



**Marketing Management Association**

## **Welcome to the Spring MMA Conference!**

It is my pleasure to present the *Marketing Management Association's Spring 2003 Conference Proceedings - Grappling with the Enduring Questions of Marketing*.

Special thanks to Brian Engelland, who served as program chair. His leadership in organizing this event is reflected in the quality and variety of presentations. Back by popular demand is the *MMA Speaker Series*, which features industry experts discussing cutting edge marketing applications.

This year's conference had a record number of submissions. Through the help of a team of great track chairs and reviewers, each paper received a double blind review. Organizing and preparing these works for publication is a significant task. MMA is fortunate and grateful to have benefited from the guidance of Michelle Kunz, editor of the *Proceedings*.

**Please join us Thursday morning for the MMA Awards Breakfast, where we will present MMA's Innovative Contribution to Marketing Award to Dr. Philip Kotler.** We will also announce the winner of the First Annual MMA Master Teacher Competition, and recognize the following authors of award winning papers:

- Irwin/McGraw Hill Conference Award, and Don Mulvihill Award for Best Paper in Marketing Performance: *Robert Moore & Melissa Moore*, Mississippi State University
- John Berens Award for Best Paper in Marketing Education: *Oscar McKnight & Ronald Paugh*, Ashland University
- Firooz Hekmat Award for Best Paper in Consumer Behavior: *Irena Vida*, University of Ljubljana, *Vandana Plassmann*, Cornell University, & *Ica Rojsek*, University of Ljubljana
- Donald Shawver Award for Best Paper in Marketing Strategy: *R. Zachary Finney*, North Georgia College and State University
- Lynn Loudonback Award for Best Student Paper: *Jianwei Hou*, University of Mississippi

The Marketing Management Association is pleased to announce and gratefully acknowledges the support of the Hormel Foods Corporation for their sponsorship of the MMA Master Teacher Award and co-sponsorship of the MMA Awards Breakfast.

Enjoy the conference and Chicago.

*Bob Erffmeyer*

University of Wisconsin – Eau Claire  
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We continue to honor those who have served as each richly deserves the gratitude and approbation the title of Fellow is intended to convey.

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**Consumer Purchasing of Fake Products in a Transitional Economy**  
Irena Vida, University of Ljubljana  
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**DONALD SHAWVER AWARD FOR BEST PAPER IN MARKETING STRATEGY**  
**Strategy as a Predictor of Resource Management Emphasis: A Theoretical Perspective**  
R. Zachary Finney, North Georgia College and State University

**CAREER AWARD FOR INNOVATIVE CONTRIBUTIONS TO MARKETING**  
Philip Kotler, Northwestern University

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# AN INTRODUCTION TO TIGER 2000

*Mark Leipnik, Sam Houston State University*  
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*Balasundram Maniam, Sam Houston State University*

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## ABSTRACT

The Topologically Integrated Geographic Encoding and Referencing (*TIGER*) data are the most important source of data for geo-demographic analysis in the U.S. today. Since the U.S. is the leading economy of the world and the world leader and pioneer in both Geographic Information Systems (*GIS*) and Marketing Information Systems (*MIS*), the *TIGER* data set arguably forms the basis for most geographically driven marketing research in the world today. *TIGER* is a digital data set with *topological* structure (i.e., the geometric relationships among line features such as streets, and polygonal features such as census tracts boundaries are explicitly maintained). *TIGER* is also *geographic* (i.e., that the features portrayed are to scale, and can have such cartographic characteristics as coordinate systems, projections and datums applied to them for use within a *GIS*). Furthermore, the descriptive attribute data (i.e., census demographics, street names, and address ranges) are all systematically *encoded* and *referenced* (linked) to the corresponding geographic features such as street centerline segments or census block group polygons.

This paper examines the status of the year 2000 revision to the U.S. Census Bureau's *TIGER* geo-demographic data. The discussion focuses on the use of this data within a Geographic Information System (*GIS*) in marketing applications and includes background on *TIGER* and issues related to the year 2000 U.S. census of population. Several differences and changes between the *TIGER* 2000 data over the previously available 1990 demographic data are presented.

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# E-SURVEYING IN ACADEMIA: PREPARING FOR PRIMARY DATA COLLECTION USING ON-LINE TECHNOLOGIES

*Karen E. James, Louisiana State University - Shreveport  
Lisa Burke, Louisiana State University - Shreveport*

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## **ABSTRACT**

On-line research methodologies offer academic researchers tremendous potential to conduct flexible, cost efficient studies quickly. What follows stems from the multitude of lessons learned and tips gleaned from conducting e-survey research utilizing Survey Solutions software in a recent large-scale research project.

Lesson 1: Acquire the appropriate software. Consider the specific options or features necessary to make your project successful, whether or not you will need to create surveys in multiple formats (aside from HTML), and whether funds will be available for on-going licensing or per-survey costs, or only for a one-time purchase.

Lesson 2: Double the time estimates for your projects. While certain phases will be quicker (e.g., data coding); other phases will take considerable time, especially if this is a first-time venture into e-surveying.

Lesson 3: Manage the various communication aspects carefully by creating two unique e-mail accounts for sole use with the research project. The contact e-mail account should be used for the purpose of sending pre-notification, participation invitation, and reminder e-mails. The results account should be used only to receive survey results.

Lesson 4: Devise effective pre-notification, survey invitation, and reminder e-mails. Include the research topic, security measures taken for data storage, incentive descriptions, a hotlink to the survey URL, and instructions or warnings for accessing the survey. Response deadlines and contact information should also be included.

Lesson 5: Incent potential respondents to participate. Short surveys, progress meters incorporated into each survey web page, and the offer of research results or some other incentive will increase response rates.

Lesson 6: Design an aesthetically alluring survey. Preformatted survey template design options are limited and require additional editing of the HTML code to achieve an optimal presentation. Keep text visible within a screen's horizontal display and consider adding headers / footers featuring the project title, university logo, copyright, etc.

Lesson 7: Pilot test the entire online survey process, including the invitation e-mail, the online survey itself (within different browsers and platforms) and survey submission technicalities, prior to actual implementation.

Lesson 8: Minimize data hacking suspicion by telling potential respondents in both the pre-notification and participation invitation e-mails if the web server provides secure client-server connections.

Lesson 9: Maximize valid e-data by restricting survey access via passwords or participant numbers. Many survey packages offer extensive response validation options that can be used to maximize data validity as well.

Lesson 10: Execute important tasks after the survey is made available such as answering questions about the study or responding to those who have experienced problems in taking the survey. Check data submission files for respondents who have submitted multiple responses and develop rules for the treatment of such cases.

Lesson 11: Back up all data and allow for data collection redundancy. Most survey packages allow for multiple forms of data collection, such as compiling results to a .TSV or database file, and sending responses via e-mail.

---

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# A REVIEW OF SELECTED RESEARCH FINDINGS: MAIL SURVEYS AND THE REDUCTION OF NONRESPONSE ERROR

Ronald A. Romba, Elmhurst College

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## ABSTRACT

*Mail surveys continue to offer researchers a cost-effective method of reaching a wide variety of populations while protecting the anonymity of the respondents. Nonresponse error however, remains a serious problem with mail surveys. This paper reviews recent literature focusing on attempts to reduce nonresponse error in mail surveys.*

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## INTRODUCTION

Mail surveys continue in popularity due to the relatively low cost and the accessibility they provide to widely disparate populations. Over the years they have provided researchers with a cost-effective method of surveying large populations while at the same time protecting the anonymity of the respondents. Despite the fact that mail surveys have become commonplace for a number of researchers and respondents, nonresponse error continues to be a problem for researchers. Some respondents, faced with many competing stimuli and demands for their time, simply ignore mail surveys which results in nonresponse error.

Faced with this dilemma, researchers are searching for effective methods to increase the response rate. Following is a review of selected current literature regarding this topic.

### LENGTH OF SURVEY, TITLE, PERSONALIZATION, POSTAGE, COLOR

A number of researchers have explored creative methods for improving the response rate associated with mail surveys. These methods have involved using certified mail, personalizing the cover letters and questionnaires, and experimenting with the length and color of the survey. Lund and Gram (1998) found the

shortest questionnaire generated the highest response rate, but they did not find an inverse relationship between length of survey and response rate. Somewhat surprisingly, the longest questionnaire did not have the lowest response rate. Lund and Gram also found that the choice of title could affect the response rate. Using the word "cancer" produced a higher response rate than using the title "health survey". The implication was that researchers might be able to achieve higher response rates by using "trigger" words to capture the interest of respondents. Edwards et al. (2002) also found shorter surveys to produce higher response rates along with personalized surveys and personalized letters. These researchers also found certified mail, stamped return envelopes, and pre-contact with respondents to result in higher response rates. The effect of printing a survey on colored paper was investigated by Buttle and Thomas (1997). Interestingly, they selected the color yellow based on an earlier undocumented statement that the U.S. government had routinely conducted surveys on yellow paper because the color yellow resulted in a higher response rate than plain white paper. The researchers though found no significant difference between the different colored surveys.

### INCENTIVES

Many of the studies concerning mail surveys and nonresponse have explored the effect of incentives. These incentives have taken many forms, but monetary incentives are the most prevalent in the literature. The literature generally supports the use of monetary incentives in increasing response rates, but studies have found differing effects for monetary incentives of different magnitude. In a medicaid study, Gibson, Koepsell, and Diehr (1999) found a monetary incentive of \$1 resulted in a 12% increase in responses. However, they found no significant difference between a \$1 incentive and a \$2 incentive. Everett and Price (1997) also found a cursory monetary incentive to be effective with physicians. They found that physicians responded

better to a \$1 monetary incentive compared to the absence of a monetary incentive. Studies on the physician population have included much larger monetary incentives (Del Valle & Morgenstern 1997). Tambor et al. (1993) studied the effect of a \$25 incentive. Contrary to these studies, Maguire's study of physicians did not find financial incentives to be as effective as follow-up contacts. Another study of a well-educated population of academics found that researchers could be quite successful in surveying this population by eliminating incentives and including a cover letter with a full explanation for the purpose of the survey (Mitchell, 1998). The researchers believed that this well-educated population responded intellectually to a clear statement of the survey's purpose rather than to a monetary inducement. Edwards et al. (2002) however, found that monetary incentives positively impacted the response rates. Erwin and Wheelwright (2002) conducted a study with mental health counselors and reported monetary incentives to be very effective when provided in sufficient size and included with the initial mailing. These researchers noted that monetary incentives were the most effective strategy for increasing response rates. They urged caution for mental health counselors considering using a monetary incentive to avoid using an incentive too large which might be construed as coercive

In a different approach, Baron, DeWals, and Milord (2001) investigated the use of a lottery to increase the response rate of physicians. The lottery offered physician's the chance to participate in a drawing for a weekend for two at a mountain resort. The lottery improved the response rate by 6%. The authors suggest that the use of a lottery as an incentive may prove beneficial in large surveys as cost effective compared with a monetary incentive. Koloski, Talley, Boyce, Morris-Yates (2001) had a different result when investigating the effects of a lengthy questionnaire and a lottery ticket. The audience received either a 28 or 32 page questionnaire. No previous studies had used DelValle (1997) also found that certified mail resulted in higher response rates. The difference though, was his population of physicians. The effect in this study was explained by the fact that the physician or an employee of the physician opening the physician's mail viewed the certified letter as important and brought it directly to the attention of the physician. Maguire (1991) surveyed health care professionals who had been characterized as difficult to reach by Sudman, (1985). This population was critical to reach for health policy makers and non-response was a concern since

such a long questionnaire. The incentive was an instant lottery ticket worth \$1 which had a potential value of \$50,000. The study found no difference between response rates for the 28 page and the 32 page questionnaire. The researchers also reported that the lottery ticket had no appreciable effect on the response rate. Gendall, Hock, and Brennan (1998) examined the effectiveness of a tea bag and a \$1 incentive. The tea bag had no effect on the response rate, but the monetary incentive produced a significant increase in responses. The researchers compared a tea bag with \$1 because they felt a monetary incentive represented an undesirable inducement for some people.

## AUDIENCE

Mail surveys are beneficial in providing access to a variety of different populations while providing anonymity for the respondents. One population which is difficult to reach is the low-income population. Gibson et al. (1999) cite a mail survey of medicaid clients in which researchers attempted to survey this hard-to-reach, low-income population. The researchers used a protocol consisting of the questionnaire, an endorsement letter from community groups, a prepaid return envelope, and a personalized signed cover letter from the county health department. The researchers credited the certified mail with resulting in an improvement in response rate. Interestingly, the low-income population involved in this study were reportedly upset that something as unimportant as a questionnaire was mailed in such an important manner. Nevertheless, use of certified mail in this instance resulted in an increased response rate. In Bowen's study (1994) of a low-income population that could not be reached by telephone a mail survey was used as a supplemental data collection strategy. Use of the mail survey as a supplement to telephone surveys led to an increased response rate, but this was tempered with the caution that it might only have marginal effects on the accuracy of the sample estimates. Maguire's investigation of mail surveys of health care professionals found an average response rate of 66%, lower than the generally acceptable rate proposed by Gunn and Rhodes (1981). Donaldson, Moinpour, and Bush (1999) surveyed physicians using a monetary incentive of \$5 and either a follow-up call or no follow-up call. They found that inclusion of the monetary incentive significantly increased the response rate (57.5% vs 45.5%). Unlike other studies, the authors found a follow-up telephone call to have no effect on the results. The monetary incentive in this

study was a modest \$5, but resulted in a strong response rate. Use of a monetary incentive may convey a message of importance to the recipient. Although this was a modest incentive, the authors caution that it could quickly become prohibitive when the target audience is particularly large. While monetary incentives appeared to be effective in raising response rates for physicians, Baron et. al. (2001) examined the effect a lottery had on physician's responses to a mail survey. The lottery prize was a weekend for two in a mountain resort. The lottery resulted in a small (6%) but statistically significant increase in the response rate. Everett and Price (1997) found that it was more effective to use a \$1 monetary incentive when surveying physicians rather than follow-up mailing. They claim that inclusion of a \$1 modest incentive would save time and money for researchers with tight budgets since it would save precious time and money by eliminating follow-up mailings. Somewhat similarly, Erwin and Wheelwright's (2002) study of mental health counselors found that monetary incentives had been traditionally underutilized but were effective when included with the initial mailings. In a study of academics, Mitchell (1998) found that this well-educated group responded well to a cover letter explaining the purpose of the survey. Interestingly, there were variations in the response rates from different academic disciplines. Professional academics in the physical sciences had the poorest response rate 30%, while those from the social sciences had the best response rate, 63%. This study also found that surveys under four pages produced higher response rates from academics.

Several studies involving females produced varied results. Woodruff, Edwards, and Conway (1998) studied enlisted navy women who volunteered to participate in a study concerning smoking. They found that the use of telephone, face-to-face, and shortened postcard surveys, resulted in higher response rates. Larroque, Kaminski, Bouvier-Colle, Hollebecque (1999) studied new mothers. The authors found that multiple mailings to reluctant participants resulted in additional responses and positively impacted response rates. They questioned the fourth and final mailing since it only resulted in an additional 4% of responses. Nursing school alumni were surveyed by Becker, Cookston, and Kulberg (2000). The researchers compared a reminder postcard versus a complete questionnaire package. They found a second complete questionnaire mailing had a higher response rate than a reminder postcard, but it was more expensive.

## RESPONSE BIAS

Edmonston (1997) reported that non-cooperator bias affects mail surveys. Because populations are besieged by so many questionnaires, overall response rates have declined. He reported that Simmons conducted a mail survey of high tech people and sought to maximize responses by sending a pre-notification postcard, a \$2 cash incentive, a chance to participate in a raffle for a home theater system with a completed questionnaire, two follow-up mailings, reminder phone calls and offered an additional monetary incentive to non-respondents. Their overall response rate was a disappointing 40%. Changes in society may be to blame as Kosek (1998) cites single-person and single-parent households as being responsible for hurting consumer response rates in mail surveys. Supposedly these two groups are faced with many competing demands for their time and attention. Similarly, Chebat and Picard (1991) reported no positive results from using pre-notification. Lund and Gram (1998) found that a survey without any incentive was influenced by the title and the length of the survey. Changing the title to include the word "cancer" resulted in a higher response rate compared with the title of "health survey."

The implication is that in certain situations, a monetary incentive may be able to be replaced by a careful choice of survey title that will engage the respondent's attention. Researchers have often wondered if there are differences between prompt respondents and reluctant respondents. Woodruff et al. (1998), in a study of navy enlisted women, found no significant differences between those participants who completed the survey promptly and those that were reluctant to respond. This finding provides encouragement for researchers who have limited funds and cannot afford expensive follow-up strategies since these researchers found no significant difference between prompt respondents and reluctant respondents. In a survey of new mothers, Larroque et al. (1999) found that initial contact in the hospital accompanied with a letter explaining the study and requesting the mother's participation were responsible for a higher response rate. The authors attribute this initial contact before a survey is mailed, to account for a higher response rate.

## SUMMARY

While preprinted survey forms used in longitudinal studies have produced higher response rates, they have also resulted in lower item response rates as respondents omitted responding to certain questions or

sections of the survey (Kelly et al.1996). The selection of the survey title can affect the response rate as Lund and Torhild (1998) reported. The use of words that denote personal importance to the respondents was shown to improve response rates over generic type titles. Respondents tended to respond better to shorter questionnaires (number of questions) but there were conflicting reports. Edwards et al. (2002) found the shorter survey to improve response rates, while Koloski et al. (2001) did not find nonresponse to be significant in a study of two relatively long surveys, 28 and 32 pages. One might assume that if shorter questionnaires result in higher response rates, than longer questionnaires would produce lower response rates, but that was not the finding. Monetary incentives receive much interest from researchers. It has been widely reported that monetary incentives are effective in improving response rates. Questions remain as to the size of the monetary incentives and whether there are more desirable alternatives, particularly less-costly alternatives. Gibson et al. (1999) found that a small incentive of \$1 was effective. Likewise, Everett and Price (1997) also found that \$1 enclosed in a mailing to

physicians was effective. Several studies have even explored using a much greater incentive such as \$25 (Tambor et al. 1993). Not all research studies have found that monetary incentives are effective. Maguire (1991) found that it was more effective to use follow-up contacts to reduce nonresponse. Several researchers have examined using a lottery instead of a pure monetary incentive. Baron et al.(2001) reported promising results from this method and suggested that it might be more cost-effective than monetary incentives. Certified mail that required a signature was found to result in a higher response rate. Studies were conducted on two opposite populations with the same result. A low income population was studied by Gibson et al. (1999) and a physician population was studied by Del Valle and Morgenstern (1997) with the same results. The studies reviewed in this paper illustrate the wide variety of audiences which mail surveys reach. Studies were conducted on academics, physicians, a low-income population, mental health counselors, armed force members, and new mothers. Despite the different populations, many of the research studies on reducing nonresponse error, corroborate one another.

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# CREDIT CONSCIOUSNESS AMONG COLLEGE STUDENTS: AN EXPLORATORY STUDY

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## ABSTRACT

College-age consumers are going bankrupt today more than in the past, yet many are in denial about their credit management skills. Since credit is likely to be here to stay, they need to improve their credit consciousness, which is defined as their awareness of both the usefulness and problems associated with using credit cards. This paper introduces a scale for credit consciousness in which individuals who have a high level of credit consciousness are defined as having a greater level of awareness about credit cards, and more acknowledgement regarding their usefulness and problems. Questionnaires were distributed to a convenience sample of undergraduates attending eleven public and private colleges in the eastern half of the United States during the 2001-2002 academic year. A total of 1170 surveys were collected. Only those respondents indicating that they had at least one personal credit card were used from the surveys collected, yielding 821 (70.8%) response. Given the purpose of the study, the sample was reduced to include only students under 23 years old. Respondents who were over 23 were considered non-traditional students and were eliminated from our sample. The final sample totaled 589 respondents and was defined as traditional college students possessing one or more credit cards.

