999) is drawn upon. Specifically Varadarajan and Jayachandran (1999) suggest that regardless of the level of the strategy, three aspects of strategy exist: content, formulation process, and implementation. These characteristics of strategy are especially useful in the

development of a typology of coordination strategies where the literature is vague as to specific actions involved in coordination. Applying the aspects of strategy suggested by Varadarajan and Jayachandran (1999) to coordination strategies, *content* refers to what the relationships are among the resources and the pattern of resource application; *formulation process* refers to how the coordination strategy is arrived at and the collection of activities that the salesperson engages in that enable him/her to determine the strategic content; and *implementation* refers to the way the coordination strategy is carried out, the actions and activities the salesperson initiates internally and externally.

TYOLOGY OF COORDINATION STRATEGIES

Three typological coordination strategies of salespeople are proposed. Each is specified along the content, formulation process and implementation framework, and guided by relevant literature in sales management, organizational behavior, and organizational psychology. Each of the three strategies are explained in the following sections. Figure 1 summarizes the content, formulation process and implementation components of each strategy.

FIGURE 1
Summary Components of the Typology of Coordination Strategies



Routine-Centric Coordination Strategy

The first typology, labeled the *Routine-Centric* coordination strategy focuses on the use of strong interconnected and routinized resources. The content of the Routine-Centric strategy makes use of the existing routines and regular interactions of both the salesperson's organization and the customer's organization. This strategy emerges from the "coordination by plan" approach discussed by March and Simon (1958). By using previously established, highly interconnected resources within both firms, the salesperson can easily initiate the Routine-Centric strategy and decrease the time necessary to explain to members the desired outcome envisioned. This is accomplished simply because the employees (both internal and external) sought under the Routine-Centric strategy frequently work with one another on specified problems and tasks, and are members of a highly interconnected existing network who routinely perform together. This strategy frequently excludes new internal and external participants. The strategy's focus on using existing structures and relationships minimizes the cost of new interactions and increases efficiency. The disadvantage of this strategy is the salesperson's tendency to force problems and tasks to be coordinated by existing routines, even if the current routines are inappropriate or minimally effective. Madhavan and Grover (1998, p. 4) define routines as "the set of regular and predictable patterns of organizational behavior." They note that team members who have worked together before and have established routines are more effective and better combine each individual's tacit knowledge. However, they also caution of the disadvantages of routines. For example, as group members become more familiar with one another, performance can decrease due to miscoding of events and reduction in innovation.

The formulation process of the Routine-Centric strategy begins with a customer request. Salespeople employing the Routine-Centric strategy are highly informed by the customer and rely primarily on the customer's stated

needs to begin any integration of company resources. The advantage of this strategy is clearly its attention to customer needs. This is, however, quite distinct from a "customer orientation", defined as the "degree to which salespeople practice the marketing concept by trying to help their customers make purchase decisions that will satisfy customer needs" (Saxe and Weitz 1982, p. 344). Under a Routine-Centric coordination strategy, while the salesperson is aware of customer needs and organizational competencies, there is no intention to proactively seek to solve customer problems that cannot be solved with an existing organizational mechanism or routine. While the salesperson is not proactively attempting to solve customer problems (unless a current routine exists to solve an observed problem), the salesperson is highly informed of issues important to the customer.

The implementation process of the Routine-Centric strategy is highlighted by the reliance upon formal communication. The systematic routines within each firm drawn on by the salesperson will tend to have the bureaucratic or formal mode of communication as a requisite for action. The degree of formality of communication has been defined by Mohr, Fisher and Nevin (1996, p. 105) as the extent that contacts are "routinized, planned, or structured, as opposed to unplanned, fleeting, or ad hoc in nature." Formal means of communication can rely on written correspondence and group meetings; whereas, informal communication tends to be more spontaneous and personalized (Johlke and Duhan 2001).

Customization-Centric Coordination Strategy

Unlike the Routine-Centric strategy, the content of the *Customization-Centric* coordination strategy is marked by bringing together a complex pattern of unique resources for each customer engagement. The resources employed by the salesperson are highly situational-based. Often the resources are brought together for the first time and, therefore, may never be formed

together in the same way. This loose connection of new and inimitable resources is highly effective in tackling problems, but it can be time and energy consuming to bring together the resources to address a new concern each time. At the foundation of this strategy is the “coordination by feedback” approach suggested by March and Simon (1958). Salespeople using the Customization-Centric coordination strategy find the new combinations of teams and resources high in innovative ability. Thriving on the challenge of meeting specific demands of their organization and the customer’s organization, the salesperson following a Customization-Centric coordination strategy aims to bring together an ideal combination of resources tailored to the exact problem at hand and to the contextual factors present. However, new groupings of resources may be rich in ability to address problems in an innovative way, but negatively weighted in the degree of potential ambiguity and conflict involved in the process. However, some research suggests that the informal communication unrelated to the task of a group may increase conflict resolution, problem-solving, and task coordination (Van den Bulte and Moenaert 1998). Thus, the frequent, informal communication present with this strategy may mitigate the negative effects inherent in the constant grouping of new resources.

The formulation process of the Customization-Centric coordination strategy is guided by the salesperson’s strategic ability, encompassing the representative’s ability to discover opportunities for and determine threats to a customer’s business (Sengupta, Krapfel and Pusateri 2000). Strategic ability is obtained partly through asking the “right” questions, and frequent interaction with personnel in both firms (Sengupta, Krapfel and Pusateri 2000). Salespeople with strong strategic ability spend time meeting with members throughout both their own organization and the customer’s organization to collect intelligence on a range of issues that will guide the coordination strategy.

The implementation process of the Customization-Centric coordination strategy is one of informal, constant communication. The aim of the Customization-Centric strategy is to create highly synergistic solutions for the firm and customer guided by informal and frequent communication (Schultz and Evans 2002). In the communications literature, informal, spontaneous communication across functions has been found to enable collaborative work and problem-solving (Mangrum, Fairley and Wieder 2001).

Situation-Centric Coordination Strategy

The *Situation-Centric* coordination strategy is a hybrid of the previous two typologies. In explicating the hybrid, this research aims to address Doty and Glick’s (1994) criticisms of previous typologies in which a hybrid conceptually existed but was not described within the framework. For typologies to be useful, the set of ideal types should be included. Core to the Situation-Centric coordination strategy’s content is recognition of whether or not an existing pattern of resources may be successfully applied or “reused,” or if a new set of resources needs to be assembled.

In contrast, the Routine-Centric coordination strategy focuses on applying existing company processes and pre-existing groupings of resources to each situation. The belief of the Routine-Centric strategy is that pre-existing structures are appropriate and can replicate results in the next situation. The Customization-Centric coordination strategy, on the other hand, creates newly tailored solutions for each customer engagement with the underlying belief that each situation warrants a new arrangement of resources. In contrast to these two typologies, the Situation-Centric may at times make use of the exact same combination of resources brought together before, whether it is the same teams, the same product/services, the same problem-solving routine, etc. At other times, the Situation-Centric coordination strategy will lead the salesperson to see the need for an entirely new grouping of resources

that have not been used the same combination before.

The content of the Situation-Centric coordination strategy thus involves the salesperson's ability to know when a previous pattern of resources is best-suited or if newly organized resources are more appropriate. The skills of recognizing which set of resources or which approach is better is highly dependent on a salesperson's knowledge of what is happening outside his/her geography, as well as outside his/her specialization (whether product/service or industry specialty). For example, a very successful coordination strategy may have been executed with a banking customer on the east coast, and may be extremely relevant to a salesperson working with a regional bank in the Midwest. However, if the salesperson has no knowledge of other coordination strategies used across the company's geography, the salesperson's repertoire will not include those possibilities of which he/she has no knowledge. Additionally, this coordination strategy's content includes the salesperson's working memory of all previous customer engagements. Future customer engagements may benefit both from what worked well with a customer, as well as what was less successful. While salespeople may wish to mentally eliminate failures, there is a rich source of knowledge that can come from these experiences, especially so when the salesperson is deciding which approach to employ in coordinating firm resources.

The formulation process of the Situation-Centric coordination strategy may be initiated by a customer request or the salesperson's development of a proposal or action for the customer. The implementation of this hybrid can include combinations of formal, routine communication as well as highly irregular and informal communication.

Early research in business (Simon 1960) described management decisions as programmed or non-programmed. The former involves routine decisions made repeatedly over time, and the latter involves unique

decisions. The hybrid coordination strategy allows navigation from more routine decisions to those that require greater novelty of strategy. However, for salespeople in environments in which well-developed company procedures are in place, a Routine-Centric coordination strategy may be best fitting and offer optimal performance. When task uncertainty is high though, a more Customization-Centric coordination strategy may produce better results. In still other cases, the hybrid Situation-Centric coordination strategy may be more appropriate. The typologies offer an approach to begin developing a fuller understanding of how salespeople coordinate organizational resources for customers in the business-to-business environment.

SUMMARY

A typology of coordination strategies of the resources that salespeople in business markets orchestrate for customers has been suggested. Currently there is a dearth of research on individual-level coordination activities that are used to effectively manage customer accounts. This research attempts to address this gap and suggests a testable typology that can be extended to research in sales management. The three typologies use the framework for strategies suggested by Varadarajan and Jayachandran (1999) that includes the dimensions of content, formulation process and implementation process. This framework allows a description of what types of resources are brought together, what initiates the process, and how the coordination process is executed.

This typology represents a first step toward understanding how salespeople in business markets may approach the organizational need to create value for customers through coordinating organizational assets. Future research is needed to deepen our understanding of the process salespeople utilize to coordinate organizational talent and expertise, and how salespeople capitalize on a web of relationships to create exceptional solutions for customers.

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RETAIL SALES TRAINING: ACTIVITIES AND EFFECTS ON JOB SATISFACTION, ORGANIZATIONAL COMMITMENT, TURNOVER AND CUSTOMER-ORIENTATION

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Sales training expenditures and activities have long been important issues to sales managers, with some seeming to perceive training as an investment that can yield significant organizational returns and with others who contend that it is an expense that must be controlled. Thus, determining the proper training program and justifying training expenses are difficult managerial tasks. This research provides an empirical assessment of sales training by evaluating both the training program and its effectiveness. The findings indicate that sales training may have significant effects on important performance outcomes such as job satisfaction, organizational commitment, and customer-orientation. The results suggest implications that may be important for sales managers to consider as they develop their training programs and justify their training expenditures.

INTRODUCTION

Sales Training! Millions of dollars spent are each year by U.S. businesses, and now academics is entering into the picture increasing total spending in this area. But does this spending represent an investment in the future or is it merely an expense? That is a question that continues to be raised by businesses, trainers and academicians. In spite of the continual debate, it seems that most sales managers and their organizations believe that salespeople are not simply *born* into their sales roles (Bragg 1988; Kelley 1993). Evidence of the fact that organizations are devoted to sales training may be found in the investments companies make in sales training. In fact, training is big business in the U.S. In 2004, the average company spent \$820 per employee to train workers. The “best” companies were described as spending over \$2,000 per person training their workers (*Sales and Marketing Management* 2005). Of these training expenditures, research has concluded that sales

training represents the largest portion of total training expenditures in the U.S. (Barksdale, et al. 2003).

According to Harris (2001), sales representatives need “grooming” to succeed and this grooming is an investment that is made by the firm and the manager in the form of training and coaching. It seems that the general sentiment is that if one has “some level of talent,” then sales training can be instrumental in helping convert that talent into positive results (Brewer 1996). However, a contrary view pertaining to sales training seems to exist. Wilson, Strutton and Farris (2002), report that negative perceptions of sales training are held by many (salespeople and sales managers). This viewpoint holds that training is “an unnecessary panacea that only deepens the impact of failure experienced by new salespeople and may even negatively influence experienced salespeople (p. 77).” Some sales managers have even suggested that one learns selling by doing, not by training (Chang 2003). Nevertheless, while managers might hold reservations regarding the efficacy of sales training, it appears that the general sentiment is that training is essential (Kelley 1993). In fact,

research has indicated that most salespeople feel that training has a positive impact on sales performance (Chonko, Tanner and Weeks 1993). Nationwide, corporate returns from training expenditures have been estimated to be as much as 300 percent (Hentkoff 1993). Based on the examples discussed, it seems that the general consensus is that training affects sales performance. Nevertheless, as Johnson and Marshall (2006) state, the effect of training on performance can be mediated by numerous environmental factors.

While training is obviously an important issue for firms, issues concerning the content and effectiveness of training continue to be discussed. Honeycutt, Ford and Rao (1995) state that sales executives regard as their greatest research need the determination of the effectiveness of their sales training programs. Thus, the purpose of this research is to evaluate training at the “introductory level,” the level at which new salespeople begin receiving training. This evaluation is designed to focus on an assessment of the training practices of retail establishments with regard to their salespeople. In addition, the research will assess four important outcomes that may result from sales training: job satisfaction, organizational commitment, sales force turnover, and customer orientation. Previous studies have indicated that firms fail to engage in objective assessments of their training programs (Honeycutt, Ford and Stevenson 1995). Thus, the objective results provided by this research may be useful in facilitating the strategic role of sales training, because it has been suggested that evaluations of sales training effectiveness will assist firms in promoting their strategic visions (Attia, Honeycutt and Leach 2005). This suggestion indicates that the practice of sales training may be enhanced when upper management perceives that sales training is an investment yielding positive returns rather than an expense which is to be controlled and/or reduced.

RELATED RESEARCH

In terms of training content, it appears that the majority of sales training efforts focus on the “basics.” Wilson, Strutton and Farris (2002) suggest that salespeople should first learn the “fundamentals” of sales prior to learning product knowledge details. This suggestion is made based on the proposition that salespeople who are confident in their sales skills are more likely to employ product knowledge. Other research has found that the focal point of training should also be on the basics (Harris 2001; Kelley 1993). Research has indicated that the most important sales training topics for industrial sales representatives consisted of the presentation, product knowledge, negotiating, communications, closing, follow-up and time management (cf. Chonko, Tanner and Weeks 1993; Hawes, Rich and Widmier 2004; Parker, Pettijohn and Luke 1996).

Some research has expanded the “basic” topic list to suggest that a firm’s sales training programs should teach salespeople how to uncover, identify, and understand the customer’s needs and requirements (Garver and Mentzer 2000). In a study of failure, it was determined that salespeople fail primarily due to inadequacies that are described as being amenable to correction through training efforts. These inadequacies include the salesperson’s failure to determine needs, failure to listen, poor presentation planning, and inadequate levels of product/service knowledge (Ingram, Schwegker and Hutson 1992). Cron, et al. (2005) state that three separate sets of training topics may be included in training programs. The specific choice of topics is largely dependent on the goals of the program and on the salespersons’ needs and career stages. The three topic categories include: task-related knowledge, skills and attitudes (KSAs); growth-related KSAs; and meta-related KSAs. Beginning salespeople are most likely to focus on the task-related KSAs and experienced salespeople on the meta-related KSAs.

Determining the proper training program has been described as being a critical issue.

According to Barksdale, et al. (2003, p. 134), “. . . the training program provided for new hires must be effective and clearly linked to the tasks necessary to becoming a top performing salesperson.” Thus, based on this research, the initial research objectives focus on three questions: First, is training conducted? Second, if training is conducted, what is included in the training? Third, assuming selling skills are included in the training, what specific skills are included in the training? These questions are significant ones because research indicates a strong relationship between initial training and many desirable outcomes (Barksdale, et al. 2003; Jolson, Dubinsky and Anderson 1987).

Organizations which invest in sales training are seeking to determine whether these training investments are helping them attain their objectives. Accordingly, the effectiveness of sales training may be measured by its impact on sales person abilities, by the impact on trainees, and by its impact on the firm (Attia, Honeycutt and Leach 2005). With regard to the impact of training on the firm, it has been suggested that the benefits of training depend upon factors such as employee retention, training duration, and performance aspects (Honeycutt, et al. 2001). Based on this perspective, the next segment of the literature is designed to evaluate the relationships existing between training activities and salesperson job satisfaction, organizational commitment, salesperson turnover, and customer-orientation. Researchers have suggested that sales training activities require evaluation. Leach and Liu (2003), in a study of 445 life insurance salespeople, suggest that four methods exist to evaluate training programs: participants’ reactions; changes in attitudes, knowledge or skills; changes in behaviors; and changes in desirable outcomes. They suggest that while organizations are extremely desirous of training effectiveness assessments based on organizational outcomes, in reality this is the “least used” method of evaluation. As is the case in many instances, the least used method may be the “ideal” method of assessment. While the basic objective of training is to

improve performance (Wilson, Strutton and Farris 2002) other desirable outcomes can be derived from training. Most research identifies three primary outcomes that are sought from sales training programs, including increased levels of performance and organizational commitment, and reduced levels of turnover as three of the most desirable training outcomes (Leach and Liu 2003). According to Leach and Liu’s (2003) findings, as the salesperson’s ability to transfer his/her learning from the training to the workplace increased, so did the salesperson’s organizational commitment, sales effectiveness, and customer relations. Other research has argued that the socialization and training processes affect the new salesperson’s levels of job satisfaction, performance, and organizational commitment (Barksdale, et al. 2003). Additionally, research contends that training is imperative because, “Salespeople who leave a firm before the costs of their training are recovered negatively affect the firm’s profits. There are clear benefits to be gained from improving the procedures used to train and socialize new salespeople (Barksdale, et al. 2003, page 125).”

Based on this segment of the literature, the second research objective involves an evaluation of the relationships existing between sales training and four desirable training outcomes: job satisfaction, organizational commitment, lower levels of turnover intentions, and customer-orientation. Thus, these variables will be evaluated by comparing these “performance” outcomes with alternative training activities and levels.

In summary, the research questions to be addressed in this study include:

1. Is retail sales training conducted?
2. If retail training is conducted, what is included in the training?
3. Does training affect the salesperson’s levels of job satisfaction, organizational commitment, turnover intentions, and customer-orientation?
4. Are there differential training factors (content, amount, relative focus) that affect the salesperson’s levels of job satisfaction,

organizational commitment, turnover intentions, and customer-orientation?

METHODOLOGY

The first step in the process of accomplishing the research objectives required the development of a data collection instrument. The survey was developed using both prior studies as a guide and using the input of the participating managers. Since the primary objective of the research involved the assessment of sales training, sales training questions were divided into five sections. Section one asked the respondents if they had received introductory sales training. Introductory training was the focus of the research because of the importance ascribed to introductory training as a predictor of salesperson success. Research has indicated that introductory training may affect the salesperson's levels of job satisfaction, organizational commitment, performance, and turnover intentions (Barksdale, et al. 2003). Further, it may be argued that "experienced" salespeople benefit less from training (Attia, Honeycutt and Leach 2005). Assuming they had received introductory training, in section two respondents were then asked to indicate the type of introductory training provided and the proportion of time devoted to each of the types. The types of introductory training provided included: sales skills, customer satisfaction, product knowledge, customer knowledge, and company/industry knowledge.

Because sales skills were the focal point of the analysis, the third portion of the survey asked respondents to identify the specific sales skills included in the introductory training program. These skills included: approach tactics; questioning methods; prospecting; qualifying; need identification; presentation methods; demonstration techniques; dealing with objections; closing; negotiating; and follow-up activities. This portion of the survey was deemed important because no prior research reviewed had addressed issues relating to the relationships existing between training content

and organizational results, and between the amount of training and organizational results.

The second segment of the research was developed to determine the effect sales training had on the sales representatives' employers. Honeycutt, Howe and Ingram (1993) identified the goals of sales training programs. Based on this research, the present research is developed to assess the effect of sales training on two of these goals: customer relations and turnover, and its correlates. Thus, the first portion of this section involved the assessment of the respondents' levels of customer orientation. The salespersons' customer-orientation levels were evaluated because the salespersons' behaviors have been described as being critical determinants of the customers' satisfaction with retailers. Stanforth and Lennon's (1997, p. 115) statement exemplifies the important role of the salesperson in delivering customer satisfaction, "As retailers strive to develop customer-oriented environments, the delivery of quality and value to the customer through improved customer service has been identified as a potential competitive advantage."

The scale used in this evaluation is the short-form of the SOCO scale originally developed by Saxe and Weitz (1982). The SOCO scale has been found to be a valid and reliable measure of salesperson selling/customer-orientation levels (Michaels and Day 1985; Williams and Attaway 1996). Thomas, Soutar and Ryan (2001) developed a condensed and more parsimonious version of the original SOCO scale. Their scale was determined to be a valid and reliable measure of salesperson and selling/customer-orientation levels. The condensed scale used five items to assess customer-orientation and five items to assess selling-orientation. The validity of the condensed scale has been evaluated and the conclusion is that "reducing the SOCO scale sacrificed little information" (Periatt, LeMay and Chakrabarty 2004). Periatt, LeMay and Chakrabarty's (2004) research also concluded that prior research, in which a modified version of the SOCO was used, indicated that the modified version seemed to provide effective

use in spite of the changes. The current research uses a slightly revised version of the Thomas, Soutar and Ryan (2001) scale. The customer-orientation portion used the five items identified by Thomas, Soutar and Ryan (2001) and the selling-orientation portion of the scale was reduced from five to three items (2 items that seemed redundant were eliminated). Thus, the respondents' customer orientation levels were evaluated using the eight questions included on this scale and responses were provided using a seven-point Likert-type scale (7 = strongly agree and 1 = strongly disagree).

The third segment of the questionnaire was designed to measure the participants' levels of job satisfaction, organizational commitment and intent-to-leave the organization. Each of these variables has also been measured in prior studies. Respondent job satisfaction was assessed using nine items drawn from the fifteen item scale developed by Wood, Chonko and Hunt (1986). The scale size was reduced to increase the parsimony of the survey instrument and to reduce the duplicative nature of the questions. Organizational commitment was measured using a fifteen-item scale developed by Mowdy, Porter and Steers (1982). The respondents' intentions of leaving were used as a surrogate measure of turnover. This scale was a four-item scale developed by O'Reilly, Chapman and Caldwell (1991). Each of these scales used a seven-point Likert-type scale (7 = strongly agree and 1 = strongly disagree) to assess the degree of respondent agreement with a series of statements.

The final portion of the survey involved the identification of the salesperson's demographic characteristics. Demographic factors included age, gender, education, type of sales job and experience in their current jobs. The questions contained in the survey instrument were pre-tested by using a small sample of retail salespeople as respondents to determine the appropriateness of each question and the clarity of the questions. After considering the input provided by these individuals, the final survey form was developed.

The next step in the research required the development of a sample. One could argue that certain sales training subjects might be more or less important in different types of sales roles. Based on this proposition, sample homogeneity was identified as being a desirable trait. Therefore, the sample was specified to be one made up of retail salespeople engaged in the sale of "shopping goods." Retail salespeople are described as being an important component of the retailer's promotional mix, comprising one-third of the retailer's operating expenses, providing the retailer with a differential advantage, and creating an image of the customer's perception of the retailer. Further, it has been stated that when "good selling practices are implemented," customer satisfaction, sales and profits increase (Chonko, Caballero and Lumpkin 1990).

Fifteen businesses engaged in the sale of shopping goods (Pride and Ferrell 2006) were identified and personally contacted by one of the primary researchers. Each of these businesses sold products primarily to end users. Products sold by these firms included higher-end clothing and jewelry, electronics, appliances and fitness equipment. Nine of these businesses agreed to participate and made each of their salespeople available as potential respondents. Each of the participating firms employed between 15 and 30 different salespeople for a total of 210 salespeople and provided access to these individuals via a drop-off method of questionnaire distribution. The drop-off method involved having the researchers provide the participating businesses with an adequate number of surveys to distribute to their sales forces. The survey packets included instructions for completing the survey and a return envelope addressed to one of the researchers' institutions. The return envelope was used to ensure that responses were both voluntary and anonymous. It was felt that while this return technique might reduce response rates, the method would result in more accurate responses than would requesting employers to require responses and then collecting responses from their employees. A total of 148 responses were returned, of

these, 141 were deemed to provide usable responses, for a response rate of 67 percent. The potential for nonresponse bias was assessed by comparing the results obtained from the first 20 percent of the respondents with the results obtained from the final 20 percent of the respondents (Armstrong and Overton 1977). This comparison indicated that no significant differences existed in the responses obtained from the two groups, so nonresponse bias was not regarded as a significant factor.

The respondents' demographic characteristics revealed that approximately 52 percent of the respondents were older than 36 years of age. In addition, the majority of the respondents were male, with high school diplomas and had been employed with their firms for at least one year. The scales, scale means, and coefficient alphas are shown in Table 1 (Cronbach 1960). The scales have been used in previous research and have been found to be valid and reliable measures of job satisfaction, organizational commitment, intent-to-leave the organization and customer orientation. As shown in Table 1, the coefficient alpha values for these scales ranged from .72 to .87; each of the scales exceeds the .70 alpha value recommended by Nunnally (1978).

RESULTS

As stated earlier, one of the primary purposes of this research is to discuss retail sales training practices. In addition to this objective, the research is also designed to assess relationships in training practices that may exist between sales training activities and desirable outcomes,

including job satisfaction, organizational commitment, turnover intentions, and customer orientation. The results shown in Table 2 address the broad objective pertaining to the "general state-of-affairs" with regard to sales training. This table indicates that approximately 61 percent of the respondents received introductory sales training. Thus, it should be noted that 39 percent of the respondents were not provided with introductory sales training. The mean number of hours of introductory training was 29.5.

The table also shows that with regard to the inclusion of training subjects (those not receiving sales training were eliminated from this segment of the research), the majority of new salespeople received training in the area of *sales skills*. In order of popularity, the second and third most popular training topics were *customer satisfaction* and *product knowledge*. The least popular topics, in terms of their inclusion in introductory retail sales training programs were, *company/industry knowledge* (76 percent) and *customer knowledge* (83 percent).

The next stage of the analysis was focused on an evaluation of the relationship between the inclusion of training and the number of hours devoted to training and four important outcome variables: job satisfaction, organizational commitment, intent-to-leave the organization and customer-orientation levels. To facilitate the analysis, those receiving training were divided into three approximately equal groups based on the number of hours of introductory training received. Those receiving less than 16

TABLE 1
Scale Means and Alpha Coefficients

Scale	Mean (sd)	Alpha Coefficient
Organizational Commitment	76.2 (11.9)	.79
Job Satisfaction	48.2 (9.8)	.87
Intent-to-leave	12.5 (6.1)	.74
Customer Orientation	44.5 (6.3)	.72

TABLE 2
Training Provided and Type of Training Provided

Topic:	Included % (n)	Not % (n)
Introductory Training	61 (88)	39 (57)
*Sales Skills	95 (83)	5 (4)
*Customer Satisfaction	92 (79)	8 (7)
*Product Knowledge	91 (80)	9 (8)
*Customer Knowledge	83 (72)	17 (15)
*Company/ Industry Knowledge	76 (67)	24 (21)

Mean (sd) hours of introductory training: 29.5 (21.7)

hours were placed in the group identified as *low* training; those receiving between 16 and 35 hours of introductory training were placed in group identified as *moderate* training; and those receiving more than 35 hours were placed in group identified as *high* training. Table 3 provides the results of t-tests (training included versus not included) and analysis of variance (low, moderate, and high amounts of sales training) examining the relationships between the training variables and salesperson job satisfaction, organizational commitment, intent-to-leave, and customer orientation. As indicated in Table 3, no significant ($p < .05$) relationships were found between the inclusion or exclusion of introductory sales training and the outcome variables identified.

When the amount of training provided was evaluated using an analysis of variance, a relationship was discovered between the amount of training given and the job satisfaction levels of the trainees. As shown in the table, levels of job satisfaction increased as the amounts of training increased. Further, differences were significant in the levels of job satisfaction of those receiving the “most” training and those receiving the “least” training, indicating that a threshold level may exist between the amount of training and the impact on salesperson job satisfaction levels.

Table 4 provides the results pertaining to the amount of emphasis on “general training topics.” As indicated in the table, the amount of time devoted to a particular training subject was generally related to its popularity in terms of inclusion in training programs. The most popular topic, *sales skills*, was also the topic most emphasized in the majority of sales training programs. However, the second most emphasized topic, *product knowledge*, was only the fourth most popular topic for inclusion in training programs. However, with this single aberration, the other topics were generally emphasized in a manner that closely approximated their relative rankings in training program inclusion.

Table 4 also shows the relationships existing between the relative amounts of emphasis on a general training topic and the outcome variables analyzed using univariate regression analysis. As shown in the table, as the percent of training time devoted to sales skills was increased, these increases were accompanied by significant increases in salesperson organizational commitment and customer orientation, and a desirable decrease in salesperson turnover intentions. In addition, as training increased in the area of “company/industry” knowledge, organizational commitment also increased. The findings also indicate that increases in training programs’ emphases on “customer knowledge”

TABLE 3
Relationships Between Training, Customer Orientation, Job Satisfaction,
Organizational Commitment and Turnover Intentions

Inclusion of Sales Training:

Training Amounts:

Characteristic	Training Included	Training not Included	Low Levels	Moderate Levels	High Levels
Customer Orientation	44.2	45.0	43.6	43.0	45.9
Job Satisfaction	48.1	48.2	45.7 _x	46.9 _{yx}	52.0 _{yC}
Organizational Commitment	77.3	74.6	79.7	77.5	81.4
Turnover Intentions	12.4	12.6	12.8	13.1	10.7

x/y = means with different letters are significantly different @ p < .05

C = equation significant @ p < .05

TABLE 4
Relation Between Proportions of Training Allocations and Outcome Variables

Training Topic	Percent of Time Devoted	Job Satisfaction	Organizational Commitment	Turnover Intentions	Customer Orientation
		F (p)	F (p)	F (p)	F (p)
Sales Skills	27.3	.4 (.46)	4.0 (.05) _c	4.6 (.04) _c	5.9 (.02) _c
Product Knowledge	23.0	1.9 (.17)	.1 (.78)	.1 (.74)	.0 (.96)
Customer Satisfaction	20.7	.7 (.42)	.3 (.58)	.1 (.79)	.8 (.38)
Company/ Industry Knowledge	16.8	1.1 (.29)	3.2 (.08) _d	.2 (.64)	.9 (.36)
Customer Knowledge	16.3	.2 (.65)	1.8 (.18)	7.1 (.01) _a	5.7 (.02) _c

a: p < .001

c: p < .05

b: p < .01

d: p < .10

were accompanied by significant reductions in turnover intentions and by significant increases in customer orientation levels.

DISCUSSION AND MANAGERIAL IMPLICATIONS

The primary purposes of this study were first to determine the sales training activities of retailers, second to evaluate the topics that were considered most important by retailers and third to identify the relationships that exist between

training activities and desirable outcomes such as job satisfaction, organizational commitment, lower turnover, and customer orientation. The results of this study may be valuable to researchers and practitioners as they engage in the process of assessing the effectiveness of sales training and as they begin to develop methods that can be used to enhance the effectiveness of sales training.