High and low credit consciousness groups were compared using t tests to assess significant differences in terms of credit card usage, self-esteem, locus of control, and anxiety. The results suggest that there is a significant difference between those individuals with high vs. low credit consciousness in terms of both the number of credit cards held and their outstanding credit balances. College-age consumers reporting high credit consciousness possessed a mean of 2.5 cards and an outstanding balance of \$1277, while those students reporting low credit consciousness possessed 1.92 cards and an average debt of \$298. These figures suggest that credit card usage (both in terms of credit card ownership and debt) varies by level of credit consciousness. In terms of the psychological factors, self-esteem, locus of control, and anxiety, the data shows a statistical significant difference between the high versus low credit consciousness groups. College age consumers in the high credit consciousness group reported lower levels self-esteem and less internal locus of control than the low consciousness group. In addition, college-age consumers in the high consciousness group reported greater levels of anxiety over their credit card debt than students in the low consciousness group. The level of anxiety reported by the high consciousness group may be caused by the actual amount of their outstanding balance which was four times more than the low consciousness group.

The results of this study help us to begin to the development of a profile of the person who mismanages credit. The identification of a person's attitude toward credit is an insufficient descriptor of their likelihood to engage in inappropriate credit behavior. While individuals can be aware of the problems associated with the overuse of a credit card, they are unable to stop using it, similar to a hard to quit cigarette habit. This study implies there may be psychological variables that are associated with one's credit behavior in addition to a cognitive knowledge of its impact.

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# CUSTOMER VALUE CREATION : BRIDGING THEORY AND PRACTICE

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## **ABSTRACT**

Today, it appears to be accepted by marketing scholars and managers that the end purpose of each company is to offer its customers a superior value than its competitors. But, before arriving at the level of this postulate, the content of the theoretical approaches to the phenomenon of creating value is unclear. More precisely, researchers and managers have focused their strategic and marketing reflection on two main directions: an internal orientation and an external orientation which entail two strategic paradigms which tend to be opposed to one another in the literature. Taken together, they provide a view of two types of perspectives which are company/internal capacities and company/market.

Our research is aimed at contributing to the understanding of customer value creation as a source of greater performance for companies. We present to the level of this article an integrative view of customer value creation which aims at thus specifying its outlines and 3 « success stories » (Dell, eBay and Hugo Boss) that seeks to identify its underlying marketing investments.

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# FASHION CONSCIOUSNESS AND FASHION INVOLVEMENT: THE ROLE OF SELF-CONSCIOUSNESS, VANITY AND SELF-ESTEEM

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## ABSTRACT

*An exploratory study involving fashion measures and behavior constructs was conducted. The appearance-based constructs, public self-consciousness and all four trait components of vanity, produced significantly higher fashion consciousness and fashion involvement scores. Whereas, the more introspective measures, private self-consciousness and self-esteem, did not impact fashion measures.*

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## INTRODUCTION

It can be claimed that our culture places a great deal of emphasis on physical attractiveness and appearance. Consequently, consumers are often driven to pursue an idealized version of physical attractiveness perpetuated by marketing and the media. The fashion industry recognizes that fashions are a conspicuous means to achieve this allusive goal of physical attractiveness. As a result, consumers spend millions annually for cosmetics and fashion apparel.

In an attempt to understand the motivation for consumer purchases, this study was conducted to investigate consumer-based constructs which might be related to fashion-based purchases. Consequently, consumer behavior variables, and their interrelationships, were analyzed in the context of fashion consciousness and fashion involvement. All the variables studied dealt with appearance, or fashion, and how one feels about one's self, both internally and as an external being.

The variables chosen for investigation included fashion consciousness and fashion involvement as indicators of potential purchases, and vanity, self-esteem and self-consciousness as relevant consumer behavior variables. Each variable will be discussed briefly.

## RELEVANT CONSUMER BEHAVIOR VARIABLES

Of the variables chosen for investigation, one has a long history in social science research. Two other variables have recently emerged as

relevant variables and are beginning to find a place in marketing research and in the marketing literature. Other variables are applied measures specific to a particular type of consumer market.

Self-consciousness has played a role in social science research since the early 1970's. Vanity and self-esteem have been acknowledged as consumer behavior variables capable of being very insightful, yet have not had the opportunity to be explored thoroughly. Lastly, fashion consciousness and fashion involvement are variables specific to fashion apparel, cosmetics and related purchases.

## Fashion consciousness

Fashion consciousness has been defined as one of eight types of decision-making styles (Sproles and Kendall 1986) with domestic and international implications (Walsh, Mitchell and Hennig-Thurau 2001). Sproles and Kendall (1986) conceptualize decision-making styles as patterned, cognitive orientations towards shopping which dominate consumer choices and result in an enduring consumer personality. Thus, consumers with this decision-making style are fashion conscious and keep up-to-date with styles. Other studies concur that consumers who possess the characteristic of fashion consciousness were fashion leaders representing a high spending segment of the fashion market (Lewis and Hawksley 1990).

Fashion involvement may help discriminate why some consumers are more inclined to use clothing as a social clue than others (Auty and Elliott 1998). Clothing can be used as a tool in two-way communications. Fashions can be employed by the

wearer to communicate about themselves and by the observer to draw conclusions about others. Women tend to be more sensitive than men to fashion cues and their interpretation (McCracken and Roth 1989).

Fashion consciousness and fashion involvement are two constructs with predictive value for marketers. Consumers' perceptions and behaviors regarding fashion products will impact a substantial number of purchases.

### **Vanity**

Vanity is a psychological construct dealing with excessive concern with physical appearance or achievements. A scale developed by Netemeyer, Burton and Lichtenstein (1995), measures four distinct trait components of vanity. The four trait components include the following: a concern for physical appearance, a positive (and perhaps inflated) view of physical appearance, a concern for achievement and a positive (and perhaps inflated) view of achievement. The scale has been tested cross-culturally (Durvasula, Lysonski and Watson 2001), with positive results, indicating vanity is increasing worldwide.

Although vanity is recognized as affecting many consumer behaviors it has yet to be researched thoroughly. It has been assumed, however, that physical vanity contributes to the demand for appearance related products and that achievement vanity contributes to conspicuous consumption to convey success and status (Netemeyer, Burton and Lichtenstein 1995).

### **Self-Esteem**

Recently, as an area of research, the construct self-esteem has increased in popularity within the social sciences. The reason for this trend seems to be the motivational significance (i.e. Grande and Vavra 1999) of one's assessment of one's own sense of worth. Self-esteem has been defined as, "the attitudinal, evaluative component of the self; the affective judgments placed on the self-concept consisting of feelings of worth and acceptance, which are developed and maintained as a consequence of awareness of competence, sense of achievement, and feedback from the external world" (Guindon 2002). Self-esteem is the evaluative sub-component of the self-concept.

It has been noted that attempting to mold one's self to impossibly idealized images of physical attractiveness leads to low self-esteem (Ashby and

Rice 2002). Often images portrayed in the media, usually targeted to women, are unrealistic and can lead to low self-esteem (Bush and Gilbert 2002). Women shown images of other women with idealized thin physiques demonstrated decreased self-esteem, as well as increased body dissatisfaction, insecurity and depression (Thornton and Maurice 1999).

Marketing initiatives, particularly in the fashion industry, are perpetuating images that may be destructive to numerous market segments' self-esteem. Therefore, knowledge about the relationships between fashion consciousness and fashion involvement with self-esteem should prove insightful for all types of policy makers.

### **Self-Consciousness**

The consistent tendency of individuals to direct attention inward or outward is the trait of self-consciousness. This construct includes such behaviors as sensitivity to inner feelings, recognition of one's positive and negative attributes, awareness of one's physical appearance and presentation and concern over the appraisal of others (Fenigstein, Scheier and Buss 1975). Self-consciousness has been operationalized as having three components, namely; private self-consciousness, public self-consciousness and social anxiety. The components represent three distinct tendencies and have not been determined to be intercorrelated (Carver and Glass 1976). The international implications of this concept, and its components, have been addressed in the marketing literature with self-consciousness being equated to self-concept (Abe, Bagozzi and Sadarangani 1996).

Private self-consciousness entails the thoughts and reflections dealing with the self. This component is more responsive to transient affective states (Fenigstein, Scheier and Buss 1975). Those high in private self-consciousness know themselves better and are resistant to being coerced (Monfries and Kafer 1994). Being self-reflective (Turner 1978), those high in private self-consciousness have more understanding of themselves and have more articulated self-concepts (Jaimovich 1999).

Being more sensitive to rejection by their peers, those high in public self-consciousness view themselves as a social object (Fenigstein, Scheier and Buss 1975). These individuals are aware of how others perceive them and should try harder to create a favorable public image, as high public self-consciousness leads to high levels of concern about social appearances and the kind of impression made on others (Scheier 1980). Self-presentation doubts

can occur because public self-consciousness makes people susceptible to what happens in social situations, especially where there is scrutiny or confrontation (Scheier 1980). High levels of public self-consciousness lead to a tendency to respond quicker to evaluative judgments concerning one's appearance and to process this appearance-related information (Thornton and Maurice 1999).

The third component of self-consciousness is social anxiety. This component is defined as the apprehension felt after evaluating the self as a social object (Fenigstein, Scheier and Buss 1975). Private and public self-consciousness refer to the process of self-focused attention, whereas, social anxiety is the reaction to this process. Research has shown a relationship between low self-esteem and social anxiety (Monfries and Kafer 1994). Social anxiety stems from an individual's concern with the impressions others are forming of them and self-esteem, similarly, is influenced by an individual's perceptions of the consequences of social events.

A consumer's high level of awareness of themselves and their own feelings, along with this sensitivity to being introspective as defined by private self-consciousness, would make that consumer less susceptible to the coercive effects of marketing communications. Those with high levels of public self-consciousness would be anxious to present the most socially desirable social self.

### STUDY OBJECTIVES

The preceding discussion of the four relevant consumer behavior variables presents the rationale for this study. Each of the previously mentioned variables has contributed, to some extent, to the marketing literature; however, further investigation into these variables and their interrelationships is warranted.

The fashion industry, including apparel and cosmetics, is impacted by consumer behaviors influenced by perceptions of physical appearance and the implications of these perceptions. Consequently, fashion consciousness and fashion involvement were determined to be pivotal constructs for this investigation. Consumer behavior variables pertinent to perceptions of self (self-esteem, vanity and self-consciousness) were included. Thus, the following research questions were posed for this study:

RQ1: What is the relationship between self-consciousness (private, public and social anxiety) and fashion consciousness and fashion involvement?

RQ2: What is the relationship between vanity (physical attractiveness concern/view and achievement concern/view) and fashion consciousness and fashion involvement?

RQ3: What is the relationship between self-esteem (general and appearance) and fashion consciousness and fashion involvement?

### METHODOLOGY

Data for this study was obtained from students enrolled at a mid-size Midwestern university. A convenience sample involving students was deemed appropriate due to the exploratory nature of the study. In addition, the topics were relevant to the student population (Ferber 1977). While a convenience sample does not allow for statistical projection, the intent of this study was to investigate theoretical underpinnings and to provide meaningful insights for future advanced investigations.

Students in three business classes completed the two-part survey for extra credit points. Since some of the questions could have been considered sensitive or personal, it was considered necessary to allow for voluntary cooperation, however, all the students approached opted to participate in the study. Due to the amount of information collected, and the superficial duplicity of some of the scales, the instrument was distributed in two parts. The component parts were later matched by a code number, known only to the respondent, to assure anonymity. In this manner, 113 usable responses containing both portions were obtained. In 25 cases it was not possible to match the two portions of the survey, so data was included from only the first portion which contained all measures, except for the self-consciousness scales, resulting in a sample of 138, for some measures.

The scales included in the instrument were all developed elsewhere and had previously provided an acceptable level of reliability. To operationalize concern with fashion and fashion items one measure of fashion consciousness and two measures of fashion involvement were employed. Fashion consciousness was measured by a four-item scale ultimately developed by Shim and Gehrt (1996). Fashion involvement was measured using two scales, the Fashion Involvement Index (FII) and the Fashion Involvement Factor (FIF) (Tigert, Ring and King 1976). The FII contained 5 questions with multiple possible responses. One question ("I like to think I'm a bit of a swinger") was omitted from the six-

item scale for the FIF due to its lack of relevance to the population sampled.

Of the 23 items in the Fenigstein, Scheier and Buss (1975) self-consciousness scale, ten items measured private self-consciousness, seven measured public self-consciousness and the remaining six items measured social anxiety. Two measures of self-esteem were employed in this study. Boush, Freistad and Rose's (1994) 3-item scale for self-esteem was used along with another separate 6-item scale for self-esteem (appearance) (Heatheron and Polivy 1991). Vanity's four trait components were measured by the well-researched Netemeyer, Burton and Lichtenstein (1995) scale.

Scores for each construct were calculated by adding the values for the relevant answers. Means scores were compared to those from previous research. In most cases, the means scores from the sample were within the ranges derived from previous research. In order to investigate relationships between the variables, 'high' and 'low' scores were determined for the three independent variables and their subcomponents based on median scores. Utilizing median values, 'high' in a construct were

those respondents with total scores, for all the pertinent questions, above the median and those 'low' were those with total scores below the median.

## RESULTS

A series of t-tests provided insightful results. The three fashion measures, fashion consciousness, the FII and the FIF, were analyzed with each of the three remaining consumer behavior variables to address the specific study objectives. Results will be addressed separately, in accordance with the study objectives.

### Self-Consciousness

When the mean scores for the three fashion measures were analyzed with the three self-consciousness components, some significant differences were found (See Table 1). Those respondents high in public self-consciousness had higher mean scores for fashion consciousness and on the FIF. Neither private self-consciousness nor social anxiety produced any significant differences for the three fashion measures.

**Table 1**  
*Self-Consciousness and Fashion Measures*

	Fashion Consciousness			Fashion Involvement Factor			Fashion Involvement Index		
	N	Mean	sig. Level	N	Mean	sig. Level	N	mean	sig. Level
Low Private	51	14.5	0.571	51	16.5	0.357	50	10.4	0.803
High Private	62	14.9		62	17.3		62	10.5	
Low Public	54	14.1	.035*	54	16.1	.044*	53	10.1	0.133
High Public	59	15.4		59	17.7		59	10.8	
Low Social Anx.	45	15.4	0.101	45	17.6	0.182	45	10.5	0.718
High Social Anx.	66	14.2		66	16.4		65	10.3	

\*sig. At .05 level, or less/t-test results

These results seem to confirm that those individuals high in public self-consciousness are aware of, and concerned about, how others perceive them. Evidently, an interest in fashion, perhaps as a tool to present a desirable image, corresponds with an awareness of one's self as a social being. Whereas, those high in private self-consciousness, being more in tune with their own feelings and inner self, do not see the need to obsess about fashion dictates.

### Vanity

All four vanity trait components produced significant scores with at least two of the three fashion measures (see Table 2). While high and low achievement concern produced significantly different mean scores for only fashion consciousness and the FIF (not, however, for the FII), the other three vanity trait components produced significantly different mean scores for all three fashion measures.

**Table 2***Vanity and Fashion Measures*

	Fashion Consciousness			Fashion Involvement Factor			Fashion Involvement Index		
	N	Mean	sig. Level	N	Mean	sig. Level	N	mean	sig. Level
Low Achievement Concern	67	13.5	.018*	67	15.6	.040*	66	10	0.586
High Achievement Concern	71	14.9		71	17.2		71	10.3	
Low Achievement View	65	13.5	.026*	65	15.2	.001*	64	9.4	.007*
High Achievement View	72	14.9		72	17.6		72	10.8	
Low Physical Concern	63	12.6	.000*	63	14.2	.000*	62	9.1	.000*
High Physical Concern	75	15.6		75	18.3		75	11.1	
Low Physical View	68	13.4	.005*	68	15.2	.001*	67	9.3	.001*
High Physical View	69	15.1		69	17.6		69	10.9	

\*sig. At .05 level, or less/t-test results

Respondents high in physical concern and physical view had significantly higher mean scores for all three fashion measures. These results indicate that those individuals who have a positive view of their physical appearance and are concerned with how they look will also be concerned with fashion, again, perhaps as a means to enhance their physical appearance.

The higher mean fashion scores for those high in achievement concern and achievement view are also not surprising. Individuals with a high level of achievement concern and view will likely see fashion as a means to achieve these successes and/or as a reward for their achievements. Conspicuous consumption would also be an influencing factor.

### Self-Esteem

The different levels of the two measures of self-esteem employed in this study, self-esteem and self-esteem (appearance), did not produce significant results with the three fashion measures (see Table 3). While the self-esteem and self-esteem (appearance) constructs are similar to some of the others constructs involved in the study, neither self-esteem measure produced a significantly different mean score for the three fashion measures.

These results may seem to indicate that self-esteem, the evaluative component of the self-concept, may incorporate feelings that are inner directed, such as comparisons with idealized others, and do not extend to the extended self. Fashion purchases may not be seen as a means of enhancing self-esteem.



**Table 3**  
**Self-Esteem and Fashion Measures**

	Fashion Consciousness			Fashion Involvement Factor			Fashion Involvement Index		
	N	Mean	sig. Level	N	Mean	sig. Level	N	mean	sig. Level
Low Self-Esteem	61	13.9	0.438	61	15.9	0.181	60	10.1	0.618
High Self-Esteem	77	14.5		77	16.9		77	10.2	
Low Self-Esteem (Physical)	54	14.3	0.816	54	16.4	0.935	53	9.9	0.542
High Self-Esteem (Physical)	83	14.2		83	16.4		83	10.2	

\*sig. At .05 level, or less/t-test results

### CONCLUSIONS AND IMPLICATIONS FOR FUTURE RESEARCH

This study accomplished two purposes. First, the results contribute insights to the field and second, it produced numerous questions for further research. Both of these outputs are positive factors for the marketing discipline. The insights unique to this study will contribute to the body of knowledge and the opportunity for future research is inspiring.

Public self-consciousness continues to demonstrate that individuals are concerned about their public self and will likely purchase products to enhance that publicly perceived self. A sense of fashion consciousness and fashion involvement heightens this purchasing motivation. Private self-consciousness, the introspective component, continues to demonstrate a concern with how the inner self feels and being in touch with personal feelings. An interest in fashion would not be needed to fulfill a sense of introspection.

There is no irony in the fact that the vanity components, physical concern and physical view,

produced the same results as public self-consciousness in regards to fashion involvement and fashion consciousness. The awareness of one as a social being and a high level of concern with one's physical self would seem to be natural co-variants. Similarly, private self-consciousness and self-esteem are both variables that deal with feelings about one's self and are more inner directed. While still being evaluative, both private self-consciousness and self-esteem, involve being critical about one's self and would not entail an interest in external appearances.

This study did not investigate the interrelationship between the three consumer behavior variables. This avenue is certainly worth exploring. The relationship between self-consciousness and both vanity and self-esteem would produce an insightful study. Fashion consciousness and fashion involvement were chosen in this study as interesting and relevant variables to explore. Other variables, related to other industries, could also produce insight results. Additional research exploring gender differences would also contribute to the body of knowledge, and subsequently, more efficient and effective marketing strategies.

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# THE EFFECT OF CELEBRITY STATUS AND PRODUCT/ENDORSER FIT ON ATHLETE ENDORSERS

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## ABSTRACT

*This study examines the effect of celebrity status and product/endorser fit in the context of athlete endorsers. The results indicate that the celebrity athlete is perceived as more attractive, expert and trustworthy, that endorser characteristics are related to ad attitude, and that product/endorser fit is related to brand attitude.*

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## INTRODUCTION

The use of athletes to endorse products is a long-standing practice that shows no signs of diminishing. It is not hard to find examples of celebrity athletes endorsing non-athletic products (e.g., Tiger Woods and Oldsmobile), non-celebrity athletes endorsing athletic products (e.g., San Francisco runners and Nike) and even non-celebrity athletes endorsing non-athletic products (e.g., Coke's French figure skater, featured during the 2002 Winter Olympics). But the most valuable combination, based on the size of the endorsement deals, seems to be the celebrity athlete endorsing an athletic product. Recent record-breaking deals include Tiger Woods' \$100 million deal with Nike and Venus Williams' \$40 million deal with Reebok (Weintraub 2001). Is the combination of celebrity status and product/endorser "fit" (i.e., athlete endorsing an athletic product) worth millions of dollars? In order to shed light on this question, the following examines the literature on celebrity status and product/endorser fit, then reports the results of an empirical test of their effects in the context of athlete endorsers.

## BACKGROUND AND HYPOTHESES

### Celebrity Status

Several models have proved useful in helping us understand the effectiveness of celebrities as message sources, including the source credibility model (Hovland and Weiss 1951), the source attractiveness model (McGuire 1985), the concept of social powers (French and Raven 1959), and the concept of meaning transfer (McCracken 1989).

The source credibility and source attractiveness models identify source characteristics that influence

source effectiveness. Source credibility has, historically, included the characteristics of expertise and trustworthiness (Hovland and Weiss 1951). Source attractiveness includes familiarity, likability, similarity, and physical attractiveness (McGuire 1985). Based on research showing a relationship between attractiveness and credibility (Patzner 1985), Ohanian (1990) developed and validated a "source-credibility" scale that identified three main source characteristics: expertise, trustworthiness, and attractiveness. Although a celebrity need not possess any or all of these characteristics, studies have consistently shown a relationship between celebrity status and perceptions of expertise, trustworthiness and attractiveness (Atkin and Block 1983; Freidan 1984; Ohanian 1991; Petty, Cacioppo, and Schumann 1983).

French and Raven's (1959) identification of the bases of social power has also provided guidance in understanding source effectiveness. They identified five bases of social power: expert, referent, reward, legitimate, and coercive. Social power is not independent of source characteristics: besides the obvious overlap of expertise, source attractiveness, for example, may be related to increased referent power (Burnkrandt and Cousineau 1975).

McCracken (1989) proposed the concept of meaning transfer to explain the effectiveness of celebrity endorsers. According to McCracken, celebrities are imbued with cultural meaning; they represent complex combinations of demographic, psychographic and personality characteristics that are transferred to products through endorsements. Although advertisers can use non-celebrity, "lifestyle representatives" to transfer meaning, celebrities are the most efficient means of transfer, since consumers have a more extensive and detailed base of

associations (i.e., multiple exposures to their lives and performances) to draw from.

### Celebrity Athletes

Studies using celebrity athletes as their celebrity sources have shown that celebrity athletes may be perceived as having a high degree of expertise (Ohanian 1991), may lead to a more favorable brand attitude (Petty, Cacioppo, and Schuman 1983), and may be associated with an increase in the value of their client firms (Mathur, Mathur, and Rangan 1997). However, few studies have directly compared celebrity athletes to non-celebrity athletes. Natarajan and Chawla (1997) compared subjects' reactions to real running shoe ads featuring a male celebrity athlete and a male non-celebrity, "typical user." They found that the celebrity athlete was perceived as significantly more credible than the non-celebrity athlete. Based on Natarajan and Chawla (1997), and the previously discussed research on celebrity status in general, we would expect that:

H1 (a&b) Attitude toward an advertisement (a) and brand attitude (b) will be more favorable when an advertisement features a celebrity athlete versus a non-celebrity athlete.

### Product/Endorser Fit as a Moderator of Celebrity Effectiveness

Notwithstanding the numerous reasons why celebrities should be more effective than non-celebrities, empirical research has identified several factors that can moderate their positive effect.

Petty, Cacioppo, and Schumann (1983) found that a celebrity endorser was more effective than a non-celebrity endorser under conditions of low message involvement, but not high involvement. Heath, McCarthy, and Mothersbaugh (1994) found that spokesperson fame improved brand attitudes and choice probabilities in non-competitive settings (when the products were homogeneous), but did not significantly improve brand attitude and choice in a non-competitive setting.

Of particular interest to the present study is the role of product/endorser "fit" in moderating the relationship between celebrity status and advertising effectiveness. The concept of product/endorser fit is often referred to as the "match-up hypothesis" (Kahle and Homer 1985; Kamins 1990; Till and Busler 2000). The theory, which is based in associative learning (Klein 1991; Martindale 1991) and is consistent with the concept of meaning transfer, is that endorsers are more effective when they "fit" or

"match," the product they are endorsing. A match between product and endorser can be based on various source characteristics, including attractiveness (Kahle and Homer 1985) and expertise (Till and Busler 2000). In investigating the latter, Till and Busler found that an athlete was more effective than a non-athlete for an energy bar, but not a candy bar, thus demonstrating the importance of product/endorser fit for athlete endorsers. Following Till and Busler (2000), and other research on the match-up hypothesis, we would expect that:

H2 (a&b): Attitude toward an advertisement (a) and brand attitude (b) will be more favorable when an advertisement features an athlete endorsing an athletic product versus a non-athletic product.

In Till and Busler (2000), both endorsers were celebrities, so the interaction between fit and celebrity status was not tested. The present study was designed to incorporate the concepts of celebrity status and product/endorser fit in order to explore the interaction of these two variables. With little prior research to guide expectations on the interaction of celebrity status and fit, we relied upon advertising practice showing significant endorsement expenditures for celebrity athlete/athletic product combinations to predict that:

H3 (a&b): The effect of an athlete's celebrity status on attitude toward an advertisement (a) and brand attitude (b) will be greater when an advertisement features an athletic product versus a non-athletic product.

## METHODOLOGY

### Design

Four mock ads were created by combining sports photos with advertisements for real products. The mock ads featured either a celebrity athlete or a non-celebrity athlete with either an athletic product or a non-athletic product, resulting in a 2 X 2 between-subjects design. Michael Jordan was chosen as the celebrity athlete. A "generic" football player, with identifying marks removed, was chosen as the non-celebrity athlete. The athletic product was a protein bar, and the non-athletic product was broadband high-speed Internet service.

### Subjects and Procedure

Sixty undergraduate student subjects, 33 males and 27 females, participated in the study. The study

took place during class time, in upper-level business classes and freshman English classes. Each student received a packet that included a mock ad and one of two questionnaires, depending on whether the ad was for the protein bar or the Internet service. The questionnaires were identical except for the anchors used for product features and questions related to product usage.

The questionnaires stated the purpose of the study as, "to get your reactions to the enclosed advertisement." After reviewing the advertisement, the subjects responded to questions regarding their ad attitude and brand attitude. Next, subjects were asked to rate product features. Then, students rated endorser characteristics and "fit" with the product. Finally, subjects responded to questions regarding product usage, sports involvement, age, and gender.

### Measures

All measures except for product usage and demographics utilized seven-point semantic differential scales. The anchors for ad attitude and brand attitude were good/bad, dislike/like, and unfavorable/favorable. The three scales were averaged for analysis (coefficient alpha = .93 for ad attitude and .95 for brand attitude). Brand beliefs for the protein bar were measured using the anchors not nutritious/very nutritious, tastes bad/tastes good, does not provide energy/provides energy, does not satisfy hunger/satisfies hunger, does not build strength/builds strength, and does not speed muscle recovery/speeds muscle recovery (coefficient alpha = .83). Brand beliefs for the Internet service were measured using the anchors slow/fast, unreliable/reliable, inconvenient/convenient, hard to use/easy to use, and unavailable/widely available (coefficient alpha = .83).

Measurement of endorser attractiveness, trustworthiness, and expertise were based on Ohanian's (1990) celebrity endorser-credibility scale. Specifically, semantic differential pairs were developed from two adjectives for each dimension: unattractive/unattractive and ugly/handsome for attractiveness (averaged,  $r = .84$ ), not knowledgeable/knowledgeable and not an expert/expert for expertise (averaged,  $r = .89$ ), and untrustworthy/trustworthy and unreliable/reliable for trustworthiness (averaged,  $r = .95$ ). Product/endorser fit was measured using one seven point scale anchored by does not belong with the product/belongs with the product (Till and Busler 2000).

## RESULTS

### Manipulation Checks

The celebrity endorser was perceived as significantly more attractive (5.48 versus 4.85,  $t = 2.18$ ,  $p < .05$ ), expert (3.95 versus 2.79,  $t = 2.94$ ,  $p < .05$ ), and trustworthy (5.55 versus 4.52,  $t = 3.08$ ,  $p < .01$ ) than the non-celebrity endorser. The athlete endorsers were perceived as a better fit with the protein bar than the Internet service (5.32 versus 3.66,  $t = 4.09$ ,  $p < .001$ ). Therefore, the two manipulations were considered successful.

Sports involvement was correlated with endorser attractiveness ( $r = .45$ ,  $p < .01$ ) and endorser trustworthiness ( $r = .50$ ,  $p < .01$ ), but had no direct or moderating effect on ad attitude or brand attitude. Product usage was not significantly related to any of the dependent measures.

### Hypothesis Testing

**Attitude Toward the Ad.** Table 1 shows attitude toward the ad in each of the four conditions. Directionally, the results are consistent with the hypotheses. The celebrity athlete ad was rated higher than the non-celebrity ad; the protein bar ad was rated higher than the Internet ad; and the protein bar/celebrity athlete combination was rated highest on attitude toward the ad. However, none of the differences were statistically significant.

In order to further investigate the results, we turned our attention from the manipulations themselves to the outcome variables resulting from the manipulations, i.e., ratings of endorser characteristics and perceived product/endorser fit. Table 2 shows that endorser attractiveness, trustworthiness, expertise, and product/endorser fit are all significantly related to ad attitude. Next, a regression analysis was employed using a dichotomous variable for product to test for differences by product (see Table 3).<sup>1</sup> This analysis revealed that ad attitude was significantly related to ratings of endorser trustworthiness and expertise. A marginally significant product by fit interaction reflects the fact that subject perceptions of fit were related to ad attitude for the Internet service, but not for the protein bar.

<sup>1</sup> A backward elimination procedure was chosen to select the "best" subset of the independent variables (Draper and Smith 1981, pp. 305-307).

In summary, although the main effect of celebrity status was not significant in an ANOVA, celebrity status did significantly effect perceptions of endorser characteristics, which, in turn, were significantly related to ad attitude. Similarly, the main effect of product type was not significant in an ANOVA, but perception of product/endorser fit was related to ad attitude for the Internet service, which is consistent with the product match-up effect. There was no evidence of the product/celebrity status (or fit/endorser characteristics) interaction.

**Brand Attitude.** Table 4 shows brand attitude in each of the four conditions. The results for brand attitude were not as expected, showing higher brand attitude for the Internet service ad in both the celebrity and non-celebrity conditions, and the highest brand attitude in the Internet/non-celebrity athlete condition! The effect of the product manipulation on brand attitude was likely due to prior attitudes toward high speed Internet service versus protein bars. Consistent with this explanation, brand beliefs were significantly higher for the Internet service than the protein bar (5.89 versus 4.44,  $t = 5.66$ ,  $p < .001$ ). The fact that the subjects liked Internet service better than protein bars apparently masked any product/endorser fit effect.

To further understand the outcomes, we again turned our attention to the outcome variables of the celebrity/product manipulation, perceived endorser characteristics and product/endorser fit. Table 2 shows that endorser attractiveness, expertise, and product/endorser fit are significantly related to brand attitude. Interestingly, endorser trustworthiness, which was significantly related to ad attitude, is not related to brand attitude. We again employed a backward regression procedure, using a dichotomous variable to test for differences by product (Table 5). The regression analysis shows that subjects' ratings of product/endorser fit, which had a marginally significant effect on ad attitude, show a significant and direct (unmediated by ad attitude) effect on brand attitude. This is also consistent with our explanation for the unexpected brand attitude ANOVA outcomes: when beliefs were controlled for in the regression, the effect of product/endorser fit on brand attitude became evident.

The effect of the celebrity manipulation and the resultant endorser characteristics on brand attitude is less clear. The celebrity was perceived as significantly more attractive and attractiveness showed a direct effect on brand attitude. However, after controlling for the positive effect of

trustworthiness on ad attitude, trustworthiness showed a residual negative effect on brand attitude, especially for the athletic product. This could reflect negative attributions regarding paid endorsements, but deserves further attention. The regression also reflects a stronger relationship between beliefs and brand attitude for the protein bar, and between ad attitude and brand attitude for the Internet service. If we assume the protein bar is a low involvement product, this is contrary to what would be expected based on, e.g., the Elaboration Likelihood Model (Petty, Cacioppo, and Schumann 1983). A partial explanation may lie in the fact that there was a stronger relationship between beliefs and ad attitude for the protein bar than the Internet service, perhaps reflecting a stronger "persuasion cue" effect (MacKenzie, Lutz, and Belch 1986) for the protein bar.

In summary, although the effect of the product type manipulation was not as expected (apparently due to confounding of attitudes toward the product categories with the product/endorser fit effect), ratings of product/endorser fit had a significant, and direct, effect on brand attitude. There was no support for the product fit by celebrity status interaction, and the effect of the celebrity status manipulation on brand attitude was mixed.

## CONCLUSION

The study presented in this paper generalizes previous research regarding attributions made about celebrity endorsers by showing that it holds in the context of athlete endorsers. The celebrity athlete in this study was perceived as more attractive, trustworthy and expert than the non-celebrity athlete. However, neither ad attitude nor brand attitude were higher for the celebrity athlete. In fact, for the non-athletic product, brand attitude was directionally lower for the celebrity athlete than the non-celebrity athlete. While conclusions based on one study of limited sample size would be inappropriate, the results suggest that the area of celebrities and unmatched products deserves further attention. Ratings of product/endorser fit had a significant and direct effect on brand attitude. While the study was designed to test a synergy between celebrities and matched products, the more fruitful area may be celebrities and unmatched products, and the differential effects of this combination on brand versus ad attitude.

**TABLE 1**  
**Attitude Toward the Ad**

	Protein bar	Internet Service
Celebrity athlete	4.90 (1.09) n = 16	4.54 (1.13) n = 13
Non-celebrity athlete	4.50 (1.88) n = 12	4.46 (.88) n = 19

Table reports means and, in parentheses, standard deviations. Statistics for main effect of endorser:  $F(1, 59) = .543$ ,  $p = .464$ ; for main effect of product:  $F(1, 59) = .383$ ,  $p = .539$ ; for interaction:  $F(1, 59) = .234$ ,  $p = .631$ .

**TABLE 2**  
**Correlations**

	Ad Attitude	Brand Attitude
Attractiveness	.451**	.440**
Expertise	.355**	.326*
Trustworthiness	.516**	.231
Product/Endorser Fit	.318*	.278*
Beliefs	.252	.396*
Ad Attitude		.561**

\*\*Correlation is significant at the .01 level (2-tailed).

\*Correlation is significant at the .05 level (2-tailed).

**TABLE 3**  
**Regression Analysis**

Variable	Dependent Variable: Ad Attitude		
	Beta	t	Significance
(Constant)		4.21	.000
Trustworthiness	.406	3.14	.003
Expertise	.278	2.04	.047
Product/Fit Interaction	.386	1.69	.096
Product/Expertise Interaction	-.425	-1.97	.054

R square = .338,  $F(4, 55) = 7.026$ ,  $p < .001$

Coding for product type: 0 = protein bar, 1 = Internet service

**TABLE 4**  
**Brand Attitude**

	Protein bar	Internet service
Celebrity athlete	4.17 (1.37) n = 16	4.49 (1.34) n = 13
Non-celebrity athlete	4.08 (1.45) n = 12	4.70 (.79) n = 19

Table reports means, and, in parentheses, standard deviations. Statistics for main effect of endorser:  $F(1, 59) = .042$ ,  $p = .838$ ; for main effect of product:  $F(1, 59) = 2.16$ ,  $p = .147$ ; for interaction:  $F(1, 59) = .217$ ,  $p = .643$ .



**TABLE 5**  
**Regression Analysis**

Variable	Beta	t	Significance
(Constant)			.254
Product/Endorser Fit	.251	2.33	.024
Beliefs	.830	5.02	.000
Attractiveness	.351	3.59	.001
Expertise	.221	1.86	.069
Trustworthiness	-.734	-5.26	.000
Product/Ad Attitude Interaction	1.29	3.71	.001
Product/Beliefs Interaction	-2.24	-4.84	.000
Product/Trustworthiness Interaction	.882	2.06	.045

R square = .679, F (8, 47) = 12.43, p < .001  
Coding for product type: 0 = protein bar, 1 = Internet service

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# EFFECTS OF AD IRRITATION ON BRAND ATTITUDES

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## ABSTRACT

Brand attitude has been proposed to be an antecedent to purchase intentions. The role of consumers' attitudes towards an advertisement in forming their attitudes towards an advertised brand has been studied extensively in the marketing literature. However, very few studies have specifically focused on ad irritation as an antecedent to attitude toward the brand. This paper examines the effect of ad irritation on brand attitudes and if the effect of ad irritation is independent of ad credibility, attitude towards the advertiser, attitude towards advertising and ad-induced feelings.

Based on these findings of past studies, we would expect that ad irritation would have a significant negative effect on brand attitudes. The following two hypotheses were developed:

H<sub>1</sub>: There is a significant negative relationship between perceived ad irritation and attitude towards the advertised brand.

H<sub>2</sub>: The effect of ad irritation on attitude towards the advertised brand is independent of ad credibility, attitude towards the advertiser, attitude towards advertising, and ad-induced feelings.

The hypotheses were tested using 125 student subjects who were shown five noncomparative television advertisements. The results indicated that ad irritation was not significant in predicting brand attitudes. Respondents' prior brand attitude, ad credibility, ad-induced feelings and attitude toward the advertiser were significant predictors of brand attitudes. Based on the results, several managerial implications were derived regarding the usefulness of ad irritation in changing brand attitudes.

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# ***A THEORETICAL EXAMINATION OF A SEGMENTATION BASE AND DESCRIPTORS FOR PROMOTIONS IN A HOSTILE ENVIRONMENT***

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## **ABSTRACT**

*A segment of noncommitted consumers on issues of business ethics is posited to be the most receptive segment to pro-business communication. Further, descriptors of that segment are posited as aids to developing effective messages for the segment. The descriptors include both socioeconomic and demographic variables.*

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## **INTRODUCTION**

The realities of criminal behavior in business have become inescapable. One cannot attend the media without being exposed to the latest information about Martha Stewart, Andrew Fastow, Arthur Andersen, or some other person or firm actions that has been enriched while defrauding helpless consumers. Although one might argue that some of these behaviors are individual and should not be generalized, it is fair to say that these incidents have catapulted business regulation and business ethics into priority issue status for America. Further, given even cursory attention to the headlines, it is reasonable to assume that Americans' beliefs about business have strategic implications for firms. These negative beliefs have given those with an anti business bias a legitimate cause and a forum for airing their cause, and the negative news about business and its leaders has affected both sales and the perceived need for government regulation of business. Moreover, given the intensity of feelings about business's lack of ethics, it is not unreasonable to believe that increased regulation and/or changed business behavior will not ameliorate all distrust of business nor will it immediately reduce the clamor for even more regulation.