The first discovery, that only 61 percent of the respondents received introductory sales training

is somewhat discouraging. It would suggest that retailers are failing to appreciate the importance of the salesperson's role in influencing both sales volume and customer satisfaction. One could argue that retailers should begin engaging in more training for their primary customer-contact personnel. However, a more negative implication might also be suggested. This suggestion may be based on the concept that perhaps selling, at the retail level, is being "de-emphasized." Perhaps retailers are conceding that good salespeople are difficult to train and hire, so they are becoming more self-service in their promotional orientations. While such an implication might be difficult to accept, it could be argued that it deserves consideration when the sellers of shopping goods fail to provide their salespeople with basic introductory sales training. On the other hand, the majority of retailers continue to recognize that sales training is important and offer their salespeople introductory training. Of those retailers offering introductory training, the majority focus on the "traditional" training topics. This result supports Wilson, Strutton and Farris' (2002) conclusion that in order for the trainee to absorb product knowledge, the trainee needs to first be comfortable with their sales skills. Thus, new salespeople should receive training in sales skills, customer satisfaction, and product knowledge. The focus on developing customer satisfaction is also encouraging, especially when one considers the importance of the salesperson in building customer satisfaction.

The findings also indicate that providing introductory training may not be adequate. Instead, the findings show that some minimum threshold level of sales training may exist which must be reached before sales training can have a significant impact on desirable outcome variables. This conclusion is based on the fact that the results show that the mere inclusion of training has little effect on job satisfaction, organizational commitment, turnover-intentions, or customer-orientation. However, as training amounts increase, the results show that job satisfaction increases.

The findings also show that the proportion of training efforts allocated to particular training topics also relates to desirable outcomes. This finding implies that managers providing training might be well-advised to focus on areas providing the greatest yield for the training time invested. The results show that sales managers might concentrate their efforts on sales skills, as a focus on these skills tends to build organizational commitment and customer orientation and tends to reduce turnover intentions. Similarly, an emphasis on company/industry knowledge leads to increases in organizational commitment. Finally, emphasizing knowledge pertaining to customers tends to reduce turnover intentions and leads to increases in customer-orientation. Therefore, managers should consider the relative impact various training subjects have on desired outcomes.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

This study has limitations that should be noted and these limitations point to suggestions for further research. First, as noted previously, the sample consists of retail salespeople. The retail salesperson's role in the sales process may vary in terms of its relative importance. Thus, specific factors may be more or less important in alternative situations. The same could hold true for various other sales roles. One of the advantages of using retail salespeople as the sampling frame entails the fact that many of their job-related tasks might be more similar across alternative jobs than would be the case in different aspects of business-to-business sales. Nevertheless, the sample may not be representative of other groups of salespeople and this limitation should be noted.

Second, the study did not determine the amount of time devoted to training in the specific sales skills areas. Knowledge of the time allocations might have provided considerable insight into the alternative importance of specific skill areas. While the study did evaluate the total time allocations to "general" training subjects, an analysis of the specific sales skills was

outside the purview of this study. In addition, the study did not analyze the impact of on-going training that might effect the outcomes as well.

These limitations suggest that future research should consider additional salesperson categories. Results might be different if the focus were on inside sales representatives or on business-to-business field salespeople. Further research might evaluate the allocations of time given to specific sales skills. This might provide more concise and direct leadership to managers attempting to determine their allocations of their training resources. Finally, it may be suggested that future research examine the effect of ongoing training programs. Such an effort might help delineate the "ideal" timing for specific types and topics of training.

Regardless of the directions of future research, this study indicates that training might provide important and significant outcomes for the organization providing the training. The findings indicate that managers may discover significant gains in important outcomes by providing sales training. In conclusion, the findings in this study indicate that sales training may enhance job satisfaction, organizational commitment, and customer-orientation levels while simultaneously reducing turnover intentions. However, this conclusion is based on two important caveats: "assuming the training is focused in the *right amounts* with the *right emphasis*." These caveats indicate a significant need for further research of this critical sales issue.

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ON THIN ICE? LABOR/MANAGEMENT RELATIONS IN U.S. PROFESSIONAL SPORTS

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Professional sports are described as the “toy-box” of life – fun, entertaining, and what we turn to for an escape from everyday stress. Sports are also becoming increasingly referred to as nothing more than “big business” – high paid performers and owners who couldn’t care less about what team, what city, or what fans they play for, as long as they make the big bucks. The latter view is exacerbated by the rancor of events that cause fans to turn away from their teams. The Major League Baseball players’ strike of 1994 and the 2004 lockout of players by owners in the National Hockey League are prime examples of such events. Currently, labor strife is simmering just under the surface of the National Football League, where owners have voted to end the existing collective bargaining agreement two years early. This paper examines the state of labor relations from the management, marketing, and ethics literature and offers a prescriptive model as it can pertain to sports. The authors present a method for building a climate of mutual trust in order to improve the seemingly intransigent chasm between players’ unions and ownership.

INTRODUCTION

Authority relationships, ethics and trust are all important concepts in the discussion of labor relations in the United States. Because we are no longer living in an Industrial Revolution and the government has made advances in the protection of America’s workers, some feel that there is no longer a need for the labor unions of the past. They believe that unions have nothing left to fight for because the government has regulated it all and protects nearly all workers, whether they are union members or not. Others feel that with corporate downsizing, the increased hiring of contingency (part-time) workers, and U.S. jobs being shipped to other countries, the need for unionized labor has not diminished at all. The argument from both sides of the labor – management issue is that the other side doesn’t listen, doesn’t play fair, and cannot be trusted.

Organizations have always had authority relationships between workers and its management. The authority relationships between labor (whether unionized or not) and

management have been tenuous at best and dangerous at worst. Because of their lack of trust for each other, negotiations have generally been tough, hard-nosed, and hard-fought. Some of the bargaining tactics on both sides have been questioned as unethical, immoral, and sometimes illegal.

This paper sets out to identify ways in which labor relations might be improved through the understanding of ethics and trust from both the marketing and management literature. First we offer a discussion of authority relationships and suggestions for how managers can improve their authority relationships, especially in times of change. The second section will then outline a brief history of labor relations in the United States, the current state of unions, and the uncertain future that labor and management must face together. The concepts of ethics and trust will then be introduced, along with how these concepts fit into today’s labor relations. Next, a review of a strategic marketing framework designed to help tame the labor-management frontier. Finally, a discussion of how these concepts impact the current state of labor relations in the professional sports industry in the United States.

AUTHORITY RELATIONS

From the first employer/employee relationship, there has always been a need to establish authority, power, and control. The employer has asserted authority over employees as a way to demonstrate power and control, to keep employees working hard, and ultimately to improve profits. This establishment of authority relationships within organizations created a struggle between employer and employee, between boss and worker. Everyone within an organization is (or should be) aware of their authority relationships; they know to whom they answer and over whom they have power. Authority relationships can be exploitative, dominating, cooperative, and beneficial. The concept of authority relationships has evolved over time, and researchers and practitioners alike are embracing the idea that most authority relationships can be improved.

Unfortunately, most managers who are trying to change their approaches to authority relationships don't consider that the employees also have to make a change. It seems that managers "tend to concentrate on new leadership behaviors (a downward view) and rarely question how people on the receiving end must change their approaches to authority relationships (an upward view)" (Boccialetti 1996, p. 35). According to Boccialetti (1996), people don't generally receive changes to their relationships with people in authority well. A relatively new change for authority relationships has been the introduction of the concept of empowerment of employees. Empowerment is a strategy that organizations use to make their employees feel more control over their work, more like a valued part of the organization. It is thought that this control and feeling of self-worth will increase employees' commitment to the organization, improve their performance, and ultimately, make the organization more effective and efficient. However, Boccialetti (1996) points out, "in fact, many people have declined to embrace the much-ballyhooed concept of empowerment.... We seem to have assumed that people know

how to adapt – unaided – to shifts in leadership. In reality changing people's attitudes and behaviors can be difficult and confusing" (p. 36).

What can be even more difficult and confusing for employees is that often managers are espousing empowerment, innovation and change, but rewarding agreement and conformity (Boccialetti 1996). There are ways for managers to effect these changes and improve their authority relationships. Two important steps are: (1.) Managers must "present reasons for the change and address them directly in training and change efforts. Employees need to understand the changes expected of them in their relationships with people in authority" (p. 38). By giving the employees the courtesy of explaining why the change is taking place, and helping them train for the changes, they will be less likely to object and resist the change. Also, they will be more likely to see the benefits to themselves and the organization. They will feel valued by their managers and by the organization, and will be more willing to share in the implementation of the change. (2.) "Start by conducting a management self-assessment. Managers can be blind to their own behavior and how it's perceived. Other assessments from higher-level managers and peers can help address a manager's biases about him- or herself" (p. 38). If a manager does not take any time for critical self-examination, he or she will never improve.

These suggestions, along with ideas like employee empowerment, will not eliminate or weaken authority relationships in organizations, even in organizations in change-based cultures. "In such cultures, changes will lessen authority and hierarchy but not do away with them completely.... Organizations, especially large ones, will continue to need a context of authority in which to coordinate efforts, process information, and deal with employees who have different abilities, expertise, and interests" (Boccialetti 1996, p. 40).

LABOR RELATIONS IN THE UNITED STATES

In Gregory Clark's (1984) article, "Authority and Efficiency: The Labor Market and the Managerial Revolution of the Late Nineteenth Century," he begins with the following question: "Why are authority relationships between management and workers almost universal within modern firms, given the prevalence of exchange relationships in the rest of the economy" (Clark 1984 p. 1069)? He poses the question because modern firms have always designated management to have power and authority over workers, but in the rest of the economy, firms do business using exchange relationships. Those interactions tend to be more mutually beneficial and more balanced, whereas the authority relationships tend to be dominated by one party (usually management) and the power is definitely not balanced. "The managerial revolution resulted in the concentration of production decisions in the hands of management" (Clark 1984 p. 1069). Among economists and historians, there is a disagreement about whether concentrating power in the hands of management was necessary to increase production efficiency. What is interesting about this dispute is that radical and conventional accounts do not differ greatly on the facts. They simply disagree about whether that method benefits society as a whole. Before the managerial revolution of the late 19th century, work was not solely organized through authority. Workers negotiated with each company based on how much they would get paid, how much work would be produced, how long it would take, etc. The radical view is that the motive behind the concentration of production decision-making was to take away the workers' control, and that productivity increased mostly because the workers were forced to work more intensely. The conventional view "is that centralized techniques were more efficient, permitting the maximum joint return to workers and the firm" (Clark 1984, p. 1070).

Conventional economists do not argue that these reorganizations were aimed at reducing

the workers' power – they just find it unexceptional. Research has shown "that in industries where the American Federation of Labor was strong in the 1870s there were vigorous, and by 1900 successful, attempts to undercut union power by introducing machines requiring less skilled workers" (Clark 1984, p. 1071). Some organizations introduced new machinery in order to break the union, and after that was accomplished, re-hired the skilled workers at a much lower wage for most of the production. Conventional economists feel that this simply illustrates organizations trying to be efficient and profitable. Radicals would argue, "the reorganizations of production to eliminate control by skilled workers were profitable but not efficient. The gains in profit by the firm were less than the loss to the workers" (Clark 1984, p. 1071).

Ignoring the arguments of radical and conventional economists, what Clark presents is a picture of extreme acrimony. It has developed because of mistrust between these social groups (management and labor) that must interact. "The mistrust played an important role in shaping the new techniques adopted in the course of the managerial revolution" (Clark 1984, p. 1082). Neither side trusts the other, and clearly, never has. Labor has always seen management as an ogre snatching away their power and control; and management has always seen labor as an unruly, self-centered mob. Clark's (1984) review of labor at the time of the managerial revolution demonstrates that the bitterness of labor relations in the United States seems to have been present since the two sides began interacting. Regardless of the motives behind the centralization of production in America, it is clear that labor and management have to work together to produce much of the nation's output, and that despite their general mistrust of each other, they have to operate on some common ground in order to continue this very fragile relationship.

Part of President Franklin Roosevelt's New Deal legislation included the 1935 National Labor Relations Act (sometimes referred to as the Wagner Act). This piece of legislation was

designed to protect workers' rights to unionization. Because organizations had been able to break unions and punish those who belonged to unions in the past, this act was passed to help create a balance between organizations and workers. The National Labor Relations Act created the National Labor Relations Board (NLRB), which still to this day enforces the legislation. The NLRB conducts secret-ballot elections for employees to determine whether or not they want union representation and investigates unfair labor practices by employers and unions. According to the NLRB website:

The statute guarantees the right of employees to organize and to bargain collectively with their employers or to refrain from all such activity. Generally applying to all employers involved in interstate commerce--other than airlines, railroads, agriculture, and government--the Act implements the national labor policy of assuring free choice and encouraging collective bargaining as a means of maintaining industrial peace. Through the years, Congress has amended the Act and the Board and courts have developed a body of law drawn from the statute. (<http://www.nlr.gov/nlr/p/press/facts.asp>, 2004, para. 1)

The National Labor Relations Act established the rights of unions to strike and to negotiate with management. It specifies that management is compelled to bargain "in good faith" with its workers, meaning they cannot just turn down every offer proposed. It also defines what unfair labor practices are (including firing workers who attempt to unionize).

This legislation was created with the hopes that American organizations would be competitive, successful and profitable, and that American workers would be protected from physical harm and exploitation, and fairly compensated for their time and energy. However, the recent news is not so rosy for the American worker, the American organization, and ultimately the American economy. Nearly every sector of the

U.S. economy is struggling, from retail to high-tech to manufacturing, "we seem to be hemorrhaging blue collar and managerial jobs" (Higgins 1996, p. 475). Almost everyday, the news reports layoffs, corporate downsizing or company closings and the reasons are varied, among them: the struggling economy, fears of terrorism, the stock market decline, and the opportunity to send jobs to other countries to hire workers who will take far less money for their work.

While the economy struggles and the nation deals with a war and fears of terrorism, labor is growing increasingly weak. "Even though every country has its own particular political and economic issues that affect unionism, a weak economy can be hard on organized labor because members lose their jobs and companies demand concessions to keep the remaining ones. Potential new members may refrain from activity for fear of getting fired" (Tejada 2002, p. A.2). Labor leaders seem unsure as to how to handle an aggressive campaign without looking like they are trying to wage ugly union battles at home, while Americans try to fight a war against terrorism, and a war in the Middle East. Given the recent corporate financial scandals involving AIG, Merrill Lynch and others, it seems that unions would use evidence of greedy management to mobilize workers. However, that does not seem to be happening. "Unions have gone from representing entire industries to small bargaining units, such as individual companies and work places. That makes concerted action more difficult" (Tejada 2002, p. A.2). They have been unable or unwilling to leverage these corporate abuses to their advantage.

Increasingly, American companies are eliminating full time (often union) jobs and replacing them with part-time (contingency) workers. These workers generally receive lower pay and no benefits. "In 1992, while the U.S. economy was generally stagnant, temp jobs grew 17 percent" (Higgins 1996, p. 476). This trend continues today. The use of contingency workers appears to be only a short-run cost-cutting solution. The companies will

ultimately face higher costs in initial training, employee theft, and absenteeism, as well a lack of employee loyalty, which will inhibit productivity and quality. Corporations argue that these hiring practices allow them to be more flexible, profitable, competitive, and adaptable because they do not have “to deal with the cumbersome restraints of union work rules and collective bargaining” (p. 476). However, many scholars argue that the low wage/high turnover hiring philosophy is not socially ethical; it will create a “permanently entrenched core of poor people with little or no savings, retirement benefits or medical insurance” (p.476).

At the same time as temporary jobs are increasing, or perhaps because of it, another trend is emerging – decline in union membership. Tejada (2002) notes,

Union membership has declined over the past two decades to 13.5 percent from more than 20 percent of the work force. Union density is far greater in other countries, including Germany, Britain and the Netherlands. According to the International Labour Organization, in 1995, union members constituted 28.9 percent of workers in Germany, 32.9 percent in Britain, and 25.6 percent in the Netherlands. That year, U.S. union membership was 14.9 percent of the work force. (p. A.2)

In the 1950s union membership was about 35 percent of the private labor force, but “the tremendous loss of manufacturing jobs, the traditional union stronghold, has not been viewed as alarming, because of the rapid increase in service-related jobs” (Higgins 1996, p. 476). This decline in membership does not indicate that members are deserting, but rather union-held jobs are being relentlessly eliminated. “Around half of America’s union members live in only six states: Michigan, Illinois, Ohio, California, New York and Pennsylvania. But even in Michigan, the unions seem in retreat. The UAW has lost almost 1m manufacturing jobs in the past two decades” (Economist 2004, p. 28). “Of the

more than 15,000 first-time claims for jobless benefits in Ohio last month, more than half came from manufacturing workers, according to preliminary data from the U.S. Bureau of Labor Statistics” (Niquette 2004, p. 1E). Those with highly technical, industry-specific skills who previously were well employed are now scrambling to find odd job, part-time, and/or janitorial work just to provide for themselves and their families.

Critics of organized labor attribute the decreasing membership to a lack of confidence by the American worker in unions (Higgins 2000, p. 10). In this view, workers no longer feel that unions can do anything to protect them and that they are in existence only to support self-serving union leaders. Another critical approach to the decline in labor is “that unions are no longer needed, thanks to the beneficent workings of the free market, and that their demise is a blessing to the nation and to workers” (Higgins 1997 p. 21). Higgins (2000) responds to these criticisms by arguing that “even if all workers enjoyed decent wages and working conditions (and millions, of course, do not) there would still be a need for unions to empower workers to participate more effectively in the conduct of their own industries and in the overall conduct of our economy” (p. 10). Bennett and Taylor (2001) examine the idea that union membership has been declining because government statutes have replaced many union roles. “Over the past 150 years, unions have used their political clout to advocate legislation and establish regulatory agencies that supercede entirely or greatly circumscribe the scope of collective bargaining on many issues of significance to employees” (Bennett and Taylor 2001, p. 262). Workers have less incentive to join unions because worker laws already protect them.

Bennett and Taylor (2001) point out that unions’ major goals (secure a safe work environment, shorter working hours, higher wages, access to health care, compensation for job loss caused by injury, and provisions for retirement) were initially achieved solely for union workers. As time passed, legislation has

given all American workers access to these achievements. This concept that “government legislation and regulations diminish the role of collective bargaining between employers and employees” (Bennett and Taylor 2001, p. 269) is known as the substitution hypothesis. Bennett and Taylor (2001) argue that the substitution hypothesis “has contributed to the steady decline in union density in the private sector” (p. 269). These authors look at what this hypothesis means for two public policy issues – health care reform and the future of social security. One of the biggest benefits of being a union member is that unions provide exceptional health care plans for their workers. If universal health care becomes a reality for Americans, then unions lose their advantage in that regard. “To the extent that health care coverage is an important issue in workers’ decisions to join unions, the substitution hypothesis suggests that movement towards universal coverage legislation will negatively affect unionization” (Bennett and Taylor 2001, p. 270). With respect to the future of social security, “to the extent that the substitution hypothesis suggests that the retirement benefits provided by the Social Security system reduce the expected benefits of joining a union, the prospect of the system’s failure may convince more workers to join unions” (Bennett and Taylor 2001, p. 270).

Organized labor faces a number of challenges in the future. They continue to face declining membership due to major job losses. They also face losses due to the actions the government has taken to protect American workers. They confront the challenge of re-connecting with the politicians and the public at large to gain support and backing. If state and federal government programs become more expansive, unions will likely face a diminishing role. However, if these programs fail (i.e., social security, universal health care) or are removed, then unions will take on a larger role for American workers. Together with management, labor must face the pressures of a faltering economy and the changes that occur because of it. Despite the problems that both sides have had, their futures are ultimately

intertwined. If both sides continue to act with hostility toward each other and toward negotiations with one another, the United States may lose its global competitiveness. “The spectre of falling short, of being a mediocre player in the new world order of things, should serve as a clarion call for all the players in the U.S. workplace to strive for new ways to approach one another” (Higgins 1996, p. 478). The leaders on both sides need to take a close, hard look at ways to improve their relations. Innovative corporate executives and labor leaders need to find a way to break down the barriers that have divided them for so long and join together to improve their relationships and ultimately improve their success in the global marketplace.

ETHICAL CONSIDERATIONS AND TRUST

“The ethical imperative of labor-management conciliation is simple. Labor unions represent the voice of the blue collar middle class. If we allow that voice to fade, we will be left with the discordant cacophony of individuals struggling to survive” (Higgins 1996, p. 478). Scholars and practitioners alike recognize that unions tend to act as checks and balances for a capitalist society. They require organizations to maintain wages and be fair and honest in their dealings with their workers. Like employee participation and empowerment programs are designed to do, unions give workers a voice, unions allow them to participate in the process, unions allow them to give feedback on changes and organizational systems, all without fear of retribution or repercussions. Because labor and management have to deal with each other through stressful negotiations, neither side trusts the other, and there are questions as to whether both sides bargain ethically.

Trust and ethics seem to be interrelated, especially when discussing negotiating. It is unclear “what is ethical in bargaining, particularly where deception and bluffing are concerned” (Provis 2000, p. 145). Some academicians think that deceptive bargaining is ethical and appropriate because exploitation is

possible and must be avoided somehow. Others feel that there are other ways to protect oneself against exploitation. Oftentimes it can be difficult to determine deceptive intent, the “appearance bluffing can be explained as exchange of concessions where claims were genuine but parties make sacrifices in order to reach agreement” (Provis 2000, p. 145). Most people would assume that “other things being equal it is wrong to deceive others or conceal information from them if doing so is likely to affect their actions and harm their interests” (Provis 2000, p. 146), but when negotiations occur, somehow the same ethical standards do not seem to apply. Provis (2000) argues, “we are subject to the same ethical constraints in negotiation as we are in other social interaction” (p. 146).

This is particularly important in labor negotiations because “the interests and concerns people have in labor negotiations tend to be deep and far-reaching” (Provis 2000, p. 146). When two sides are bargaining, ethical behavior is generally seen as commitment to principles, rather than self-interest. If both sides see ethical behavior from the other, rather than self-interest, they will develop some trust in each other. Trust appears to be the biggest factor when two parties are bargaining for mutual gains – they trust that the other party is not trying to exploit them. “The renewed emphasis on the role of trust in good labor relations therefore implies a need to reflect on ethical behavior in labor relations: other things being equal, ethical behavior will promote trust and unethical behavior will inhibit it” (Provis 2000, p. 147).

Provis (2000) discusses “well-documented strategies that we can use to guard against deception by others without leaving ourselves too wide open” (p. 154). These strategies generally revolve around indirect communication. Communicating that one side is open to fractional concessions shows their willingness to cooperate without giving away too much, and generally gives rise to a process of reciprocity, by which the other side begins to make small concessions as well. Negotiators

can also use “hints, non-verbal communication and other ‘back-channel’ communication.... Indirect communication allows each party to make offers or put suggestions which are ambiguous and therefore disavowable if the other does not respond, but which allow increasingly clear communication if both parties wish that to occur” (p. 155). As mentioned previously, trust is a very important component to negotiating, but it is one that seems to be lacking in most of the labor-management negotiations. The parties themselves refer to “armed camps” and “religious wars” (Higgins 1996, p. 479) when discussing negotiations, which illustrates just how difficult it is bridge the gap between the two and get both sides to temper their disagreements. However, bridging that gap is exactly what is needed in order to effectively compete in the global marketplace.

Seemingly in direct contradiction to Provis’ (2000) stance on ethics, morality and trust, Dees and Cramton (1991) propose the “mutual trust perspective” to explain why “shrewd” (deceptive) bargaining tactics occur. Their perspective is that there is no mutual trust between the negotiating parties, so there is no reason for either to refrain from deceptive behaviors. In fact, the parties should act shrewdly for self-defense purposes. Dees and Cramton (1991) describe the core of the mutual trust perspective, as made up of two principles. These principles are:

Mutual Trust Principle. It is unfair to require an individual to take on a more significant risk or incur a significant cost out of respect for the interests or moral rights of others, if that individual has no reasonable grounds for trusting that the relevant others will (or would) take the same risk or make the same sacrifice.

Efficacy Principle. It is unfair to require an individual to take a significant risk, or incur a significant cost out of respect for the moral rights of others, if the action that creates the risk or cost is unlikely to have its normally expected beneficial effect, or if it would benefit

only those who would not willingly incur the same risk or cost. (Dees and Cramton 1991, p. 144).

It is easy to see that labor-management negotiations usually follow this mutual trust perspective. Neither trusts that the other will behave morally or ethically, so both feel justified in their deceptive (some would call shrewd) tactics. There is clear evidence as to why neither side trusts the other, when looking at labor relations historically. Countless lockouts and strikes and very acrimonious negotiations have plagued these relationships. "Viewed in light of Mutual Trust theory, the clash between labor and management over the adoption of employee participation teams, for example, is predictable" (Higgins 1996, p. 479). In terms of an employee participation team, management sees it as a great advantage to the company. It will improve quality and productivity; it will reduce waste, and make the company more profitable and more competitive. They see these benefits as obvious and just expect the assembly line worker to see the obvious benefits too; whereas the assembly line worker just thinks it is more propaganda, and assumes that if he becomes more productive, the company will need fewer workers. A real breakdown in communication occurs, and the workers are left with questions such as, "how come if you expect us to trust your vision of quality teams, you didn't trust us to be involved with evaluating and overseeing the process to begin with?" (p. 480)

By involving unions in the process from the very beginning, they don't feel so threatened. They feel that management values their input and that changes can be ways to improve, and are not just plots to sabotage the union. For labor and management to collaborate more often, both sides need to stop thinking that there can only be one winner and one loser. They need to realize that they are reliant on each other for success, and the best way for each to achieve success is to work together, to trust each other. As the vice president of General Electric says, "I believe, unequivocally, that they must coexist, complement and support

each other. If not, neither will survive in an increasingly competitive world. And we need them both" (Wiesendanger 1994, p. 56).

While the mutual trust perspective helps to understand why unions and management do not collaborate, it is not necessarily the best way for them to behave. Because of this, Dees and Cramton (1991) present the trust building principle as a way to improve the situation. This third principle says, "When mutual trust is absent or weak, individuals should be willing to take modest risks or incur modest costs, in an effort to build or reinforce the trust required to secure moral action in the future" (Dees and Cramton 1991, p. 157). Corporate executives and labor leaders must start to create a climate of trust in order to begin to heal the damage of a century's worth of fighting and animosity. Strategies to achieve this include relationship building, developing feelings of group identity through more frequent and open communications – both formal and informal. The two sides often feel they are as different as night and day, but if they would take the time and effort to get to know each other, they would recognize that they are not so different, and they actually have similar goals. They can take steps to achieve those mutual goals and work to improve their relationship.

Higgins (1996) notes a paradox in what the management and marketing literature espouses and in what the business community is actually doing. Literature hails the positive impacts of employee participation programs, empowerment, and cross-functional teamwork on quality, customer satisfaction, and performance. Newspapers and the popular press report that in the business community, the trends are downsizing, outsourcing, and hiring contingent workers so that companies can compete globally. "Taken separately, each of these trends can be seen as sound, logical and ethical results of skillful management decision-making in the wake of changing technology and international competition. However, taken collectively, the premise becomes absurd" (Higgins 1996, p. 478). The absurdity is that managers expect the workers to trust them that

these types of changes are necessary, even beneficial; that their participation in these types of programs will be appreciated and rewarded. The managers neglect to notice that the workers are questioning whether their input really will be appreciated and rewarded; and they are thinking that these teamwork initiatives are subtle ways of increasing productivity so that the company can eliminate more full-time workers. When managers do feel resistance from workers, they never consider that it might not be for self-serving reasons. Workers sometimes have a better understanding than managers of how a change will affect production because they deal with it everyday. Managers assume they are right, and the workers are just being obstinate. "The chasm created between management and the hourly employee by the convergence of these trends is certainly exacerbated by years of mistrust and ill-will at the union-management interface" (Higgins 1996, p. 478).

In order to bridge this chasm and help both sides recognize the importance of the other in their own survival, Higgins (1996) suggests "some actionable strategies for improving management-labor relations, based on the internal marketing mix perspective" (p. 481). The author presents a strategic marketing framework designed to help labor and management establish trust in one another. "Internal marketing, a concept originally applied to service organizations, involves focusing a company's marketing efforts not only on its external customers, but also on its employees as internal customers" (p. 477). The idea behind internal marketing is that employees feel that their needs and concerns are addressed so morale is higher and loyalty is strengthened. Because of this, employees improve their service to the company's external customers, which ultimately improves the company's customer loyalty, and ideally, its profitability.

The proposed framework is based on the "4 Ps" of marketing: product, promotion, price, and place. Management and labor do not generally think in the same terms when thinking about the

company's "product". Management thinks "big picture," what separates their product from the competition, what makes it better than the others. They think of its core benefits, tangible features, and the service they provide to customers who buy the product. The workers who physically make the product think about the minute details of the product and how many pieces they have to finish on their shift. Oftentimes, the workers never even see a finished product. They only see their small portion of what they assemble for the product. "Internal marketing suggests that management communication with the machinists and other direct laborers shift, from an emphasis on product quantity expectations to an understanding of the 'big picture'" (p. 481). By getting the workers to understand where "their" piece fits into the product as a whole, how that fits into company survival, they can see how their job impacts customers. They can begin to take more ownership in what they do, which can lead to increased organizational commitment. "The result will be an understanding of the importance of efficiency and quality as long-run job security for *all* employees; and ease the mistrust that increased productivity will only lead to more layoffs" (p. 481).

Promotion of new ideas and programs is a key role in internal marketing. Just as promotion to external customers is vital to get them to buy the product, internal promotion is necessary to get workers to "buy into" anything new. When implementing new programs or new ideas, managers tend to tell their workers what the change is, how it is going to work, and what they are going to have to do. It is simply a manager telling a worker about more work that they *have* to do. By marketing the changes internally, "management has the opportunity to win cooperation from the union for the participation program by effectively promoting its benefits" (p. 481). If labor can see the benefits of new initiatives, then they are more likely to embrace them. However, for this promotion to be most effective, management has to involve the union from the beginning. When starting the planning process, unions

should be included in the decision-making. They have a different perspective and may bring a unique voice to the situation that can help innovations be truly effective.