The current anti-business climate puts legitimate businesses and honest business women and men in a very tenuous position. How can they avoid being painted with the same broad brush of corporate distrust as their less honest and unethical colleagues? In this climate how can the always ethical firm or even the recently reformed firm operate effectively in protecting their operations against the view of business as an evil force? Promotional materials, e.g., corporate advertisements, public relations programs, and community involvement are all

strategic marketing tools available to these firms; however, they are likely to have no effect or worse reinforce the view that business is evil if they are not created for and delivered to appropriate market segments. Selecting a market segment appropriate for receiving pro-business related messages will increase the efficiency of message delivery; however, to increase effectiveness of the messages delivered, the promotions should contain appeals appropriate to the segment receiving them. Hence, it is the purpose of this paper to develop a theoretical basis for segmentation to improve efficiency of promotional messages designed to develop or reinforce a legitimate positive view toward firms and business and then to identify theoretical descriptors of that segment that can be used to develop more effective promotion for it.

### ***Basis for Segmentation***

Although the composition of each firm's market segments can reasonably be expected to vary because of the firm's particular offering, it is nevertheless logical to assume that there are three very basic segments of consumers relative to their beliefs concerning business's ethical behavior: those consumers who strongly believe business is bad; those consumers who strongly believe that business is good; and those consumers who are uncommitted on the issue. Communication theory and research indicate these three broad segments of consumers will react very differently to persuasive messages. Specifically, "mass communication ordinarily serves as an agent of reinforcement for such attitudes, opinions and behavioral tendencies as the individual audience members already possess" (Klapper 1967, p. 287). Thus, the behavior and attitudes of those already committed to the idea that all business is good may be reinforced by a firm's ethics-related

the direction of an attitude is a rare effect" (Klapper 1967, p. 198). The third segment, the uncommitted, is potentially more responsive to business-related communications than either the negatively or positively committed. This group, usually identified by the noncommittal responses of don't know, neutral, undecided, no opinion or no comment in public opinion surveys (Sherif and Sherif 1967), "[are] fertile targets for the influence of events, propaganda, and persuasion" (Sherif 1976, p. 342).

The noncommittal responses of undecided and no opinion give an indication of the respondent's involvement with his or her stand since, "in traditional attitude scaling (undecided and no opinion) represent the neutral or uncommitted" (Sherif, Sherif and Nebergall 1965, p. 58). There is much more involvement with one's position in the case of positive and negative attitudes. Given that the group of noncommittal responses identifies the uncommitted respondents, separating them from the committed who express positive or negative evaluations, what are the implications for susceptibility to attitude change through promotional efforts? When an individual is highly involved in a stand on the object of the communication, his or her stand should serve as an anchor point, and much of the communication should fall outside his or her assimilation range for new information. It does not matter whether the individual's attitude is positive or negative. As long as he or she is highly involved in the stand, most communication discrepant with the stand should be rejected, and little chance for attitude change exists. On the other hand, to the extent that an individual is less committed to a stand, his or her range of assimilation should be much greater. Fewer communications should be viewed as discrepant with the stand, and a greater chance for attitude change exists. These views are consistent with research reported by Sherif, Sherif and Nebergall (1965).

The conclusions of Sherif, Sherif and Nebergall (1965) are not disparate with those reported by Tannenbaum (1956), Osgood and Tannenbaum (1955), and not surprisingly, they are reflected in most successful recent political strategies which concentrate on winning the undecided voter rather than changing the views of those who oppose the political candidate. Osgood and Tannenbaum (1955) predicted changes in attitude toward a concept based upon

congruity, the principle of susceptibility as a function of polarization, and a principle of resistance due to incredulity for incongruous messages. The principle of susceptibility is particularly important here. Osgood and Tannenbaum found indications that one's original attitude toward the concept rendered him or her more or less susceptible to influence for attitude change. Tannenbaum (1956), carrying this research further, hypothesized that the "amount of attitude change toward an object is inversely proportional to the intensity of the original attitude toward the object" (p. 415), and his data generally confirmed the hypothesis (p. 420).

At this juncture, some of the most important points concerning uncommitted respondents, their importance and how they might be identified should be reiterated. First, noncommittal responses taking the form of neutral, no opinion, or don't know on the continuum running from like to dislike, agree/disagree, etc. appear to be critical responses for attitude change. Second, these responses necessarily will be the product of a neutral evaluative concept on the part of the respondent. Hence, the uncommitted respondent will be taken as having a largely neutral evaluative concept on business ethics related issues. Third, uncommitted respondents are believed to be uncommitted/uninvolved in their stands concerning the business ethics issue. And, fourth, uncommitted respondents' lack of commitment/involvement to their stand on the business ethics issue makes them more susceptible to attitude change through pro-business related communications.

#### *Descriptors of the Uncommitted*

Selecting a market segment appropriate to receive an organization's pro-firm and/or pro-business messages, the uncommitted consumer, increases efficiency of message delivery; however, to increase effectiveness of delivery, the messages should contain appeals appropriate to that segment. Therefore, if uncommitted consumers on issues of business ethics are to be treated as a critical market segment, they should be described by variables most useful in selecting appeals to them. Research has identified several socioeconomic and demographic

variables as being associated with the noncommittal respondent segment (Converse 1976; Craig and McCann 1978; Davis 1971; Faulkenberry and Mason 1978; Ferber 1956; Francis and Busch 1975; Sicinski 1970; and Warwick and Lininger 1975). Some of the most significant are: Age, positively related to the number of noncommittal responses; Education, inversely related to the number of noncommittal responses; Sex, women have higher numbers of noncommittal responses than men; Income is inversely related to the number of noncommittal responses; Race, nonwhites have a higher number of noncommittal responses. Also a relationship between the type of question and noncommittal responses was found: Thought/evaluative questions are positively related to the number of noncommittal responses; Projections about the future are positively related to the number of noncommittal responses; Remote issues are positively related to the number of noncommittal responses; and Forced choices are positively related to the number of noncommittal responses.

The socioeconomic and demographic variables found to be associated with the noncommittal respondent segment are quite useful in identifying and locating the segment. However, it is the implication of involvement on the part of the segment that may prove more valuable in providing guidance in selecting appeals to be used in pro-business and/or pro-firm messages aimed at the segment. There have been many suggestions that the number of noncommittal responses should be related inversely to the respondent's involvement with the issue being investigated (Bogart 1967; Converse 1976; Ferber 1966; Francis and Busch 1975; and Stillman *et al.* 1960). However, only Francis and Busch examined the relationship, finding the rate of noncommittal response to be inversely related to perceived political efficacy and political involvement. Francis and Busch (1975) constructed their involvement index to reflect the respondent's involvement with following, and discussing a political campaign as well as the respondent's caring about which political party won the election. Thus, their index showed involvement indicative of action by the respondent. The lack of action-oriented involvement on the part of the uncommitted respondent segment suggests its withdrawal. Moreover, its low perceived political efficacy suggests political alienation. Indeed, Francis and Busch concluded these people in marginal positions may tend to respond in a noncommittal manner because they feel excluded, become alienated and express this through noncommittal responses. Barakat's (1969) description of one of the behavioral

manifestations of alienation also is quite pertinent here. The retreaters run away "in order to avoid confrontation, involvement, or commitment" (p. 8, emphasis added).

The uncommitted segment has been found to be both uninvolved and uncommitted. Because these are common behavioral manifestations of the alienated, the concept of alienation should be examined more specifically in relation to the uncommitted segment. Moreover, if this group of uncommitted respondents is characterized by alienation, then the dimensions of alienation associated with it should be uncovered in order to communicate more effectively with the segment. The psychological perspective of alienation views the concept as a subjective attitude. Here "attention is focused upon psychological states—upon people's perceptions of, feelings about and attitudes toward the situations and relationships in which they find themselves" (Schacht 1976, p. 136). A central theme in this perspective of alienation is that of alienation as an integral part of the individual's *modus operandi* in coping with his or her environment, as a "relatively deep-seated and enduring frame of reference through which the individual perceives and evaluates his social world" (Olsen 1965, p. 203). It is this attitudinal view of alienation which makes it a particularly useful construct in this study of the consumer who is uncommitted on business ethics and practices issues.

Both Olsen (1965) and Barakat (1969) provide bases for connecting alienation and uncommitted respondents. Olsen posits that although one who is alienated may continue to play necessary social roles, the alienated person may cope with his or her environment by psychologically withdrawing from involvement in some or all of his or her social activities. Barakat describes alienation as a process where first one seeks the source of her or his feelings of alienation and might progress to a relatively enduring experience of dissatisfaction and rejection defined in terms of discrepancy between what is real and what is utopian or ideal. Ultimately, according to Barakat, there might be behavioral consequences of alienation. When the individual experiences feelings of disparity between reality and utopia, these feelings may be expressed in certain behavioral activities conceptualized on a retreat-involvement continuum where the alienated person retreats from, conforms to, or acts upon the society from which he or she is alienated. It is this retreatism as defined by Barakat as well as the psychological withdrawal described by Olsen that provide the bases for connecting alienation and uncommitted respondents.

For the concept alienation to be of use in constructing messages to the uncommitted it must be cast in such a way as to give clear direction for those who wish to communicate with the alienated uncommitted. Seeman (1959), who departed from the unidimensional view of alienation and opened its study to modern empirical effort, provides the basis for such a connection. Following a thematic analysis of the social theories of Marx, Weber, Durkheim and others, Seeman identified five basic ways in which the concept of alienation had been used: powerlessness, meaninglessness, normlessness, isolation and self-estrangement.

The multi-faceted concept of alienation as a means of coping with one's environment has been applied to such diverse areas as the political arena, social psychology and marketing. However, one should not be led by these diverse applications to assume that alienation can be generalized from one cognitive domain to another. Rather, as Wright (1976) points out, alienation from self, work, friends, religion and politics does not cohere in one tight unitary package. Several studies in the political arena (Eckhardt and Hendershot 1967; Wright 1976; and Olsen 1969) found political alienation to be associated with withdrawal from political activity, by refraining from voting, and lower levels of participation in such realms as mass media and informal discussions. Lambert and Kniffin (1975) used Seeman's typology to identify basic sources of consumer discontent and suggest actions to mitigate the discontent. Durand and Lambert (1980), after finding alienated consumers to be less cognitively differentiated than nonalienated consumers, labeled consumer alienation as a concept worthy of investigation since it is an underlying behavioral factor and might lend support to imposing further mandates on advertisers, advertising agencies and media. And Allison (1978), after finding alienated consumers to be less informed than other consumers, pointed out that if business continues to meet the physical needs and wants but fails the consumer psychologically by ignoring such concepts as alienation, it will probably face increasing demands for change and restructure. Despite these calls from over twenty years ago, little more has been heard about consumer alienation. Yet, it is very reasonable to believe that alienation in the business realm is higher today and no less important a concept than it was in the late 1970s and 1980s!

Allison's (1978), Durand and Lambert's (1980), and Lambert and Kniffin's (1975) findings about the extent of knowledge and its relation to alienation as well as the relation between alienation and cognitive differentiation take on increased

importance when examined in light of Geyer's (1976) information processing view of alienation and provide more direction in how the concept of alienation might be used in constructing messages for the uncommitted consumer segment. Geyer, using Seeman's (1959) typology of alienation, casts the concept in a form where all dimensions of alienation consist of information processing problems for individuals. He then reconceptualizes alienation as a scanning and selection problem, "as an inability to make an adequate selection from the multitude of inputs one is bombarded with daily" (Geyer 1976, p. 210). Even though the individual may be seeking specific information, only near random selection may seem possible to him or her because of the complexity of information provided by the environment. If one cannot reduce environmental complexity, and thus, cannot assign meaning to it, he or she must develop some sort of "adequate defense mechanisms for denying it" (Geyer 1976, p. 211).

Geyer also points out that the average individual cannot cope with his or her increased environmental complexity, and therefore, regresses at a certain stage in his or her development to a kind of semi-closed system state, where fully open interaction with the environment is lacking, and reality is made to measure by resorting to oversimplifications. "Viewed from this perspective, there is more alienation now than before, because higher demands must be fulfilled by the individual before he can be termed unalienated" (Geyer 1976, p. 214). Nevertheless, Geyer goes on to point out that alienation may be reduced through strategies designed for and aimed at the specific facets of alienation identified. Hence, it is sensible to address the alienation of an individual rather than address an issue *per se*. For example, if the uncommitted respondent on the issue of business-ethics and related behavior is also alienated in the domain of marketing, e.g., perceived meaninglessness, then an effective communication/promotion strategy would be to speak to the consumer's perceived meaninglessness rather than to try to convince him or her that a firm is ethical in its practices. In Geyer's words, the latter type of message could not be "tacked on to some aspect of the pre-existent environmental mapping" (p. 198).

It is also proposed in this theoretical paper that human values are relevant to understanding the uncommitted respondents on business-ethics related issues and will provide valuable insights into the type of messages that should be constructed to communicate effectively with the uncommitted alienated segment. The reader will recall that

Barakat described the alienated as having a relatively enduring experience of dissatisfaction and rejection defined in terms of discrepancy between what is perceived as real and what is utopian or ideal. Research in the domain of human values suggests that one's ideal or utopian world is formed using one's value structure. As Vinson and Munson (1976) write that "Values represent the most basic element of the consumer's cognitive world. As such, they structure the individual's perception and understanding of himself, of significant others and of the objects and behavior which constitute his psychological environment (p. 316). If such a pattern of values does exist, it follows that they can be used to design a promotional strategy devised to create and reinforce a preference by appealing to centrally held values providing an abstract frame of reference for perceiving and organizing experience and for selecting courses of action.

Milton Rokeach (1968), a social scientist whose views and operationalization of human values have been particularly useful to marketers, defines values as a "centrally held, enduring belief which guides actions and judgments across specific situations and beyond immediate goals to more ultimate end-states of existence (p. 161). Thus, according to Rokeach, values transcend specific objects and specific situations, having more to do with modes of conduct and end states of existence where those values associated with modes of conduct are instrumental values, and those associated with end states of existence are terminal values. Further, instrumental and terminal values represent two separate yet functionally interrelated systems. Rokeach points out that all the values concerning modes of behavior are instrumental to the attainment of all the values concerning end states. Within this system, instrumental values refer only to idealized modes of behavior, and terminal values refer only to idealized end states of existence. Rokeach (1973) writes that one way to think of the functions of values is to think of them as standards that guide on-going activity. It is posited here that the idealized modes of behavior and states of existence of the alienated uncommitted form the bases of their relatively enduring experience of dissatisfaction and rejection defined in terms of discrepancy between what is perceived as real and what is utopian or ideal. The importance of this idea will become more apparent as the role of human values in marketing is presented.

The underlying premise for using values in marketing is that values are a potentially powerful force in explaining consumer behavior. As early as the 1920s, Copeland (1924) was dealing with

something closely akin to values, since his purchase motives are in many respects quite similar to values. In more recent applications in consumer behavior, values have been related to life style (Bem and Bem 1971; Mitchell 1971, group norms (Kassarjian and Roberson 1971). The majority of marketing studies used Rokeach's typology of human values, finding differences attributable to nationality (Munson and McIntyre 1978), automobile ownership (Henry 1976), attitudes and buying behavior (Vinson and Munson 1976), consumer discontent (Vinson 1977), and environmental concern (Durand 1979 and Pierce 1979).

Of particular interest to the development of human values as a descriptor for the uncommitted consumer segment is Howard's (1977) work in which he uses human values as described by Rokeach to address marketing problems via mean-end chain. He points out that consumers often need more information to make decisions, but the relevance of the information must be apparent to the consumer. For information to be relevant, values must be taken into account; that is, "Motivationally relevant information has to do with the relation between instrumental values and choice criteria" (Howard 1977, p. 127).

Concerning the tie between values and uncommitted respondents, there is a lack of precise social or behavioral science data to make a firm statement that the uncommitted on business ethics and behavior can be described by a unique set of values. However, Rokeach (1968) did find a distinct relationship between values and attitudes across three disparate issues: various aspects of equal right for black Americans, church involvement in social affairs, and involvement in Vietnam. Following Rokeach's belief that "Virtually any attitude will be significantly associated with some subset of terminal and instrumental values" (p. 118), it is reasoned that a set of values will be associated with the uncommitted segment relative to business ethics and behavior. In turn, these values, once identified, will enable one to communicate more effectively with the uncommitted segment.

## CONCLUSIONS

Given the intensity of current anti-business sentiment, ethical firms and business men and women have a vested interest in dispelling the simple view that all business is bad. Yet, their message is complex and is likely to be ignored or distorted by those who disagree with it. Hence, a procedure for identifying a segment of consumers who are more



likely to be receptive, the uncommitted, was advanced. Further, consumer alienation and human values were presented as descriptors of the uncommitted segment for use in framing relevant messages for them. Theoretically, this segmentation

base, commitment, and the descriptors of the segment, alienation and human values, should increase both the efficiency and effectiveness of corporate communication.

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# WHEN GOOD PROMOTIONS GO BAD: LEGAL STANDARDS AND PUBLIC RELATIONS IN THE INTERNET AGE

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## ABSTRACT

*Contests and sweepstakes represent two promotional tools for achieving brand image and other communication goals. This paper explores how these tools can go wrong and the legal standards that apply, discusses the role of public relations when problems do arise, and offers suggestions for future programs.*

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## INTRODUCTION

For marketing managers it is the marketing mix, consisting of product, distribution (a.k.a. place), price, and communication (a.k.a. promotion) selections, that defines the decision-making landscape. In reality, each facet serves as an umbrella for a host of decisions (see Table 1). The goal is to make selections within a context that best matches the organization's environment with designated goals, both for the short-term and long-term. The complex nature of the task is also rooted in the necessity that marketing mix selections must also be integrated for maximum strategic effect.

While any promotion or communication program decisions must be reconciled with the other marketing mix elements, choices among the myriad of possible promotion vehicles must also be made with the understanding that they too must be coordinated and selected for their ability to support the goals of the program. For example, while the many forms and different uses of advertising make broad generalizations impossible, there are many qualities that advertisements share including public presentation, persuasiveness, amplified expressiveness, and a large degree of impersonality

Within a sales promotion program, contests and sweepstakes, offer a tantalizing benefit to participants, the opportunity to win something of value either by virtue of performing some act or merely by entering. Contests and promotions stimulate demand through encouraging involvement with products and minimizing brand switching (Kerin et al., 2003). Experts caution companies to make

(Kotler, 2003) The breath and depth of options in the promotion mix again reinforce the need for an integrated approach (see Table 2).

Promotion marketing spending is now over \$100 billion annually. According to the Promotion Marketing Association, in the year 2000, marketers increased spending for sweepstakes and contests by 9% from 1999 levels (Retsky, 2001). When considering the myriad of options marketers have for spending the promotional dollar, the question naturally arises as to what the organizations receive for this type of program. Generally speaking, sales promotions offer three distinct benefits: 1. they gain attention and may lead the customer to the product, 2. they incorporate some concession contribution or inducement that is valued by the consumer, and 3. they include a distinctive invitation to engage in the transaction or behavior now. Public relations by contrast is associated with high levels of credibility, they ability to reach prospects who prefer to avoid other sales efforts and/or advertising, and they have the potential for dramatizing a company or product. The remaining promotional areas of personal selling, advertising, and direct marketing also possess specialized benefits. (Kotler, 2003).

sure they don't backfire and that they must be prepared to spend the necessary time and money to conduct thorough background checks on the vendors and their employees" (Szygal, 2001). As the value of the outcome to participants increases, so too does the potential interest or motivation by some to engage in illegal behavior in order to win the prize.