“To the external market, the price of a good or service serves as signal of value between buyers and sellers. And when buyers are convinced that the perceived value of the product exceeds the perceived cost, the purchase is made.... [If] customers feel that they have received superior value... [they] will likely tell others and remain a loyal customer” (p. 481). When considering price internally, management must figure the costs of any changes to the workers. Managers must find ways to maximize the perceived benefits while minimizing the perceived costs in order to gain acceptance from the workers. These perceived costs to workers are usually time, physical effort, and psychic costs. New training will cost the workers time. Changes to procedures or responsibilities can also cost the workers more physical exertion on the job. Generally, however, psychic costs seem to be the greatest cost when considering labor relations. Psychic costs include mental effort, feelings of inadequacy and fear. As mentioned previously, many people are resistant to change because they are unsure of how they will do it. Higgins (1996) suggests that information sharing is a great strategy to reduce the psychic costs to workers. Generally, workers have no idea what a company’s financial status or production figures are. They are left to “speculate on how the company wastes money, gives huge salaries and bonuses to executives, and whether management is telling the truth” (p. 482). By giving workers a clear picture of the company, they can see for themselves how the benefits of teamwork outweigh the costs.

Place, the fourth “P,” focuses on the effective distribution of the product and/or service. For internal marketing purposes in the labor-management relationship, “the focus is on mechanisms for effective and efficient distribution of cooperative programs” (p. 483). Managers should begin research to elicit an understanding of their employees’ attitudes and

perceptions of the work environment. “From this baseline of information training sessions can be molded to introduce participation concepts in a manner which is responsive to workers’ concerns” (p. 483). Managers should also rely on informal channels (conversations, newsletters, direct mail, etc.) to “distribute” or communicate their commitment to cooperation. Social interactions, such as interdepartmental lunches and mixed department sports leagues, may be uncomfortable at first, but can aid in the distribution of information and ideas. These channels will be vital for both sides to begin to build that climate of trust; they will see that they are not as different as they once believed. By understanding how the adversarial relationship between labor and management developed, both sides can begin to see ways to repair it. “The ethical and practical need for conciliation between labor and management is urgent. Supplanting hostile, arms-length negotiations with cooperation built on mutual trust must be viewed as a realistic achievable goal rather than utopian, philosophical ravings” (p. 484). If both sides can see the necessity of ending their bitter feud, then they can start to envision strategies toward that end. Only when both sides begin to trust each other will they make advances in their relationship, and only then will they improve American competitiveness in the global economy.

Figure 1 is a model of management and labor relations moving toward a climate of mutual trust, and the outcomes of such a move. The “trust building process” box in the model shows how labor and management should interact in order to start building this mutual trust climate. Management should follow Higgins’ (1996) suggestions on internally marketing the organization, any changes they might consider, as well as joint efforts to develop new programs to improve the organization. The internal marketing strategy is a way for management to show the workers that the perceived benefits of cooperating with management outweigh the perceived costs. When negotiating, both sides can engage in fractional concessions. Showing that they are willing to give up small parts of what they want indicates that they are

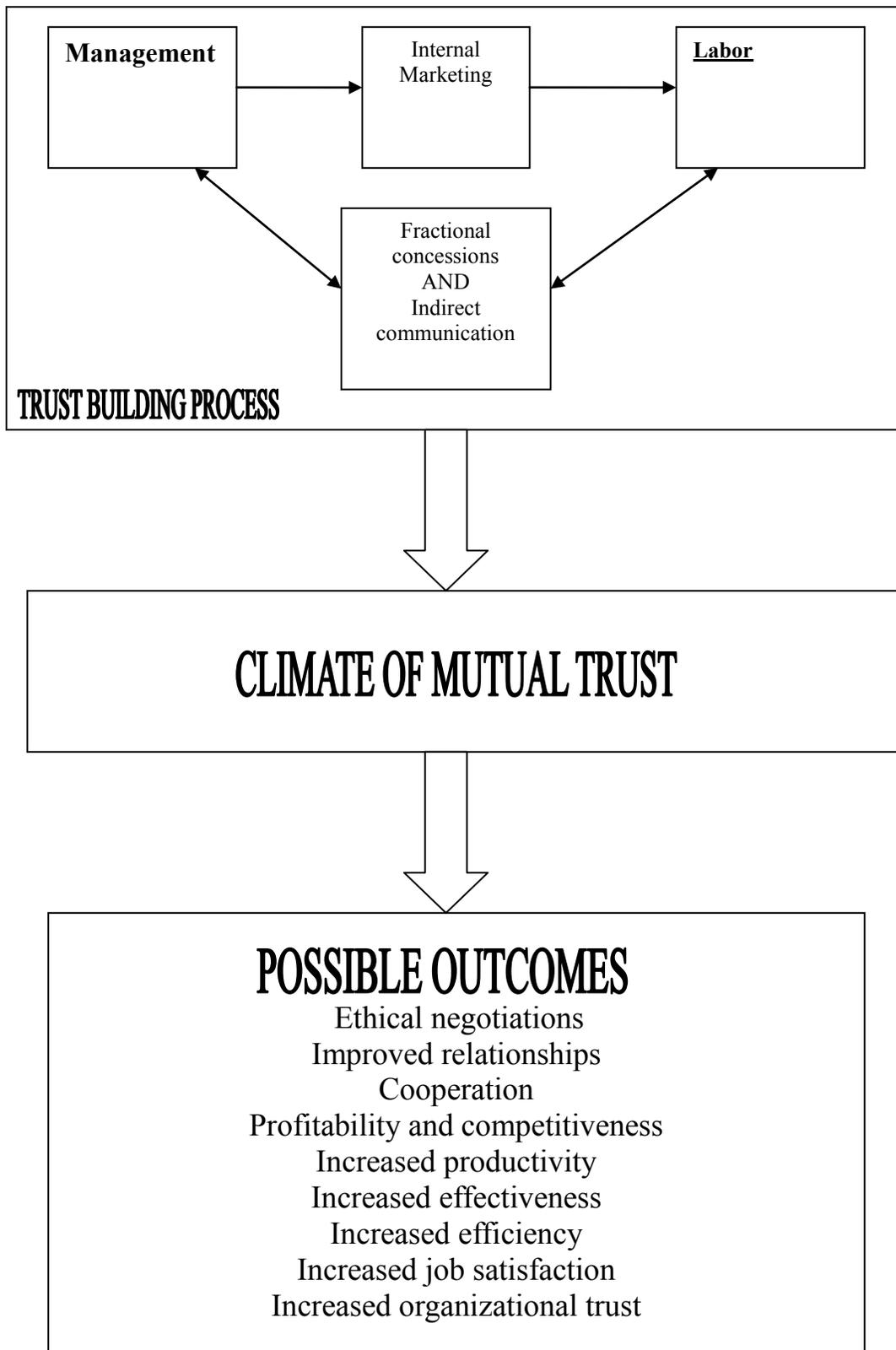
bargaining in good faith, and they want to make the agreeable amenable to both sides, but it does this while still allowing the sides to risk very little initially. This is important because as the mutual trust perspective has shown, neither side will choose to act ethically or morally if they have to risk too much, and if they do not think that the other side will act ethically or morally. Indirect communication between the two sides is another strategy that can be used in order to convey that they are willing to come to an agreement without risking very much. The double-headed arrows indicate that both labor and management must engage in these types of strategies in order to build a climate of mutual trust.

By implementing these strategies, both sides are working together toward a climate of mutual trust. This is indicated by the large block arrow going from the “trust building process” to the “climate of mutual trust.” Once the sides have built this climate of mutual trust, there are many possible positive outcomes. Both sides will feel safe to engage in ethical negotiations, without fear of exploitation, and their relations will improve. They will be more focused on cooperation rather than confrontation. This will lead to increased profitability and competitiveness, and increased efficiency and effectiveness in production operations. Both managers and laborers will feel an increased level of job satisfaction because there won’t be the tension that they normally feel when dealing with each other. This will lead to an increased level of organizational commitment. The list of possible outcomes is not exhaustive, but is indicative of the kinds of improvements both sides will gain from this increased trust. The importance of building trust between these two adversaries cannot be overstated. It is vital to the success of management, of labor, and of the organization. The model presented in Figure 1 is a guide for labor and management to see what needs to be done and what can occur if they begin to trust each other.

IMPACT ON SPORTS

Can this model, derived from the management and marketing literature, work in the fractious atmosphere of U.S. professional sports? Sport is supposed to be one of the few bastions of honesty and fairness in society. The rules of sport were created to be objective, to ensure that the team or athlete who plays the best on that day is declared the winner. People want to believe that there is always hope for the underdog, that there is no discrimination, that it is clear-cut – the best team wins. Fans aren’t sure they can trust that anymore – corked bats in baseball, illegal clubs in golf, gambling scandals, steroids and other performance enhancing drugs in every sport. These days it seems that there is so much unethical, and sometimes, illegal behavior in sports, fans are losing their faith. The recent strikes and lockouts have done nothing to improve professional sport’s image. Negotiations between professional sports team owners and the players’ unions have been just as acrimonious as any other labor relations in this country. Owners portray the players as greedy and self-centered. Players portray the owners as greedy and exploitative. The owners say that they lose money every year by owning a team; the players say that they are not getting paid what they are worth. Based on the previous discussions in this paper, it is clear that neither side trusts the other, and neither side negotiates ethically. But like other unions and managers, the owners and players must recognize the jeopardy in which they are putting their leagues. The 1994 strike in Major League Baseball devastated the fans, sponsors, and advertisers. It took years for MLB to regain what had been lost because of the strike. If they can build mutual trust, they can bargain successfully and improve their sport. The owners complain that the players’ union has too much power and control over the individual players. However, the unions in professional sports have to negotiate with the league, rather than each individual team. Imagine if GM, Honda, Ford, and all the other car manufacturers in America negotiated with the United Auto Workers as a group. They would

FIGURE 1:
Management-Labor Relations Moving Toward a Climate of Mutual Trust



be able to exert far more pressure on the unions than they already do. This is the situation in professional sports.

When professional sports first began, the players had no union representation, and even after the National Labor Relations Act was passed, the players resisted unionization. They believed that they didn't need it. It wasn't until the 1970s that players unions began taking control. Players began resenting being treated as property and having their freedom restricted. The owners could keep a player on his team for the length of his career, or the player could be traded without his consent regardless of how long he had been in the league. This was known as the reserve clause, and in 1970 Curt Flood sued MLB to challenge the legality of the reserve clause. Flood lost the case, but set the stage for free agency in baseball in 1975, and in the other professional sports later. The owners have a monopoly in their business, and they've tended to view their players as commodities, rather than a work force. They had all the power and the players had none. When the players finally realized the benefits to unionizing, the power slowly began to shift. In discussing labor relations in professional sports, Gilroy and Madden (1977) saw this balancing of power as a great step toward mutual benefits for players and owners. "The internal dispute mechanisms the parties themselves develop, rather than the courts, will bear the brunt of finding answers to their rights and interests conflicts. Such a system should provide a firmer business footing in professional sports, to the benefit of the players and owners alike" (Gilroy and Madden 1977, p. 776). The authors saw great potential in 1977 for the two parties to settle disputes internally and find ways to reconcile each side's interests and rights with the other's. As the decades progressed, however, labor-management relations deteriorated. Owners resented the players' unions' growing power, and the unions resented the owners' attempts to pay them less than what they felt they were worth.

There have been 15 work stoppages in professional sports (each of the four major

leagues has had at least one), but there have been many more threatened strikes and lockouts and plenty of mudslinging from both directions. Baseball has the worst record – eight potential stoppages resulted in eight actual stoppages. In 2001, only seven years after the strike which had been so detrimental to MLB, the Commissioner announced that two franchises would be "contracted." This was "a bold stroke that would highlight the sport's economic condition, and more important, wouldn't require union approval" (Fatsis 2002, p. W.4). The owners were feeling desperate because the union had won every significant battle since the 1970s. Labor relations in baseball are probably the worst in all of professional sports, and the reason is simple, according to Fatsis (2002), "its club owners and players' union hate each other" (p. W.4). This statement is indicative of everything that has been discussed previously. Such extreme acrimony in labor relations leaves little hope for conciliation. But, if owners and unions do not attempt to find ways to cooperate, they will ruin what is left of their professional sports. Fans today understand that pro sport is a business, but they will be held hostage by owners and players for only so long. Like other industries, it may take getting to a point where neither has anything to lose – they will be faced with the collapse of their sport or their cooperation to save it.

The National Hockey League, the smallest revenue generator of the four major leagues, faced such a situation in 2004. "TV ratings are minuscule, franchise values are plunging and two teams recently spent time in bankruptcy court. Now add record financial losses to the lineup" (Fatsis 2003, p. B.1). The NHL spent 76 percent of its 2002 revenue on player salaries and benefits. That is a higher percentage than the NFL, NBA, or MLB. It is a level at which no business can survive; the NHL's chief legal officer says, "the league will lose teams and players will lose jobs if we can't fix this" (Fatsis 2003, p.B.1). League officials hoped that the ominous overall picture could persuade the players to make changes. It appears that some owners were beginning to take the "internal marketing" approach. "In a

move once unthinkable for an NHL executive, the Flames president invited all 22 athletes to a boardroom at team headquarters, where he flicked on an overhead projector and bared the club's financial soul" (Gillis 2003, p. 38). However, the two sides could not fully cooperate and the NHL owners lockout shut down the entire 2004-2005 season. The result? By the time a new collective bargaining agreement (CBA) was reached in July 2005, the league had only three months "to lure back a disenfranchised fan base, persuade corporate sponsors and partners to continue their support and sign a new TV deal. The League lost more than \$40 million in ad revenues and \$60 million in rights fees from a one year contract with ESPN" (Thomaselli, p.1).

Currently owner vs. union grumblings are surfacing in the National Football League. In July 2008, NFL owners voted to back out of the current CBA two years early. This decision by the owners will not have any significant impact through the 2008 and 2009 seasons. However, "During the NFLPA's (National Football League's Player Association) annual meeting in mid-March, much of the union's agenda was spent discussing the options of a looming labor battle. Upshaw (late President of the NFLPA) warned of the possibility of an owners lockout in 2011" (Mortenson, p.1). Unlike most labor disputes this is not about whether teams are losing money but how much profit the League is entitled to make. Thus, owners are adamant about *not* turning over any financial information to the players union.

Both sides need to consider the model approach to labor negotiations discussed in this study – cooperation and incremental trust. Confrontation and greed will lead only to unsatisfactory results, with fans once again watching the spectacle of billionaire owners fighting with millionaire players.

CONCLUSION

Labor relations in the United States have always been strained, whether it is the manufacturing industry or the professional

sports industry. It is clear that neither side trusts the other, and that hostility will continue unless both sides show some desire to change. When they realize how important they are to each other, they may begin to try to heal their fractured relationships. Internal marketing, informal communication, and fractional concessions are all strategies that can be used to build a climate of mutual trust, where both parties feel little risk for exploitation, and both see the tremendous benefits of working together instead of against one another. Within this climate of mutual trust, labor and management can begin to get to work on improving their organization, their industry and even the economy.

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ROMANIAN CONSUMERS' PERCEPTIONS AND ATTITUDES TOWARD ONLINE ADVERTISING

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In recent years the use of the Internet in Romania has grown dramatically. As a transitional economy and a member of the European Union, Romania presents new opportunities for both domestic and international firms. This study is an initial, exploratory effort that examines the beliefs and attitudes of Romanians toward Internet advertising. Among the findings based on data from 366 Internet users, (1) Internet use patterns appear to be a significant factor influencing Romanian consumers' attitudes toward online advertising, (2) respondents indicated that one of the most important functions of advertising is to provide information, (3) while Romanian consumers believe that online advertising is fun and interesting they have doubts about its credibility, and (4) Romanian consumers with pro, ambivalent, and critics' attitudes toward online advertising were significantly different in their online advertising behavior. Practical implications for managers are explored.

INTRODUCTION

Advertising on the Internet and World Wide Web has become an important component of marketing communication worldwide. Global marketers and advertisers are turning to online advertising because of the unique and versatile capabilities of the Internet. These capabilities include interactivity, global reach, multimedia capacity, and audience involvement (Wolin, Korgaonkar and Lund 2002). Even with the weakening U.S. and global economy, online advertising continues to grow. According to AdAge (2008), Zenith expected Internet ad sales to reach \$44.6 billion in 2008 (23.9 percent increase from \$36 billion in 2007) and the Internet's share of the global ad market to rise from 8.1 percent to 9.4 percent during the same time period.

With its rapid diffusion, online advertising has received a great deal of attention in both business and academic arenas. Consumers' attitudes toward online advertising (ATOA) are

one of the foci of existing literature relating to this new research domain. A number of published articles have explored ATOA in the United States, indicating that ATOA may influence consumers' response to online advertisements and online purchase intention (e.g., Karson, McCloy and Bonner 2006; Wolin, Korgaonkar and Lund 2002). Despite the significant impact of online advertising on global marketing and commerce, little research has been conducted in countries outside the United States.

The purpose of this study is to investigate ATOA among Romanian consumers and the relationship between ATOA and Romanian Internet users' online advertising behavior. During the past two decades, Romania has undergone a dramatic political and economic transformation. Although reform has been slow and difficult, Romania is now catching up to the other transitional economies of Central and Eastern Europe. In recent years Romanian Internet use has grown rapidly. According to the Internet World Stats (2008), during 2000-2008, Romania Internet usage increased as much as 1,400 percent. As of March 2008, its 12 million Internet users make up 53.9 percent

of the country's entire population. Nearly one third of Internet users from Romania use online stores or auction portals as a place for purchasing various goods.

Little attention has been given to the subject of online advertising in Romania, even though it is the second largest country (with a population of over 21 million) in Central and Eastern Europe (The World Bank 2008) and is experiencing rapid economic growth. Therefore, this study fills a gap in existing literature relating to online advertising across cultural and national boundaries, especially in Eastern Europe. Global marketers can benefit from understanding how consumers from a transition economy perceive the Internet as a source of advertising. Thus, the study will enable businesses and organizations to use online advertising more effectively in their global marketing efforts.

This paper proceeds in the following order. First, we discuss previous work that has examined attitudes toward online advertising. We then describe the current state of Internet advertising in Romania. This is followed by several research questions and a methods and findings sections. The paper concludes with implications for practitioners and suggestions for future research activities.

ATTITUDES TOWARD ONLINE ADVERTISING

Consumers' beliefs and attitudes toward advertising are believed to be an important indicator of advertising effectiveness (Mitchell and Olson 1981). Past studies have examined consumers' general attitudes toward advertising in the traditional media environment. Bauer and Greyser (1968) first identified economic and social conditions as two dimensions underlying consumers' attitudes and beliefs. Later research recognized the complexity of consumers' attitudes and beliefs about advertising and proposed more complex models. Among them, Pollay and Mittal's model (1993) is the most influential. The researchers proposed seven factors underlying attitudes toward advertising,

including product information, social role and image, hedonic/pleasure, value corruption, falsity/no sense, good for the economy, and materialism.

Research on attitudes toward advertising has naturally extended into the Internet arena. Ducoffe (1996) for example, investigated whether and how advertising values such as informativeness, entertainment, and irritation were related to consumers' attitudes toward online advertising. He found that consumers viewed online advertising as somewhat valuable and informative, not particularly irritating, but lacking in entertainment value. More recent studies indicate that online advertising is perceived to be intrusive (Li *et al.* 2002) and disturbing (Reed 1999). Using Pollay and Mittal's model, Karson, McCloy and Bonner (2006) examined consumers' attitude toward Web site advertising. The researchers found that consumers have become less positive about the "hedonic/pleasurable" aspects of Web site advertising. Brackett and Carr (2001), using a college student sample, compared students' ATOA to the attitudes of people familiar with the Web in Ducoffe's 1996 study. They found that contrary to Ducoffe's results, the sample made up of students found online advertising to be irritating, annoying, or insulting to people's intelligence.

Advertising scholars disagree on the relationship between consumers' beliefs about advertising and their general attitudes toward advertising. Some view beliefs about advertising as perceptual antecedents that predict attitudes toward advertising (e.g., Brackett and Carr 2001; Ducoffe 1996; Pollay and Mittal 1993) whereas others used and measured both constructs interchangeably (Schlosser 1999; Mehta 2000). Ducoffe (1996) and Shimp (1981) argued that attitude toward advertising has both cognitive and affective antecedents. Beliefs about advertising, which is a result of the benefit and cost consumers derive from advertising, is primarily a cognitive predictor of attitude toward advertising. Such beliefs play a more important role in forming attitudes toward advertising when consumers

centrally process (more deliberate, effortful and thoughtful) advertising information than in situations of peripheral processing (low involvement, less thoughtful, and more emotional) (Petty and Cacioppo 1986). This distinction is an important one. Therefore, in this study, belief about advertising is viewed as a different construct from ATOA.

Antecedents and Impact of ATOA

People's beliefs and attitudes are influenced by a number of social and psychological characteristics (Seitel 2007). Previous research has linked ATOA to variables such as demographics, lifestyle, and Internet experience. Yang (2004), for example, examined the relationship between lifestyle segments and people's ATOA. He categorized consumers into three distinct lifestyle groups: 'experiencers', 'traditionalists' and 'selfindulgents', and found that the lifestyle clusters partly predict Internet users' attitudes toward Internet advertising. Korgaonkar and Wolin (2002) explored the differences between heavy, medium, and light Web users in terms of their beliefs about online advertising, attitudes toward Web advertising, and online purchasing patterns. They found that heavy Internet users tended to have more positive attitudes toward online advertising than those of medium and light Internet users. Karson, McCloy and Bonner (2006) explored the relationship between Internet use and ATOA from a different angle. They segmented consumers into three groups based on beliefs about Web site advertising: (1) pro Web site advertising (WSA), (2) ambivalent toward WSA, and (3) critics of WSA. The researchers found that the pro group showed greater tendencies of computer and Internet use than the ambivalent group and the critics.

As mentioned above, beliefs about advertising have been investigated as antecedents of ATOA. Ducoffe (1996), for example, found that informativeness and entertainment were positively related to ATOA whereas irritation was negatively related to advertising value. Wolin, Korgaonkar and Lund (2002) tested

Pollay and Mittal's (1993) belief model. The results supported the hypotheses that several belief factors influence Web users' attitudes toward online advertising which in turn have an impact on users' behavioral intention. The researchers found that the belief factors – product information, hedonic pleasure, and social role and image – were positively related to subjects' attitudes toward Web advertising, whereas materialism, falsity/no sense [false or nonsensical advertising claims] and value corruption were negatively related to their attitudes toward Web advertising. In addition, the more positive Web users' attitudes toward Web advertising were, the greater the likelihood that they would respond favorably to Web ads.

Understanding consumers' beliefs about and attitudes toward online advertising is helpful in explaining consumers' behavior regarding online advertising and online shopping intention. Some studies went beyond description of ATOA and explored the impact of ATOA. Karson, McCloy and Bonner (2006) segmented consumers into Pro, Ambivalent, and Critics groups. They found that critics of WSA used computers and the Internet less for information search, and found the Internet to be less utilitarian and hedonic than the other two groups. Similarly, Korgaonkar and Wolin (2002) found that a more positive attitude toward online advertising is likely to lead to more frequent online purchasing and more dollars spent on these purchases.

INTERNET ADVERTISING IN ROMANIA

According to IDC (2008), Central and Eastern Europe will experience the fastest growth in Internet ad spending during 2008-2011 with a compound annual growth rate of 42.1 percent. As a country bordering between the east and the west, Romania has much in common with its Central and Eastern European neighbors such as Russia and Poland. The economic transition and Internet development in Romania are also representative of this region.

Despite developmental barriers associated with transitional economies, Romania has a number of positive characteristics which facilitate the adoption of e-commerce, including a high level of general education, the rapid growth of Internet users, computer literacy, good English skills, and an abundance of human capital in the IT field (Guarău 2007). Its recent entry into the European Union has provided the country with the incentive to undertake needed regulatory and economic reform, as well as an influx of funds to aid in the development of its infrastructure.

Along with the rapid adoption and use of personal computers and the Internet in Romania, Internet advertising expenditures have grown significantly in recent years. The Romanian Internet advertising sales is estimated at 8.4 million Euros in 2007, up 52.8 percent from 5.5 million Euros in 2006 (ARBOmedia 2007). Major advertisers include banking, personal care/beauty, IT, auto, telecoms, real estate, and insurance. According to online research company Gemius SA (2007), many Romanians believe that advertising on the Internet is efficient and informative. However, in terms of online shopping, Romanians have tended to be cautious about online purchases partly because of the perception of high risk associated with making financial transactions on the Internet.

RESEARCH QUESTIONS AND HYPOTHESES

This study is guided primarily by research questions since it is an initial effort to understand Romanian consumers' ATOA. One of the main goals is to explore different belief dimensions underlying ATOA among Romanian consumers. Therefore, the first research question asks:

RQ₁: What are the beliefs about online advertising among Romanian consumers?

The relationship between belief factors and ATOA has been examined by several past studies. Some belief factors such as product

information, hedonic, and social role have been found to be positively related to people's ATOA. Materialism, falsity/no sense and value corruption were found negatively related to ATOA (Wolin, Korgaonkar and Lund 2002). It would be interesting to investigate the relationship in the Romanian environment. Thus, we propose the second research question:

RQ₂: What is the relationship between beliefs about online advertising and ATOA among Romanian consumers?

Previous research has shown that heavy Internet users tend to have a more positive attitude toward online advertising than light Internet users and are more likely to make online purchases (Korgaonkar and Wolin 2002). In this study, we would like to see whether this relationship holds up among Romanian Internet users. Therefore, the following hypotheses posit:

H_{1a}: Heavier Internet users have a more favorable attitude toward Internet advertising than do light Internet users.

H_{1b}: Heavier Internet users make more online purchases than do light Internet users.

According to Karson, McCloy and Bonner (2006) consumers can be segmented into three groups based on their ATOA including 1) pro Web site advertising, 2) ambivalent toward WSA, and 3) critics of WSA. Exploring differences among these three groups in terms of their online behavior will provide some evidence for the impact of ATOA. Therefore, our third and fourth research questions ask:

RQ₃: How do people with different ATOA (pro, ambivalent, and critics) differ in their reported behavior toward online advertising and the reported likelihood of online purchase as a result of online advertising?

RQ₄: How do people with different ATOA (pro, ambivalent, and critics) differ in their reported past online shopping behavior?

METHODS

Procedure and Sampling

To examine the research questions and hypotheses proposed in this study, a questionnaire was developed first in English and later translated into Romanian. That version was re-translated back into English by a bilingual third party to ensure translation equivalency.

Data were collected primarily from college students in Romania. However, a small percentage of the sample constitutes general consumers. Using a student sample in this study was justified in two grounds: first, college students are the most likely users of the Internet in Romania. In addition to age, the biggest predictor of Internet usage is education. A college education increases rates of Internet access by 40 percent (Nie and Erbring 2000). Second, compared with the general population, college students are more homogeneous on external factors that may influence their attitudes and beliefs.

A total of 366 questionnaires provided usable data and were analyzed using SPSS. The sample was 50 percent male and 50 percent female. Respondents ranged in age from 14 to 67 years ($M = 22.85$, $SD = 7.39$).

Measurement

The questionnaire measured Internet use patterns, beliefs about online advertising, general attitudes toward online advertising, behavioral response toward online advertising, online purchasing intention, and past online buying experiences. In addition, demographic data, such as age and gender, were collected to describe the characteristics of the sample.

Subjects' Internet usage was measured using questions adapted from Korgaokar and Wolin's (2002) study. This section included questions about how long participants had been using the Internet, estimated amount of Internet usage (e-mail is not included), locations of access to

the Internet, and stability of web site choice. To measure subject's beliefs about Online advertising, a 33-item scale was adapted from previous studies (Pollay and Mittal 1993; Yang 2000). The scale includes several dimensions of beliefs about online advertising, such as whether or not respondents considered online advertising to be informative, materialistic, irritating, good for consumers, hedonic, credible, and manipulative. Participants indicated their agreement with the statements about their beliefs about online advertising on a 5-point Likert scale ranging from "strongly disagree" (1) to "strongly agree" (5). Factor analysis was used to identify belief factors.

Respondents' general attitudes toward advertising were measured using a scale adapted from Korgaonkar and Wollin's (2002) study. They were asked to indicate their agreement on 5-point scale ranging from strongly disagree (1) to strongly agree (5) regarding the following statements: "Overall, I consider Internet advertising a good thing" and "Overall I like advertising on the Internet." They were then asked to consider the statement "I consider Internet advertising...", and were asked to respond with a 4-point scale ranging from (1) "not essential at all" to (4) "very essential". Finally, the respondents were asked to rate their attitudes toward online advertising on a scale ranging from (1) "very unfavorable" to (5) "very favorable." The reliability coefficient alpha for the scale was .71. Responses of the five items were summed and averaged to create an overall ATOA index ($M = 3.33$, $SD = .69$).

Behavioral response toward online advertising was measured by whether respondents were likely to click on online advertising. Subjects were also asked to estimate the likelihood of making online purchases as a result of online advertising. Finally, online shopping experience was measured in terms of online shopping history, frequency of purchase, and product categories.

RESULTS

Internet Usage Pattern

Respondents on average had used the Internet for 5.35 years. Not including e-mail, 62.5 percent of the respondents reported that they used the World Wide Web daily. In a typical day, participants spent an average of 3.25 hours on the Web. Among them, 18.3 percent of respondents used the Web less than an hour, 23.2 percent used it 1-2 hours, 12.8 percent used it 2-3 hours, 23 percent used 3-4 hours, and 6.3 percent used the Web for 4-5 hours. The majority (75.1 percent) often or always visited a known site. At the same time, many respondents (51.9 percent) surfed the Internet to search for new or better sites on a regular basis.

The click rate among Romanian Internet users was medium ($M = 2.78$, $SD = 1.15$). In terms of past online shopping experience, 57.1 percent of the respondents have purchased something online whereas 42.9 percent have never bought online. Thirty-two percent of the respondents made less than 5 purchases during the previous 12 months, whereas 6.3 percent made between 5 to 10 purchases and 4.4 percent made more than 10 purchases.

Beliefs Factors about Online Advertising

To examine beliefs about online advertising among Romanian Internet users we used principal components factor analysis with varimax rotation on the 33 beliefs items. The criteria for extracting factors were: (a) a minimum eigenvalue of 1.0, (b) at least two loadings, and (c) a .60/.40 loading rule was applied. This factor solution generated seven factors that accounted for 65.7 percent of the total variance after rotation. Responses to items that loaded on each factor were summed and averaged to create belief indexes. Table 1 presents a summary of the factor analysis. Correlations between factors were shown in Table 2.

Factor 1, Entertainment (Cronbach alpha = .88, $M = 3.13$, $SD = 0.95$) accounted for 14.95

percent of the total variance after rotation. It consisted of six items such as enjoyable, entertaining, pleasing, reflecting that Romanian consumers believe online advertising is fun and interesting. Interestingly, two of the "irritation" items also loaded negatively on this factor, indicating that Romanian consumers believe that entertainment and less irritation are linked together. Factor 2, Information (Cronbach alpha = .79, $M = 3.52$, $SD = 0.78$), accounted for 11.98 percent of the total variance after rotation. It included five items related to the information function of online advertising. This factor suggests that Romanian consumers view online advertising as an important source of information. The mean for the informative factor was the highest among the seven factors, indicating that it was the strongest belief about online advertising among Romanian consumers. Factor 3, Believability (Cronbach alpha = .91, $M = 2.95$, $SD = 0.99$) accounted for 11.61 percent of the total variance after rotation. The factor includes three items such as trustworthy, credible and believable. Factor 4, Negative Social Impact (Cronbach alpha = .64, $M = 2.53$, $SD = 0.90$), accounted for 7.93 percent of the total variance after rotation. This factor reflects that Romanian consumers perceive online advertising as misleading, insulting people's intelligence, and distorting social values. Factor 5, Materialism ($r = .72$, $M = 2.95$, $SD = 1.05$) accounted for 7.57 percent of the total variance after rotation, suggesting that Romanian consumers believe online advertising promotes a materialistic society. Factor 6, Economy ($r = .65$, $M = 3.12$, $SD = 0.95$), accounted for 6.21 percent of the total variance after rotation. This suggests that Romanian consumers perceive online advertising as having a positive impact on the economy. Factor 7, Persuasion ($r = .63$, $M = 2.93$, $SD = 1.04$) accounted for 5.50 percent of the total variance after rotation. The factor indicates that Romanians perceive online advertising as persuasive and effective.

RQ₂ asks about the relationship between beliefs about online advertising and ATOA. Multiple regression was used to address this question. Entertainment ($\beta = .37$, $p < .001$), Believability

TABLE 1
Factor Loadings for ATOA

Belief Items	1	2	3	4	5	6	7
Factor 1: Entertainment							
Is enjoyable	.82	.23	.22	-.03	-.04	.10	-.01
Is pleasing	.80	.21	.09	-.10	-.10	.05	.07
Is entertaining	.78	.32	.07	-.11	-.12	.07	-.14
Is interesting	.66	.44	.17	-.08	-.12	.14	-.01
Is irritating	-.63	.07	-.12	.43	-.16	.01	.05
Is annoying	-.61	.12	-.14	.48	-.17	-.07	.11
Factor 2: Information							
Helps me keep up to date with products/services available in the marketplace	.40	.69	.16	-.03	-.03	.15	-.18
Is a good source of product/service information	.12	.66	.40	-.15	-.03	.40	.02
Helps companies become more profitable	.05	.65	-.04	-.07	-.03	.08	-.13
Provides timely info	.33	.63	.30	-.05	.01	.01	.17
Provides info on what is cool	.18	.62	.17	-.20	.09	-.05	-.34
Factor 3: Believability							
Is credible	.21	.25	.83	-.10	-.10	.03	-.11
Is believable	.11	.22	.83	-.14	-.04	-.02	-.09
Is trustworthy	.27	.18	.82	-.07	-.09	.06	-.18
Factor 4: Negative Social Impact							
Promotes undesirable values in our society	-.18	-.16	-.05	.75	.26	.08	.03
Is deceptive and misleading	-.11	.00	-.31	.62	.09	-.16	.19
Insults people's intelligence	-.17	-.25	.03	.60	.16	-.07	.08
Factor 5: Materialism							
Encourages people to buy to impress others	-.07	.12	.09	.00	.81	.14	.12
Promotes a materialistic society	-.02	.13	-.17	.23	.76	-.02	.06
Factor 6: Economy							
Has positive effects on the economy	.07	.22	-.09	.07	.05	.77	.21
Raises our standard of living	.11	.08	.13	-.13	.21	.75	-.05
Factor 7: Persuasion							
Persuades people to buy things they should not buy	-.11	-.09	-.21	.19	.28	-.05	.69
Is an interpersonal way of selling	-.14	-.01	-.31	.19	.21	.01	.65

TABLE 2
Correlations Between Belief Factors

	ENTER	INFOR	BELI	NEG	MATE	GOECO	PERSU
ENTER	1	.53**	.47**	-.41**	-.048	.24**	-.29**
INFOR	.53**	1	.51**	-.30**	.047	.33**	-.23**
BELI	.47**	.51**	1	-.34**	-.12*	.12*	-.44**
NEG	-.41**	-.30**	-.34**	1	.29**	-.038	.43**
MATE	-.05	.05	-.12*	.29**	1	.19**	.32**
GOECO	.24**	.33**	.12*	-.04	.19**	1	.07
PERSU	-.29**	-.23**	-.44**	.43**	.32**	.07	1

** $p < .01$, * $p < .05$

($\beta = .26$, $p < .001$), Economy ($\beta = .20$, $p < .001$), and Information ($\beta = .13$, $p < .05$) are significant positive predictors of overall attitudes toward online advertising. Materialism ($\beta = -.14$, $p < .01$) is a significant negative predictor of attitude toward online advertising. In other words, people who believe online advertising is entertaining, credible, informative, has a positive impact on the economy, and promotes less materialism, have a more positive attitude toward online advertising than do their counterparts. The five significant predictors explain 52 percent of variance in ATOA ($R = .72$, $p < .001$).

H₁ posits that heavier Internet users have a more positive attitude toward online advertising and make more online purchases compared with light Internet users. Hypothesis 1 was supported. K-mean cluster analysis was used to classify respondents into heavy and light Internet users. A t-test was then applied to test the impact of amount of Internet use on ATOA. Attitudes toward online advertising among heavy Internet users ($M = 3.41$, $S.D. = .70$) were significantly different from that of light Internet users ($M = 3.19$, $S.D. = .65$) ($t = 2.92$, $df = 359$, $p < .01$, two-tailed). A cross-tab was used to test the difference between heavy and light Internet users in their reported past online shopping experience. There was a significant relationship between the amount of Internet usage and respondents' past online purchasing behavior (Chi square = 17.55, $df = 3$, $p < .01$).

RQ₃ asks about differences between pro, ambivalent and critics in their responses toward online advertising and the likelihood that they would purchase online as a result of online advertising. K-mean cluster analysis was used to classify respondents as pro, ambivalent and critics. A MONOVA test was then conducted to assess behavioral responses toward online advertising and the likelihood of being influenced by online advertising between the groups. The result was statistically significant (Wilks' $\Lambda = 0.754$, $F(4, 628) = 23.798$, $p < .001$). Romanian consumers with pro, ambivalent, and critics' attitudes toward online advertising were significantly different in their online advertising behavior and the likelihood they would make online purchases as a result of online advertising. The post-hoc Scheffe's test further revealed that all three groups are significantly different from each other in terms of ad clicking. Pros were more likely to make online purchase as a result of online advertising than critics (Mean difference = .85, $SE = .16$, $p < .001$) and ambivalent (Mean difference = 1.33, $SE = .15$, $p < .001$).

RQ₄ asks about whether people with different ATOA (pro, ambivalent and critics) differ in their online buying behavior. Cross-tabs were used to test the differences between these three groups. There was a significant relationship between Romanian consumers' ATOA and their past online purchasing behavior (Chi square = 15.52, $df = 6$, $p < .05$), indicating that

people with different ATOA differ in their online shopping behavior.

DISCUSSION AND IMPLICATIONS

In recent years Romania has experienced fast growth in Internet usage and has increasingly become linked with the rest of the world, especially other EU countries. As more advertisers incorporate new media, such as the Internet, to reach international consumers, understanding Romanian ATOA will benefit global businesses.

Belief Factors and ATOA

Exploring Romanian consumers' beliefs about online advertising, this study identified seven factors: entertainment, information, believability, negative social impact, materialism, economy, and persuasion. Among them, the information factor has the highest mean, indicating that for many Romanians one of the most important functions of advertising is to provide information. Information was also a significant positive predictor for ATOA. This is consistent with past online research. Wolin, Korgaonkar and Lund (2002), for example, found that product information was positively related to ATOA. Ducoffe (1996) also found a strong correlation between informativeness and Internet advertising value. It is not surprising that those consumers who perceive online that advertising provides needed information have a more favorable ATOA.

Following information, entertainment has the second highest mean, indicating that Romanian consumers believe that online advertising is fun and interesting. The entertainment factor was also the strongest positive predictor for ATOA. This result is consistent with previous research (e.g., Ducoffe 1996; Wolin, Korgaonkar and Lund 2002). An interesting finding from this study is that two irritating items were loaded on the entertaining factor whereas other studies have found that irritation emerged as a separate factor (e.g., Ducoffe 1996; Brackett and Carr 2001). This result suggests that marketers may consider reducing ad irritation by improving the

entertainment element of online advertising, which will ultimately increase advertising effectiveness.

Believability has the lowest mean among the seven belief factors in this study, indicating that Romanian consumers have doubts about the credibility of online advertising. The believability factor is also the second strongest predictor for ATOA. This makes sense because to the extent that consumers believe online advertising is credible and trustworthy, their positive attitudes toward online advertising increase. Wolin, Korgaonkar and Lund (2002) found that *falsity/no sense* negatively predicted ATOA, which lends support for this result. The researchers suggested that to establish credibility, advertisers may consider strategies such as money-back guarantees, 24-hour customer services, and affiliations with credible organizations (Wolin, Korgaonkar and Lund 2002).

The materialism factor negatively predicted ATOA, which was consistent with previous studies (Wolin, Korgaonkar and Lund 2002). According to Pollay and Mittal (1993), materialism is a set of belief structures that sees consumption as the route to satisfaction. The results indicate that Romanians' positive attitude decreases when they perceive advertising promoting an overly materialistic society. The materialism variable is also significantly correlated with the negative social impact, economy, and persuasion factors.

Economy is another significant positive predictor for ATOA. As mentioned before, economic growth is the most important issue in Romania. It makes sense that people who believe online advertising contributes to economic development had a more positive attitude toward online advertising.

In summary, the above discussion suggests that entertainment, believability, information, economy, and materialism factors play an important role in predicting Romanian consumers' ATOA. In order to cultivate a positive ATOA among Romanian consumers,

advertisers need to avoid the overt promotion of materialism as they aggressively position online advertising as an entertaining, credible provider of information.

Antecedents and Effects of ATOA

The results of this study accord with the previous observation that the amount of Internet use affects people's ATOA and online shopping behavior (Korgaonkar and Wolin 2001). Internet use patterns appear to be a significant factor influencing Romanian consumers' ATOA and online shopping experience. Heavy users tended to have a more positive ATOA and made more purchases online than light Internet users. These results indicate that advertisers may need to consider different advertising strategies and tactics to reach heavy Internet users and light users.

We also found that the three attitude groups (pro, ambivalent, and critics) were significantly different in their behaviors toward online advertising, the likelihood to make online purchases as a result, and actual online purchase behavior. These results lend support for the classic advertising effect model: cognition – affect—behavior intention, which suggests that beliefs are likely to lead to attitudes, which in turn have an impact on behavior.

This study explored the beliefs and attitudes toward online advertising among Romanian consumers and the relationships between different components in consumer response sequence. Findings enhanced our understanding about ATOA in the Romanian environment and provided useful indications for global marketers. However, there are several limitations associated with the study. First, it used a sample of college students, thereby limiting generalization of the results. Secondly, due to the fact that online advertising is still a new phenomenon, consumers' beliefs and attitudes toward online advertising are still evolving and changing (Karson, McCloy and Bonner 2006). The cross-sectional design of the current study only provides a snapshot of

Romanian consumers' ATOA. A longitudinal study would provide more insights on the relationships among different factors. Lastly, this study only investigated ATOA in Romania. Future investigation may include other countries. A comparison study of consumers' ATOA in different countries would shed some light on whether cultural background makes a difference in people's ATOA.

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**CONDITIONS IN RUSSIA AND THEIR EFFECTS ON ENTRY
MODE DECISIONS OF MULTINATIONAL
MANUFACTURING ENTERPRISES:
A QUALITATIVE STUDY IDENTIFYING ISSUES FOR
FURTHER RESEARCH IN THE AREA OF COUNTRY
CONDITIONS AND THEIR IMPACT ON ENTRY MODE**

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This study examines entry modes employed by foreign multinational manufacturing enterprises (MMEs) when entering Russia. This exploratory study focuses on country-specific conditions associated with the chosen entry mode - an important component in the consideration of overall entry strategy. Information from field studies representing 18 manufacturers - 10 directly manufacturing in Russia and 8 selling their products in Russia via representative/sales offices - was obtained by means of personal interviews with senior management in Moscow and constituted the primary qualitative data. Research questions are posed for further examination of conditions in Russia and the effects of such conditions on the entry mode decisions of MMEs. The study finds economic conditions to be the only important determinant of entry modes for large multinational manufacturing companies investing in Russia with other country factors playing no role in their choices.

INTRODUCTION

With the expansion of global business activity, the ability to analyze the key characteristics of potential host countries becomes increasingly important. The key to successful international market entry is an understanding of differences in conditions that exist when comparing one market to another. While developed countries still remain the major destination for foreign direct investment (FDI), emerging economies have become increasingly important locations for MMEs' production. Changes in government policies in emerging markets, economic reform, and liberalization of markets facilitated FDI into these markets. Trade and investment liberalization enables multinational firms to search for competitive locations and allows specialization.

Emerging economies, despite some commonalities, differ in size, rates of growth, patterns of economic reform, political, economic and legal regimes, and styles of government, all of which may provide opportunities for investors and possess a significant number of threats, and possibly more threats in Russia than in other emerging markets (Alon and Banai 2000; Shama 2000).

Much has been written about entry strategy and country factors that affect it. Yet, while these studies shed light on why and how country conditions can affect firms' entry strategy, the effects of globalization and ever increasing competition on entry strategy employed by firms entering emerging markets is the area to be strengthened. This study attempts to advance such knowledge and provide the basis for further exploration of this area. It is designed to discover how multinational firm decision makers perceive country conditions in Russia and to provide the basis for further study to uncover what factors influence their decision to locate manufacturing in such volatile markets

rather than employing other, less risky modes of entry such as exporting or licensing.

This article begins with a literature review and then presents a discussion of the principal findings. Finally the limitations of the study are discussed and areas for further research are identified.

COUNTRY CONDITIONS LITERATURE REVIEW

When investing overseas, firms face uncertainties arising from unfamiliarity with new country environments. This is evidenced in a series of articles: Goodnow 1985; Boyd and Walker 1990; Nakata and Sivakumar 1997; Parks and Flores 2000; Luo 2002; Kuo and Li 2003; Claver and Quer 2005. These studies demonstrate that economic, legal, political, socio-cultural and technological conditions in emerging markets can have complex positive and negative influences on all components of entry strategy.

Porter's seminal contribution (1985) focused on country-specific location advantages. In the context of entry mode decisions, Luo (2002) suggested one particular country-specific location disadvantage that affects entry strategies into all emerging markets - a country's specific legal infrastructures including law development and enforcement. This author also affirmed the role underdeveloped information markets play in affecting any firms' given performance.

Cultural and Social Conditions

The cultural impact on entry strategy and a firm's performance in any given foreign market has received significant attention in both international business and international marketing literature: Bradley (1991) and Achrol (1991) argued that ideas, norms, behavior patterns, and material culture all directly impact on the international marketing of products and services. Nakata and Sivakumar (1997) emphasized the importance of the personal nature of commercial activities in emerging

markets, factors that potentially could affect firm's entry mode. Meyer (1998) pointed to such factors as: language and religious differences; lack of personal contacts; geographic distance; different attitudes to work and leadership. Perceived risks of various types of entry modes increase, the author claims, if investors have less understanding of the host country's environment. He also observed that firms tend to be more knowledgeable of foreign markets culturally close to themselves. Specific to Russia, however, Bzhilianskaya and Pripisnov (1999) found that the majority of FDI revenue came from Germany, USA, S. Korea and Switzerland, countries culturally distant from Russia. These diverging opinions show it is unclear what effect cultural distance has on firms entering Russian markets, or whether other factors, specifically growing economies and changing FDI legislation, have a greater impact on multinationals' entry strategy choices.

Poole-Robb and Bailey (2002) added another important addendum to a given firm's entry strategy—namely the controlling government's willingness to staunch weaknesses in judicial systems and deliver anti-terrorism measures, as well as fight organized crime, corruption, unfair trading, and cronyism. Some of these are important factors for Russia (Abalkin and Whalley 1999). Luo (2002) and Poole-Robb and Bailey (2002) elaborated further that bureaucracy along with corruption and organized crime are the most obstructive social factors considered by foreign investors. A common linkage between corrupt bureaucracy and the political elite results in a possible competitive advantage for local firms because of their knowledge of local business customs. Specifically, Alon and Banai (2000) reported that almost all bankers, business people, and government officials in Russia were forced to cooperate with the Mafia. Their findings suggest about 80 percent of Russian businesses paid extortion money with about 80 percent of US businesses operating in Russia forced to engage in bribery.

Technological Environments, Infrastructure and Competitive Conditions

A country's unique technological environment and the impact of science and technology impinge on a firm's ability to improve product quality and service and gain competitive advantage (Johnson 1994). Consequently a firm's entry decision may be affected by foreign technological development.

Nakata and Sivakumar (1997) placed particular emphasis on silent technological conditions in emerging markets, particularly where poor and rapidly deteriorating infrastructures are the reality. Essential services that require commercial activities, such as water and electric power supplies, phone lines and banking services, are quite often unreliable or even in short supply there. Their analysis suggests that poor infrastructure may lower economic advantages as increased operating costs in a country might limit entry opportunities. Jain (1993) specified that reliable technological services as well as the intensity of price competition in the industry should be considered as relevant correlates in the adaptation of any entry strategy. Specific to Russia, Stoner-Weiss (2000) and Luo (2002) reported that some provinces were more successful in attracting FDI than others due to relatively favorable technological environments.

Eden and Miller (2004) argued that any decision concerning FDI requires the acquisition of local knowledge in respect of their host country's economy, language, its laws and politics along with the adoption of local technology and production methods as well as the additional costs of training local workers. These could possibly place local competitors, at least initially, in an advantageous position over foreign firms. Kwon and Konopa (1993) suggested that already established foreign firms might also have such advantages over a new entrant in regard to cost, economies of scale, and product differentiation.

Legal Conditions

One of the major concerns for firms entering foreign locations is the level of protection of their operations, assets and personnel given under local laws. Limited trade-mark and intellectual property protection could jeopardize technological advantages by making new entrants vulnerable to piracy thus reducing economic advantages due to lost sales (Nakata and Sivakumar 1997). Other studies supported this emphasizing that FDI increases significantly when local legislation provides foreign investment incentives and guarantees (Contractor 1984; Clegg 1990 and Nakata and Sivakumar 1997).

Government limitations on the number of foreign firms in the market is regulated by means of policies, laws, marketing and advertising restrictions, safety and health requirements which may restrict competition and thus selection of an entry strategy directly relates to the level and nature of protectionism likely to be faced by the entering firm (Bensedrine and Kobayashi 1998). Nakata and Sivakumar (1997) reported that the silent legal conditions affecting entrants into foreign emerging markets are: limited trademark and patent protections, still-evolving judicial systems, foreign investment restrictions, price controls, tariff and non-tariff barriers, trade agreements, privatization, and market reform. Meyer (1998) suggested that weak legal institutions in developing countries often discourage the use of courts to settle disputes thus permitting corruption.

Roderick (1999) emphasized weak property rights regimes as a determinant within entry mode decisions - a factor particularly peculiar to the Russian market. More specifically, this author, though admitting that Russia represents potentially the most valuable market for western companies, suggested that the country proves an exceptionally difficult market for foreign firms to operate within particularly because the Russian state government often adopts contradictory policies on property rights and the general absence of law and order.

Political Conditions

Kwon and Konopa (1993), Parks and Flores (2000) argued political risks, such as nationalism and political instability influence multinational firms' entry mode decisions. In nations where political risks are perceived to be high, it is likely that only low resource-commitment modes such as exporting would be undertaken. An inverse relationship between inward FDI and the level of government restrictions on foreign entrants was also found. In addition, other impacts analyzed were: foreign ownership restrictions; local content requirements and unionization.

Contrarily, Clegg (1990), Nakata and Sivakumar (1997), Meyer (1998) and Parks and Flores (2000), suggested that despite political risk being an important element in assessing a country's risk, it is also possible that other national and/or international sources of risk could exacerbate or reduce the total risk of a country. In other words, non-political factors could prove to be more important when making foreign investment decisions.

Green and Cunningham (1975) and Davidson and McFetridge (1985) strongly endorsed political instability as a factor to discourage FDI and suggest this could be the most important factor in determination of country specific location. The latter researched emphasized that political instability is generally more characteristic of emerging, less developed markets than developed ones, remarking that bankers use political instability to calculate a country's creditworthiness - with developing markets gathering lower ratings - meaning that rapid changes in government policy could reduce economic advantages for the entering firm.

Some authors have analyzed corruption and its impact on firms' performance in emerging markets and Russia. Bzhilianskaya and Pripisnov (1999) argued that the perception of corruption and criminality intensified in the 1990s and had a significant impact on the level of FDI in Russia. Rodrigues, Uhlenbruck and

Eden (2005) stressed that multinationals' understanding of the nature of corruption in a given country and an ability to differentiate corruption in other countries are both critical tools in determining entry strategy options. They further suggested that the pervasiveness of corruption determines the average firm's likelihood of encountering corruption in its usual interactions with government officials. Arbitrariness is considered an innate measure of ambiguity associated with corrupt transactions in a given country. These ambiguities vary widely across countries and consequently have a significant impact on FDI. Abalkin and Whalley (1999) acknowledged there is a large perceived political risk associated with maintaining wealth in Russia due to the frequent and quite often arbitrary changes in economic policy.

Economic Conditions

The economic environment largely defines opportunities for international business. Size of population, economic growth, income, consumption and purchasing power determine the market size of a foreign location (Jain 1993). These factors were also identified as critical to entry strategy decisions by Goodnow and Hansz (1972); Dunning (1980); Goodnow (1985); and Terpstra and Sarathy (1994).

Kwon and Konopa (1993) posited certain other host country production factors which influence foreign market entry strategy, namely: the availability of skilled/unskilled labor; raw materials; technology; capital and the availability of communication/transportation facilities. Other researchers argued that the availability of abundant natural resources and cheap labor are not sufficient for attracting foreign investment. They claimed emerging markets present significant detractions for entering firms, and among these challenges are political risks and undeveloped infrastructures that impede a wide range of commercial activities (Clegg 1990; Kuo and Li 2003). That said, Russia is a country with abandoned natural resources and an educated labor force, yet FDI per capita is lower than in almost all

other Eastern European countries (Stoner-Weiss 2000).

With regards to developing markets, Nakata and Sivakumar (1997) claimed that fragmentation of distribution leads to cost inefficiencies which might significantly affect a firm's decision regarding entry location and entry mode decisions. Earlier research by Batra (1997) found that some features common to all transitional economies are: high rates of inflation; foreign trade deficits; high rates of unemployment; high costs of capital and low labor costs. However, the focus of this study was not the Russian market but rather specific characteristics of international investment such as: investment climate; the state of the economy; types and degrees of corruption; rates of inflation and the legal and cultural environment within other emerging markets.

METHODOLOGY

This study uses in-depth interviews of decision-makers operating foreign manufacturing firms in different industries in Russia. These firms either produce their goods in Russia or produce in other countries and sell their products via their representative/sales offices in Moscow. The latter usually have staff numbers ranging from 20 to 60 and in some cases substantially more which incurs greater costs than in the case of pure exporting.

The qualitative method was chosen for this study because other methods, such as surveys, were deemed inappropriate as without full knowledge of the nature of the phenomenon investigated, it was impossible to draft appropriate measurable questions (Cavana, Delahaye and Sekeran 2001). Under the author's guidance, the interviewees discussed open-ended questions concerning country conditions in Russia, their evolution and effect on entry modes. The interviewees took notes which were shown to the interviewees at the end of each interview to make sure the notes represented the true and unbiased views of the interviewees. The information gathering was consistent with the field study approach but was

not as systematic as in a random sampling study. The respondent firms constituted a "convenient set" of cooperating firms to which the interviewer could get access. Other data mainly of statistical nature used in this study were collected via telephone inquiries made to one of the interviewer's contact at the Russian Bureau of Statistics (Rosstat). According to Rosstat (2007, pers. comm.) there were 3116 joint ventures (JVs) in Russia at the end of 2006 and out of these approximately 609 firms were engaged in raw material processing, manufacturing, or assembling. However, this source was unable to provide further information as to how many of these JVs were engaged in manufacturing in Russia, how many of them merely exported their products through their Russian partners, and how many of these firms process raw materials. Statistical information of this nature was not also available through the official enquiry to the Rosstat. However, of these 609 firms, there is most likely only a handful of manufacturers as most multinationals' interests are registered with the RCCI and therefore listed in the Year Book because of the benefits of membership such as: legal advice, advertising, government contacts and low costs of maintenance Russian translation (Russian Chamber of Commerce and industry 2007).

Of all the manufacturing firms registered with the RCCI, only 30 firms manufactured their products in Russia. Out of these 30 firms, 1 firm (*Sara Lee*) outsourced to a third party in Russia. Finally, only 25 firms out of all manufacturers in Russia were big enterprises with over 1000 employees worldwide.

Making inferences from a small sample has been done with the utmost caution. However, in depth interviews enabled the authors to identify and evaluate the more qualitative explanatory variables for foreign MMEs involvement in Russian manufacturing. Moreover, since current literature does not clearly and systematically describe and analyze conditions in Russia and their effects on entry mode, a qualitative type of research was chosen to identify other schemes that may be pertinent to this study.

The overall aim of this study was to explore country conditions and how they affect large multinational firms' choice of entry mode into Russia with the view to generalize the results to other emerging markets with similar conditions.

The specific study objectives were as follows:

1. To identify what country conditions affect large multinational manufacturing enterprises' choice of entry mode into Russia
2. To identify the most influential country condition that affects the choice of entry mode as perceived by these firms' decision makers

Foreign multinational manufacturing firms selling their products via manufacturing and sales/representative offices in Russia were selected as the target population and included in the study due to the substantial cost and risk involved in these enterprises. A sample of only 18 firms was selected to participate in face-to-face interviews. However, the potential benefits of data depth and quality compensate for the associated shortcomings of limited representativeness and generalizability associated with qualitative research instruments (Cavana, Delahaye and Sekaran 2001). Subjects of the study included senior level management responsible for operations in Russia. Their names and contact details were selected from the Year Book published annually by the Russian Chamber of Commerce and Industry (RCCI) and from the Membership Directory published by the American Chamber of Commerce in Russia in Moscow (AmCham).

The 10 firms manufacturing/assembling in Russia represent a cross-section of different industries including auto manufacturing (Ford, General Motors, USA), electric appliances (Phillips Holland), food manufacturing (Kraft Foods Central and Eastern Europe Services B.V, the Netherlands), lighting equipment (Osram, Germany), paper manufacturing (Interprint, Germany), electrochemistry (Varta, Germany), cosmetics (Beiersdorf, Germany), personal care products (LRC Products Limited,

GB), home building components (Chaika Forest Products Germany). Some 8 firms manufacture overseas but sell through their offices in Moscow and other cities in Russia thus incurring substantial cost and expressing high commitment and interest in the market are also included in this study. These are: baby food and related care/wellness products (Gerber Products, USA), chemicals, fibers, and plastic (Eastman Chemicals B.V.,USA), furniture (Industria Mobil Mio Dino srl Italy), fabrics (Area International SRL, Italy), pharmaceuticals (Ranbaxy Laboratories Limited, India), braking systems for railway and road transport (Knorr-Bremse Systeme fur Nutzfahrzeuge GmbH, Germany), home electronics and appliances, electronic medical equipment, and other industrial electronics (Hitachi Ltd. Japan), industrial equipment, auto manufacturing (Daewoo Heavy Industries and Machinery, Korea). It should be noted however that only General Motors and Chaika Forest Products represent a JV with Russian partners made in this study.

Each interview lasted on average about 45-50 minutes. During the interviews, executives were asked to provide baseline information about their companies' operations in Russia, economic performance, and conditions in Russia and their effects on entry strategy they employed. Particular emphasis in the interviews was placed on country conditions in Russia and their effects on entry mode decisions.

The interviewees were asked to identify and elaborate on country conditions in Russia that affected or could potentially affect their entry mode decisions. As the focus of this research is on country conditions' effect on the FDI modes, only firms who entered Russia via joint venture agreement with local partners and via wholly owned subsidiary were chosen for the interview. However, considering that setting up a sales/representative office in a foreign location may incur considerable cost and risk (Lei and Slocum 1991; Kumar and Subramaniam 1997), a number of these firms were also interviewed. The firms chosen for the interview were large multinational firms as the

overwhelming majority of foreign manufacturing enterprises operating in Russia are large firms with substantial financial backing and international business expertise (Kouznetsov 2008).

FINDINGS

Cultural Conditions in Russia

All interviewees agreed that factors such as language, religious and other cultural differences did not have any effect on their entry mode decisions. Different attitudes toward work and leadership are important though and sometimes cause tensions. However, the latter did not affect entry mode decisions, as all interviewees confirmed, due to substantial international business experience, knew that some adjustments were inevitable. Moreover, all claimed that big cities such as Moscow and St. Petersburg were already substantially westernized and thus some cross-cultural similarities exist. Having said that, nevertheless, all respondents agreed that for them significant cultural differences would have meant only a choice between the two FDI modes, JV and wholly own subsidiary had the economic conditions been favorable for entry. Some respondents opined that possibly smaller less resourceful firms' entry mode decisions would be affected substantially by cultural differences apart from opportunities of economic gains.

Technological Environments, Infrastructure and Competitive Conditions in Russia

Generally speaking, in almost all cases, interviewees stated that, in terms of research and development, Russia presents one of the greatest opportunities among all emerging markets. Some interviewees suggested for instance that the fact that high quality engineers are relatively inexpensive and readily available, enhances Russia's attraction to multinational manufacturing enterprises, at least initially. Infrastructure in Russia however causes some concern as in many places it is deteriorating and often unreliable. Once again, big cities are the

exception with very well developed infrastructure available in Moscow although overpriced according to all interviewees. However, all respondents argued that they had substantial resources to cope with the situation, and in some instances were able to build their own infrastructure or improve the old one, and had substantial international business experience in similar markets to do it efficiently.