**TABLE 1  
MARKETING MIX DECISIONS**

<u>Product</u>	<u>Distribution</u>	<u>Communications</u>	<u>Price</u>
Objectives	Objectives	Objectives	Objectives
Accessories	Channel Type	Advertising: Targets,	Allowances
Branding	Direct vs. Indirect	Ad Types, Media,	Competition-Based
Features	How to Handle Storing	Themes	Cost-Based
Installation	How to Handle Transporting	Mass vs. Interpersonal	Demand-Based
Instructions	Intensity	Point-of-Purchase	Discounts
Line Breath	Kinds and Locations of Stores	Promotion Blend	Flexibility
Packaging	Kinds of Intermediaries	Sales Force: Type,	Management Over Life
Physical Materials	Managing Channels	Size, Selection,	Cycle
Positioning	Market Exposure	Training,	Transfer Pricing
Product Depth	Recruiting Intermediaries	Motivation	Value-Based
Product Lines	Service Level	Public Relations	
Quality Level		Push vs. Pull	
Service		Sales Promotion	
Warranty			

Source: Bonoma 1989.

**TABLE 2  
PROMOTION MIX TOOLS**

<u>Advertising</u>	<u>Sales Promotion</u>	<u>Public Relations</u>	<u>Personal Selling</u>	<u>Direct Marketing</u>
Audiovisual	Contests	Annual Reports	Incentive Programs	Catalogs
Billboards	Continuity	Charitable Donations	Sales Meetings	Electronic
Brochures/Booklets	Programs	Community Relations	Sales Presentations	Shopping
Directories	Coupons	Company Magazine	Samples	E-Mail
Display Signs	Demonstrations	Events	Trade Shows	Fax Mail
Motion Pictures	Entertainment	Identity Media		Mailings
Packaging – outer	Exhibits	Lobbying		Telemarketing
Packaging Inserts	Games	Press kits		Voice Mail
Point-of-Purchase	Lotteries	Publications		
Displays/Posters	Low-interest	Seminars		
Leaflets	Financing	Speeches		
Print/broadcast ads	Premiums/Gifts	Sponsorships		
Reprints of Ads	Rebates			
Symbols and Logos	Sampling			
Videotapes	Sweepstakes			
	Tie-Ins			
	Trade Shows			
	Trade-In			
	Allowances			

Source: Kotler, 2003

### BACKGROUND

During the past ten years, the nation's regulatory eye has turned to sweepstakes and contests conducted by businesses as part of their marketing strategy. The government's interest focuses on fair administration and their effect on the public, specifically the elderly who may be more easily misled. Sweepstakes are defined by marketers as a

game of chance that does not require consideration, i.e., no monetary cost to enter. This particular issue is where the Publisher's Clearinghouse gained increased attention leading to numerous lawsuits. One such suit in Colorado, where 2,567 people spent more than \$1,000 each on the company's merchandise in any year from 1997 to 2000, resulted in those affected being eligible to receive a portion of \$500,000 allocated to the state's customers as part of

the settlement with the state (McGhee, 2002). Contests generally have some sort of skill element to replace the chance element of sweepstakes. More detailed and specific legal definitions vary from state to state.

In recognizing the inherent problems in games of chance, on December 13, 1999, the Deceptive Mail Prevention and Enforcement Act (DMPEA) was signed into law, giving a consistency across the country in definitions and enforcement. Concerning sweepstakes, this law requires the following:

- The mailing, rules order or entry form must conspicuously display the statements “no purchase is necessary to enter the sweepstakes” and “A purchase will not improve an individual’s chances of winning.”
- The materials must disclose all terms and conditions of the promotion including official rules and entry procedures, the sponsor or mailer of the material and its principal place of business or contact address.
- The official rules must state the estimated odds of winning, the quantity and estimated retail value and nature of each prize, and the schedule of payments, if any, made over time.
- The materials may not state that a person will be disqualified from future sweepstakes for refusing to make a purchase, that the sweepstakes entry has to be submitted with an order or payment for a previous order, or that someone is a winner unless s/he has actually won a prize, or contradict or qualify the official rules or any other mandatory disclosure.
- The business has an affirmative duty to remove the names and addresses of anyone who so requests from its mailing list (Anonymous, 1999).

Further, the DMPEA places similar requirements on contests:

- All terms and conditions of the contest, requirements, and the name or address of the sponsor.
- The number of rounds or levels of the contest and the cost to enter each round.
- The difficulty of subsequent levels.
- Maximum cost to enter all rounds or levels.

- Estimated number or percentage of entrants who may correctly solve the skill contest.
- Identity and/or qualifications of any judges.
- Method of judging.
- Date winners will be determined and the date or process by which the prizes will be awarded.
- Quantity and estimated retail value and nature of each prize
- The schedule of payment, if any, made over time.

Both contests and sweepstakes are considered valuable promotional tools for reinforcing brand image. Given that they require less effort from consumers and generate greater response, sweepstakes are much preferred to contests when this is a campaign goal (Shimp, 2000).

### Some High Profile Problems

As the specter of cheating and contest fixing have arisen in the business community, states have taken stands to protect their citizens. In addition to the Publisher’s Clearing House case, states have filed lawsuits against other companies including Fingerhut Corporation, Harlequin Direct Limited, Michigan Bulb Company, and Top Choice Distributors, Inc., among others for their practices (Anonymous, 1996). One firm, McDonald’s Restaurants, discovered a potential problem with one of its promotional games and took a proactive tack both to protect their own good name and head off potential negative publicity that can both draw the attention of legislators and affect brand equity.

Historically, McDonald’s has had a good relationship with Simon Worldwide, Inc., a firm that has handled McDonald’s promotions for over twenty years. The relationship has worked well for both firms, so much so that McDonald’s executive often invoke what has become known as the “Schrage clause,” named for McDonald’s longtime marketing officer Paul Schrage, that no promotional game for the company could be undertaken without Simon Worldwide’s involvement (Sperber, 2001).

In 1995, Mr. Jerome Jacobson, a game security manager at Simon Worldwide, oversaw the printing and distribution of the Monopoly game promotion, one that has run numerous times over the last seven years. Under Mr. Jackson’s oversight, the operation of the promotion was different than in past programs. Where as had been the custom the winning pieces were taken to distribution centers to

be mixed randomly with other game pieces prior to their being given out at restaurants, Mr. Jacobson allegedly gave them to his family and friends to collect the winnings and give him and the group working with him kickbacks.

Upon detection of the potential breach, McDonald's contacted the FBI in April of 2001 and offered their cooperation. McDonald's ran its July, 2001 Monopoly Millionaire game knowing of the possible criminal activity. The operation led to the arrest of Jacobson and seven other people involved. McDonald's moved quickly to win back credibility and give customers a chance to 'win every dollar' stolen by the criminal ring with a new contest. The fallout at fast food giant, its partner agencies – and the promotional business at large isn't likely to heal anytime soon. The make-good contest is the first important step towards fulfilling this commitment, according to McDonald's CEO Jack Greenberg." (Sperber, 2001).

For Simon Worldwide however, their legal troubles are not over. While U.S. District Judge Matthew F. Kennelley threw out McDonald's claims that Simon Worldwide and its subsidiary, Simon Marketing Inc., broke a contract with McDonald's and violated their legal duty in not overseeing more closely the security and integrity of the game, his rationale that the decision doesn't belong in federal court left open the door that would allow McDonald's to file the suit in state court (Bloomberg, 2002).

While promotion scandals of this magnitude had not touched many other firms, other companies and promotion agencies in the fast-food arena were concerned about how the customers losing the chance to win more than \$13 million in cash and prizes would affect the growing use of contests and sweepstakes to woo customers (Elliott, 2001). "It's a black eye for the promotion marketing industry," according to Mark Mears, a board member of the Promotion Marketing Association and senior vice president at BrannForbes, Dallas. "It's going to make all our jobs harder" (Sperber, 2001). Companies looking to conduct a promotion involving prizes should have a team of in-house employees working with the promotion agency, as well as an outside security firm evaluating the game's administration and the people involved at all levels (Fitzgerald, 2001).

The key to preventing fraud is not about finding someone you can trust. It is about having proper controls in place, because even good people

sometimes turn bad. For companies, they should not get too comfortable with their vendors and should resist the impulse to give them too much power. With it goes the temptation to take advantage of it (Szyal, 2001). Suggested controls to have in place include:

- Hiring an experienced investigative firm to look at possible advertising and promotion companies.
- Performing a complete background check on these companies.
- Narrowing the prospects to one or two top choices and asking for a list of employees who will be assigned to your account and following up with an independent background check on those employees.
- Performing updated background checks annually. (Szyal, 2001)

### Public Relations

The situation that both McDonalds and Simon Worldwide faced, as well as that faced by any firm conducting a contest or sweepstakes, is how to insure that the promotion is conducted fairly, both in reality and in perception by consumers. When questions regarding these types of promotions, it typically falls to those in the public relations arena to mend fences with consumers. The high credibility associated with public relations activities relative to other promotional mix elements, as well as the need for having a single voice for addressing concerns makes this area of the company ideally suited to address issues related to either the fraudulent activities of some, as in the McDonald's case, or in instances where the promotion is poorly designed. The rationale to involve the public relations rather than the legal department is motivated by the negative consumer backlash associated with scandals and the companies' desire to avoid damaging publicity that would go with a trial.

Consider a Proctor & Gamble salesman who cracked the code of a promotion run by Beatrice tied in with Monday Night Football. Contestants scratched silver coated football cards to reveal numbers, hoping to win the prize offered if the numbers on the cards matched the number of touchdowns and field goals scored in the weekly game. Contest planners intended the changes of getting a match to be infinitesimal. To Beatrice's surprise however, a salesman for rival Proctor & Gamble put in a claim for a great deal of money – far more than they had planned on paying out. The P&G salesman had cracked the contest code and

determined that 320 patterns repeatedly showed up on game pieces. By scratching off just the first line he was able to determine which numbers were underneath the rest of the card. With knowledge of the actual number of touchdowns and field goals scored he would start scratching cards until winning numbers were located. He enlisted friends to assist in collecting and scratching the cards. Thousands of cards were collected, mostly from Beatrice salespeople. The P&G salesman and friends identified 4,000 winning cards worth \$21 million in prize money. Beatrice discontinued the game and refused to pay up (Baum, 1987).

PepsiCo provides another example in the form of a promotion poorly planned. Contestants participated in a "spell-your-surname" contest with letters printed on bottle caps. Because very few caps had vowels, PepsiCo assumed that only a small number of people would win the contest. Planners failed to realize that many Asian surnames, such as Ng, contain only consonants (Baum, 1987). Public relations is often called upon to offer alternatives to contestants and winners in an effort to avoid alienating consumers or at least to give them another chance in the future.

### The Role of the Internet

The Internet is becoming a significant medium for consumer-oriented promotions including Internet sweepstakes and contests (Shimp, 2000). With more widespread acceptance of the Internet in homes as well businesses, the often lower cost structure for administering these types of promotions, and the ability to target them to more specific populations, their continued use is virtually

guaranteed. But as we have seen, the abilities of some to devise a way to gain an advantage are great. Given the rise in popularity of computer chat rooms and other communications among players that the Internet support, it is likely that problems will arise in the delivery of successful sweepstakes and contests requiring the use of public relations personnel.

### CONCLUSION

Well planned and executed consumer-oriented contests and sweepstakes offer the potential for accomplishing communications objectives that other promotional mix elements cannot. Integrated with other program selections, and within the context of other marketing mix decisions, building and strengthening relationships with consumers is a realistic outcome of these programs. The growing popularity of the Internet has expanded the methods of delivery and contact between consumers and companies. With these new options have come old problems in new forms.

Regardless of the circumstances, (fraud, collusion, poor planning, etc.) consumers taking a company up on its offer to play a contest or register for a sweepstakes expect a fair process. When there is evidence to the contrary the public relations personnel can provide a recovery strategy, not only for salvaging or repairing the relationship with consumers but also for potentially forestalling lawsuits or further regulatory intrusion. In any event, marketing personnel, not merely lawyers or public relations specialist, must be well acquainted with legal requirements of conducting contests and sweepstakes.

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# CHINESE EXECUTIVES PERCEPTIONS OF UNITED STATES-CHINESE NEGOTIATING STYLES AND RELATIONSHIPS

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## ABSTRACT

*This paper explores how 24 Hong Kong subsidiaries' Chinese executives negotiate business in China. Various negotiation approaches adopted by the executives are related to the information requirements, administration control, and expectations of American headquarters. Most executives are more frustrated with American corporate management upon local subsidiary than Chinese negotiators' problems.*

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## INTRODUCTION

This is the first study to explore and to describe Hong Kong subsidiaries' Chinese executives' perceptions of U.S.-Chinese negotiation styles and relations in reaching international cooperative agreements in China for American headquarters. Many factors, such as U.S. and Chinese negotiation styles differences and Chinese executives' authority to mobilize company's resources, can affect their effectiveness of negotiation in China (see Lam 2000).

Although many Chinese executives have a good understanding of the Chinese business culture, they also deal with many challenges. They must communicate the business practices of China to internal corporate members within the boundary of American corporate system and must negotiate with the mainland Chinese representatives in a dynamic and complex Chinese business environment. They must deal with the dilemmas and the conflicts between two systems and between two governments. Thus, to effectively perform their multiple distinctive roles, they specifically need a different set of communication skills and management experience. This study addresses three research questions:

1. What are the perceived problems of the Chinese negotiators?
2. What are the perceived problems of the American negotiators?
3. How do Hong Kong Chinese executives carry out their negotiation activities in China?

## METHODOLOGY

The research is ideographic and phenomenological. To understand the experiences and perceptions of these Chinese executives who are ethnic Chinese and employees of American corporations, it is better to be discovered effectively through qualitative research methods (see VanMaanen 1998).

All data were collected through semi-structured, in-depth personal interviews in year 2000 and year 2002 in Hong Kong. Ultimately, 28 executives out of 515 contacts were interviewed in year 2000. 24 interviews were taped-recorded, transcribed, and used for analysis. 4 interviewees were not used as their parent companies were non-American. In order to increase internal validity, 8 executives were reinterviewed by similar questions in year 2002.

The researcher's approach was to encourage interviewees to express their opinion or feelings freely in their mother tongue (i.e., Cantonese or Mandarin), and to structure the interview to cover three sections. The first section was about their personal experience in negotiations and working for American corporations. The second section was the description of one specific negotiation activity in China. The third section was a generalization of their perceived problems of Chinese and American negotiators.

## FINDINGS

This section includes the characteristics of interviewees, the perceived problems of Chinese negotiators in mainland China, the perceived problems of American negotiators (i.e., Americans who are living in the United

States), and the Hong Kong Chinese executives' negotiation approaches.

Many tricks are in the Chinese business market...(#11, #16)

#### **General characteristics of interviewees**

All interviewees (sample size=24), 22 male and 2 female, were astute themselves as American corporate employees. Most interviewees had extensive experience of representing American company in U.S.-China cooperative project negotiations, averaging 7.3 years, with a range from 1 to 20 years. They had conducted various kinds of negotiation activities in different industries including: 8 were in project development, 9 were in sales and marketing and distributor management, 4 were in joint venture development, 3 were in representative office development and management, 3 were in tax and financial terms' negotiation, 1 was in commercial terms, 1 was in legal terms, and one was in investment consulting. Their description of these negotiation activities secure variability in the case study.

These Hong Kong Chinese executives perceive that they have to deal with problems of evasive communication styles, "face consciousness", underdeveloped business mentality, and self-interest seeking behavior of Chinese negotiators.

#### **Perceive problems of American negotiators**

Most interviewees perceive that the presence of Caucasian American leadership can force the Chinese counterparts to become serious in the process of negotiation. However, they perceive the American negotiators who are Americans living in the United States are arrogant because these American negotiators do not like to listen to advice or change their American ways of doing business in China. Indeed, most interviewees are more frustrated with the American corporate management policy upon local subsidiary than problems of Chinese negotiators. For example, they stated:

#### **Perceived problems of Chinese negotiators**

These interviewees perceive that Chinese negotiators in mainland China are reluctant to provide valid information, are sensitive to price issues, and behave irresponsibly in communication and in work. For example, several interviewees stated:

There is a high turnover of American corporate leaders in charge of China business. The uncommitted leadership impedes the progress of projects and causes us tremendous frustration ...(#1)

Their communication styles are still very evasive... (#1, #2, #13)

Most senior positions are held by American expatriates. There is not sufficient localization...(#21)

They <Chinese negotiators> constantly give excuses for not taking the initiative or doing the jobs well...(#9)

The American leadership tends to underestimate the time required to finish a task in China...(#18)

Chinese employees at middle level perceive that the Chinese partner's business is gone when it becomes a joint venture partner. These employees do not like to support the foreigners in the process of asset evaluation or setting up joint ventures... (#19)

Americans do not trust non-Americans. It takes me more time to persuade American boss than Chinese counterparts. Americans think that they are always right! (#16)

Local government often sees the withdrawal of foreign investors as face-losing issue and try all means to keep them there without considering the decisions as commercial ones....Chinese joint venture partner want to have more than their fair share of the assets upon liquidation ...(#3)

Americans are seldom aware how the problem of slow American bureaucratic decision-making process stalls project negotiations in China. (#6)

These interviewees perceive that their American corporate leaders are uncommitted in China, and are not sensitive how internal American corporate structure impedes the process of negotiations. These interviewees would like to see the Americans rely more on local talents, give more time for them to finish the assigned tasks in China, allow more long-term development of subsidiaries,

and assign committed leaders to be in charge of the projects.

### Interviewees' negotiation approaches

These interviewees are not all the same in the way they carry out their negotiation activities. There are some relationships between American corporate characteristics and their negotiation styles.

Interviewees #1, #2, #5, #6, #18, and #22 are very oriented to their American corporate interpretations of the Chinese policies and laws because they are working in large American multinational enterprises that can access more updated information about the Chinese government policies and regulations than the Chinese negotiators in China. They are determined not to make mistakes in the initial stage and they try their best to clarify the true interpretations of the many Chinese legal documents or policies. They are careful to follow the instructions of the American corporations and will even lobby the Chinese government to change the tax laws or enforce the updated laws. As a result, these interviewees are involved in setting norms and standards of similar industrial practices in China.

Interviewees #4 and #16 reluctantly abide by all corporate policies and administrative controls in their negotiation. They feel that they could not fully contribute their skills and talents to the Chinese business because their American headquarters and their Singapore regional offices impose many restrictions upon them. These controls are top-down approach, and they have no right to bypass the Singapore regional office to communicate with the U.S. headquarters or to change the command given by the central office. They perceive that the Singapore regional office do not understand the Chinese market and have implemented more restrictive policies than what American headquarters expect.

Interviewees #9, #13, #14, #15, #16, and #23 focus on the industry they are working for and keep their sales performance on the acceptable level

because their American companies are very conservative and would not like to invest much in China. They inform the American headquarters about the progress and problems of their business in China and ask the Chinese distributors to sign detailed contractual agreements which are required by their American corporate policies. They enforce the contractual agreements with the Chinese distributors through good relationship-building with the Chinese distributors and key end users in China. They have maintained the balance of the legal aspects and relational aspects of contracts between American manufacturers and the Chinese distributors. On the other hand, they gradually learn in which gray areas they can make their own decisions and make adjustments according to the needs of Chinese clients without consulting the American headquarters.

Interviewees #3, #10, #11, and #21 aggressively fulfill the quota prescribed by the headquarters because their American multinational enterprises want short-term quick return in China. They are oriented to local Chinese practices and actively use personal relationships with Chinese negotiators to reach agreements.

Interviewees #8 and #12 leverage their negotiation activities by aggressively developing networks of distributors or joint ventures in China because their American headquarters demonstrate strong commitments in developing Hong Kong as the Asian regional headquarter and give them much autonomy to run the business in China.

### DISCUSSION

In this study, Hong Kong Chinese executives develop various negotiation approaches to cope with the information requirements, administrative control, investment attitude, and expected return of American headquarters. Thus, American corporations must rethink how their top management team and regional structure influence negotiation activities adopted by subsidiaries, and how the negotiation work of these Chinese executives influence their global competitive dynamics and their future corporate management policy in China.

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# JAPANESE WOMEN'S CONSUMPTION PATTERNS: 1945 TO THE PRESENT

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## ABSTRACT

*Women have changed in Japan in the last 50 years. And many of these changes seem to parallel the changes that have taken place in women in America. For example, she derives as much satisfaction from employment as from her home and family. Such changing roles have created marketing opportunities for the astute organization.*

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## INTRODUCTION

Put in historical perspective the role of the Japanese woman has changed remarkably in the post-war period. During this time, she has transitioned from a housewife to a working woman, following her American sister. Her role as housewife will be revealed in her shopping pattern which was frequent. Additionally, she was responsible for family financial planning. In this early period other facets of her role were also emerging, that of office girl and college coed, but it was in the later part of the period that both the Japanese women and Japan were becoming modern. The decades of the 1980s and 1990s witnessed their rapid influx in the workforce and their changing consumption patterns. In addition, more Japanese women were choosing to stay single and delay marriage. This paper discusses the Japanese female consumption patterns that emerged during the period, 1945 to the present.

### THE JAPANESE FEMALE CONSUMER OF THE 1950s, '60s, '70s AND '80s

#### The Married Female Consumer

Through the decades of 50s, 60s, 70s, and 80s, no one has been more important to Japanese market researchers than the housewife, monopolizing about 70% of the market researchers time (Fields 1985). Why? Because she has exercised near total control of a households' purse strings. Her role was fundamentally different from her Western counterpart. For example, it was the Japanese housewife who was entirely responsible for family savings and planning for future spending (Richardson and Ueda 1981). The wives' frequently allocated their husbands' daily pocket money, including

receiving an allowance for such things as lunch, cigarettes, haircuts, and other minor incidentals (De Mente and Perry 1968). Having such financial responsibility means the Japanese housewife could, in a way, be looked upon as the "Minister of Finance" (Richardson and Ueda 1981). It was the wife who made the day-to-day purchases of food, small items of clothing, and incidentals for the home and children. She also paid the bills (De Mente and Perry 1968). Moreover, her role was also that of "record-keeper" (Deutsch 1985). Studies show that the Japanese housewife would keep a meticulous record of daily accounts. All expenditures would be carefully entered into books given to her by banks, insurance companies, or even given to her as premiums for magazine subscriptions. Accounts were also kept for educational and leisure expenses, as well as provisions made for a "rainy day" (Fields 1985).

In order to understand the behavior of Japanese wives in the postwar period (1950s-1980s) let us follow the housewife on her shopping rounds. Already, there is one element missing that many Western women would have on such an occasion. The Japanese consumer does not have a shopping list (Fields 1985). Perhaps it is because, in the postwar decades, the average Japanese housewife goes shopping an average of 1.5 times a day, every day (De Mente and Perry 1968). But this is only a part of the story. In many cases, the Japanese housewife does not have a shopping list because she really does not know what she is going to buy before she leaves home (Fields 1985).

We also see another important characteristic revealed when her general pattern of store visits is examined. Data from the pre-1990s decades show

that a majority of Japanese housewives visit more than one store on their average shopping trip (Yoshino 1971). The place most frequently visited is the neighborhood shopping street, where the housewife buys the daily supplementary foods that go with basic items such as rice. She searches the fresh food available for quality and price. She looks for the best buy of the day, often assisted in this by the information given that day on television (Fields 1985). Given her habit of buying often and in small quantities, an ever-continuing string of retail outlets has emerged in every city during that time. Therefore, the average housewife seldom has to walk more than three or four blocks to buy her daily perishables (De Mente and Perry 1968). Her preference for small, specialty fresh food stores over the supermarkets is due primarily to the reliable advice she can hear there as opposed to the treatment she receives in the impersonal supermarket. Research suggests that her first purchase of the day takes the most time. Once it is made, however, the rest of her purchase decisions are quickly made (Fields 1985).

### **The Unmarried Female Consumer**

The purchasing patterns of married and unmarried women differed to a great extent during the 1950s-1980s. Unmarried women, many of whom were typically working as office ladies (OLs), were spending almost all of their money on themselves. The reason for this is that most of them were still living with their parents or at least were supported by them to a great extent (De Mente and Perry 1968). They contributed little or nothing to the household budget and thus spent a large amount of money on either shopping or saving for the marriage dowry (Fields 1985). The typical office lady did most of her shopping in large department stores and in the shopping centers surrounding commuter terminals through which she could pass daily. The unattached female was very much a self-centered shopper and spender.

### **The College Age Female Consumer**

Let us now move away from single working women and pay attention to college girls and their consumption patterns in the period of the late 50s, 60s, 70s and 80s. Since the majority of female university students relied on their parents to pay for their monthly living expenses, working college girls in particular could spend most of their money on leisure activities and socializing (De Mente and Perry 1968). Statistics from that period show that two in three female junior college students and three in four female university students were working regular part-

time jobs. Personal enjoyment was paramount, and they could now afford it (*Young Adults in Japan* 1985). As consumers, they were especially important to the food and drink, music and film industries (De Mente and Perry 1968).

Coffee shops played a central role in a young woman's life, especially the female college student. Coffee shops were located in convenient locations near train stations, in residential areas as well as in department stores and shopping complexes. Young Japanese women could easily drop in after school or after work, on the way to or from other activities, or when keeping appointments with friends. Nearly 71% of college girls stated that when they went downtown shopping or to the movies, they often dropped in at a coffee shop. The coffee acted, in a way, as a "living room away from home" where they could visit and talk with friends. In the evening, young women sometimes made use of the more sophisticated café bars to meet friends. The atmosphere of café bars was stylish and subdued, and often a place to display one's fashion sensibilities.

College girls had a very keen sense of fashion and they were quite conscious of what others would think of their appearance. They enjoyed shopping and spending money on clothes and accessories. Research conducted in late 70s and early 80s suggested that they spent nearly 1.5 to 2 times more on fashion items than the male university student. Women were also willing to pay for the information that could help them to make decisions about purchases; that is, they would buy fashion magazines like *Non-no* or *JJ*, to learn about trends and where to shop. When they had conversations with their friends, they would frequently talk about the fashion. Going shopping became an activity that could be enjoyed with other friends. At the same time, it provided assurance that one's choice of clothes would be approved by their friends. Young women were very sensitive to how their friends felt about fashion. In fact, 68% of young women stated that they were influenced by the opinions of others. When wearing particular styles, most of these women wanted to convey to others that they knew how to choose appropriate fashion (*Young Adults in Japan* 1985).

### **THE 1990s AND BEYOND**

Let us now turn our attention to the 1990s and beyond, and compare the contemporary behavior of female consumers with the purchasing patterns characteristic for the 1950-1990 period. It should be emphasized that changes in consumer behavior were greatly influenced by the rapid influx of large

numbers of Japanese women into the workplace (Russell 1995). The number of employed female workers in Japan rose from 7.4 million in 1960 to 20.48 million in 1995, and to an expected 21.4 million in 2000, accounting for 38 percent of the total employed workforce in 1995 and 40 percent in 2000 (*Focus Japan* 1996). It is employment that allowed for so many women to have greater control over their lives and more freedom to pursue their chosen paths. It has allowed them to dramatically participate in the consumer marketplace ("Inconspicuous Revolution Increasing Woman Power" 1993).

### The "New" Japanese Wife

First, let us focus on the "new" Japanese wife. Research reveals that they have been undergoing a quiet but revolutionary change in their actions and thoughts. In the early postwar decades, there was a strong tendency for female workers to quit working upon marriage or childbirth. Recently, fewer women are content to work exclusively as mother and housewife, and more are remaining in, or returning to, the workforce ("Family Sizes, Gender Roles Show More Diversity" 1993). Their talents and energy are being absorbed by a waiting labor market and a broad range of culturally enriching activities. They can work outside the home and they are exercising freedom to decide how, where, and under what terms they will work ("Inconspicuous Revolution Increasing Woman Power" 1993).

Even if working full-time in the 90s, Japanese wives still do almost all the housework and shopping ("Inconspicuous Revolution Increasing Woman Power" 1993). While married female consumers in contemporary Japan still have a preference for doing daily "small" shopping close to home they are now much more willing to shop less frequently, further from home, and for larger purchases. Japanese wives increasingly find it worthwhile to drive to a large supermarket to do their weekly shopping (Editors *International Journal of Retail and Distribution Management* 1997). Unlike in the 50s, 60s, 70s, and 80s, the shopping patterns of Japanese females in the 90s has become more similar to Western style consumption (Emert 1994). More efficient freezers and refrigerators in the home have made it possible to buy larger quantities. There are still space considerations to think about, but packaging innovations such as condensed detergents and vacuum packs now makes buying for a week at a time more attractive (Schutte and Ciarlante 1998).

### The Unmarried Japanese Female Consumer of the 1990s and Beyond

In the 2000s, most office ladies in their early twenties still lived with their parents who supported them. But as they move into their late twenties and early thirties, oftentimes they leave their parents' home and fulfill their wish of living alone. The number of women living alone is increasing in Japan (Barrager 1993). There is also a growing group of single women who postpone marriage beyond the "appropriate" age of 25. In fact, in 1990, 40% of women between the ages of 25 and 29 and 14% of women between 30 and 34 were single. In the year 2000, it is estimated that 54% of women between 25 and 29, and 26% of women between 30 and 34 will be single. They often delay marriage to enjoy a life rich with luxury goods, travel, and fashion. Money and possessions, attractiveness and fitness, residences and work are their major concerns (Skov and Moeran 1995).

According to one public opinion survey, unmarried working women have a much more solid appreciation of their lifestyle when compared to married women (*Focus Japan* 1997). Single working women are more likely to put a priority on living their lives to the fullest. A large number of them want to fulfill life in a totally material sense. They even tend to consider the pursuit of one's own lifestyle more important than attention to social or national concerns (Lodge 1995).

Western goods and styles have taken on special significance in an unmarried woman's consumption lifestyle. Western products symbolize work and personal freedom, something that runs counter to the expectation that a Japanese woman ought to sacrifice herself to both husband and children. These international influences in the Japanese consumer market contribute to creating a mindset that simply does not mesh with traditional Japanese values (Skov and Moeran 1995).

### The New College Age Female Consumer

In this group of consumers, there is a clear trend toward price cutting and deals (Hotaka 1997). Discount stores who specifically target this group are increasing their sales at a healthy rate in the 90s. Many of these stores, such as the Don Quixote discount chain in Tokyo, stay open late at night. They are crowded with young people looking for casual entertainment as well as inexpensive clothes and accessories. College girls love to come to such stores with their girlfriends or boyfriends. They can

easily "kill" an hour or so there because they clearly perceive shopping as a "fun" activity. An attractive aspect of such late night shops is that their very existence is outside the ordinary. The "mystery" of the wee hours, when most people are asleep, often adds enough excitement to spark a purchase (Akiko 1998). The major leisure emphasis of these young women is traveling, shopping, going to coffee shops, drinking, eating out, and reading magazines that shape their understanding of themselves and the world.

### CONCLUSION

The preceding analysis clearly shows that when it comes to actual consumption, women have always held the central position in Japanese society. Women have always been, and still are, a much more influential consumer group than men. Women are the key to the spending patterns of the middle class. However, in relation to the world of work, women

have moved from the margins of the workplace to occupying a key position. Such employment has allowed women to fully gain their consumer identity. Their incomes have enabled them to embrace more freely many current trends. Work and money have become the "admission ticket" for women to pursue their independent desires and yearnings and have allowed women to feel a sense of control and independence in their lives. Print media, among which magazines are most prominent, have generated considerable advertising revenue from this shift – a shift which has focused increasingly on women being independent, strong, and worldly. Western influence is noticeable in magazine ads where women are associated with self-fulfillment and a glamorous lifestyle. One could conclude that the step that Japanese women have taken out onto the public stage as workers and consumers has both freed them from their backstage position at home and recast them as independent voices that must be heard by the 21<sup>st</sup> century global marketer.

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# DISTINGUISHING PRACTICES OF INTERNALLY MARKET-ORIENTED AND NON-INTERNALLY MARKET ORIENTED COMPANIES

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## *ABSTRACT*

While the literature has firmly established the relationship between market orientation and firm profitability, there is little information available on developing a market orientation. The purpose of this exploratory research is to move beyond traditional market orientation thinking and to go inside organizations to determine how the actual market orientation activities are interrelated and how the practices differ between market oriented and non-market oriented companies.

The major components of a market orientation as described by Kohli and Jaworski include gathering market intelligence, disseminating the market information and rapidly responding to the market information. Our interest is to determine which of the market oriented activities are being practiced in organizations today. Because businesses with fewer than 500 workers represent 98% of the total firms in the United States, we focused on companies with under 500 employees.

Interviews were held with Presidents or Vice Presidents of 21 mid-sized manufacturing companies. The 21 organizations were classified as highly internally market oriented (7), somewhat market oriented (7), and non-market oriented (7). The differences between the activities in the market oriented and non-market oriented firms are illustrated below.

Six categories of practices were consistently exhibited by the highly market oriented companies to create, establish and continue a culture of focusing on the internal and external customer: 1) Leadership: The desire to sustain a market oriented culture was carried forward by the President so that those below were fully aware that a market oriented culture was a permanent structure in the organization. 2) Market Oriented Culture: A shared set of beliefs and values that permeates the organization. 3) Communication: The market oriented companies used a variety of means to communicate market information with each other. 4) Employee Focus: The most market oriented companies exhibited a strong connection between management and employees. 5) Performance Management: Market oriented companies tracked, monitored, posted and displayed their actual performance targets with the optimal levels clearly communicated. 6) Challenges vs. Threats: Market oriented companies saw threats as opportunities and challenges for further growth.

There were commonalities among the non-market oriented organizations. Four categories of behaviors indicate inhibitors or distracters that were impeding these companies from developing and maintaining a market orientation: 1) Leadership/Communication: Non-market oriented companies lacked a singular vision focused toward a market orientation. 2) Product-Focused Culture: These companies were very knowledgeable about their products but appeared to be less in touch with the dynamics of the industry in which they compete with little to no focus on providing superior customer value. 3) Performance Management: No additional rewards were available in these companies for employees to engage in market oriented activities. 4) Challenges vs. Threats: The non-market oriented companies rationalized these as something out of their span of control.

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# AN INVESTIGATION OF THE EFFECT OF ALLIANCE USAGE ON THE MARKET ORIENTATION— PERFORMANCE RELATIONSHIP

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## ABSTRACT

In 1990, Narver and Slater established one of the first links between market orientation and organizational performance. They found a substantial positive effect of market orientation on the profitability performance (measured as return on assets) of business units. However, early on, researchers proposed that this relationship might be moderated by elements in a firm's external environment. Interestingly, a discussion about alliances by Contractor and Lorange reveals language similar to that used to describe market orientation being used to describe alliances. This study seeks to determine if varying levels of market orientation influence the propensity for an organization to engage in alliances with other organization—as moderated by the external environment. The end result of alliance use is proposed to be improved firm performance.

H1: The relationship between market orientation and alliance use is moderated by managerial perceptions of external environment.

H2: The relationship between market orientation and firm performance is mediated by a firm's alliance use.

The sample included member firms of the Point-of-Purchase Advertising Institute (POPAI). Eighty-seven usable surveys were returned. Since this model suggests the presence of a moderating variable (external environment) between a dependent variable (alliance use) and an independent variable (market orientation), moderated regression was used to test this relationship.

Unfortunately, this study did not provide any conclusive results. There was no moderating effect of external environment perceptions identified. Now was any mediating effect of alliance use confirmed. Limitations to this study include that no significant results were found and that a single test for moderator effects was used. Future research might want to consider a fuller model that could better explain the relationships between alliances, market orientation, and performance. Also, other antecedents, mediators, or moderators like trust or organizational learning might be worthy of consideration. Furthermore, either more objective or different subjective measures of performance and/or separate measures of financial performance and alliance performance could be utilized.

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# THE DIRECT AND INDIRECT APPROACHES TO COMPETITIVE STRATEGY FORMULATION

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## ABSTRACT

The paper presents two strategy approaches from military theory seldom mentioned in the business literature. The direct approach is the "head-on" method while the indirect approach emphasizes segmentation and "changing the rules of the game." Examples illustrating both types of strategy are cited from the popular business press.

## INTRODUCTION

The application of military theory as strategy analogies for marketing managers has been widely reported in the business literature. A number of such articles have been published in journals and the popular business press (Porter, 1979; Kotler and Singh, 1981; Cawood, 1984; Ries and Trout, 1985; Cohen, 1986; Faruqui, 1987). Similarly, coverage of military theory in texts mainly has focused on offensive and defensive strategies (Cohen, 1991; Boyd, Walker and Larreche, 1998; Anderson and Vincze, 2000; Hill and Jones, 2001; Pitts and Lei, 2003). However, as Wensley (1989) points out: "Despite the large number of military examples....application to marketing strategy seems to advance little."

The purpose of this paper is to advance a second viewpoint from military theory that has the potential for influencing business and marketing strategy thinking. Most attention has focused on the offensive and defensive strategies in comparison to the direct and indirect strategy approaches. While the direct and indirect approaches recognize the principles of concentration and flexibility as important, they differ about how to implement these ideas. Of particular interest in this paper is the indirect approach that prescribes identifying new opportunities and finding unique ways of deploying resources to achieve competitive advantage.

First, offensive and defensive strategies are discussed with their limitations noted. Second, direct and indirect strategy philosophies are defined based on an interpretation of the content in Liddell Hart's book *Strategy* (1967). Third, examples found in the

popular business press are presented that illustrate both approaches. Finally, managerial implications and a summary are provided.

## THE OFFENSIVE AND DEFENSIVE STRATEGY APPROACHES

Military strategy applications found in the business literature have primarily concentrated on offensive and defensive strategies as relevant for marketing management. Shown below is a list of military strategy options that Kotler and Singh (1981) as well as others provide:

Frontal	Position
Encirclement	Mobile
Bypass	Preemptive
Flanking	Flank
Guerrilla	Counteroffensive
Withdrawal	

It is not that these ideas are uninteresting but that they only enumerate a list of possibilities and, thus, are inherently descriptive. Little practical guidance is prescribed for managers devising business strategies analogous to military options. Among various critiques are: (1) they have been applied too simplistically (Cawood, 1984; Taylor, 1986); (2) their application to business is not well understood (Beckwith, 1987; Cohen, 1986); and (3) unlike military situations, business strategies are not a zero-sum game (Day, 1984). In addition, the military focus is on a single entity, the opponent (equivalent to competition in a business context) which overlooks the role of the customer, an important idea in marketing. While this offensive and defensive

dichotomy makes for an interesting analogy to read, it has shortcomings for directing managers actually formulating marketing strategies.