Regarding competition in Russia, all interviewed firms admitted that there was almost no competition coming from other foreign firms and that the local competition did not affect their entry mode decisions as in most cases local firms did not have advantages such as competitive technology, recognized brand name, and quality products. The firms interviewed however were big multinational companies who enjoy good reputations and have well-known brand names in Russia. These factors therefore are considered favorable for choosing FDI entry modes but play no role in choosing in between JV and wholly owned subsidiary entry modes.

Legal Conditions in Russia

Business legislation and regulations that affect the conduct of business in Russia were negatively assessed by all interviewees except the respondent from "Chaika Forest Products" claiming that these conditions were in a similar state in some other developing markets and yet possible to adjust to. Limited trademark and patent protection, still-evolving judicial systems, price controls, tariff and non-tariff barriers are the major obstacles to conducting business in the country. An underdeveloped legal system and the bureaucracy are perhaps the most silent conditions mentioned by the interviewees. Nevertheless, all interviewees argued that the legal system in Russia was still evolving and slowly improving. Despite this recognition, the legal system was still seen by majority of respondents (17) as in a critical state and certain elements of it possessed potential risks to doing business in the country, perhaps even more than in some other emerging

markets. Even though this factor bore significant risks for foreign entrants, it did not prevent the firms interviewed from employing the riskiest modes – wholly owned subsidiary, JV, and sales/representative office. Firms manufacturing in Russia and those who set up representative offices there recognized that legal conditions, despite all problems they may cause, had no effect on their choice of entry mode.

Political Conditions in Russia

Political conditions play an important role in all firms' entry strategy decisions. However, rather than entry mode they affect other elements of entry strategy such as timing of entry, and place of entry, and, in some instances, scale of entry. As far as entry mode is concerned, only those who entered Russia via JV agreement (2 firms) acknowledged political risk as an important factor in their entry mode decisions. Yet, General Motors suggested that a JV mode of entry could have been the wrong decision due to its potential impact on profitability in addition to other concerns such as decision-making. Those companies that entered the Russian market via the wholly owned subsidiary mode and sales/representative office reported that political conditions in Russia had very little impact on their entry mode decisions. They admitted that whilst the country was not stable politically these conditions had not affected their choice of entry modes due to the three factors, long term economic potential of the market, experience in other emerging markets, and substantial financial backing at their disposal.

Moreover, when asked to look back with hindsight and suggest whether they would still enter the Russian market employing the same mode, all respondents representing the wholly owned subsidiary mode answered positively. General Motors, entering via a JV with a local partner, suggested that perhaps their own subsidiary mode would have been a better choice.

All firms also confirmed that corruption had some effect on their day to day operations in Russia or even on their personal well-being. Encounters with the road police officers, bribery, etc had only a certain effect on their personal lives but were not considered a significant issue when entering the Russian market. Additionally, a number of interviewees (10) suggested that it was smaller firms that were easier targets for corrupt officials in Russia as bigger reputable firms were more difficult and even riskier for local officials to involve in corrupt practices. This said, it should be added that all interviewees agreed that political conditions in Russia were rather unfavorable for setting up and carrying on business and most interviewees (14 firms) said that Russia, in their view, was least predictable among all emerging markets in terms of its political conditions and their effects on business operations. Nevertheless, all interviewees agreed that political conditions in Russia could possibly affect other elements of entry strategy rather than the mode of entry. In countries with significant economic potential, due to the firm internal factors such as size, international business experience, financial resources, and reputable brands, as argued by all respondents, firms can employ the riskiest modes even though political conditions there do not favor such risks.

Economic Conditions in Russia

All 18 interviewees strongly emphasized economic factors as the only important in their decision to enter this market and choice of FDI entry mode. All other factors seem to have been considered easily adjustable in as far as a growing economy continues. A number of firms (9) emphasized the growing competition arising from globalization of world markets as one of the factors forcing them to adapt to non-economic factors. However, a number of firms (all manufacturing in Russia and four with representative offices) argued that without accumulated international business experience, financial capabilities, and as a result of these, ability to negotiate favorable terms, their mode decisions would still be substantially affected

by other country conditions regardless of the economic attractiveness. Furthermore, firms who set up representative/sales offices argued that investing in this mode also incurred significant cost and potential risk. According to these firms' decision makers, costs of leases in Moscow were extremely high with the very real likelihood that renting office space there might double the cost of similar facilities in some parts of Western Europe. So these firms, even though did not move their production facilities into Russia, were still at greater risk in Russia than mere exporters. Yet, these firms took these recognized risks due to the very attractive economic conditions available in Russia and their own capabilities already listed above. Growing competition in Russia and was also mentioned as a factor that required their presence in the market. In fact, growing competition in all emerging markets was referred to by all firms as one of the factors that forced these firms to take more risk by employing greater commitment modes. Manufacturing for Russia in other than Russia was explained by lower costs of production outside Russia.

Even though all interviewees agreed that costs and wage rates in Moscow, compared to other emerging markets were extremely high, they still argued that the economic conditions and economic perspectives in Russia were so promising that they would still decide to enter this market via an FDI mode if they had to choose a mode of entry currently. Once again, General Motors would have entered Russia via the wholly owned enterprise mode had they known of all the economic opportunities in the country at the time of entry. In addition, all interviewees agreed that the most important factors influencing their entry mode decision were the country economic conditions such as gross domestic product (GDP), growing GDP per capita, natural resources, that are abundant in Russia, and sound long term economic prospects. Some interviewees even brought up growing prices of oil and other resources as factors that influenced FDI entry mode decisions. Moreover, some firms who were not manufacturing in Russia and maintaining local

sales offices instead (4), said they were considering establishing a manufacturing base in Russia in foreseeable future. Whilst others who manufactured their products or parts in China and some other Asian countries, reported that manufacturing there was considerably cheaper than manufacturing in Russia even when adding the cost of transportation and tariffs. For example, Daewoo, a Korean car manufacturer, assembles its cars in the former Soviet republic of Uzbekistan and then sells its cars in Russia through its office in Moscow and dealership. The costs of assembling in Uzbekistan are lower than in Russia and tariffs between these countries are relatively low. As can be seen, manufacturing in China, for instance, enables some of these firms to achieve substantial economies of scale allowing them to sell their products not just in Russia but in other markets too. However, the strong local presence in Russia through the representative/sales office in Moscow which entailed significant cost was explained by the role the Russian market plays in the firms' strategic plans due to dramatic economic changes that had been taking place in the country.

LIMITATIONS, DISCUSSIONS AND AREA OF FURTHER RESEARCH

Since the outcome of qualitative studies cannot be generalized, the findings of this study only identify areas of further research in the field of country conditions and their effects on entry mode choices in Russia.

The fact that there are only two firms representing the JV mode in this study signifies a substantial shortcoming as other country conditions, apart from economic and political factors, may affect other JVs mode decisions. As a result, further investigation in the area of country conditions and their effects on entry modes should incorporate proper representation of all FDI entry modes. This study was also limited to only a few industries; however the literature indicates that entry mode decisions of firms operating in other industries may be influenced by more than economic conditions. Finally, the interviews present the views of the

given MMEs, enriched by their individual experiences and the inevitably subjective outlook of their executives.

Large MMEs could disregard political, cultural, technological, and social conditions in Russia (one of the riskiest emerging markets as admitted by literature and backed by some respondents) regardless of how negative they were viewed by these firms as long as the economic conditions in the country are favorable and high profits could be achieved. These large sized companies with substantial financial backing, strong brand names, and accumulated international business experience could ignore these non-economic conditions when entering Russia because these characteristics empowered them with the ability to adapt to these conditions. This comes from the two sources: 1. growing world competition stemming from globalization on the one hand and 2. international business experience and substantial resources that have been accumulated by large MMEs on the other. This conclusion is not surprising on its own, however it is argued that other non-economic factors would have played a significantly greater role in choosing entry modes by multinational firms only a decade or two ago as suggested by the literature. This has not yet captured attention of international business scholars who study country conditions in emerging markets and their effects on entry modes and requires further exploration. The fact that some firms manufacture their products outside Russia and serve this market only via sales/representative offices, despite its economic attractiveness, can also be explained by the cost advantages these firms can achieve manufacturing in Asia and not by country conditions that may negatively affect their manufacturing in Russia, which is also an area that needs further research. Finally, favorable economic conditions and large multinational firms' internal factors seem to have become the single decisive factor affecting these firms decision to use the riskiest mode in Russia which described in some literature as one of the least stable emerging markets.

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EVALUATIONS OF FOREIGN-MADE PRODUCTS IN A LIMITED CHOICE ENVIRONMENT: A REPLICATION AND EXTENSION OF THE DIRECT MEDIATION MODEL

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Situations where a market offers only foreign-produced products are becoming more and more common. Nonetheless, little research has focused on this interesting development. This study validates and extends a dual mediation hypothesis for foreign-made product evaluations. It offers insights into how ethnocentric tendencies influence attitudes and purchase intentions of a foreign brand where the available products in the consumer's choice-set are all foreign made. The results show that country of origin-related cognitive responses influence attitude toward the ad and attitude toward the brand with differing intensity under conditions of high or low ethnocentrism and country of origin. The study provides some insights into the process of structural configurations of the relationships among cognitive response dimensions and purchase intentions and into the processes underlying how consumers evaluate foreign-made products.

INTRODUCTION

As international trade expands and development in global markets grows, questions about the nature of competitiveness arise. One of the many factors believed to impact national competitiveness is country of origin effects (Al-Sulaiti and Baker 1998). As a result of outsourcing and globalization, consumers face a new shopping environment. For certain products (e.g., color televisions), the available products in a consumer's choice set are all foreign made. Such situations are becoming more and more common as United States firms transfer or outsource their manufacturing capabilities to foreign countries. Nonetheless, little country of origin (COO) and ethnocentrism research has focused on this interesting development. Thus, the question of how much influence the country of origin provides in product evaluations remains unanswered (Al-Sulaiti and Baker 1998; Peterson and Jolibert 1995), especially in situations where a market has only foreign-produced products.

In the market place, COO information is often presented together with advertising claims that contain product information (Verlegh, Steenkamp and Muehlenberg 2005). To get a comprehensive understanding of the complex psychological processes consumers employ when exposed to advertising stimuli with the country of origin (COO) cue, we focus on the model of advertising effects as presented by Mackenzie, Lutz and Belch (1986), referred to as MLB. This model is thought to be a good representation of the process used by consumers to deal with advertising information because it is consistent with Petty and Cacioppo's (1986) concepts of central and peripheral routes to persuasion (Yoon, Laczniak, Muehling and Reece 1995). MLB's model is the most widely accepted model of ad effects (Karson and Fisher 2005ab; Brown and Stayman 1992; Homer 1990; Moore and Lutz 2000). Also, numerous studies in marketing and consumer behavior (Brown and Stayman 1992) have found support for the central and peripheral routes to persuasion (Petty and Cacioppo 1986) contained in Mackenzie, Lutz and Belch's (1986) dual mediation hypothesis for the prediction of purchase intention across various media, age categories, and product categories (Brown and Stayman 1992; Yoon, Laczniak, Muehling and Reece 1995; Karson

and Fisher 2005a, 2005b; Phelps and Hoy 1996; Homer 1990; Sicilia, Ruiz and Reynolds 2006).

Thus, this study seeks to investigate how the consumer evaluates foreign made products in a limited choice environment where all products are foreign made. Specifically, we are interested in the processes underlying how country of origin thoughts are generated and used, how consumers evaluate foreign-made products, how such antecedents influence attitudes and purchase intentions, and how such processes vary depending on the country of origin and consumer ethnocentrism. This research also extends the line of research involving the Dual Mediation Hypothesis (Mackenzie, Lutz and Belch 1986; Mackenzie and Lutz 1989) by (a) developing and testing the validity of a modified dual mediation model of the mediating role of attitude toward the ad under different country of origin (COO) and ethnocentric conditions, and (b) testing this model with data collected from a laboratory experiment. Further, this study adds to the growing literature on country image effects by examining the interaction of country image and ethnocentrism on several diagnostic measures in the absence of domestic products that traditionally serve as anchor or reference products in product evaluation.

While the growth of multinational companies and the rise of multinational production, where products are designed/branded in one country and manufactured in another (e.g., hybrid products), may blur the accuracy of made in ___ labels (Chao 1993; Al-Sulaiti and Baker 1998), consumers through some mechanism still attach value to country of origin provided on some continuum. This value is updated or validated through some underlying consumer behavior process. In this paper, we do not distinguish between country of design and country of assembly because “separating country of design and country of manufacture may result in a decrease of the meaning that consumers attach to these constructs” (Verlegh and Steenkamp 1999, p. 531).

Finally, this research has important implications for both academicians and managers. First, the research expands the theoretical domain of Mackenzie, Lutz and Belch’s (1986) by incorporating consumer ethnocentrism and country of origin. From a managerial perspective, the research develops and tests the appropriateness of a modified dual mediation hypothesis in the context of country of origin and consumer ethnocentrism, addressing the extent to which managers may find it appropriate to exploit country of origin and consumer ethnocentrism to increase market share.

MODELING CONSUMER REACTIONS TO COUNTRY OF ORIGIN CUES AND CONSUMER ETHNOCENTRISM

There is evidence to suggest that consumers compare incoming information to their existing knowledge structures, thereby producing a series of cognitive responses. These cognitive responses are said to mediate subsequent affective and conative reactions (Wright 1973, p. 54). In the context of country of origin effects and ethnocentrism, consumer reactions to the country image and ethnocentric tendencies should generate cognitive responses that can be identified in similar terms as suggested by Wright (1973).

Country Image Effects

Research has shown that country of origin leads to greater elaboration in thinking about product information and affects how products are evaluated (Hong and Wyer 1989; Gurhan-canli and Maheswaran 2000). Country image may serve as a halo construct from which consumers input product attributes and may then indirectly affect brand attitude through their inferential beliefs. However, when consumers are more familiar with the products from a specific country, country of origin operates as a summary construct encompassing product-specific beliefs and affecting attitudes directly (Han 1989).

In a review by Al-Sulaiti and Baker (1998), the authors report that consumer product perceptions differ significantly as to the type of product and country of origin, and that the country of origin may be an important element in the perceptions consumers have of products and services, especially where little other information is known. In another review and meta-analysis of country of origin research, Verlegh and Steenkamp (1999) report that COO had a larger effect on perceived quality than on attitude toward the product and purchase intention. In addition, differences in economic development were an important factor underlying the COO effect. Verlegh, Steenkamp and Meulenberg (2005) also find direct effect of COO on product evaluations and a three way interaction between COO, claim favorability and involvement. COO influences the way consumers respond to moderate and extreme claims under high or low involvement conditions.

The importance that consumers place on COO image when they evaluate products is contingent on the product context (Josiassen, Lukas and Whitwell 2008). Knowing the country of origin of a product, however, may not be a sufficient indicator of whether a consumer will use the country image information in evaluating a specific product and/or in deciding to buy the product. Nonetheless, such individual COO knowledge may be based on limited information about a country and its products or on rich cognitive underpinnings, and thus, may lead to a consumer's attitude or country image that is held with (greater/lesser) confidence and is (highly/not highly) accessible to consumers (Shimp, Samiee and Madden 1993).

Whereas research by Gurhan-canli and Maheswaran (2000) provides sufficient justification for the direct COO effect on product-related thoughts, the exact mechanism by which COO influences A_{ad} is less clear (see Moon and Jain 2001) and is still under investigation. Thus, in this study the influence of COO on attitude toward the ad is simply postulated to occur (Peterson and Jolibert

1995). Taken together, these studies suggest the need for additional research to diagnose and tease out the underlying effects of country of origin.

Consumer Ethnocentrism Effects

Consumer ethnocentrism distinguishes between individuals who are more or less likely to be receptive to foreign-made products. Shimp and Sharma (1987, p. 280) defined consumer ethnocentrism as "beliefs regarding the appropriateness, indeed the morality of purchasing foreign-made products. An ethnocentric consumer believes that one should not buy imported products because imports threaten the national economy, reduce American job security and such buying behavior is unpatriotic." Thus, consumers feel a natural affinity for their own country and its products. Such tendencies influence how consumers view products from other countries and produce a "home-country bias." However, consumers temper their nationalistic sentiments with certain realism (Penrice 2000). Several studies (e.g., Shimp and Sharma 1987; Sharma, Shimp and Shim 1995; Brodowsky 1998) have shown that consumers' ethnocentric tendencies play a role in purchase decisions and may influence attitudes and behaviors towards products.

Whereas ethnocentrism predicts preference for own-country products, thus exhibiting home-country bias, it is not clear how ethnocentrism operates in a market condition where the products in the consumer's choice set are all foreign made. For example, for certain product categories in the United States (e.g., color televisions), most of the available products have foreign origin. Hence, it is reasonable to speculate that ethnocentrism will play a role in the generation and utilization of COO related thoughts wherein consumers may discount positive COO-related thoughts or exaggerate negative COO related thoughts emanating from their level of ethnocentrism. Although, Moon and Jain (2001) reported negative effects of consumer's ethnocentrism on responses to the creative presentation of international

advertising, the nature of the impact of ethnocentrism on attitude toward the advertisement, A_{ad} , is not well understood in a limited choice environment.

Research by Brodowsky (1998) also suggests that high and low ethnocentric consumers should show differences in the number of COO-related thoughts generated, where low ethnocentric consumers are more likely to use COO cues as objective information. Depending on the level of ethnocentrism, the amount of COO-related thoughts generated could lead to biased evaluations. Consumers process inconsistent information in a biased manner (e.g., Kunda 1990; Ahluwalia, Unnava and Burnkrant 2001).

Modification of the Dual Mediation Hypothesis

Since attitudes influence purchase intentions, both the role of attitudes and how they are formed are important to academicians and managers. Recently, researchers have focused on the role of attitude toward the ad (A_{ad}) in the process through which advertising influences brand attitudes (A_b) and purchase intention (Sicilia, Ruiz and Reynolds 2006). Reviewing the existing literature, Mackenzie, Lutz and Belch (1986) identify four models that could account for the effects of attitude toward the ad (A_{ad}) on attitude toward the brand (A_b). These models are “couched within a general hierarchy-of-effects framework, with cognition preceding affect which, in turn, precedes conation (i.e., purchase intentions). Ad-related cognitions (C_{ad}) influence attitude toward the ad (A_{ad}), and brand-related cognitions (C_b) are posited as causal antecedents of brand attitude (A_{ad})” (Mackenzie, Lutz and Belch 1986, p. 131).

Mackenzie, Lutz and Belch (1986) concluded that a dual mediation hypothesis (DMH), which posits that A_{ad} influences brand attitudes (A_b) both directly and indirectly through brand cognitions (C_b), “best” accounted for the observed relationships under the particular set of conditions in the pretest setting (Homer

1990). The dual mediation hypothesis (DMH) also has proven robust (a) to such effects as level of involvement and brand consideration set (Gardner 1985; Homer 1990), and (b) to the decomposition of ad attitude into claim and non-claim dimensions (Miniard, Bhatla and Rose 1990).

Using Mackenzie, Lutz and Belch (1986) as backdrop and a theoretical base, we developed a modified model of dual mediation hypothesis (MDMH) presented in Figure 1. The modified model (Figure 1) introduces the effects of COO related cognitive responses to the original dual mediation model. This modification is predicated on the fact that COO thoughts can directly influence attitude toward the ad (A_{ad}) and attitude toward the brand (A_b), and consumers’ affective reactions can enhance message acceptance (Coulter and Punj 1999). As noted, stronger product-related cognitions generate more favorable brand affect when implicitly evaluated (thereby completing the indirect loop from $C_{ad} \rightarrow A_{ad} \rightarrow C_b \rightarrow A_b$).

For ad receivers who are motivated to process an ad, cognitive response activity is viewed as occurring prior to formation of ad-induced attitudes. Also, highly involved ad receivers are inclined to rely on cognitive reactions when evaluating an ad, while less involved subjects are inclined to use affective reactions. Brand-related cognitive responses are expected to influence brand attitudes, which in turn, influence purchase intention. Ad-induced brand attitudes mediate both ad-induced attitudes and brand cognition’s influence on purchase intention (Yoon, Laczniak, Muehling and Reece 1995; Madden, Allen and Twibble 1988).

Extrapolating from MacKenzie, Lutz and Belch (1986), when low ethnocentric subjects are given instructions that create high motivation in the ad message and executional aspects, A_{ad} (attitude toward the ad) will have a direct impact on C_b (brand cognition) and A_b (attitude toward the brand). Low ethnocentric individuals will make use of the positive thoughts or cognitive responses generated from

country image cues in forming their attitude toward the ad (A_{ad}). Thus, cognitive responses such as COO thoughts (C_{coo}) and ad execution related thoughts (C_{ad}) will directly influence their attitude toward the ad (A_{ad}). In general, highly ethnocentric consumers are inclined to accentuate the positive aspects of domestic products and to discount the virtues of foreign-made products (Shimp and Sharma 1987). However, in the context where all the products are foreign made, the high ethnocentric individuals will tend to under utilize the high country image cues and the subsequent COO thoughts because of a natural tendency to discount or deflate the significance of the high country image. For low country image cues, low ethnocentric individuals will be less likely to utilize the apparently negative low country image information (COO) in forming attitude toward the ad. They will be less biased against foreign made products. However, the high ethnocentric individuals will be more likely to use the negative information or exaggerate the information from low image countries to form ad attitude (A_{ad}).

METHODOLOGY

Subjects

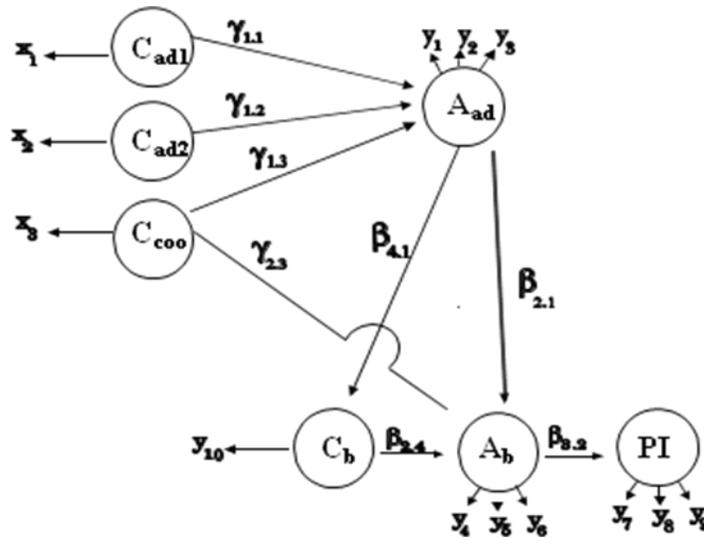
Three hundred and sixty students from a large mid-western university participated in the study. Sixty-two percent were males and 38 percent were females. About 90 percent were between 20 to 25 years old and about ten percent were older than 25. Only ten percent were married and about 77 percent had total family income greater than the \$35,000 to \$45,000 range. Eighty-two percent were white. Most of the participants had completed 15 years or more of formal education, and 25 percent had more than 16 years of formal education. The students were familiar with purchasing domestic and foreign products and were appropriate for our study because they buy imported products such as electronics and computers.

Manipulations

Subjects were randomly assigned to either high or low country of origin (COO) image or favorable or unfavorable country of origin conditions. COO was manipulated by specifying the country in which the television set of interest was manufactured and was embedded in an ad. The ad contained information about the size, price, remote control, graphic tuning system, on-screen graphic displays, 178-channel cable-ready tuner, built-in clock with sleeper timer, and multiple-jack stereo monitor panel. In addition, the ad contained a nondescript picture of the product. Japan represented "high COO" image or favorable product-country image and Mexico represented "low COO" image or unfavorable product-country image with respect to the degree of favorability of the image as a producer of electronic products. The product category (i.e., color television) was selected to reflect a limited choice environment since all the available television sets are made in foreign countries. Japan and Mexico were selected because they are major trading partners with United States. Other researchers have used Japan and Mexico to represent high and low country image, respectively (Arpan and Sun 2006; Hong and Yi 1992; Hong and Wyer 1989; Lim, Darley and Summers 1994).

The country of origin was unobtrusively embedded in a professionally produced advertisement along with information on eight product attributes. In addition to the country of origin, information was provided on the eight product attributes mentioned above. Similar to Verlegh, Steenkamp and Muehlenberg (2005) and Mackenzie, Lutz and Belch (1986), a fictitious brand name, Dyna.Color TV, was used. Employing a fictitious brand name with key product attributes avoids the potential threat of generating artificially high and significant COO effects found in single-cue studies (Lim, Darley and Summers 1994). Both the ad copy and the picture were carefully examined to make sure that they did not include any unintended information. In addition, the two ads for the "high COO" and "low COO"

FIGURE 1:
Theoretical Constructs and Their Relationship



- Key:
- X_1 : Ad execution cognitive responses } C_{ad1}
 - X_2 : Source-bolstering/derogation cognitive responses } C_{ad2}
 - X_3 : COO-related cognitive responses } C_{coo}
 - y_1 : Good/bad reaction to ad } A_{ad}
 - y_2 : Irritable/not irritable reaction to ad } A_{ad}
 - y_3 : Unpleasant/pleasant reaction to ad } A_{ad}
 - y_4 : Good/bad feeling toward the brand } A_b
 - y_5 : High quality/poor quality impression of the brand } A_b
 - y_6 : Likable/not likable feeling toward the brand } A_b
 - y_7 : Likelihood/unlikelihood of purchasing the brand } PI
 - y_8 : Possibility/impossibility of purchasing the brand } PI
 - y_9 : High/low chance of purchasing the brand } PI
 - Y_{10} : Product/claim-related cognitive responses } C_b

conditions were identical except for the COO cue. Immediately after being exposed to the stimulus material, subjects completed the dependent measures, manipulation check items, and ancillary items.

To operationalize the construct of consumer ethnocentrism, Shimp and Sharma's (1987) consumer-ethnocentric tendency scale was used. This 17-item scale has been further validated in other countries (Durvasula, Andrews and Netemeyer 1997; Netemeyer, Durvasula and Lichtenstein 1991). Subjects were asked to indicate on a 5-point Likert-type scale the extent to which they agreed or disagreed with the 17 statements. Cronbach's Alpha reliability of this scale was .90 for this sample. Subjects were classified into high and low ethnocentric groups by median split (median = 2.51). A T-test showed the high ethnocentric group (mean = 3.26) differed significantly ($t = 26.34, p < .001$) from the low ethnocentric group (mean = 1.93). Also, chi-square test showed that the two groups were similar in terms of education, age, and family income.

Dependent Measures

a. *Cognitive Responses.* After exposure to the experimental stimulus (i.e., the advertisement), subjects were given an unexpected thought-listing measure and were asked to "please write on this page all the thoughts you can remember going through your mind while you were looking at the advertisement." A three-minute time limit was imposed to "protect the validity of the measure." This procedure is a common means of obtaining cognitive responses (Darley and Smith 1993; Smith and Swinyard 1988; Wright 1973). Each respondent's questionnaire page showing the cognitive responses was photocopied to avoid disclosing the treatment condition to coders. The responses of each subject were then divided into discrete thoughts. Each thought was assigned to a cognitive response category according to the operational definitions used by Smith and Swinyard (1988) and Darley and Smith (1993). Two graduate research assistants were trained

to understand, memorize, and carefully apply the coding scheme (for details, see Smith and Swinyard 1988). After a series of discussions and mock practices, these two independent judges categorized each thought as identified earlier. Inter-rater agreement was 89 percent and discrepancies were resolved through discussion.

In this coding procedure, the three dimensions of interest were the *subject* of the statement (product-related, ad execution-related, and source-related), the *intent* of the statement (positive, negative, or neutral) and the *COO related* nature of the statement. The following are examples of thoughts classified under each of the categories. *Product-related thoughts* referred to the brand or product class and included statements relating to performance of the product, evaluation of product attributes, and the consequences of using the product. *Ad execution thoughts* identified or evaluated execution aspects of the advertising message and included statements regarding the effectiveness of, interest in, attributes of, or questions about the ad. *Source-related thoughts* were defined as the perceived purveyor of the message and included thoughts that related to the credibility of the source such as the perceived expertise and trustworthiness of the source and/or the effectiveness of the source such as the source's likeability, similarity, confidence, and status. *Intent of the thought* referred to statements in favor of or in support of the product, message or source (positive), statements that were unfavorable toward the product message or source or challenged assertions made (negative). *Presence of COO related thoughts* linked the brand, product class or elements in the advertisements to aspects of a particular country (e.g., "I thought about country X or this ethnic group from this or that area" or "This country X produces products that are of high quality or good quality"), while *non-COO related thoughts* did not link the brand, product class or elements in the ad to aspects of any country or ethnic group. Thus, the cognitive responses were classified accordingly.

Four indices were created following a procedure that was first suggested by Calder, Insko and Yandell (1974) and employed by other researchers (e.g., Homer 1990; MacKenzie, Lutz and Belch 1986; and Maheswaran 1994). The indices pertained to the net valences of message related cognitive responses, source related cognitive responses, product related cognitive responses, and total ethnocentric cognitive responses. The procedure subtracts the total number of negative thoughts from the corresponding total number of positive thoughts so that each index represents the net valence of the cognitions included in the categories which form the index.

b. *Other Dependent Variables.* After collecting the cognitive responses, the subjects were asked to fill out standard measures for attitudes toward the ad, brand attitudes, and purchase intentions. These dependent variables were assessed with multi-item measures employing seven-point semantic differential scales. The attitude toward the advertisement (A_{ad}) scale used the bipolar adjective pairs “good/bad,” “irritating/not irritating,” and “pleasant/not pleasant.” The attitude toward the advertised product (A_b) scale utilized the adjective pairs “good/bad,” “poor/high quality,” and “likeable/not likeable.” For purchase intention (PI), subjects were asked to indicate the likelihood of their purchasing the item. The anchors for this scale were: likely/unlikely, impossible/possible, and high/low chance. These measures were patterned after A_{ad} , A_b , and PI measures used in previous studies (Edell and Staelin 1983; Homer 1990; Mackenzie, Lutz and Belch 1986). Scale reliabilities were assessed by calculating Cronbach’s coefficient alphas. The alphas were: .71, .78, .87, respectively for A_{ad} , A_b , and PI and exceeded Nunnally’s (1978) criterion value of .70. In addition to the foregoing measures, the obtained demographic information included age, gender, education level, total family income, marital status, employment status, and other ancillary items.

ANALYSIS AND RESULTS

Manipulation Check

Manipulation check items confirmed that subjects viewed Japan as producing higher quality, longer lasting, and more prestigious electronic products (means = 5.49, 5.25, 4.76) than Mexico (means = 2.84, 2.88, 2.20), respectively. Matched pairs were significantly different at $p < .01$ level. In addition, chi-square tests showed that subjects in the high image and low image conditions were similar in terms of education, age, and family income.

Cognitive Response Generation: ANOVA

The results for the cognitive response generation were analyzed using ANOVA. A 2 (high vs. low country of origin) x 2 (high vs. low ethnocentrism) ANOVA was performed using the net valences of the cognitive responses as dependent measures. The ANOVA results of the non-COO related cognitive responses showed no significant main effects of country of origin or ethnocentrism condition and no significant Country of Origin x Ethnocentrism interaction. The non-significant interaction effect found between COO and ethnocentrism suggests that ethnocentrism does not have a moderating effect on the type and amount of non-COO related cognitive responses (i.e., message, source, and product) generated from the low and high image conditions. Because the non-COO related cognitive responses did not produce any significant main and interaction effects, these results are not discussed further.

However, some significant country of origin (COO) main effects prevailed for COO-related cognitive responses. The detailed cell means and ANOVA results for COO-related cognitive responses are presented in Table 1. The total COO related cognitive responses was significantly higher for the low country image than for the high country image. The low image COO conditions generated more negative valence than the high COO condition. Thus, in terms of cue generation, the low image COO’s

negative impact was demonstrated. The total cognitive response valences reported ranged from -.10 to -.37 for the four treatment conditions. Also, COO-related product cognitive responses revealed significant country of origin main effect with the low country image showing more negative valence.

The results of the cognitive structure elements of attitude toward the ad, attitude toward the brand, and purchase intention patterned those of the cognitive responses. Significant COO main effects were obtained for the aforementioned cognitive structure measures. No significant main ethnocentric condition effect and no significant COO x Ethnocentrism interaction effect were obtained.

In sum, the ANOVA results revealed only significant COO main effects but no significant Ethnocentrism main effects and no significant COO x Ethnocentrism effects. These results are to be expected because the countries (i.e., Japan and Mexico) employed to reflect high and low COO are both foreign to the subjects of this study. Hence, neither Ethnocentrism nor COO x Ethnocentrism interaction should be expected to yield significant effects since for our United States subjects both Japan and Mexico may elicit no ethnocentric outcomes.

Cognitive Response Utilization: LISREL

However, as implicitly hypothesized in this study, it was expected that differential effects of COO and Ethnocentrism will prevail under the four conditions (i.e., low ethnocentrism-low country image, low ethnocentrism-high country image, high ethnocentrism-low country image, high ethnocentrism-high country image) in the way the process model operates and in the way the underlying individual effects manifest themselves. Thus, the modified dual mediation model (see Figure 1), with its theoretical constructs and relationships, was evaluated using LISREL.

Four separate LISREL analyses were performed using data for the four conditions. The exogenous variables were ad execution

cognitive responses (x_1), source-related cognitive responses (x_2), ethnocentric cognitive responses (x_3), ad-affect (η_1), product-related cognitions (η_4), brand attitude (η_2), and behavioral intention (η_3). Ad execution-related, source-related, COO-related, and product-related thoughts were operationalized via the aforementioned definitions. The modified model of dual hypothesis (MDMH) in Figure 1 specifies that three cognitive responses (x_1 , x_2 , and x_3) impact ad-affect, with ethnocentric cognitive responses (x_3) also influencing brand-affect. The causal ordering among the endogenous variables is that ad-affect (η_1) influences brand attitude (η_2), and behavioral intention (η_3) and product-related cognitions (η_4). Product-related cognitions (η_4) in turn affect brand attitude (η_2) which then influences purchase intention (η_3). The disturbance terms are uncorrelated across equations.

The coefficients and fit indices for the four conditions are discussed in the subsequent section (see Table 2). The sample sizes for the multi-group analysis ranged from 94 to 103. These sample sizes were similar to those used in Homer (1990) and in Droge (1989). For the *low ethnocentric-high image condition*, the MDMH model had a B&B index of .906 with χ^2 value of 168.03 (d.f. = 61). The χ^2 /d.f. ratio was 2.75. These indices show acceptable fit for the MDMH model. All beta coefficients were significant with coefficients ranging from .20 to .61. COO thoughts had direct significant effect on A_b .

For the *high ethnocentric-high country image condition*, the fit indices for the MDMH model showed acceptable fit to the data. The B&B index was .865 with χ^2 value of 161.52 (d.f. = 61). The χ^2 /d.f. ratio was 2.65. All the beta coefficients except β_{24} were significant. The significant coefficients ranged from .43 to .90. COO thoughts (C_{coo}) and product related thoughts (C_b) showed no significant effect on brand attitude.

For the *low ethnocentric-low country image condition*, the MDMH model had a B&B index of .967 with χ^2 value of 129.75 (d.f. = 61). The

**TABLE 1:
Cell Means and ANOVA Results**

Cell Means for Cognitive Responses (Net Valences) and for Cognitive Structure Items	L (COO) L (ETHNO)	L (COO) H (ETHNO)	H (COO) L (ETHNO)	H (COO) H (ETHNO)
TCR	-.33	-.37	-.10	-.10
CPCR	-.20	-.27	-.02	-.03
CMCR	-.08	-.04	-.07	-.02
CSCR	-.05	-.06	-.01	-.04
Aad	4.40	4.31	4.43	4.67
Ab	4.05	3.96	4.73	4.82
PI	2.47	2.45	3.24	2.99

ANOVA Results

Source of Variation	TCR	CMCR	CSCR	CPCR	A _{ad}	A _b	PI
Main Effects							
Country of Origin (COO)	18.69**	.36	1.29	19.81**	3.09*	50.05**	35.21**
Ethnocentrism (ETHNO)	.13	2.41	.51	.86	.46	.01	1.70
2-way Interaction Effect							
COO x ETHNO	.17	.10	.42	.48	2.33	.68	1.09

Note: F (1, 354) values are presented in the table; **p < .05; *p < .10.

- TCR = Total COO related cognitive responses
- CPCR = COO-related product cognitive responses
- CMCR = COO-related ad execution cognitive responses
- CSCR = COO-related source cognitive responses;
- A_{ad} = Attitude toward the advertisement;
- A_b = Attitude toward the advertised product;

χ^2 /d.f ratio was 2.13. These indexes provide support for an acceptable fit. All four beta coefficients were significant with coefficient values ranging from .26 to .59. COO thoughts and product-related thoughts, however, had significant direct effect on A_b.

For the *high ethnocentric-low country image condition*, the MDMH model had a B&B index of .933 with χ^2 value of 84.13 (d.f. = 61) and χ^2 /d.f. ratio of 1.38. These indices indicate a

good fit for the data. The four beta coefficients were significant and range from .34 to .70. The COO thoughts showed direct effect on attitude toward the brand (A_b).

The path coefficients from COO thoughts to brand attitude (A_b) were significant for all conditions except for the high ethnocentric-high country image condition. However, the non-significance of the direct effects of COO thoughts for the high ethnocentric-high COO

condition was to be expected. A plausible explanation is that high ethnocentric individuals would tend to downgrade or deflate high country image products by blocking or interfering with access to the positive ethnocentric or product-related thoughts, thus leading to underutilization of such thoughts.

Table 2 also shows gamma coefficients for the four conditions. In the case of the low ethnocentric-high image condition, all the gamma coefficients were significant. These coefficients ranged from .21 to .48. Ad execution, source bolstering and ethnocentric cognitive responses had a significant impact on attitude toward the ad (A_{ad}). In addition, COO-related cognitive responses were significantly related brand attitude (A_b).

For the high ethnocentric-high image condition, two gamma coefficients ($\gamma_{1.1}$ and $\gamma_{1.3}$) were significant and had values of .43 and .28, respectively. Ad execution thoughts and ethnocentric cognitive responses had significant effect on A_{ad} . Source-related thoughts had no significant effect on A_{ad} and COO-related thoughts showed no significant effect on brand attitude (A_b). For the low ethnocentric-low country image condition, two gamma coefficients ($\gamma_{1.1}$) and ($\gamma_{2.3}$) were significant and had values of .57 and .21, respectively. Ad execution had significant impact on attitude toward the ad (A_{ad}) and COO thoughts showed no significant direct effect on A_b .

In the case of high ethnocentric-low country image condition, $\gamma_{1.1}$ (.42), $\gamma_{1.3}$ (.45) and $\gamma_{2.3}$ (.23) were significant. Ad execution thoughts

TABLE 2:
Standardized Structural Estimates and Goodness of Fit Indices

Conditions	MDMH Model	Conditions	MDMH Model
Low ETHNO, High COO (n=100)		High ETHNO, High COO (n=96)	
$\beta_{2.1}$	.51*	$\beta_{2.1}$	.57*
$\beta_{4.1}$	.30*	$\beta_{4.1}$	.43*
$\beta_{1.2}$	---	$\beta_{1.2}$	---
$\beta_{2.4}$	.20*	$\beta_{2.4}$	.12
$\beta_{3.1}$	---	$\beta_{3.1}$	---
$\beta_{3.2}$	.61*	$\beta_{3.2}$	.90*
$\gamma_{1.1}$	.48*	$\gamma_{1.1}$	.43*
$\gamma_{1.2}$	.25*	$\gamma_{1.2}$	-.03
$\gamma_{1.3}$	.29*	$\gamma_{1.3}$	.28*
$\gamma_{2.3}$	.21*	$\gamma_{2.3}$	.08
χ^2		χ^2	
d.f./p-value		d.f./p-value	
B & B Index		B & B Index	
168.03		161.52	
61/.000		61/.000	
.906		.865	
Low ETHNO, Low COO (n=103)		High ETHNO, Low COO (n=94)	
$\beta_{2.1}$	.59*	$\beta_{2.1}$	.49*
$\beta_{4.1}$	.44*	$\beta_{4.1}$	.50*
$\beta_{1.2}$	---	$\beta_{1.2}$	---
$\beta_{2.4}$	.26*	$\beta_{2.4}$	.34*
$\beta_{3.1}$	---	$\beta_{3.1}$	---
$\beta_{3.2}$	.58*	$\beta_{3.2}$	.70*
$\gamma_{1.1}$	.57*	$\gamma_{1.1}$	.42*
$\gamma_{1.2}$	-.09	$\gamma_{1.2}$	-.04
$\gamma_{1.3}$	-.09	$\gamma_{1.3}$	.45*
$\gamma_{2.3}$	.21*	$\gamma_{2.3}$	.23*
χ^2		χ^2	
d.f./p-value		d.f./p-value	
B & B Index		B & B Index	
129.75		84.13	
61/.000		61/.027	
.967		.933	

and COO thoughts showed significant direct effect on A_{ad} and COO-related thoughts had significant effect on brand attitude (A_b). Source bolstering thought had no significant effect on A_{ad} or A_b .

Ad execution thoughts showed significant direct effect on A_{ad} for all four conditions. Source bolstering thoughts had direct significant effect on A_{ad} only for the low ethnocentric-high country image condition. The COO thoughts had significant impact on (a) A_{ad} for all conditions except in the low-ethnocentric-low country image condition and (b) on A_b for all conditions except for the high-ethnocentric-high country image condition. Thus, country of origin (COO) appears to have differential effect on attitude toward the ad and brand attitude with the level of ethnocentrism moderating its effects.

DISCUSSION AND CONCLUSIONS

We developed and tested a theoretical model that extends McKenzie, Lutz and Belch (1986) in a limited choice environment and explains the underlying processes of how consumers process country image information. First, country of origin (COO) was found to impact cognitive response generation, especially for product-related thoughts. Low COO condition generated more negative thoughts than the high COO condition. This appears to be consistent with the notion that the COO cue is an important piece of information that is factored into the decision making process (Harris and Garner-Earl 1994; Shimp, Samiee and Madden 1993).

Whereas the exact process through which the attitude toward the ad and attitude toward the brand linkage effect is manifested remains an important issue, our study provides some insights into the process of the structural configurations of the relationships among C_b , A_{ad} , A_b , and purchase intentions. We explicitly considered two important antecedents (i.e., country image and ethnocentrism) and modeled ad execution, source bolstering, and COO cognitive responses as direct antecedents of A_{ad}

and modeled country of origin cognitive responses as direct antecedent of A_b .

For the low ethnocentric groups, the MDMH model provided a fairly good fit for the data. For the low ethnocentric groups, the high country image condition revealed significant COO cognitive responses effects on both A_{ad} and A_b , while COO cognitive responses exhibited a significant relationship only to A_b for the low country image condition. COO thoughts showed direct effects on both A_{ad} and A_b when a high country image cue was conveyed. COO thoughts revealed direct effect only on brand attitude when a low country image cue was portrayed.

For the high ethnocentric groups, the MDMH model also showed acceptable fit for the data. The high image condition showed a much weaker cognitive response effect on A_{ad} than the low image condition for the high ethnocentric groups. In addition, the high ethnocentric condition, COO thoughts had significant effect on A_b only when a low image COO cue was presented.

The significant direct effects of the COO related cognitive responses on A_b for the low ethnocentric condition could be attributed to the fact that the low ethnocentric consumers process the high and low COO cue accordingly. For the high ethnocentric condition, however, limited or null effects of the COO related cognitive responses generated from the high COO cue were reported. The limited or null effects may be due to interference or conscious effort of the high ethnocentric consumers to limit or reduce the importance of COO related cognitive responses.

Managerial Implications

The differential effect of COO thoughts on A_{ad} or A_b has several managerial implications. Manufacturers from high image countries or those outsourcing manufacturing components of their products need to consider their target market's level of ethnocentrism in their marketing decisions. The intensity of

ethnocentric tendencies could vary (Shimp and Sharma 1987) because of situational or geo-cultural factors. For example, if the firm's primary target market exhibits a low level of ethnocentrism, outsourcing manufacturing from a high image country should be appropriate. A firm also can use the high country image of the manufacturer in its promotional efforts. However, retailers in low ethnocentric regions should endeavor to sell the low COO image brands or products by making every effort to minimize the elicitation of the COO related thoughts in their marketing communications.

In a limited choice environment where all products are foreign made, marketers can leverage the effects of country of origin on consumer evaluations by associating their brand with favorable country of origin connotations or insinuations (Verlegh, Steenkamp and Meulenbergh 2005). In addition, marketers of products or brands from a country of origin with an unfavorable image need to address the negative image through advertising campaigns, warranty terms, or reputable marketing channels (e.g., Thorelli, Lim and Ye 1989).

Since consumer bias in favor of home country products is absent in the limited choice environment and any bias against foreign products is unevenly distributed across products, marketers need to understand the consumer bias distribution of the product categories of interest to the specific marketer. Although some studies indicate that consumer ethnocentrism appears to be less capable of predicting bias against foreign products from specific countries (Balabanis and Diamatopoulos 2004), our study suggests differential effects and underlying processes of COO cues under high and low ethnocentric conditions. Thus, it would behoove marketers to pay attention to the level of consumer ethnocentrism of the host country or target market and adapt their marketing strategies accordingly.

The low country image manufacturers need to develop marketing programs to compensate for the low image in their market. Previous studies

report the effects of low COO cue and suggested remedies such as warranty to offset such effects (e.g., Thorelli, Lim and Ye 1989). For the high ethnocentrism condition, this study finds only the low image COO cue has a significant effect on A_b . Both high and low image COO cues show significant effect on A_{ad} . Thus, the elicitation of the high COO image related thoughts have positive effects on A_{ad} .

Limitations and Future Research

Our study is not without its share of limitations. First, whereas our subjects were appropriate for the target product, our study may not have given ethnocentrism a full opportunity to play a role as ethnocentrism was measured in a group of highly homogeneous subjects rather than activating ethnocentrism by giving subjects of the study a choice between foreign versus domestic brands. Thus, the experimental and task situation may not have elicited the full effect of ethnocentrism. Since the ethnocentric sentiments are more likely to be stronger for consumers who are threatened by foreign competition or who fear the loss of jobs and reduction in their quality of life, the use of a subset of consumers in the workforce may have created a more relevant situation.

Second, since study participants completed the ethnocentrism scale just before the treatment or the experimental stimulus was introduced, the temporal proximity may have sensitized subjects to the COO manipulation and perhaps made participants' attitude toward these effects highly salient at the time of exposure. Third, the non-significance of ethnocentrism results may be the loss of statistical power from dichotomizing this variable (see Irwin and McClelland 2003). However, the split was necessary to evaluate the process model or the structural linkages and causal paths. Fourth, in the absence of domestic products, the high ethnocentric group may have exhibited low levels of product involvement. In such situations, consumers may tend to select a COO that is closest geographically or culturally to the home country, given equivalent quality perceptions.

That said, our research leaves unresolved some important issues about the role of ethnocentrism in consumer response to country image and product evaluation. Clearly, more research is necessary to fully understand the antecedents and moderators of ethnocentrism. Relevant factors that moderate ethnocentrism's effects and relevant antecedents of consumer ethnocentrism ought to be explored. Social identity theory, the extent to which in-group favoritism is related to the degree of identification with the in-group, may offer new insights in that the degree of identification with one's countrymen could be an important antecedent of ethnocentric attitudes and behavior (Supphellen and Rittenburg 2001).

Further research is needed to understand the contextual factors, individual factors, and the complexity of hybrid products (i.e., different brand origin and country of origin) that may interact with ethnocentrism to impact a company's marketing program. To fully understand how ethnocentrism works, research is needed to explore the conditions that affect the strength of its influence, intensity and situations where the product category is produced in both high and low image countries, as well as within the consumer's own country. Exploration of the combined impact of multiple country images associated with "hybrid" products should also be of interest in both full and limited choice environment. For example, a car could have its drive train from Mexico, the engine from Germany, the computer dashboard from Brazil and the body from Canada, but it is assembled in the United States versus in Japan.

While this study evaluates the direct effects of country of origin (COO) related cognitive responses, the underlying conditions that lead to positive and negative cognitive response elicitation are not investigated. Understanding such underlying conditions can provide useful information to producers and retailers and aid producers and retailers to (a) inhibit or inoculate against any negative thoughts elicitation and usage and (b) promote or enhance positive thoughts elicitation and usage.

COO may be product specific and ethnocentrism may vary by country. For example, one may be ethnocentric and buy only United States cars, but prefer French wine, Japanese electronics, Italian shoes and German watches, or may find South Korean products acceptable but German and Brazilian products unacceptable. Thus, future research is needed to explore the boundaries of these interactions and to investigate the underlying conditions that influence COO and ethnocentric cues in eliciting positive and/or negative thoughts.

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EXAMINING A MODEL OF UNDERSTANDING CUSTOMER VALUE AND SATISFACTION DATA

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Several theoretical frameworks on company efforts to embrace, support, and encourage customer value and satisfaction initiatives and their impact on competitive advantage have been brought forth in recent years. The purpose of this article is to build a solid foundation for understanding, measuring, and testing these important constructs. Overall, this study tested a theoretical model concerning key organizational variables that enable the use of customer satisfaction data. The results find support for all of the hypothesized paths in the model. This is important for practitioners as it demonstrates the value of firms acting on customer satisfaction data (CVS) and the resulting positive business outcomes.

INTRODUCTION

Over the past decade, research has examined market orientation and its effects on positive business performance (e.g., Narver and Slater 1990; Jaworski and Kohli 1993; Greenley 1995; Jaworski and Kohli 1996; Han, Kim and Srivastava 1998; Baker and Sinkula 1999; Matsuno and Mentzer 2000). At the core of market orientation is the customer. Theoretically, superior customer value is the ultimate goal of the market oriented firm (Slater and Narver 1995). As a result, market orientation is partially based on customer knowledge (Slater and Narver 1995), which in turn is developed through customer information from concerning overall satisfaction (Webster 1988) and value.

Conceptualization of a market oriented organization put forth by Kohli and Jaworski (1990) indicated that firms striving for a market orientation should generate intelligence, disseminate the intelligence throughout the organization, and most importantly, act on the intelligence. However, truly implementing this model in practice is difficult and has been elusive for many organizations (Johnson 1999). Researchers suggest that organizations collect a

plethora of data, yet dissemination, comprehension, and utilization fails (Garver and Cook 2001; Morgan, Anderson and Mittal 2005). Information, especially rich customer value and satisfaction (CVS hereafter) data, adds little value if it is not disseminated and acted on appropriately (Conduit and Mavondo 2001). Further, market data, including customer satisfaction measures, used in organizational decision making enables organizations to meet and exceed market demands (Kennedy et al. 2003). For example, it is suggested that positive business performance results from focus, responsiveness, and action on customer data (Matsuno and Mentzer 2000).

Organizations collect a vast amount of market intelligence, but CVS research is the most prevalent type of research conducted by companies today (Oliver 1999). Consistent with market orientation researchers, customer satisfaction researchers suggest that the real challenge is getting employees to use this data to drive continuous improvement (Garver and Cook 2001). Practitioners need help in this area, yet only a handful of articles examine theoretical models focused on analyzing and using customer value and satisfaction data to drive process improvements (Mentzer, Bienstock and Kahn 1995; Morgan et al. 2005). As a result, academic researchers are calling for the development and empirical testing of such models (Mentzer, Bienstock and Kahn 1995;

Avlonitis and Gounaris 1997; Garver and Cook 2001; Kirca et al. 2005). Thus, the purpose of this article is to empirically test a model that examines customer data-driven organizations. The remainder of this discussion is built upon the Kohli and Jaworski (1990) conceptualization and behavioral aspect of marketing orientation.

To fulfill the purpose of this article, the following steps will be taken. First, a literature review will examine theoretical constructs and models in regard to using customer value and satisfaction data to drive process improvements and competitive advantage. Then, the research methodology will be put forth, followed by a discussion of the results. Lastly, research limitations, future research, and final conclusions will be explored.

LITERATURE REVIEW AND MODEL DEVELOPMENT

For many marketing researchers and practitioners, the focus is on making data-driven decisions. With a renewed emphasis on customers, organizations are interested in their positive performance with customers, leading to improved loyalty and retention (Helgesen 2006; Aksoy et al. 2008; Doorn and Verhoef 2008). To achieve this goal, improved understandings and utilizations of customer value and satisfaction data are important. To be data-driven, firms must effectively understand and utilize customer value and satisfaction data. Figure 1 illustrates the hypothesized model.

Understanding CVS Data

While employees may have access to massive amounts of data, they often lack the necessary skills to analyze and fully understand this data (Garver and Cook 2001; Ammar, Moore and Wright 2008). Research indicates that data must be turned into useful information for decision making (e.g., Kaplan and Norton 1996). In order to understand CVS data, researchers and practitioners must ask the right research questions and apply the right analysis tools. At the most basic level, practitioners need to

understand their relative strengths and weaknesses from the customers' perspective. Furthermore, practitioners need a prioritized list of customer driven improvement opportunities (i.e., What should we work on first?). Clearly, this type of analysis is tied directly into strategic, tactical, and operational decision making.

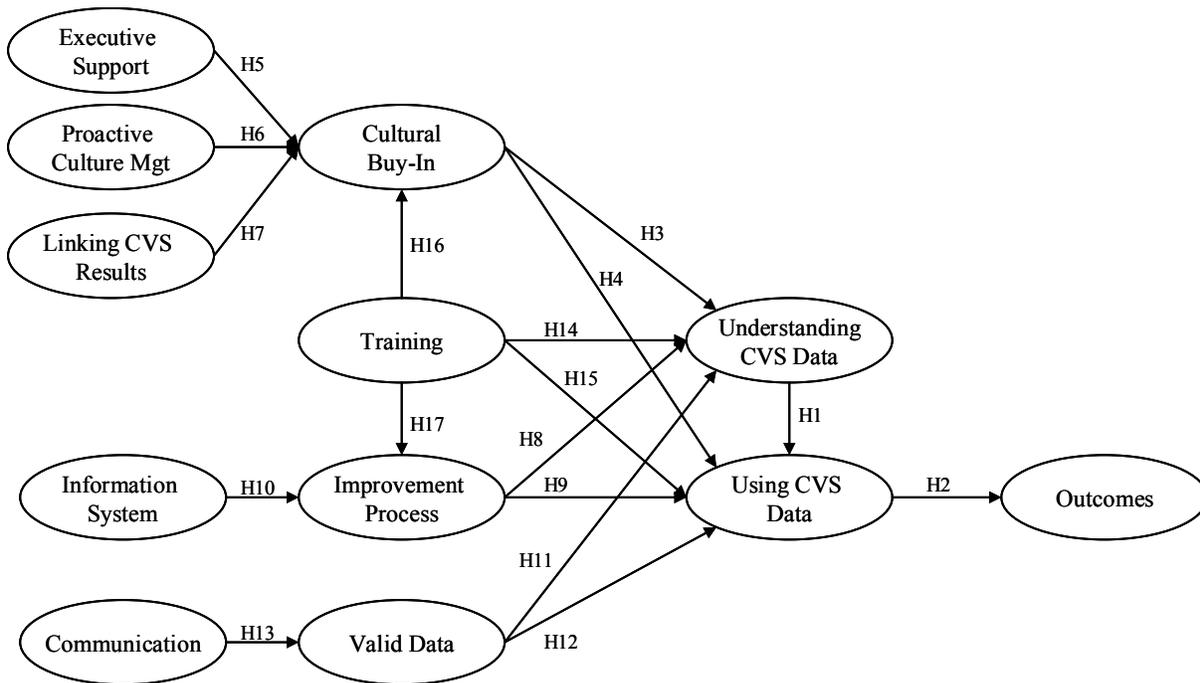
While most firms gather customer data, few excel in fully understanding this data, and part of this problem may stem from the literature. Market orientation frameworks have failed to emphasize the importance of understanding data, and instead have focused on the dissemination of data. For example, Kohli and Jaworski (1990) defined market orientation as 1) intelligence generation 2) intelligence dissemination and 3) responsiveness. This framework assumes data understanding, but, does not make it explicit. To date, only Wrenn (1997) incorporates the importance of understanding data in a model of market orientation. In their conceptualization, Garver and Cook (2001) make understanding CVS data an explicit step in their model of data-driven firms.

Using CVS Data

Data utilization is absolutely critical, and without it, CVS resources are wasted. The real payoff of any CVS program is when managers use CVS data to drive decision making and improve products and services. For example, Kennedy et al. (2003) found that when data is used to make decisions, a customer orientation occurs and positively transforms into internal self-enforcement.

Action plans are effective tools to assist practitioners in using CVS data to drive improvements. When opportunities are identified and prioritized for improvement, cross-functional teams create action plans to improve performance. Utilizing many quality tools such as root cause analysis, quality function deployment, and process mapping, practitioners develop plans to improve and leverage performance with customers. Thus, to

FIGURE 1
Proposed CVS Data Model



truly be a data-driven firm, practitioners must understand CVS data to guide business decisions. With being CVS data-driven, the voice of the customer is the driving force of business decisions. As a result, we put forth the following hypothesis:

H₁: Understanding CVS data will have a positive influence on using CVS data for internal decision making.

Business Outcomes

In this research, being a data-driven organization is the result of understanding and using CVS data. Furthermore, organizations that use data to drive strategy are summarized as market oriented. Researchers have presented positive organization benefit of being market oriented. For example, market orientated firms have been found to have positive organizational performance (Kirca et al. 2005) and outperform their less market oriented competitors (Hooley et al. 2000). Since market oriented firms are anticipating customer needs and change, they

have the ability to increase customer satisfaction and loyalty (Slater and Narver 1994). Homberg and Pflesser (2000) found that organizations that truly are market oriented will be inclined to obtain higher customer satisfaction, higher loyal customers, ability to attract new customers, attain a desirable level of market share, and lower acquisition and operating costs. Importantly, they also found a link between positive market performance and financial performance.

Researchers argue that business and financial success are outcomes associated with customer data-driven firms. Most practitioners are interested in CVS programs because of the business outcomes often touted by academic researchers. Outcomes are hypothesized to results from effectively understanding and utilizing CVS data include: improved customer retention, increased sales revenue, increased market share, increased ROI, improved cross-selling, increased customer acquisition. As a result, we put forth the following hypothesis:

H₂: Using CVS data to drive internal decision making will have a positive influence on business performance.

Antecedents of a Customer Data-Driven Organization

In order to leverage CVS data understanding and utilization into financial outcomes, several antecedents need to be in place. In reviewing literature, it can be inferred that an organization that is grounded in data (i.e., understanding and using CVS data) is strongly influenced by four antecedents: cultural buy-in, a formal improvement process, training programs, and employee perceptions of data validity (see Figure 1).

Cultural “Buy-In”. Many market orientation frameworks are often examined in the context of culture. For example, Deshpande and Webster (1989) draw comparisons of culture to market orientation, defining a culture as shared beliefs and values of the organization. Similarly, other researchers argue for an attitudinal conceptualization of market orientation, defining it as a corporate philosophy of how to conduct business (Drucker 1954; Han, Kim and Srivastava 1998). Other researchers have suggested that market orientation is a combination of attitudes and behavior (Avlonitis and Gounaris 1997).

Improvements in internal customer attitudes about market orientations are likely to lead to implementation within an organization’s culture (Gronroos 1990). For example, all employee jobs and responsibilities as well as all internal cues of the organization should be directed to creating value for the customer (Webster 1988). Organizations need to make efforts to continuously develop internal support from all levels to support market oriented activities (Zhou et al. 2005).

To effectively understand and use CVS data, employees need to accept and embrace CVS data and related initiatives. More specifically related to CVS programs, Garver and Cook (2001) suggest that a CVS culture is a shared

set of attitudes, beliefs, knowledge, and behaviors that focus employees on the importance of listening to, understanding, and using CVS data. Similarly, this research defines cultural buy-in as a shared set of attitudes, beliefs, and values that fully support CVS initiatives.

Garver and Cook (2001) suggest that cultural buy-in to CVS programs has a strong impact on the level of data understanding and utilization. They suggest that data-driven firms have a culture that fully supports the constant monitoring of CVS data for internal decision making, placing equal importance on CVS data as they do with financial measures. Therefore, the following hypotheses are put forth:

H₃: Cultural “buy-in” positively influences understanding CVS data.

H₄: Cultural “buy-in” positively influences using CVS data.

Executive Support, Persistence, and Intensity. Top management support is a continuous theme throughout market orientation literature (e.g., Kirca et al. 2005). An essential prerequisite to becoming market oriented is having top management support and having that support clearly communicated throughout the organization (Kohli and Jaworski 1990). For some time, researchers have suggested the importance of executives’ role in forming core values and shaping company culture (Felton 1959; Webster 1988). Specifically, top management has a dramatic impact developing a culture that commits to putting customers first (Webster 1988; Day 1994). Executive encouragement reinforces the significance of a market orientation and encourages internal customers to track and respond to the market and share information throughout the organization (Kohli and Jaworski 1993). Furthermore, Deshpande, Farley and Webster (1993) found that top management commitment is a prerequisite for achieving favorable business performance.