### DEFINING THE DIRECT AND INDIRECT STRATEGY APPROACHES

A second method of applying military theory to marketing situations is the direct and indirect strategy approaches. We examine these two philosophies basing our analysis extensively on Liddell Hart's book, *Strategy* (1967). First, we describe two key principles of strategy, concentration and flexibility.

Concentration is the principle of applying strength against weakness, not strength against strength as sometimes mistakenly thought. The point is to apply resources economically at the decisive point in just sufficient quantity to achieve the desired goal. Flexibility is mobility when applying resources for achieving one of several alternative goals so long as the alternative eventually leads to the final objective. Flexibility keeps the opponent off-balance and unsure of the "true line of direction." Combined, they prescribe that managers should "seek the line of least resistance" as the basis of their strategy (Liddell Hart, 1967).

#### Direct Strategy Approach

Liddell Hart (1967) explains the direct approach as the execution of strategy "along the line of natural expectation for the opponent." Essentially, this means going "head-to-head" against an opponent to achieve one's objectives. An adamant proponent of this philosophy was Carl von Clausewitz, the eighteenth century German military theoretician. Paraphrasing this thinking are Anderson and Vincze (2000) describing Clausewitz' thinking as "winning is based on fighting the big battle, that is, doing things right." In marketing terms, this translates as competing for customers on the same basis and hammering on the competitor. Common examples are improved product quality, coupon promotions, slotting fees for shelf space in stores, or matching a competitor's prices.

However, the direct approach has a major problem according to Liddell Hart (1967): it "tends to produce negative results." And the reason for this is because it "consolidates the opponent's balance and thus increases his resisting power," while "failing to upset his psychological state." The significance of this principle is the dictum attributed to Napoleon that "in war the moral is to the physical as three is to one."

Thus, direct strategy becomes a test of attrition with the strong surviving and the weak perishing. The problem is that its deployment has the potential for a costly and uneconomical use of resources to reach the strategy's objective.

There is a time and place for a direct strategy. It makes logical sense when overwhelming resources can be focused on an attractive market position or when attacked by a competitor and a strong resource base is demanded for its defense. But the lessons of the direct approach are that it is costly to execute, has the least chance for a rewarding outcome, and offers the least degree of flexibility. Porter (1979) emphasizes that the key to growth and survival is to stake out a position less vulnerable to attack "head-to-head" from opponents.

#### Indirect Strategy Approach

The indirect approach, on the other hand, envisions strategy achieving its objective in a different manner. Liddell Hart (1967) comments that strategy has a tandem purpose, that of having the tendency to dislocate the enemy's psychological state always and physical state usually. The indirect method induces a subtle but desired unbalance against an opponent caught unready to meet the perceived threat. Hart adds: "In strategy, the longest way round is often the shortest way home." Anderson and Vincze (2000) elaborate on one of Sun Tzu's time tested principles of strategy: "The ultimate strategy is to subdue the enemy without engaging it," and contrasts with

the direct approach by prescribing "doing the right thing." (Sun Tzu was an ancient Chinese military thinker that lived about 500 BC.; his "Art of War" remains a widely read and popular book today).

The major challenge to employing the indirect approach in business is finding new opportunities. But this means more than simply sales volume, it should be *profitable* sales volume. Half of problem is devising a strategy "along a line of least resistance," one that attracts buyers and holds their patronage. The other half of the problem is to make it tough for competitors to react, hindering their ability to attract away these new found buyers. Simply put, it suggests that "changing the rules of the game" in the marketplace is a preferred route.

In a marketing context the indirect design attracts customers by means other than the already obvious: by inventiveness and stimulating customer

interest where competition is not already strongly established. The focus is on delivering benefits to buyers interested in trying something new, avoiding imitation while seeking uniqueness. It concentrates resources where opportunities appear and/or where competitive resistance is least, being flexible to move in a timely manner to secure this new position. It means finding competitive advantages that attract buyers with market offerings superior to competitors. The ultimate indirect strategy is one so dominant it discourages competitors or potential competitors from even thinking about competing in the market (e.g., Sun Tzu), especially when they find the "rules of the game" have changed.

### EXAMPLES OF THE DIRECT AND INDIRECT STRATEGY APPROACHES

Examples from the popular business press illustrate these two approaches. The first group demonstrates direct strategy; the second group gives indirect strategy. Finally, several examples are provided that illustrate how "changing the rules of the game" affects competitive strategy.

#### Examples of Direct Strategy

Most discussion in marketing centers on the direct strategy approach. Note should be made about how competitors attack head-on in their fight for market position. Of the citations below, the Wal-Mart versus K-Mart example indicates a favorable outcome (for Wal-Mart) employing a direct strategy. The cigarette illustration is another example of a direct strategy, but this time where the smaller producers successfully attack the dominant brandname producers. The other examples are indicative of competitive standoffs at best.

*Mass Market Retailing:* Here Wal-Mart is the clear winner versus K-Mart. A superior information and distribution systems produced lower costs and prices, gaining Wal-Mart a large market share. K-Mart's major mistake was their failure to implement a sophisticated computer system for inventory replenishment, putting K-Mart far behind Wal-Mart in this critical aspect (Duff and Ortega, 1995).

*Cigarettes:* The low-end cigarette brands have created robust competition against established brands, threatening this cozy oligopoly. Smokers have responded to this low price strategy with super-cheap brands holding a 10% market share in 2002, up from 3% in 1998. Although "Big tobacco" has

responded with 2-for-1 promotions of their own, the toll on profits is substantial (Phillip Morris expects profit per 1000 cigarettes to drop by 50 percent in 2002). The viability of the majors' regular hefty price increase strategy is in question, especially considering their loss of market share and the multi-billion dollar legal settlements still to be paid (Fairclough 2002).

*Dental Care:* This nasty fight involves legal maneuvering in the emerging teeth whitening category. P&G made a claim in its advertising about the efficiency of market leader Colgate's product line. The latter, in turn, filed a challenge against P&G, a move that precludes litigation before the National Advertising Division of the Better Business Bureau (Neff, 2002).

*Dry Cell Batteries:* The competition between Duracell and Energizer was intensified after introducing a device attached to the package to test battery power (the patent on the idea reportedly complicated by a mistake made when issued by the U.S. Patent and Trademark Office). Both firms planned to price their new batteries at the same level as current models (Gibson, 1996). Neither gained any market advantage from this innovation.

*Packaged Beer:* In the Texas packaged beer market Bud Light was repositioned as an "attack" brand directly against Miller Lite. To regain lost market share the price of Miller Lite was reduced deeply. In turn, Bud Light was lowered to \$5.00 a case to meet this competition (McCarthy, 1996).

At last smaller competitors maybe see the futility of challenging Anheuser-Busch. SABMiller and Coors are now targeting each other rather than A-B. They spent \$243 mil. and \$202 mil., respectively, in 2001 on measured media advertising; combined this is 96% of A-B's \$464 mil. for advertising (Chura, 2002). These levels of spending are a sure mark of the lack of resources for competing head-on against a stronger market leader.

*Fast-Food Restaurants:* Price wars erupt with franchisees feeling most of the brunt. Market saturation produced a fight for market share with stepped up promotions and slashed prices. As one Burger King manager commented: "discounting was so prevalent that we have to serve 15% to 20% more customers to keep sales level...It's almost as if you're doing extra work to give away the food" (Gupta, 1989).

But price competition by offering 99 cent specials by the top three burger chains never seems to

stop. Burger King created a short-term 99 cent menu promotion that was followed by McDonald's with \$1 items that was followed by another Burger King price special (Pain, 2002). Neither do the results ever seem to change: while boosting store traffic, such promotions eat away at profit margins and train consumers to wait for discounts (MacArthur, 2002a).

Consumer reaction to 99 cent specials is "a big yawn" as the "quick casual" restaurants attract as many as half of fast-food patrons (Leung, 2002). Worse, the most feared result is happening: "Customers...are not recognizing any points of difference between the [quick-service restaurant] brands," per an internal McDonald's memo as reported by MacArthur (2002b). It is the changing customer rather than the price-promotion -- and maybe out of touch -- restaurateur that has affected the feeding game.

### Examples of Indirect Strategy

The indirect approach emphasizes uniqueness and creativity in marketing strategy and suggests steering away from competing head-on against stronger competitors. While some of the examples below are well known, others are simply interesting and very clever.

*Mass Market Retailing:* Certainly one of the cleverest examples of the indirect approach is Target Corp. and their "cheap chic" strategy. They maneuvered away from a head-on clash against price leader Wal-Mart by adopting a product differentiation, "value" positioning strategy. Putting designer names on "cool stuff" and developing clever image advertising, Target's same store sales increased 3.4% in 2000; this contrasts with sister-division department store operator Marshall Field's that saw a 4% decline in same store sales (Chandler, 2001).

*Ethnic Foods:* Goya Foods is a sixty-six year old leader in Latino food products. Working closely with retail store managers, they create a shop within a shop tailored to Hispanic customers. Goya claims one advantage they have is their in-depth knowledge of Hispanic buying habits (i.e., 4.7 store visits per week; spending \$117 per week on groceries). Sharing their expertise with retailers also has meant that Goya "has never paid a slotting fee" (Bianchi and Sama, 2002).

*Cable Television:* The ascent of the Lifetime Network to a leader in cable TV was accomplished through astute attention to its target female viewers. By focusing on what is important to women and

women's daily stresses, its programming features dramas, documentaries, and taking advocacy positions on important issues, all generating "the feeling of sorority." Its primetime rating of 1.9 translates into 1.6 mil. viewers who are also customers for its book publishing venture and possibly a Lifetime magazine and radio network (Advertising Age, 2001).

*Book Publishing:* McFarland & Co. is a niche player in the publishing business. It focuses on small runs of a few hundred copies of books that fit unusual interests and are exhaustively researched, many of them serious histories. It has a puny marketing budget; maintains a low overhead operation; the 60,000 customers are mainly libraries and catalog buyers. Annual sales are not disclosed but are acknowledged in the seven figure range (de Lisser, 1998).

*Food Retailing:* Dorothy Lane Market is a two-store, Dayton, OH, family owned food retailer. Industry net profits for 1996 averaged 1.2% of sales in a market where price competition is prevalent. A new pricing strategy adopted a frequent shopper card with loyal buyers receiving discounts for repeat shopping at their store. This compares to competing for the infrequent, bargain-hunting price shopper attracted to the large chains. Reportedly net profit on sales doubled in 1996 over 1990 (Coleman, 1997).

*Disposable Diapers:* Drypers Corp. is a distant third in this category with a 3.3% market share behind P&G and Kimberly-Clark. They increased market share +0.7% by adding a new baking-soda additive to their product. The move was coupled with expanded distribution in supermarkets and a boost in advertising spending (Neff, 1996).

*Household Cleaners:* Development of a steel wool-type soap pad for non-stick cookware increased 3M sales 91.8% over the previous year. The two market leaders, S.O.S. and Brillo, both saw their sales and market shares decline after this new product introduction (Shapiro, 1994).

*Building Products:* CTS-ConForm's innovative polystyrene plastic blocks work as construction forms for pouring cement walls. Although the cost per square foot of block was more expensive than concrete blocks, the total cost of building a wall was less (as much as 40% cited for one bid) due to labor savings advantages (Jefferson, 1990).

*Candy:* Leaf, Inc. is a small manufacture in the U.S. candy business compared to Hershey, Mars, and Nestle. They decided to buy brands other firms had discarded, and then re-launched these with nostalgic advertising. Sales jumped by 25% in one year while their market share increased from 16% to 20% (Scott, 1989).

*Snack Foods:* Lance, Inc. reformulated their product lines to reduce saturated fats and cholesterol to attract the health conscious "munchers" (estimated at 25% of the audience). They claim this was a first in the bakery business (James, 1988). Additionally, Lance sells a significant proportion of their products through vending machines, thus minimizing competing for limited shelf space in retail outlets.

### Examples of "Changing the Rules of the Game"

The idea here is to be truly innovative in seeing new opportunities and how to address the market to take advantage of emerging trends. Rather than a "follow the industry leader," which simply imitates another's strategy and their set of rules, Robert (1991) argues that establishing new rules for competing will neutralize competitors and often leave them paralyzed to act.

*Household Cleaners:* Orange Glo International introduced its Oxi Clean laundry additive and all purpose cleaner with direct response TV advertising. After establishing brand awareness, they moved to marketing through mass retailers such as Costco and Sam's Club, then into Wal-Mart, Target and national food stores. Sales were \$11 mil. in 1998, \$87 mil. in 1999, \$120 mil. in 2000, and projected to reach \$225 mil. in 2001 (Neff, 2001).

*Packaged Pasta:* American Italian Pasta Company took advantage of a growing trend in food retailing, coupling this with astute investment in the latest technology, to capture 25% market share of U.S. retail pasta. The growing importance of private label brands in food retailing opened this opportunity. AIPC's strategy was to create a high quality product produced at a lower cost using cheaper labor and raw materials and taking advantage of rail transportation from their western Missouri location. This enables APIC to manufacture pasta that sells 30 cents per pound lower than brand name prices. Their higher cost competitors, saddled with old plants and processes, now have turned to AIPC as a supplier of brandname (*i.e.*, Muller's) pastas. Sales for 1998 were expected to surge 46% to \$189 mil., much of it bolstered by the Mueller's contract (Balu, 1998).

*Automotive Parts:* At one time Prince Corp. was a low level supplier of plastic automotive parts. Through systems integration efforts, they reduced materials costs and design coordination delays, and are now supplying complete interior assemblies to their automotive customers. This strategy reduced competitive pressures from non-integrated auto parts companies that do not have this ability while simultaneously improving their bargaining position with material suppliers (Wolter, 1995).

*Batteries:* Harding Energy Systems' innovative nickel-metal hydride technology resulted in smaller batteries that are able to be recharged up to 1000 times. Additionally, these batteries are environmentally-friendly, an attractive marketing feature with today's customers. One-shot alkaline battery producers reportedly are not pursuing the idea because of the large cannibalization factor their batteries would encounter (Wolter, 1997).

*Laundry Detergent:* P&G moved into concentrated formulas for both their powder and liquid product lines. This forced competitors to spend large dollar amounts in research and development to try to catch-up, reportedly with adverse consequences (Shevack, 1995).

*Aluminum:* The indirect approach is well illustrated by Reynolds in the aluminum industry. Competing against an entrenched and notoriously slow-footed steel industry, aluminum producers were aggressive in their search for new applications. Although six times more costly on a weight basis versus steel, its strength and lightweight offer advantages for auto parts, house siding, boat hull, and baseball bat companies (Milbank, 1992).

The introduction of the inexpensive two-piece aluminum can is an example of the indirect strategy. Reynolds directed its strategy at beverage companies to get their support rather than can producers, avoiding almost certain resistance from can producers interested in protecting their investments in older steel can technology. Now in an ironic twist, the aluminum can is under attack. AriZona Beverages planned to market an iced-tea product retailing for \$1.50 each in a container estimated at quadruple the cost of the aluminum can. Their unique attraction was a new squeezable, plastic, sports bottle (Baker and Harris, 1997).

But one of the most interesting examples of "changing the rules of the game" is the following:

*Chicken Farming:* When raising chickens some will be lost as part of the production process. In turn, this means disposal of dead carcasses is an additional expense. Southern chicken farmers found a solution to this problem by using alligators; the animal grows to a four foot size in about 18 months. The dead chickens are consumed as feed, thus saving disposal costs, while simultaneously producing two new commercial products: 4 to 5 pounds of meat, at \$6 lb., and hides worth \$80 each (Minor, 2000).

### MANAGERIAL IMPLICATIONS

For marketing managers two lessons are visualized. First, direct strategies offer a less attractive method of competing because this means head-to-head confrontation against competitors that require using resources that are not always economically employed. On the other hand, the indirect strategy is preferred because the company seeks out new opportunities and to compete on a basis other than against the competitor's strength. The four observations below form the essence of marketing strategy guidelines that emerge from military theory:

1. The direct strategy approach is more costly in terms of resources to implement and less flexible. Opportunities are more limited for applying the principle of concentration to achieve superior position because this is essentially what competitors also are attempting to do.
2. The indirect strategy approach prescribes learning about the new opportunities with customers, looking for the line of least resistance, not just defeating the opponent. Flexibility when deploying resources is paramount for gaining advantage over competition when executing this approach.
3. The indirect strategy approach means addressing the market differently. The direct strategy approach may have worked previously, but success encourages imitation 'along this same line' which only stiffens resistance. The indirect

approach tells management to seek unique and imaginative ways to attract and keep customers.

4. The direct strategy approach competes head-on and is more difficult to execute successfully because it means competing on the basis of strength versus strength. The direct approach depends on "muscling one's way around in the market;" the indirect approach relies on "knowing one's way around in the market."

### SUMMARY

There are situations when either the direct approach or the indirect approach can be applicable. It should not be assumed that a direct strategy should never be used as this approach is unavoidable in tough competitive situations or when attacked by an ambitious rival.

The direct approach is most applicable when attacked while defending an attractive market position or when overwhelming resources can be brought to bear. In general, though, the direct approach is more costly to execute because it means competing by matching strength against strength rather than gaining a superior position where no competitor currently dominates.

The indirect approach aims to avoid direct confrontations. When executed well, it takes the "line of least resistance," seeking to attract customers and establish a strong position that is difficult for competitors to offset or neutralize. Essentially, it focuses on the key question: How can we best compete in the market -- effectively and efficiently -- to gain advantage over the competition?



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# BENCHMARKING: A MARKETING TOOL TO INCREASE CUSTOMER SATISFACTION AND COMPETITIVE ADVANTAGE

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## ABSTRACT

*Since acquiring new customers is very costly for banks, they must monitor and compare their services and performances against their competitors. The banks have many techniques to examine their performances and to benchmark their services against those of competitors. This study showed that secret shopping is a viable technique in determining which banks are most effective in attracting new customers. The results also showed that mystery shopping could be an effective tool to identify weak performance areas in order to increase customer satisfaction and competitiveness of banks in their marketplace.*

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## INTRODUCTION

The mission of banking is to provide the most value at the lowest cost in the shortest amount of time (Sweeney, 1997). In order to complete the mission, banks must be effective (do the right things) and efficient (do things right). Effectiveness creates profit, and efficiency controls the pattern of resource consumption (Sweeney, 1997). Today's customers place a premium on quality service and value-added products. Benchmarking has emerged as a prominent technique in improving the operations and offerings in the banking industry. In recent years, the scope of benchmarking in banking has shifted from an historical focus on financial assets to a broader approach that includes services and products.

Benchmarking in banking is typically used to focus internally or externally for the organization. Internal benchmarks create reference points for measuring improvements, while external applications allow a bank to measure its services and products versus those of its competitors. This paper presents a brief summary describing the historical function of benchmarking and its role in banking. Next, several common benchmarking techniques utilized in the banking industry are discussed. These techniques include multidimensional balanced benchmarking, competency assessment, customer relationship management, and secret shopping. This is followed by a discussion of the results of the "secret shopper" research. This research includes the implementation of an actual mystery shopping program in a small midwestern town, the results of which are detailed.

The research results show the benefits that banks can reap from the successful implementation of benchmarking programs. Benchmarking can be instrumental in allowing a bank to change its offerings to meet changing customer needs and preferences, which is critical to maintaining sustainable competitive advantage. "Banks that survive will be those that offer an array of products and services to meet the consuming public's needs, and at the same time pay attention to evolving technology and service quality" (Bexley and Lewis, 2001).