Parallel with past research, our research suggests that in order for a firm to have full buy-in, there must be proper and explicit

executive support. In order for executives to properly build an organizational culture that is truly driven by CVS data, it must be treated as a pillar of organizational value and strategy. In recent years, executives have treated industry “hot topics” as corporate saviors, such as EDI, ERP and eCommerce. Therefore, avoidance of overemphasis on support for supplementary “hot topic” programs, coupled with emphasis on data-driven measures and action, leaves only explicit executive communication and commitment. In addition, communication may come in varying mediums, but, most importantly, it needs to be delivered with intensity and persistence (Garver and Cook 2001; Garver and Gagnon 2002) and effectively communicated within and outside the organization (Slater and Narver 1994). Put explicitly, Kennedy et al. (2003, p. 77) state that:

For staff members to internalize a customer orientation, they must experience an unbroken circuit of passionate, sincere, unified, and committed leadership from top levels to local managers. Any break in connectivity dilutes and can even negate top leaders’ positive influence.

By simply saying that buy-in is important, executives fail to communicate their intentions through behavior. Although spoken words are important, executive actions (signaling behavior) have the greatest impact on transforming culture (Garver and Cook 2001) because organizational executives can be seen as internal role models (Jaworski and Kohli 1993). Anecdotal evidence would suggest that executives would signal the importance of using CVS data by: funding CVS initiatives with the proper resources, intensely question CVS results, actively searching for solutions to CVS issues, indicating their usage of CVS in decision making, and prioritization of organizational commitments around using CVS data. As a result, we hypothesize that:

H₅: Executive support, persistence, and intensity positively influence cultural “buy-in”.

Proactively Managing The Culture. In order to obtain “buy-in”, the culture must be proactively managed in a way that nurtures an environment that embraces CVS data understanding and utilization (Garver and Cook 2001). Top management can initiate nurturing and development of internal customers through learning activities that assist in the development of a market oriented culture (Jaworski and Kohli 1993; Gainer and Padanyi 2005). For example, utilization of feedback from internal customers offers a proactive approach to culture management (Masiello 1988). Previous research has indicated that firms need to continuously market the firm to employees just as it does to the customers (Maxham and Netermeyer 2003).

No firm will have full “buy-in” unless goals, strategies, and outcomes are fully expressed and embraced throughout the organization. Members of the organization not only see the benefits, but also know their role in obtaining organizational goals.

Strategies to manage the culture include recruiting CVS champions. In short, champions enact change management strategies in an attempt to positively influence the company culture and increase the analysis and use of CVS data (Garver and Gagnon 2002). Some of these strategies include recognizing employee performance, mass communication strategies, and receiving and using employee feedback (Garver and Gagnon 2002). As such, it is hypothesized that:

H₆: Proactively managing the culture positively influences cultural “buy-in”.

Linking CVS Data To Other Performance Measures. Demonstrating a linkage between CVS data and other important performance measures has a strong influence on cultural buy-in. For example, organizational goal setting and performance can affect cultural transition (Kennedy et al. 2003). Further, market oriented behaviors must drive employee reward systems that, in turn, become motivators in developing a market oriented organization

(Webster 1988; Kirca et al. 2005). Thus, we conceptualize linking as the process of overtly indicating to internal customers the importance, use, and outcomes of CVS data in organizational strategy.

First, linking CVS data to internal quality, productivity, and financial performance connects CVS data to mainstream management. Second, demonstrating a solid linkage between CVS performance and financial performance grabs the attention of managers, and shows that CVS is often a leading indicator of retention, market share, sales revenue, and profitability. Finally, linkages can be used to create internal rewards, which in turn can increase internal satisfaction, increase professionalism, and reinforce desirable behaviors (Hampton et al. 2004). Alignment and linkage of CVS data to rewards and outcomes is crucial for market oriented behaviors (Day 1999). Best practice companies know the importance of linking CVS data to various types of performance measures and are now actively pursuing these tasks. As a result, we hypothesize the following:

H₇: Displaying a linkage between CVS data and other important performance measures positively influences cultural “buy-in”.

Improvement Process. The second antecedent to becoming a data-driven organization is the improvement process. Garver (2003) suggests that a formal customer-driven improvement process leads to higher levels of both understanding and using CVS data. Conceptually, we present a formalized improvement process as a structured plan that guides analysis and action plans. The improvement process starts by addressing the strategic questions, such as: What attributes are most important to customers? What are the firm’s strengths and weaknesses?

In contrast to “understanding CVS data,” the improvement process is just that, a process for selecting improvement opportunities, with the first step involving the analysis of customer data. Essentially, “understanding CVS data” is

the output or effectiveness of the improvement process.

The goal of the analysis is to prioritize various improvement opportunities based on CVS data. Yet before selecting final improvement initiatives, certain variables are assessed to further scrutinize the opportunities. For example, what opportunities are aligned with the current strategy? What opportunities are currently most feasible? What opportunities offer the best ROI? What opportunities offer the lowest cost? What opportunities can be completed and implemented in the least amount of time? Research suggests that implementing a structured approach such as this leads to improved understanding and utilization of CVS data (Garver 2003). Thus, the following hypotheses are put forth:

H₈: A formal improvement process positively influences understanding CVS data.

H₉: A formal improvement process positively influences using CVS data.

Information Systems. Intelligence dissemination includes all system wide communication strategies, which may be used to distribute data to different functional areas and processes (Garver and Cook 2001). Effective information sharing and exchanges must be available for internal customers to evaluate all information available to them (Slater and Narver 1995). Information systems provide employees with such capabilities, and as such, they are critical factor in making sure that information is used in strategic decision making, as data-driven firms would do. Organizations today rely heavily on information systems for numerous activities such as supporting and making decisions, creating cross-functional databases, product information, and intranets (Day 1994; Slater and Narver 2000). Information systems facilitate the use and sharing of information within an organization. In fact, internal customer satisfaction can result from the effective use of information systems (Day 1994).

Vast corporate expenditures are not nearly enough to facilitate benefit from information systems in a data-driven organization. The extensiveness of the list above indicates that it is imperative that all employees have access to the customer data. By all employees having access to CVS data, they will be able to not only respond to customer needs, but also be proactive in anticipating needs (Kohli and Jaworski 1990). In many global organizations that would quickly escalate into an insurmountable proposition without the use of an elaborate information systems. Further, without information systems, dissemination and analysis of CVS data could possibly perish before effective use.

The construct of improvement put forth previously is highly dependent upon an effective information system, which effectively shares and analyzes data. In terms of information dissemination archaic methods of development and distribution are gone and new technologies of information systems are used to distribute online reports and raw data for specific analysis (Garver and Cook 2001). In best practice companies, the formal improvement process is built into the information system so that employees have improvement analysis data at their fingertips. Thus, the following hypothesis is put forth:

H₁₀: Information systems that effectively share and analyze CVS data positively influence the structured improvement process.

Valid Data. Employees need to believe that valid, scientific methods are behind the firm's CVS program (Garver and Cook 2001). Valid data refers to the extent to which employees believe in, trust, and represent customers. In short, if employees do not believe in the validity of CVS data, they will not act upon the results. Valid data can be gathered through customer satisfaction surveys, market surveys, focus groups, interviews, and even competitor analysis. In fact, researchers have suggested that internal employees have more confidence in the data when an outside research firm gathers and analyzes the data (Deshpande 1983;

Day 1999). Furthermore, necessary measures need to be taken to scientifically prove the validity of the data. Communicating validity and its scientific background can be very difficult, hence the reason for internal customers being more receptive to research from outside vendors (Garver and Cook 2001). The point is simple, if employees believe in the validity of the data, they are more likely to take time and effort to understand and utilize the data. The following hypotheses are put forth:

H₁₁: Perceptions of valid data positively influence understanding CVS data.

H₁₂: Perceptions of valid data positively influence using CVS data.

Communication. Internal communication that is valued by an organization can assist in development of customer and market orientations (Webster 1994; Strong and Harris 2004). In fact, communication strategies can be effective at shaping an employee's perceptions of CVS data validity (Garver and Gagnon 2002). Specifically, communication is the uninterrupted flow of data, information, feedback, and results that is shared among the organization's members. For example, a market focused firm should have all internal employees discussing customer needs (Masiello 1988).

Corporate communication comes in various formats and is both formal and informal. In addition to keeping CVS top of mind for employees, communication plays an important role in shaping perceptions of the data. Fast and accurate communication of data help suggest that the data is valid. Furthermore, effective communication should directly address the issue of valid data. Communicating a rigorous methodology of collecting data is essential for shaping employee perceptions of data validity. The following hypothesis is put forth:

H₁₃: Communication has a positive influence on perceptions of valid data.

Training. Training is an effective tool used to satisfy internal customers (Day 1994). Market orientations can require special skills from employees, which can be obtained from

training programs (Reukert 1992). In prior research, training programs have been identified as ways to indicate the importance of customer and market orientations to internal employees (Conduit and Mavondo 2001). We conceptualize training as the process by which organizations support employees by offering to enhance the development of special skills needed to understand and use CVS data.

Training programs utilized by customer champions are used to influence data-driven behaviors, cultural buy-in, and an effective improvement process. Understanding and utilizing CVS data requires specific knowledge and behaviors. While these may be learned from trial and error, best practice companies use training programs to educate all employees on how to understand and utilize CVS data (Garver and Gagnon 2002). Training is essential for an organization to become a data-driven firm, as employees must learn how to use the data for decision making. Employees have access to large amounts of data, yet may understand only a small portion of this data and as a result, many employees may lack the skills necessary to turn data into information (Garver and Cook 2001). Unless the skills to collect intelligence from the market are incorporated, the company will be unable to show responsiveness to customers' needs and satisfy them (Avlonitis and Gounaris 1997). Thus, most training time should be devoted to understanding customer listening tools, analyzing CVS data, and using the data to drive competitive advantage (Garver and Gagnon 2002).

Training programs are also effective at influencing cultural buy-in. Garver and Cook (2001) suggest that best practice companies use training in altering attitudes and transforming the cultures by showing the importance of being customer focused. Training also influences employee "buy-in" because it shows employees that executives are serious about understanding and using CVS data for decision making. Employees will recognize the importance and message that executives are

sending through time, money, and resources being dedicated into training programs.

Finally, training programs also help to shape and lead the vigorous improvement processes. Due to its relatively new adoption and detail oriented reporting and analysis, many organizations lack the skill level among employees to support this. Training will not only show the importance of the improvement process, but also teach the methods, skills, and analysis needed to conduct these methods. Therefore, the following hypotheses are put forth:

- H₁₄:** CVS training programs positively influence understanding CVS data.
- H₁₅:** CVS training programs positively influence using CVS data.
- H₁₆:** CVS training programs positively influence cultural "buy-in".
- H₁₇:** CVS training programs positively influence improvement processes.

METHOD

To fulfill the purpose of this paper and test the hypothesized model, a web based survey was developed to measure the constructs in the proposed model. In this section, the following research techniques will be examined: 1) scale development process, 2) web based survey administration, and 3) preliminary data preparation.

Scale Development Process

The purpose of this section is to report quantitative research methods undertaken to develop, refine, and validate measurement scales for constructs represented in the model. Because most of these constructs are new to the literature, validated measurement scales were not available. Thus, to develop reliable and valid measurement scales, the instrument development process put forth by Churchill (1979) and later adapted by Gerbing and Anderson (1988) was undertaken.

Results from a prior qualitative study, along with construct definitions, were the primary input for item generation. Using data from a

prior qualitative study, specific language and phrases used by participants guided item development. For each of the main constructs (except for the presence of training programs and proactively managing the culture), at least six measurement items were developed to capture the essence of each construct. Initial survey construction also included guidance from relevant literature reviews. Once items were generated, panel discussions with academic researchers were conducted to scrutinize scale items and their correspondence to the conceptual definition. During this phase, many items were deleted because of poor wording, redundancy, or on grounds of content and substantive validity (Garver and Mentzer 1999).

Ten point scales using bi-polar anchors (strongly disagree – strongly agree) were used for most of the survey questions. These anchors are commonly used in academic studies and best fit the context of the participants. Ten point scales were used to maximize the sensitivity of the measurement scales, and were deemed relevant for the sample of participants.

Once the measurement scales were developed, they were embedded into a web based questionnaire and “read throughs” were conducted with the target population (Dillman 1978). “Read throughs” were conducted to ensure that the domain of the construct was being tapped and that the intended meaning of each question was properly interpreted. Based on feedback from the target population, the survey was adjusted and refined. The researcher conducted “read throughs” with seven respondents from the sample population, adjusting the measurement scales as necessary.

Data Collection

The final survey was built on a secure website. Dillman (2000) suggests that workers in organizations and members of professional organizations generally have internet access, thus helping to substantiate the use of electronic surveys for data collection. Not surprisingly, the popularity of web based surveys has

increased dramatically over the past few years because of their numerous advantages. For example, Griffis, Goldsby and Cooper (2003) find that web based surveys are superior for large sample sizes and importantly, these researchers found no difference in the data collected online and the data gathered via mail. Also, research suggests that business professionals often prefer electronic surveys due to time pressures at work (e.g., Nesbary 2000).

Data integrity was of the utmost importance in this study. The web based survey was posted on a secure website, and only those participants who were invited to take the survey (via a special tracking mechanism) were able to access and complete the survey. Once each participant completed the survey in its entirety, they would no longer be able to access the secure server.

Participants in the survey were chosen from a comprehensive list of customer satisfaction data professionals that had participated in customer satisfaction conferences within the past year. This list of respondents was a national sample of companies representing numerous industries. The participants had a wide variety of titles but all of them had responsibility in part for their firm’s customer satisfaction program. The comprehensive list consisted of 902 participants, containing the appropriate contact information. For this sampling frame, a web based survey was particularly appropriate, because the majority of conference participants indicated that email was their primary method of contact. Of the 902, approximately two percent (20) of conference attendees did not supply email addresses, resulting in a sampling frame of 882 individuals, representing a variety of different industries.

The next step in the instrument development process was to collect survey data. A customized email invitation was sent to study participants. The email explained the purpose of the research study and their importance in the study, and then asked them to click on the customized tracking link to take the survey. As

an incentive to improve response rates, summary results were shared with study participants. Approximately one week later, a follow-up email was sent to those participants who had not yet responded. The overall response rate was tremendous, with 215 responses representing a response rate of approximately 24 percent.

Data Preparation

Important to any research study, the data was thoroughly examined using a variety of descriptive statistics including the following: frequencies, means, standard deviations, outliers, and a variety of graphing techniques. After this process, any and all data problems were addressed, including missing data.

After descriptive statistics were examined, missing data was addressed. Of the 215 returned surveys, seven surveys were deemed to be unusable. Most of the unusable surveys responded to only a small number of the questions, or did not have enough experience to fully answer the questions. Otherwise, missing data was not a major problem for this study. For the remaining usable surveys, the overwhelming majority filled out the entire survey, answering each question. Because we are using AMOS to analyze the data, we imputed the missing data using mean based replacement methods. At this point, the data is ready for advanced data analysis employing structural equation modeling.

RESULTS

To fulfill the purpose of this study, structural equation modeling was employed to validate the measurement model, test research hypotheses, and examine the overall structural model. Structural equation modeling researchers propose a two step procedure when testing theoretical models (Bollen 1989; Gerbing and Anderson 1988; Williams, Medsker and Holohan 1994). The first step is to examine and validate the measurement model, with the second step testing the structural model and conducting hypothesis tests.

Validating the Measurement Model

Confirmatory factor analysis in structural equation modeling (SEM hereafter) was conducted to refine and validate the measurement model. To accomplish this, the following tests were conducted: scale unidimensionality, scale reliability, convergent validity, and discriminant validity.

Scale Unidimensionality. Because all the scales were created for this study, exploratory factor analysis was first undertaken to examine the unidimensionality of each construct. Employing both principal components analysis and maximum likelihood factor analysis techniques in SPSS, all constructs (except for “improvement process”) in the model showed strong evidence for unidimensionality. For example, using an eigenvalue of 1 as the cutoff value for unidimensional constructs, only one factor (dimension) was extracted and all factor loadings possessed substantial magnitudes (most loadings .70 and higher).

The “improvement process” construct actually displayed three factors (dimensions) in exploratory factor analysis, which actually corresponds to the conceptual definition. Dimension 1 relates to analyzing quantitative data to identify improvement opportunities, while dimension 2 corresponds to analyzing qualitative data to identify improvement opportunities. Dimension 3 corresponds to other factors that affect which improvement opportunity is selected, such as feasibility, ROI, cost investment, strategic direction, and time constraints. In future analysis, “improvement process” is modeled as a higher order factor consisting of three separate, but related dimensions.

To assess unidimensionality in confirmatory factor analysis (CFA) using AMOS, we examined the overall measurement model fit and components of the measurement model (Steenkamp and van Trijp 1991; Medsker, Williams and Holohan 1994; Garver and Mentzer 1999). To evaluate overall model fit, fit indexes were selected that meet the criteria

for an “ideal” fit index. Marsh, Balla and McDonald (1988) propose that the criteria for an ideal fit index are: 1) relative independence of sample size, 2) accuracy and consistency to assess different models, and 3) ease of interpretation aided by a well defined continuum or preset range. Many fit indexes simply do not meet these criteria, because many are adversely affected by sample size (Marsh, Balla and McDonald 1988; Medsker, Williams and Holahan 1994). Meeting these criteria, the overall fit of the model is tested by two measures: the Tucker-Lewis index (TLI) and the comparative fit index (CFI). An acceptable value for both measures is .90 or greater (Hulland, Chow and Lam 1996). Measurement model fit statistics from confirmatory factor analysis for each latent variable and the corresponding measurement items provide further evidence that each construct is indeed unidimensional.

SEM guidelines suggest that researchers examine components of the measurement model to complement overall model fit evaluations (Bollen and Long 1992). Examining components of the measurement model, standardized parameter estimates between indicators and latent variables should 1) have the correct sign, 2) possess a substantial magnitude (equal or greater than .70), and 3) be statistically significant ($t\text{-value} \geq 1.96$) (Steenkamp and van Trijp 1991; Hulland, Chow and Lam 1996). In the measurement model, all items possessed the correct sign and were statistically significant. Only two items possessed magnitudes below .70, and these were both above .60. As such, all scales are considered unidimensional in nature.

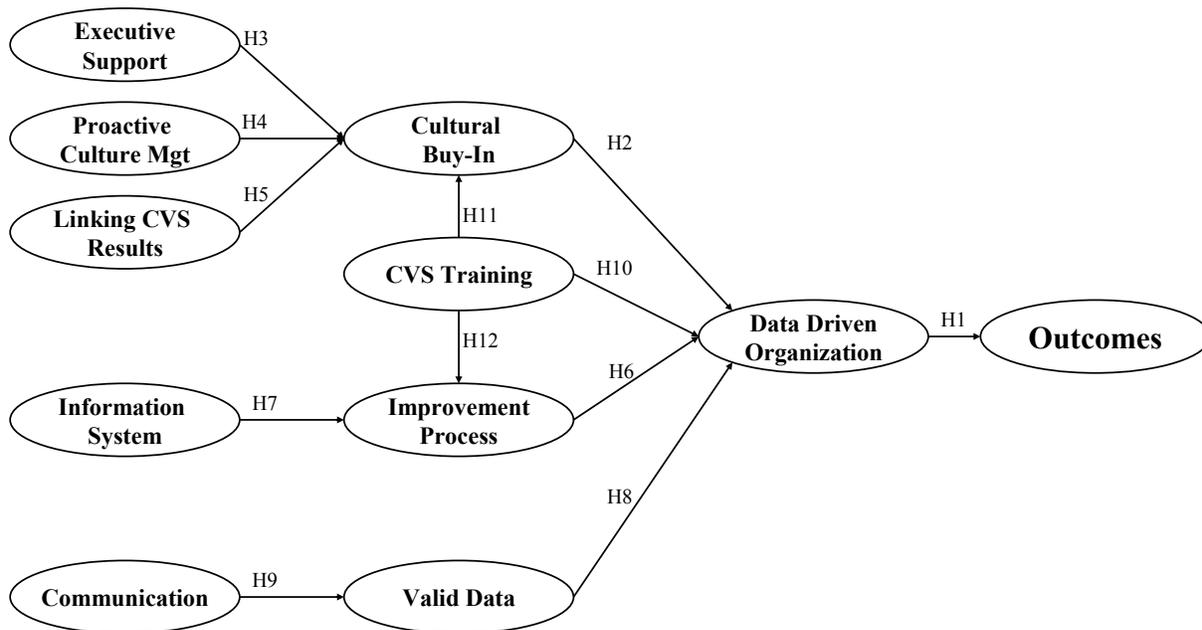
Scale Reliability. To assess the reliability of each scale, Cronbach’s Alpha was assessed through SPSS. Reliability was confirmed for all scales that contained at least three measurement items. Alpha coefficients range from .70 to .97, with all scales displaying excellent reliability, as shown in Table 1, along with scale means and standard deviations.

Convergent Validity. Ideally, convergent validity within a single study should be accomplished and tested for by employing completely different methods to measure constructs. While this is the ideal situation, it is often difficult to operationalize in practice. A surrogate test for convergent validity is often conducted by evaluating the measurement model in CFA (Gerbing and Anderson 1988; Steenkamp and van Trijp 1991; Garver and Mentzer 1999). In short, examination of the measurement model results confirmed convergent validity for each scale. The final measurement model displayed a good overall fit. The paths from latent variables to their indicators are all in the right direction, possess a magnitude over .70, and are significant at an alpha level of .05, providing statistical evidence for convergent validity in this study.

Discriminant Validity. Discriminant validity tests are important for any research study. To test for discriminant validity, chi-square difference tests were conducted for all possible pairs of constructs in the model, modeling latent variable as different constructs, then as a combined construct. Relatively large chi-square differences suggest that the constructs are discriminating well and tapping into different constructs. Relatively large differences in chi-square along with statistically significant p-values provide evidence for discriminant validity and suggest that the constructs are discriminating well and statistically acting as different constructs. In the measurement model, the statistics suggest that “understanding” and “using” CVS data do not properly discriminate from one another. They instead display characteristics of a single, higher order construct. All other constructs in the model show strong evidence of discriminant validity, yet the problem between understanding and using CVS data needs to be addressed.

Conceptually, research suggests that distinct and different constructs exist (Garver and Cook 2001); however, the statistics provide evidence that they are more appropriately modeled as a single, higher order construct. To deal with this

FIGURE 2
Revised CVS Data Model



issue, understanding and using CVS data will be combined into a higher order construct, labeled “data-driven,” for all further modeling. Because of this change in the model, certain hypotheses were combined; the revised model and hypotheses are put forth in Table 2 and Figure 2.

Examining the Structural Model

Now that the measurement model has been examined, it is time to examine both the measurement model and structural model simultaneously. Because of model complexity, partial disaggregation will be introduced and explained briefly. Then, results for the overall model fit and hypotheses tests will be presented.

Partial Disaggregation. As discussed in the literature, SEM software programs cannot tolerate a large number of indicators per latent variable (Bagozzi and Heatherton 1994; Baumgartner and Homburg 1996; Dabholkar, Thorpe and Rentz 1997; Garver and Mentzer 1999). To decrease model complexity, composite indicators were created for most

constructs in the model. This procedure is recommended by SEM researchers and is commonly practiced in the literature when measurement scales possess a large number of items (Bagozzi and Heatherton 1994; Bagozzi and Edwards 1998).

While no set procedure is commonly followed when forming composites (Baumgartner and Homburg 1996; Bagozzi and Edwards 1998), researchers suggest that items should be randomly assigned to composites (Dabholkar, Thorpe and Rentz 1997). In this study, items were randomly assigned to form two to three composites for each latent variable. For “improvement process,” items from each dimension were grouped together, forming three composites, each representing its own lower order factor. This allows SEM to maintain its advantage of accounting for measurement error while minimizing problems associated with model identification and complexity. In Table 3, the results of partial disaggregation in the measurement model are displayed. The results display that parameter estimates from composites to latent variables are of sufficient magnitude and are statistically

TABLE 1
Scale Reliability

Construct	Number of Items	Coefficient Alpha	Mean	S.D.
Buy-In	4	0.913	6.440	.446
Communication	6	0.703	5.521	.773
Understanding CVS Data	3	0.832	5.583	.458
Using CVS Data	3	0.927	4.779	.602
Executive Support	6	0.848	6.325	1.086
Performance Outcomes	7	0.923	6.295	.391
Valid Data	3	0.971	6.756	.190
Improvement Process	14	0.922	5.754	.460
Information System	9	0.952	4.438	.559
Linkage	7	0.808	1.497	.118
Proactively Manage Culture	1	<i>N/A</i>	7.150	2.084
Training	1	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>

TABLE 2
Revised Hypotheses

Hypothesis Number	Hypothesis
H ₁	Being data-driven (i.e., understanding and using customer satisfaction data) will have a positive influence on positive business performance outcomes.
H ₂	Cultural “buy-in” positively influences being data-driven (understanding and using CVS data).
H ₃	Executive support, persistence, and intensity positively influence cultural “buy-in”.
H ₄	Proactively managing the culture positively influences cultural “buy-in”.
H ₅	Displaying a linkage between CVS data and other important performance measures positively influences cultural “buy-in”.
H ₆	A formal improvement process positively influences being data-driven.
H ₇	Information systems that effectively share and analyze CVS data positively influence the structured improvement process.
H ₈	Perceptions of valid data positively influence being data-driven.
H ₉	Communication positively influences perceived validity.
H ₁₀	CVS training programs positively influence being data-driven.
H ₁₁	CVS training programs positively influence cultural “buy-in.”
H ₁₂	CVS training programs positively influence improvement processes.

significant. For example, all parameter estimates have p-values less than .001 and range in magnitude from .60 to .99, with most values being .80 or greater. Only two parameter estimates are below the .70 cutoff value put forth by Steenkamp and van Trijp (1991). In summary, the partial disaggregation measurement model performs quite well.

Overall Model Fit. Traditional goodness of fit indices, such as chi-square, are not necessarily the best indication of overall model fit (e.g., Bagozzi and Yi 1988). Thus, other measures (TLI and CFI) of overall fit were assessed which meet the “ideal index” criteria (Garver and Metzner 1999). After testing the overall model fit of both the measurement and structural model simultaneously, we find that both the TLI and the CFI exceed an acceptable baseline measure of .90. The TLI was 0.920 and CFI was 0.934, both suggesting a model that fits well. The results are shown in Table 4.

Hypotheses Tests. Table 5 contains the results of the hypotheses tests. The first hypothesis states that being a data-driven organization leads to favorable business outcomes. This relationship is statistically significant with a parameter estimate of .490, thus being confirmed in the model.

Displaying positive influences on becoming a data-driven firm, cultural buy-in, a formal improvement process, valid data, and training programs all display statistically significant relationships, with substantial parameter estimates. For example, cultural buy-in displays the largest impact (.609) on being data-driven, with improvement process and perceptions of valid data displaying more modest, yet still substantial relationships (.371 for improvement process and .289 for perceptions of valid data). Having company wide training programs displays a statistically significant relationship (p-value of .048) on becoming data-driven, yet the parameter estimate shows a relatively modest impact (.088).

Cultural buy-in is positively influenced by four constructs that include: proactively managing

the culture, linkage to other performance measures, training, and executive support, persistence and intensity. All four relationships are statistically significant and display parameter estimates that are substantial in magnitude. For example, executive support, persistence, and intensity have the largest impact on cultural buy-in, with a parameter estimate of .43 for this relationship. Proactively managing the culture displays a statistically significant relationship with a substantial parameter estimate of .400, while displaying a linkage between CVS results and other performance measures also shows a substantial magnitude of .373. Training program displays a statistically significant relationship, yet a more modest impact on cultural buy-in with a parameter estimate of .119.

Positively influencing perceptions of data validity, communication strategies display a statistically significant relationship with a substantial parameter estimate of .579. Additionally, the results show that training programs positively influence an improvement process with a parameter estimate of .230.

DISCUSSION AND CONCLUSIONS

After testing the hypothetical model, our statistical results provide evidence for its confirmation. If organizations desire and strive for optimal business outcomes, one clear way is to focus on becoming a customer data-driven firm. By striving to become a data-driven firm, the organization is focused on its customers and utilizing their feedback to drive decisions and solutions. By doing so, firms should be rewarded with high levels of business performance.

Organizations can become data-driven through various means. However, through literature reviews, interviews, research, and analysis, we have determined that four facets are essential to a data-driven firm: cultural buy-in, training, a formal improvement process, and perceptions of valid data. Without these factors, development of a data-driven organization would be difficult.

TABLE 3
Partial Disaggregation Measurement Model Results

Construct	Composite	Parameter Estimate	P-Value
Data-driven	DDCOMP1	0.815	0.001
	DDCOMP2	0.889	0.001
	DDCOMP3	0.830	0.001
Outcomes	OUTCOMP1	0.913	0.001
	OUTCOMP2	0.850	0.001
Buy-In	BUYINCOMP1	0.965	0.001
	BUYINCOMP2	0.798	0.001
Executive Support	ESPISTR	0.873	0.001
	ESPISPOK	0.829	0.001
	ESPIACTI	0.867	0.001
	ESPIINTE	0.925	0.001
	ESPISUPP	0.851	0.001
	ESPIGIVE	0.893	0.001
Linkage	LNKCOMP1	0.848	0.001
	LNKCOMP2	0.739	0.001
Improvement	IMPRCOP1	0.720	0.001
	IMPRCOP2	0.601	0.001
	IMPRCOP3	0.877	0.001
Info Systems	INFCOMP1	0.929	0.001
	INFCOMP2	0.934	0.001
Valid Data	CSDOURAC	0.910	0.001
	CSDOURTR	0.993	0.001
	CSDOURVA	0.974	0.001
Communication	COMCOMP1	0.677	0.001
	COMCOMP2	0.983	0.001

TABLE 4
One Model Fit

Overall Model Measure	Overall Model Score	Acceptable Model Fit	Acceptable Baseline
TLI	0.92	Passed	0.9
CFI	0.934	Passed	0.9

TABLE 5
Hypothesis Test Results

Hypothesis Number	Hypothesis	Parameter Estimate	P-Value	Accept or Reject
H ₁	Being data-driven (i.e., understanding and using customer satisfaction data) will have a positive influence on positive business performance outcomes.	0.490	0.001	Accept
H ₂	Cultural “buy-in” positively influences being data-driven (understanding and using CVS data).	0.609	0.001	Accept
H ₃	Executive support, persistence, and intensity positively influence cultural “buy-in”.	0.430	0.001	Accept
H ₄	Proactively managing the culture positively influences cultural “buy-in”.	0.400	0.001	Accept
H ₅	Displaying a linkage between CVS data and other important performance measures positively influences cultural “buy-in”.	0.373	0.001	Accept
H ₆	A formal improvement process positively influences being data-driven.	0.088	0.048	Accept
H ₇	Information systems that effectively share and analyze CVS data positively influence the structured improvement process.	0.119	0.023	Accept
H ₈	Perceptions of valid data positively influence being data-driven.	0.371	0.001	Accept
H ₉	Communication positively influences perceived validity.	0.230	0.001	Accept
H ₁₀	CVS training programs positively influence being data-driven.	0.575	0.001	Accept
H ₁₁	CVS training programs positively influence cultural “buy-in.”	0.289	0.001	Accept
H ₁₂	CVS training programs positively influence improvement processes.	0.579	0.001	Accept

In order to make everyone within the organization perceive that the organization is focused on data-driven decision making, cultural buy-in is essential. Further, buy-in is not easy to obtain; our research has shown that buy-in is strongly influenced by executive support, linkage of CVS to other important performance measures, CVS training programs, and proactively managing the culture. When an organization realizes and focuses on these factors, it is beginning to align itself in the direction of a data-driven organization.

Another facet that organizations must have in place before becoming data-driven is the employee perception that their CVS data is valid and accurate. Strong company communication from frequent sources – email, web, newsletter, meetings, etc. – must continually reinforce the use of CVS data and its accuracy.

A formal improvement process also leads to being a data-driven firm. The formal improvement process guides both understanding and use of CVS data, and has a dramatic effect on becoming data-driven. Further, information systems must be in place to support a formal improvement process.

Finally, the business function that helps tie all of these conditions together is training. Proper training is essential to drive and sell data-driven decision making. Training has a direct influence on the organization becoming data-driven because the individual users in the firm need to know how to use it. Further, training also influences buy-in and the improvement process. The correct training needs to be in place and utilized for users to perceive that the goals and direction of the organization are tangible and valid.

Customer value and satisfaction data is the most common type of marketing research conducted by companies today, yet little empirical research has examined how organizations positively influence the level of understanding and utilization of CVS data to drive competitive advantage. This study makes

a significant contribution to the literature by putting forth a model that explains key variables that impact an organization's ability to understand and respond to CVS data, and empirically testing this model. Additionally, it puts forth new measures that are statistically validated for use in future research.

From a management perspective, this study helps practitioners understand key drivers of improving organizational understanding and utilization of CVS data. Not only does this study put forth key variables that need to be in place, but it also guides practitioners to those variables which have the most impact on getting employees to understand and use CVS data. Because many of the variables in this model are ignored currently by practitioners (i.e., a small percentage of companies deploy CVS training programs), hopefully this study will make the case for putting as much time, energy, and resources into understanding and using CVS data as companies currently do with collecting CVS data.

LIMITATIONS AND FUTURE RESEARCH

As with any research study, there are limitations which need to be overcome in future research. Web based surveys were used to collect data. While there are many advantages to this collection method, certain limitations exist such as the exclusion of participants who do not use email. Generalizability issues also surround this study. The final sample size is also a limitation. While the final sample size meets some general guidelines for conducting SEM research, it is clearly below other guidelines. As in any study, a larger sample size (or one that meets generally accepted guidelines) is preferred. However, the sample size limits the statistical power of this study and not the stability of the parameter estimates. Even with limited statistical power, the results were highly significant. Because of the limited sampling frame, these results should be viewed as tentative in nature and not necessarily generalizing to the entire population. Further, while these limitations do not diminish this

study's theoretical contribution, future research should be designed and conducted to overcome these current limitations.

In spite of these limitations, this study makes a significant contribution to our understanding the factors contributing to becoming a data-driven organization and the resulting effect a data-driven organization has on business performance. Future research should be designed to overcome the limitations of this study so that scientific knowledge in this area can rapidly proceed.

Improving a firm's understanding and utilization of CVS data is imperative to organizational performance (Norton and Kaplan 1994), and is a worthy area for future research. First, this study needs to be replicated to increase the generalizability of the model and the research findings.

Additionally, would various models be more applicable to different groups of organizations? For different groups of companies, what model is most appropriate? This study examined one overall model. Would relationships and the strengths of those relationships change with different groups or segments of organizations? For example, are employee perceptions of data validity important to address in all companies? Is linking CVS results to other important traditional performance measures important in all companies? How many different models may be appropriate and what would the nature of those models be? Latent class regression may be an appropriate analysis tool to help answer these questions.

In conclusion, this study makes a significant contribution to the body of knowledge by examining factors leading to greater understanding and usage of CVS data and the impact upon business performance. The study puts forth a model that is confirmed through the use of structural equation modeling. To this point, little research has examined this research area, and more research is needed.

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ONLINE AUCTION FRAUD AND EBAY

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EBay claims that users face only a 1 in 10,000 risk of fraud. Evidence from the FBI shows the rate is more like 1 in 100, or one hundred times greater than the company alleges. Despite the usefulness of eBay's feedback mechanism buyers still face substantial risk of being defrauded. This paper details the level and dimension of online fraud, examines the history of fraud on eBay, followed by a discussion of feedback and its attendant limitations. eBay's new feedback policies and other fraud reduction efforts are then evaluated. Finally, fraud reduction recommendations are provided for all three auction participant groups: buyers, sellers, and eBay itself. Managing and minimizing online auction fraud is a challenge all three groups must meet. Trust is the antithesis of fraud and achieving trust requires an understanding and appreciation of the actions each participant group must make.

INTRODUCTION

Fraud is a persistent problem for online auction participants, particularly for buyers. eBay dominates the online auction world with 100 million items on sale (*Consumer Reports* 2007, 12). While eBay claims fraud occurs in only 1 in 10,000 of its auctions, a 2007 *Consumer Reports* Study found almost half of eBay buyers encountered deceptions. According to the FBI, the actual fraud rate for online auctions is more like one percent or 100 times the number eBay reports. One reason eBay's reported fraud rate is so low is because it counts auctions where fraud is claimed. Also, many auctions are of low value, averaging under \$25 per item, thus, many defrauded buyers consider it not worth the trouble to pursue a claim. Of course there are many non-auction transactions and the fraud problem is very significant. Gavish and Tucci (2006) cite a VeriSign study (2003) that reports 6.25 percent of e-commerce transactions in the U.S. were attempts at fraud. The Internet Crime Complaint Center (IC3) reports it has received its one millionth complaint about online crime (IC3 2007). While this paper focuses on online auction fraud, a very high threat of general online crime exists for both buyers and sellers.

Until recently eBay appeared to be unconcerned about fraud. eBay has won legal cases which confirm the fact that they are acting only as a venue for auctions (Mangalindan and O'Connell 2008). This means the seller must be held legally responsible for fraud. According to the *Wall Street Journal*, recent reductions in auction growth have impacted eBay (Mangalindan 2007). Despite revenue growth of 26 percent in the most recent quarter, eBay experienced a six percent decrease in listings (p. B2). While eBay boasts over 240 million registered users worldwide, only a third of them (83 million) are active users. As growth has slowed, eBay's response has been to modify a number of dimensions in site architecture, bidder options, and to add a variety of restrictions on its sellers (Mangalindan 2007). Furthermore, eBay claims to have "2,000 staff members policing its site around the clock" (*Consumer Reports* 2007). Reducing fraud has been a longstanding eBay concern but now appears to have a new urgency.

Fraud will always threaten online auction participants. While auction venue providers can increase safety, buyers and sellers must also work to manage their risk of experiencing fraud. Since eBay and buyer/seller participants act as a type of social entity it is useful to detail the actions each group can undertake to reduce fraud. The paper concludes with

recommendations for each participant group on how to reduce their likelihood of experiencing fraud.

The Level of Online Fraud

According to the Federal Trade Commission (FTC), complaints about online fraud are always near the top of the list of complaints received each year (FTC 2006), with nearly 45 percent of all complaints coming from Internet auction fraud (Internet Fraud Crime Report 2006). The average loss reported was \$602.50 per auction complaint. The most common complaints concern late shipments, no shipments, or shipments of products that are not the same quality as advertised. Recent empirical evidence suggests that the FBI estimate that one percent of online Trades are fraudulent is actually optimistic. Based upon a study of 1,200 respondents, Gavish and Tucci (2006) provide evidence that fraud levels are probably twice the FBI estimate. Many online buyers continue to avoid online purchases due to mistrust even with non-auction sellers. Online fraud is perpetrated far too often and is clearly a particular threat with online auctions.

History of Fraud and eBay

eBay has long represented its online auction venue as very safe and nearly free of fraud. However, the eBay user agreement specifies that they “have no control over the quality, safety or legality of items advertised, the truth or accuracy of the listings, the ability of sellers to sell items or the ability of buyers to pay for items. We cannot ensure that a buyer or seller will actually complete a transaction.” (eBay User Agreement 2008). eBay details a list of prohibited practices covering a myriad of issues and circumstance. Nevertheless, those who have brought suits against eBay have lost on the basis of eBay’s disclaimer. In all fairness, eBay probably couldn’t operate without this protection. But, without efforts to combat fraud, eBay’s vaunted auction world would become unraveled. Feedback is the basic underpinning of trust and continues to be a valuable ally of both buyer and seller. Despite this, many

fraudulent sellers operate with seeming impunity. Comments are an important means of examining underlying trust issues. Research has shown that some buyers are misled by exaggerated claims of quality (Jin and Kato 2006). As a consequence, textual feedback comments are useful in spotting this deception.

Maintaining a consistent aggressive stance against bad sellers should serve eBay’s interests. According to Mangalindan, “eBay restricts the selling privileges of lower-rated sellers or cuts them off entirely” (2007, B1). eBay has also added more detailed seller ratings about such things as timeliness of delivery and how closely the products matched their descriptions. Mangalindan reports that eBay itself says “that 1 percent of sellers are responsible for 35 percent of the negative buying experiences on the site.” If this is true, then one might expect a more rigorous rooting out of these bad sellers.

An insidious form of fraud is shill bidding. This takes place when a seller bids on his or her own item. This practice is well known but difficult to detect. Since the victim has no knowledge of who is bidding they perceive the shill bids as real and escalate their bids accordingly. Nikitkov and Bay (2008) found the level of shill bidding alone probably exceeds 15 percent. Also, since shill bidding is often not detected, it is only infrequently reported to eBay. Arguably, this form of deception might be more common than all the other forms of fraud such as non-delivery, misdescription, and counterfeiting.

Competing auction venues such as Amazon have long required sellers to provide a credit card in order to list, while it took eBay several more years to begin (FinancialWire 2007). This requirement is considered basic to limiting seller fraud. Originally, eBay provided users with a hypertext link to report fraud to the Federal Trade Commission (FTC) but since has removed that link (Guth, et al. 2007). As a consequence, online auction fraud reported to the FTC dropped significantly. By removing the link, eBay reduced reported fraud, but this

doesn't mean actual fraud dropped. It was another indication that eBay was less than fully committed to combating fraud.

Legally, the company has successfully defended many court challenges. Despite losing a recent French counterfeit case, eBay just won a U.S. counterfeit case against Tiffany & Co. (Metz 2008). The court ruled that eBay "can't be held liable for trademark infringement based solely on their generalized knowledge that trademark infringement might be occurring on their Web sites" (Metz 2008, p.1). Rob Chesnut, senior VP and legal counsel at eBay said, "This ruling appropriately established that protecting trademarks is the primary burden of rights owners – not marketplaces like eBay" (Mangalindan and O'Connell 2008, B1). Consequently, we can expect eBay to maintain a relatively low profile on fraud cases. Limited resources are more likely to be deployed to maintain revenue growth. Any corrective measures taken will follow along previous eBay positions. To do much more would be expensive and could open eBay up to unacceptable levels of liability.

The next section discusses the history of eBay's responses to fraud. The following two sections address eBay's current feedback framework and the new feedback rules and seller requirements that became effective in 2008. The last sections provide detailed fraud reduction recommendations for auction participants.

EBay's Historical Fraud Response

Tod Marks (Mangalindan 2007) reports that eBay has 2,000 employees policing its site, but with 6.4 million new listings per day, can't instantly shut down every questionable auction. A fair reporting of buyers' experiences shows most are satisfied. According to a recent *Consumer Report's* study 70 percent of eBay buyers were highly satisfied overall (Mangalindan 2007). Yet 40 percent of survey respondents believed eBay's help and customer support was either fair or poor. Furthermore, when victims of fraud went directly to the

sellers for resolution (which eBay recommends), only 38 percent were successful. According to the study, the best way to deal with dishonesty is to report it to PayPal (owned by eBay). While only 23 percent of unhappy respondents took their complaint to PayPal, 66 percent of those who did so were successful (Mangalindan 2007).

EBay has developed a couple of options to help protect buyers as long as they use PayPal for their purchases. The first option is the dispute Resolution Center of PayPal. You may pursue this option if you did not receive the item or if the item was "significantly different than what was described in the listing or 'Significantly not as Described' (SNAD)" (eBay 2008a)." EBay defines SNAD with illustrative examples such as the item is completely different from its description. A second example: you receive a picture of an item rather than the item itself. A third example is the item is in poor condition when it was described as "mint in box." Other examples include receiving fake or knockoffs or items were missing. PayPal will then help the buyer and seller to resolve the issue. Alternatively, PayPal provides insurance against fraud of from \$200 to \$2000 provided the buyer purchased the item through a qualified seller (eBay 2008a).

Another helpful option for buyers who were not satisfied has been to use eBay's Trust & Safety Discussion Board (eBay 2008b). Many buyers say using this discussion board provides a place to vent, as well as helpful advice you will never get from eBay or PayPal concerning dispute resolutions. The many thousands of indexed buyer postings provide a useful set of answers and attest to the board's attraction.

FEEDBACK: THE FOUNDATION OF TRUST

Trust is necessary in an online auction marketplace and eBay built its business on trust. Trust can be defined as "the subjective assessment of one party that another will perform a particular transaction according to his or her confident expectations, in an

environment characterized by uncertainty,” (Ba and Pavlou 2002, p.243). Trust is a critical dimension because buyers typically don't know the seller's reputation and trustworthiness. EBay strongly encourages both buyers and sellers to rely on feedback as a proxy for trust.

Experimental evidence supports the proposition that superior feedback can increase auction prices achieved (i.e., Dewally and Ederington 2006; Jin and Kato 2006; Lucking-Reiley 1999; Lucking-Reiley, et al.; 2007, Resnick, et al.; 2006). When buyers' perceptions of risk are reduced a price premium is gained. There is support for the assertion that negative feedback has a greater impact on prices realized than positive feedback. When there is buyer doubt as to the quality of an item then feedback has an even stronger influence on price premiums. Therefore, both buyers and sellers have a strong motive for providing positive and avoiding negative feedback.

When it comes to actual action items, the seller is the only one who truly knows whether an item is genuine and accurately described. As a result, there is often a significant difference in the knowledge level between buyers and sellers. This phenomenon is referred to as information asymmetry. In a normal auction setting the item can be physically inspected to reduce the information asymmetry. In an online auction this option is not available. Consequently, for the buyer, feedback is one of the few proxies for establishing trust. Interestingly, research shows that most sellers do not use buyer reputation ratings (Dholakia 2005). Feedback acts as a form of word of mouth but provided by anonymous parties. Unfortunately, eBay's feedback mechanism has a history of problems. Survey evidence shows that a substantial proportion of eBay users have received retaliatory feedback (19 percent) and been victims of feedback extortion (16 percent) within the last six months (Steiner 2003). Furthermore, evidence shows only about 60 percent of sellers provide feedback to buyers (Chwelos and Dhar 2007).

The list below summarizes some of the reasons why feedback has been less than a complete solution when it comes to trust.

Reasons Why Feedback Doesn't Work as Intended *

1. Buyers often don't know they have been defrauded.
2. Buyers are reluctant to give negative feedback fearing retaliatory negative feedback.
3. Sellers are not removed even for large numbers of negative feedback.
4. Negative feedback provides an insufficient basis for informed judgment.
5. Sellers can masquerade as an honest one.
6. Sellers create “shill” feedbacks to build fraudulent positive profiles (Kirsner 2003).
7. A seller can leave eBay and quickly return under a different identity.

*List from Bauerly and Singh (2004).

Despite these limitations, much information can be gleaned from the text comments. According to a study of text comments, the nature and quality of text comments can have a significant impact on price differentials in eBay auctions (Pavlou and Dimoka 2006). Amazon.com, from its inception, provided a feedback system in which only the buyers provide feedback. Experimental evidence has shown that this system provides more trustworthy information for buyers (Chwelos and Dhar 2007). Historically, eBay's feedback system motivated buyers and sellers to engage in a conspiracy of positivity while Amazon buyers can be completely honest without fear of retaliation. Chwelos and Dhar (2007) found that when eBay buyers have a negative experience they still either provide mild positive feedback or no feedback at all. Based upon direct seller comparisons on the two sites, the authors found positive seller ratings on eBay had little impact on prices or sales levels while positive seller feedback on Amazon had significant impact on perceived reputation and prices obtained (Chwelos and Dhar 2007). Because of the limitations of the current

bilateral feedback system, eBay has unveiled a new feedback policy. The next section details the new feedback policy and evaluates its impact on buyers and sellers.

EBAY'S NEW FEEDBACK POLICY

In early 2008, eBay announced new fee increases, increased seller standards, and a new feedback policy (eBay 2008c). According to new eBay CEO John Donahoe, the increased seller standards combined with the new feedback policies are designed to increase buyer safety and satisfaction (Holahan 2008). There are five key elements to the new Feedback system being introduced in the first half of 2008 (quoted from eBay 2008c):

1. Beginning in February, buyers and sellers will be able to earn up to one Feedback per week from the same trading partner. Today, members may only affect each other's Feedback scores one time, regardless of the number of transactions between the parties. This change will both encourage repeat transactions and reward good service.
2. Sellers will no longer be able to leave negative or neutral Feedback for buyers. This change occurred in May, 2008.
3. Removal of negative and neutral Feedback left by members who are suspended or who fail to respond to the Unpaid Item Process (UPI).
4. Positive Feedback percentage will be based on the past 12 months of Feedback, rather than lifetime, since it is most indicative of the seller's recent performance.
5. Restrictions on when Feedback can be left:
 - a. Buyers must wait three days before leaving negative or neutral Feedback for sellers with an established track record.
 - b. Instead of 90 days, members will be able to leave Feedback for 60 days.
 - c. Buyers will now be able to revise feedback left for sellers. Previously, all feedback was permanent though participants could later add comments. (eBay 2008 d).

The first element is a common-sense change. Trading partners clearly shouldn't be counted only once (ever). This had the unintended effect of trivializing repeat customers. The fear in the original feedback system was that a small number of customers could artificially inflate feedback scores. Element two is the most important change to the feedback system as it eliminates sellers from giving negative or neutral feedback. Buyers will no longer fear retaliatory negative feedback from sellers. eBay indicates eliminating buyer fear of retaliatory feedback was the reason for this big change. The other changes have less impact than element two but are meaningful. Buyers must wait three days before leaving negative or neutral feedback for sellers with an established feedback. This should help protect against buyers engaging in bad "knee-jerk" feedback. The shortening of the allowable feedback period is not unreasonable.

In summary, the feedback changes offer mostly improvements for buyers' safety. The Amazon.com study shows (Chwelos and Dhar 2007) the superiority of a unilateral feedback system. eBay has created a hybrid system protecting buyers but still allowing sellers to provide positive feedback. This not only makes eBay's feedback distinctive from Amazon's but arguably superior. While the feedback changes do eliminate one of the most troubling limitations identified by Bauerly and Singh (2004), retaliatory feedback, most of the others remain. While eBay asserts the feedback changes benefit both buyers and sellers, sellers have been negative in their reactions (Stewart 2008). Sellers perceive losing the option of giving negative feedback as an invitation for buyer misbehavior. Buyers could blackmail sellers into unreasonable concessions in order to avoid negative feedback. eBay has made provisions for addressing unacceptable buyer behavior, but sellers are wary of the newly empowered buyers. The changes took effect in May, 2008.

EBay has made a number of changes which impact sellers. Under the new terms for Power Sellers, sellers who maintain high average item

and revenue levels, Detailed Seller Ratings (DSRs), will have to be maintained at a high level (4.5 out of 5). The DSRs are rated on a five star scale with 5 being highest across four categories (communication; shipping time; and shipping and handling charges). DSRs were supposed to improve buyer knowledge and encourage sellers to focus on improvements in these four areas. EBay will also reduce fees paid on items sold (by 5 percent or by 15 percent) for power sellers who maintain high (4.6 out of 5) or very high (4.8 out of 5) levels of DSRs respectively. Sellers have voiced their disapproval of new seller requirements for Power Sellers (Zouhali-Worrall 2008).

Frustration over the monopolistic tendencies of eBay is apparent from both buyers and sellers. This frustration is evident as reflected in the thousands of postings on eBay's discussion board and other user developed sites. Sellers have a number of longstanding complaints against the imperious nature of eBay's relationships with its sellers. The call for a strike against eBay February 18-25, 2008 was a reflection of the mounting dissatisfaction sellers have with eBay. Some sellers have begun to switch to alternative auction sites such as OnlineAuction.com and eCrater (Chu 2008). While alternative auction venues may be attractive, even Amazon.com has been unable to attract the enormous level of buyers and sellers that eBay commands.

As an auction venue EBay straddles a line between sellers and buyers that can be most contentious. The safety of online auctions is paramount in the eyes of buyers. John Donahoe has vowed to make eBay a safer and more satisfying experience for buyers (Holahan 2008). Since the announcement of the changes in feedback and seller requirements eBay has been deluged by sellers with mostly negative reactions. Buyers are mostly positive about the feedback changes. The feedback changes should eliminate the fear of retaliatory feedback, and enhanced seller requirements should lead to improved buyer satisfaction.

FRAUD REDUCTION RECOMMENDATIONS

All three auction participants have a role to play in reducing online auction fraud. Buyers want to avoid being defrauded; honest sellers want to prevent negative outcomes for buyers some of which may unintentionally constitute fraud. EBay itself must also work harder to minimize fraud. The following sections provide recommendations for reducing online auction fraud for the various participants. Since getting buyers to trust is a key managerial goal for sellers, then understanding how buyers can achieve trust is a relevant and instructive consideration.

Recommendations for Buyers

Buyers need to arm themselves with knowledge that will not only help them get a good deal but reduce the chances they will be defrauded.

1. Examine not only seller feedback ratings (insist on a level of 99 percent positive), but also the detailed comments. Often, the comments both from buyers and seller responses can provide relevant content. Avoid sellers whose comments berate buyers who complain.
2. Be wary of sellers who have recent negative feedback. According to Gregg and Scot (2006), this information usefully predicts future negative outcomes from these sellers.
3. Don't pay with cash, money order, or personal check. Sellers who want to defraud know there is little recourse for the buyer when they pay by cash. So beware of sellers who do not allow payment via PayPal or credit card. While these sellers may just want to avoid paying credit card fees, buyers who pay by cash methods are the most frequently defrauded (Snyder 2000).
4. Carefully read and understand seller's descriptions of the item and costs/terms of shipping.
5. Remember that most winners are cursed: You have just paid more than any other

interested party was willing to pay, thus, you probably paid more than the item was worth. Expert behavioral economist Richard Thaler (1994) found that even sophisticated oil companies overpaid for leases won at auction. Thaler concludes that almost all winners overpay. This means that often, the best advice is not to bid at all on a given item. So think it over before bidding on anything.

6. Be wary of sellers who make outrageous quality claims since these sellers obtain higher prices for what often turns out to be average to lower quality. Research suggests these sellers are more likely to not send the item or send a counterfeit. (Jin and Kato 2006).
7. In general, avoid three-day auction listings. This is a favorite tactic of fraudulent sellers of high cost commodity items like computers and cameras. By making all transactions quickly the seller can leave the system before buyers find out they've been defrauded due to non-shipment.
8. Don't act in haste. If you are inclined to be risk tolerant and impulsive you may be an ideal eBay buyer, but you are also subject to greater fraud and poor outcomes. Research by Stern et al. (2008) suggests that individuals who are impatient and risk tolerant tend to make speedy decisions. Such individuals may need protection. They further argue that the "Buy It Now" option is dangerous. It reduces the time for risk assessment and can lead to making risky and high cost mistakes.
9. Especially for collectibles, you may wish to stick with items that are certified by a third party as to their authenticity and grade. Things like trading cards, comic books, and coins are typical of this category. In a study of online non-certified baseball cards sellers often seriously overgraded their cards (Jin and Kato 2006). The authors found this type of fraud was far less common in retail collectibles stores.

10. Consider consulting an online trading community for more information. There are eBay communities as well as independent online communities.

Recommendations for Sellers

While buyers are the focus of much advice on how to avoid fraud, sellers can increase their positive ratings and minimize the chances a buyer will feel defrauded.

1. Provide a large actual photograph of the item with an accurate description. Point out flaws that could be considered deal breakers after the fact. Buyers don't like surprises unless they're positive ones. Misrepresentation of merchandise was the second most common reason for complaint with non-delivery the most common (Gregg and Scott 2006).
2. Don't hide your shipping charges and don't charge unconscionable prices for shipping and handling.
3. Keep the lines of communication open and solicit unofficial feedback. When buyers are upset they need to contact you first before leaving negative feedback. Remember, sellers no longer fear retaliatory feedback due to eBay's new feedback rules. This means it is incumbent on the seller to be exceptionally responsive to buyers' needs. Also, be sure to provide buyers with positive feedback to close the loop.
4. For commodity type merchandise such as music, electronics including computers, software, and new toys, consider selling only items either new in box or guaranteed. For collectible merchandise consider selling professionally graded items.
5. Do not sell counterfeit merchandise. As reported in the *Wall Street Journal*, eBay recently lost a case in a French court and was fined \$63.2 million (Passariello and Mangalindan 2008). The case was based upon eBay sellers defrauding buyers with counterfeit Louis Vuitton and Christian Dior items. Some sellers like to pretend

buyers know the items they are acquiring are “knock-off merchandise” given the unusually low prices the items attract. This is nonsense and selling counterfeits is illegal.

6. If the buyer believes the item was misdescribed, refund the buyer’s money. If the buyer is abusive, i.e., threatens to blackmail you with unjustified negative feedback, blacklist the buyer from bidding on your items in the future.
7. Own up to your own mistakes, yours or your employees. Fix the problem quickly and without negativity. Lin et al. (2007) determined that over 40 percent of buyer complaints were resolved at the moment they were raised.
8. Send the merchandise quickly and offer insurance, particularly with fragile items. This common sense advice is often ignored.
9. Insist that buyers purchase via PayPal only. It costs you upfront but protects you and your customers’ interests.
10. Work especially hard to improve Detailed Seller Ratings. This tends to improve the buyers’ sense of safety and can reduce your selling costs.

Recommendations for eBay

By eBay’s own admission, just one percent of the sellers account for thirty-five percent of negative feedback (Mangalindan 2007). This sorry statistic represents a failure to remove the worst of the bad sellers. Historically, eBay has done too little about bad sellers including those defrauding buyers. Here are a few recommendations for eBay that should help reduce fraud and consumer dissatisfaction.

1. Commit to a policy of quickly suspending sellers who persistently provide poor service. If the seller is committing fraud, permanently remove the seller.
2. Continue efforts to keep bad sellers and sellers of counterfeit merchandise out. Recent restrictions on sellers of certain items like luxury handbags make a lot of sense. (See Mangalindan 2007).

3. List seller information including a physical address to which buyers send their payment. This allows buyers to decide if the seller is legitimate. (See Gavish and Tucci 2006).
4. Make buyer education a priority. Eliminating fraud is not possible, but education is an excellent way to limit the number of easily defrauded buyers.
5. Work to get increased community involvement and at the same time, commit more internal resources to fraud prevention. See Chua, et al. (2007) for an excellent qualitative analysis of online trading communities and the role they play in minimizing online auction fraud.
6. Continue to motivate sellers to provide better service. Using fee discounts for sellers who achieve top service ratings is an excellent move and appears to be paying off (Mangalindan 2008). By providing buyers the opportunity to rate individual service elements such as speed of service and accuracy of descriptions eBay has moved the service ball forward. This doesn’t remove fraudulent sellers in and of itself, but is a valuable improvement in the feedback system.
7. Get honest sellers to help identify and remove the fraudulent sellers. Honest sellers are harmed as is the whole eBay community when fraud is allowed to proliferate. Sellers in a given merchandise classification are often the most knowledgeable about bad sellers and need to be brought into the fold. eBay needs honest sellers as allies, but they must solicit their help and then listen and act.

eBay sellers have been angered by the changes in fee policy and feedback resulting in a boycott by sellers (Stewart 2008). The boycott proved moderately effective, but the changes have stayed in place. eBay can’t ignore the sellers or be perceived as unduly favoring buyers. As an auction venue, this is an inherent conflict eBay faces. Historically, major auction houses relied on their expertise and corporate reputations to protect buyers from fraud. Instead, eBay relies upon their feedback system and detailed seller

ratings to establish seller/buyer reputations. Since sellers can't leave negative feedback to buyers, sellers view this as a reduction in their ability to fight buyer fraud or simply refusal to pay for purchases. Because sellers create buyers and visa versa, eBay's dilemma is never ending.

Since there will always be sellers seeking to defraud buyers it is impossible to eliminate them. However, online communities have proven value in marshalling the knowledge and expertise required to limit online auction fraud. In order to be effective, online communities need the resources and the power of formal authority that eBay itself can provide. Commitment to forcefully removing fraudulent sellers identified by individual buyers, sellers, and members of online communities is the single biggest action eBay can take to limit the destructive power of fraud.

CONCLUSIONS

The risks of being defrauded on eBay are clearly more significant than claimed. eBay can certainly be faulted for not being more aggressive in combating fraud in the past. While critics have regularly taken eBay to task for their poor customer service, honest sellers must understand they can play a larger role too. As an auction venue provider, eBay's new focus on safety and buyer satisfaction is certainly a step in the right direction. These efforts alone are unlikely to result in permanently lower levels of fraud or to truly alter the risk perceptions that accompany the problem.

Auction participants can greatly reduce their risk of fraud by applying common sense and by following the above recommendations. Honest sellers must also work to minimize buyer dissatisfaction and make eBay a safer venue to do business. eBay's feedback changes should improve the usefulness and trust in seller ratings, but the changes eBay has made will not be a panacea. Sellers must commit to a buyer-centric focus whose mantra will be trust. Building trust requires not just trying to

minimize actual fraud but, even more importantly, building a strong perception of fairness in all company communications and actions. As an auction venue, eBay can reduce fraud best by maintaining vigilance and an ongoing dialogue and collaboration with both buyers and sellers.

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