## History of benchmarking

Benchmarking is recognized as one of the most valuable management tools available. This tool allows teams or individuals to look beyond the traditional perceptions and look at factors to create success. Basically, benchmarking is a systematic process of searching for best practices, innovative ideas, and effective operating procedures that lead to superior performance.

Benchmarking was originally used in the manufacturing industry and slowly evolved into a measurement process to conduct comparisons. During the 1970's and 1980's, it was primarily used as a numerical measurement that gauged the performance of a function, operation, or business process relative to other competitors. Managers used this process to monitor ideals such as total quality and best-in-class performance.

In the 1990's, benchmarking began to be used to identify both the metrical indicators and the key operational drivers to achieve performance excellence. This practice grew to be known as "best practices benchmarking", which describes studying best internal and external practices for best business results. Some of these benchmarking applications include strategic planning, change management, process re-engineering, knowledge management, and advanced problem solving (Bogan and Callahan, 2001).

Historically, analysts and investors have applied benchmarking to the financial aspects of banking such as return on assets, return on equity, and return on investment. The comparisons catch the interest of other banks, holding companies, and investors. These practices continue, but the scope of bank benchmarking has dramatically expanded. Now, benchmarking in banking is a common practice to gauge services, products, and customer satisfaction (Myers, 1993).

### **Trends in bank marketing**

Several tendencies have arisen in bank marketing over the past few years. The most prominent trend has been the increasing importance of new technological developments. Technology is increasingly being used to provide managers with tools and templates for guiding day-to-day marketing activities. The most common applications include planning devices for coaching sessions, performance evaluations, enhancement decisions, and sales meetings. Technology is also being used to more effectively guide the marketing process. Applications range from automation of branch and call centers to customer relationship management, profitability, and data mining systems. Benefits of these practices include higher quality sales interviews, service transactions converted to sales opportunities, and consistent revenue-producing activities across the organization (Sucec, 2001).

Companies, which are realizing these tremendous gains in technology, are struggling to match the benefits with a workforce better enabled to maximize them (Hall, 2001). The gains in technology have led to transfer of decision making to central marketing and a corresponding decrease in local empowerment. This does not support the consumer desire for the human touch, as reflected by customer satisfaction levels that are at all-time lows. To create a strong position, many banks are seeking to balance efficiency and consistency with the personalization that customers expect (Hall, 2001).

Other less notable trends is also occurring in bank marketing. First, call centers are becoming an integrated part of banks' sales initiatives. These distribution points are no longer being viewed as second class. Many banks are seeking to merge their branch networks with their call centers in a seamless fashion. Second, banks are strengthening their brand identities by aligning their brands with management strategies. The most common practice is to make sure that the bank's business strategy is congruent with day-to-day marketing processes and practices. With this practice, the bank certifies that the promises made by its brand are fulfilled (Sucec, 2001).

## **TYPES OF BENCHMARKING**

### **Multidimensional balanced benchmarking**

Multidimensional Balanced Benchmarking (MBB) is one form of bank benchmarking. MBB is the expanded form of benchmarking that has identified new paths, which improve operations and profitability (Sherman, 1998). It applies basic analysis more in depth, and more comprehensively, than traditional benchmarking (Sherman, 1998). The benefits of this method exceed those of traditional benchmarking which uses activity-based costing, activity-based management, balanced scorecards, and zero customer defection programs (Sherman, 1998). The means of MBB is especially useful for operating methods of best practice offices and individual service providers such as physicians, lenders, and customer service personnel (Sherman, 1998). MBB focuses on four key dimensions: marketing, service quality, productivity, and profitability. This course of action assures that not only one of these key dimensions is applied, but all four to develop the best plan to improve performance. According to Sherman (1998), these results affect decisions made in branch expansion and contraction, acquisition and sale of branches, and performance rewards for branch personnel.

The process uses several techniques to measure the four key dimensions of MBB. They are: (1) A profitability index is used to measure performance; (2) Service quality is measured based upon results of the mystery (secret shopper) program; (3) Marketing effectiveness is typically measurable by new accounts and loans completed during the month; and (4) Productivity is measured by transactions per teller (Sherman, 1998). These approaches indicate that one item alone cannot effectively reflect a bank's profitability, performance, quality, and marketing. MBB processes evaluate

each of the key dimensions through sensitive, multiple measures of performance (Sherman, 1998).

### **Competency assessment**

Competency assessments, another approach for benchmarking, allow a bank to monitor an existing employee's skills and identify potential skill gaps that will allow the bank to have more competitive strengths and find the skills they need to recruit. The technique can also help locate an employee's weaknesses that may be affecting operational efficiency. Competency assessments help ensure that employees receive the right training to handle increased responsibilities and help them function efficiently (Brown and Barborek, 1999).

There are four reasons why competency assessment is an effective part of strategic planning for banks. First, it involves switching from the old versions of customer service to newer more customer-oriented approaches that emphasize financial advice, investment and retirement planning, and selling of bank products that meet customers' individual needs. This approach means that employees must be highly skilled in order to provide and deliver new services and products to customers.

Second, competency assessment is used to improve operating effectiveness given current competition. When looking at competition, many banks discover they must improve their operating performance in one or more areas to remain profitable. Third, competency assessment helps banks do more with fewer people. This emphasizes the importance of optimizing the performance of existing employees to cover services with fewer people. Finally, competency assessment helps skill sets grow at an adequate pace. Because technology is growing at a rapid rate, banks must constantly assess the skills of their employees to keep up with changing job requirements (Brown and Barborek, 1999).

### **Customer relationship management**

One effective way to focus on improving customer relations is the benchmark process of Customer Relationship Management (CRM). This process moves toward one-on-one marketing where customers relate desires to the bank, and the bank subsequently changes how it treats customers based on the customers' statements (Bernstel, 2000). Finding what customers want, then fulfilling their needs will make customers happy and will allow the bank to be successful.

There are a number of reasons why customer relationship management should be practiced, according to Bernstel (2000). 1) People choose a bank because it's easy to conduct business with based on its geographic accessibility, loan processing, and ease of opening an account (44%). 2) Many customers select a bank for its excellent personal service (28%). 3) Others choose a bank because of its range of financial services (22%). 4) A satisfied customer will tell three to five people about the bank, but a dissatisfied customer will relay a bad experience to 15 to 20 people. 5) Satisfied customers have a willingness to pay an additional 10-15% more for products or services. 6) According to Don Peppers, the impact of one-on-one marketing on any bank is that the more it is implemented, the more rational the bank's policies will appear to its customers and the more loyal its customers will be, thus generating more business (Bernstel, 2000).

### **Secret shopping**

One powerful benchmarking tool that is commonly used both internally and externally is secret shopping, also referred to as mystery shopping. Benchmarking through secret shopping supports a variety of purposes, which include pinpointing service delivery weaknesses and strengths, strengthening sales culture, and improving customer service. At its core, the technique utilizes a professional "shopper" who contacts the bank either in person or over the telephone. The shopper conducts a transaction such as inquiring about an account, asking a question or opening an account. Immediately following this transaction, the shopper completes a questionnaire that details the level of service offered by the employee (Lubin, 2001).

Secret shopping arose in the retail sector in the 1960's. In the 1970's, the banking industry started using mystery shopping to monitor the interaction between branch staff and customers. The mid-1980's introduced the use of secret shopping to evaluate and improve employee performance. Evaluations were performed monthly, bimonthly, or quarterly, and managers received reports as to how well their employees adhered to sales and service standards. Also at this time, banks began implementing secret shopping results into their incentive programs (Lubin, 2001).

A well-structured plan must be followed for the successful implementation of a secret shopping program. The following are steps needed for a successful program (Lubin, 2001):

1. Establish a clear objective.
2. The bank must select the correct form of secret shopping to attain its objective
3. A secret shopping program must simulate an actual customer experience.
4. A bank must select shoppers with the aptitude and ability to complete the secret shopping.
5. The bank must inform its employees of the mystery-shopping program.
6. A simple, complete questionnaire must be developed.
7. Reports generated from the secret shopping program must clearly identify strengths and weaknesses.
8. Develop a ranking system that objectively measures employee performance and can identify employee adherence to objectives.
9. If the secret shopping program is designed to improve employee performance, the results of the program should be included in an employee incentive program.

According to Lubin (2001), a successful secret shopping program has measurement objectives in several key areas. These areas include customer rapport, needs discovery, product availability, demonstration of how products meet needs, and the effectiveness of closing. Customer rapport involves building a bridge between the employee and the customer. Needs discovery necessitates inquisitive action from employees. Demonstration of product should allow the employee to summarize the customer's needs and then tie the bank's services to those needs, as well as explain in detail how they will be met. The final area is the effectiveness of the closing where the employee should offer an account application, provide the customer with brochures and a business card, and ask if the customer would like to schedule a follow-up meeting.

Secret shopping can provide baseline data for the bank in all of these areas. The baseline could be internal in which the bank would strive to improve its operations. Conversely, the baseline could represent competitors' banks in which case the bank would strive to exceed the level of service provided by its competitors (Lubin, 2001).

Employers should look at the mystery shopping data as an opportunity to help their employees to service their customers better, rather than using that information to punish the employees. Secret shopping data creates an opportunity for managers to improve problems that the workplace might have. The main key in the mystery shopping

process is to relate the information and process to the employees so they are aware of how they treat the customers and to let them know that they are being monitored (Dalglish, 2001; Keedy, 2001).

A common misconception in bank benchmarking is the idea that a benchmark is a fixed achievement. What the customers value and expect must be the perpetual benchmark that the bank measures against. Banks must realize that customer perceptions of value and expectations continually change. The strategies and benchmarks of the bank must evolve with the changing customer perceptions.

In today's marketplace, consumers face a wide variety of alternative banking services. How does a customer decide which bank to choose when many of the banks offer the same products and services such as free checking, phone access and on-line banking? There are two things that can attract the customer and differentiate one bank from another. One of them is customer service, and the other is how the bank sells its products and services (Stickler, 2001). "Business (customer) tends to go where it (he/she) is invited and stay where it (he/she) is made to feel welcome" (Stickler, 2001). If a customer is not informed about the products and services that a bank offers, then he/she will find no reason to stay with that bank. Banks must communicate their services to the desired customer.

In addition, the banks must monitor and compare their services and performances against each other so that they can maintain and/or improve their competitive position in their marketplace. As mentioned earlier, the mystery (or secret) shopper approach is one of the best ways to gather information about the performance of the banks. This information can be used in benchmarking the performances of the banks on an overall basis as well as against each other and identifying the performance areas that need to be improved in a given target market. The overall purpose of this empirical research is to utilize mystery (secret) shopper and benchmarking techniques to examine how well the banks are performing and also to identify areas for improvement. The specific objectives are: (1) to examine the performances of the (local) banks using mystery shopping and to compare their performances; (2) to identify the strong and weak performance areas of the banks; and (3) to compare the performance of small banks vs. large banks using mystery shopper data.

## METHODOLOGY

### Data collection and measurement

In order to gain a better understanding of the banking services in the local marketplace, a group of graduate students (as mystery or secret shoppers) visited several local banks in a small midwestern town to rate the quality of service and performance of the individual banks by utilizing a secret shopper instrument (Lathim 2001). A total of 10 banks and/or branches were selected for this study. Three banks were part of one bank, and two were part of another bank. Of the 10 banks/branches included in the study, five of them were part of large, national banks and the other five were small, community banks. This grouping of large and small banks permitted the comparison of national banks with those of regional/local banks.

The performance was measured with a mystery (secret) shopper survey instrument (Lathim, 2001). The instrument has eight sections/parts, each of which contains various items/statements to evaluate the performance of the banks. The items in each part are rated on a ten-point scale, with 1 being worst and 10 being excellent. These ratings were also grouped into 1-4 as poor; 5-7 average; 8-9 for above average; and 10 for a "wow". Part one of the survey instrument covers how customers are treated when they walk into the bank. Part two deals with greeting customers. This examines whether the employee had a welcoming smile and if the greeting was timely. Parts three and four rate whether the employee builds a good rapport with the customer and provides attentive service. Included in these parts are the sincerity and the eagerness of the employee to please the customer. Parts five, six and seven deal with determining customers' needs. Did the employees ask questions, listen to customers and recommend accounts, or just hand out a brochure? These parts are called cross selling, need determination, and presentation. The final part includes the effectiveness and qualities of the activities during closing.

The four graduate students, who served as mystery shoppers, formed two groups of two students each. Each group visited 5 banks/branches, where an assignment of a bank/branch to a group was done randomly to eliminate bias. Each of the banks/branches was visited only once. After completing the normal banking transactions at each bank, the mystery shoppers individually rated the bank services and interactions with bank employees by using the mystery shopper instrument as

mentioned above. Each group averaged their scores to obtain the overall rating of each item on the mystery shopper instrument for each bank. The item scores for each bank were used to obtain the overall rating for that particular item on the mystery shopper instrument. These average rating scores were used to evaluate the overall performance of the banks and to compare the performances of the banks included in the study. While the study was done in a small town, two of the students who served as mystery shoppers were from big cities and two were from small towns. We believe that this reduced the potential bias against big city banks and/or small town banks.

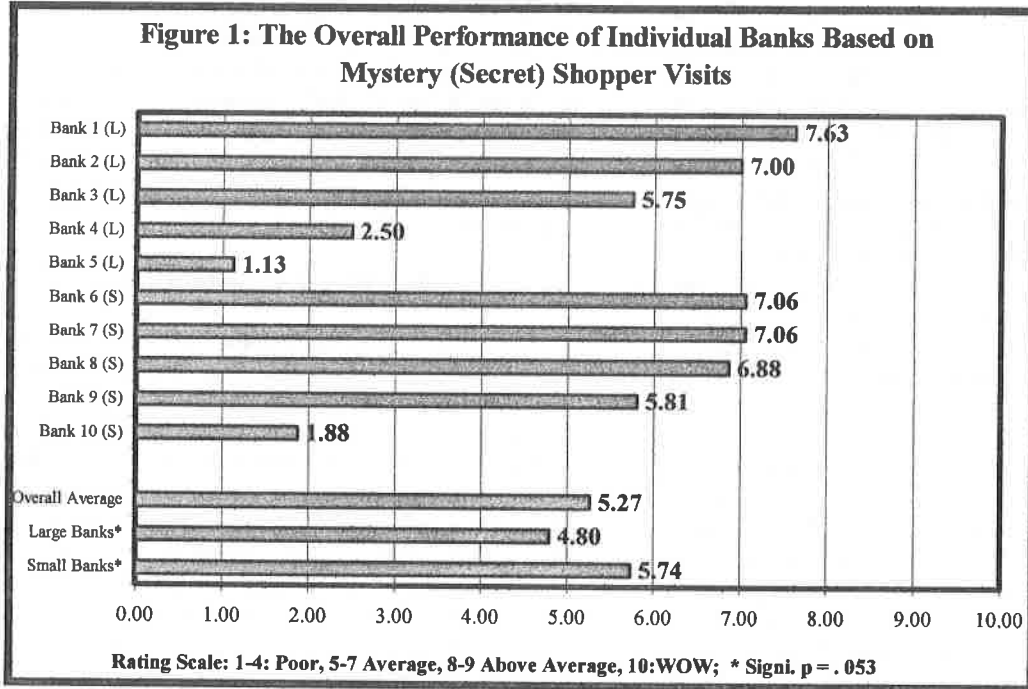
### ANALYSIS OF THE RESULTS

Personal observations of the mystery (secret) shoppers indicate that the group was generally disappointed with the level of customer service and the lack of knowledge concerning the products and services offered by the banks. The overall rating of the performance of all the banks and average rating for each bank are presented in Figure 1 (The bank names are disguised to preserve confidentiality). The overall average rating score (this can be considered as an industry average in this market) for all banks is 5.27 on a 10-point scale. This performance score indicates that the banks collectively are not performing very well in providing quality services.

In regard to the performance of each bank, the results in Figure 1 show that none of the banks scored a perfect ten (or WOW), or even above average score of 8-9. This suggests that the banks individually are not doing a great job with their services and products. One (large, national) bank received the highest rating of 7.63, which indicates that it provides the best services among all the banks in this market. As shown in Figure 1, four out of five of the small (local) banks, and three out of five large (national) banks received average rating scores higher than the overall average rating of 5.27. These results suggest that small banks seem to provide a better service than the large banks. In fact, while only two large banks received the average rating of seven or higher, three small banks received the average rating of seven or near seven. One of the large banks had the lowest average score, which implies that it has the poorest service among all banks. It is interesting that these two lowest scoring banks are the branches of another large bank with a rating above the overall average score. The overall average rating score for all banks can serve as a benchmark in this market. This is valuable information for the individual banks. Each can compare its

performances against this benchmark score in order to assess its position and competitiveness in the market. The banks could utilize this benchmarking data to identify their important and challenging

competitors as well as the not so important competitors when designing their marketing strategies.

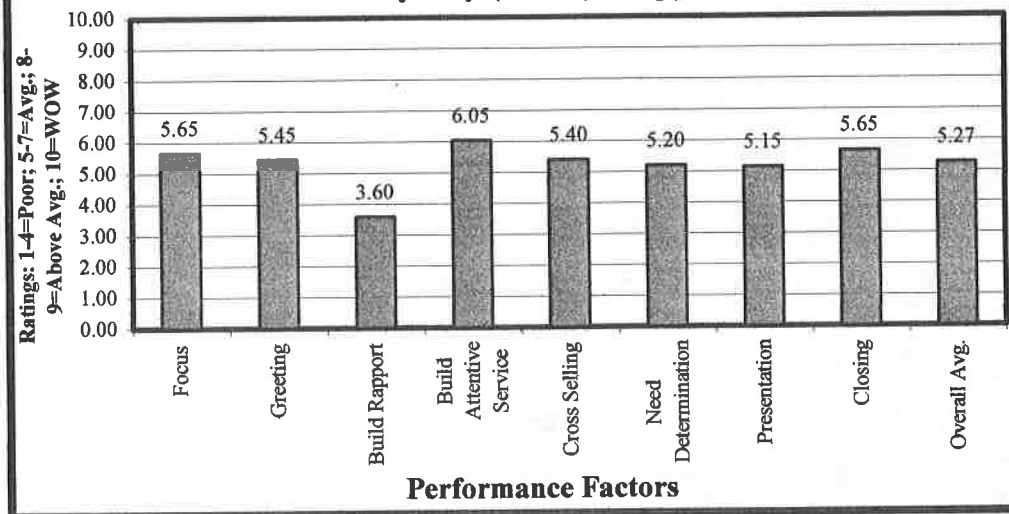


In order to examine if the size of the bank had any impact on the performance, the mean comparison test was conducted using rating scores of small (local) banks versus large (national) banks. The lower part of Figure 1 shows the average performance scores for large (national) banks and small (local) banks. An examination of the mean scores indicates that while both small and large banks generally did not perform well, the small banks (mean of 5.74) provide a better service than large banks (mean of 4.80), which is significant at  $p = .053$ . The results in Figure 1 suggest that the small (local) banks seem to outperform the large banks in providing better services to customers. However, this does not mean that all the small, local banks have better service or performance.

The average ratings of each factor on the mystery shopping form for all the banks are presented in Figure 2. These factors cover all the activities from first entering the bank until leaving the bank a consumer experiences during the transaction. The results show that the banks all together provided about an average service in all areas. While "Build Attentive Service" received the highest rating of 6.05, which is a little above overall average, the banks collectively did the poorest job in "Building Rapport" with an average rating of 3.60. These rating scores indicate that the banks could improve their performance, in turn, their competitiveness by providing a better service in any of these areas.



**Figure 2: The Overall Performance of all Banks Based on Individual Mystery (Secret) Shopper Factors**



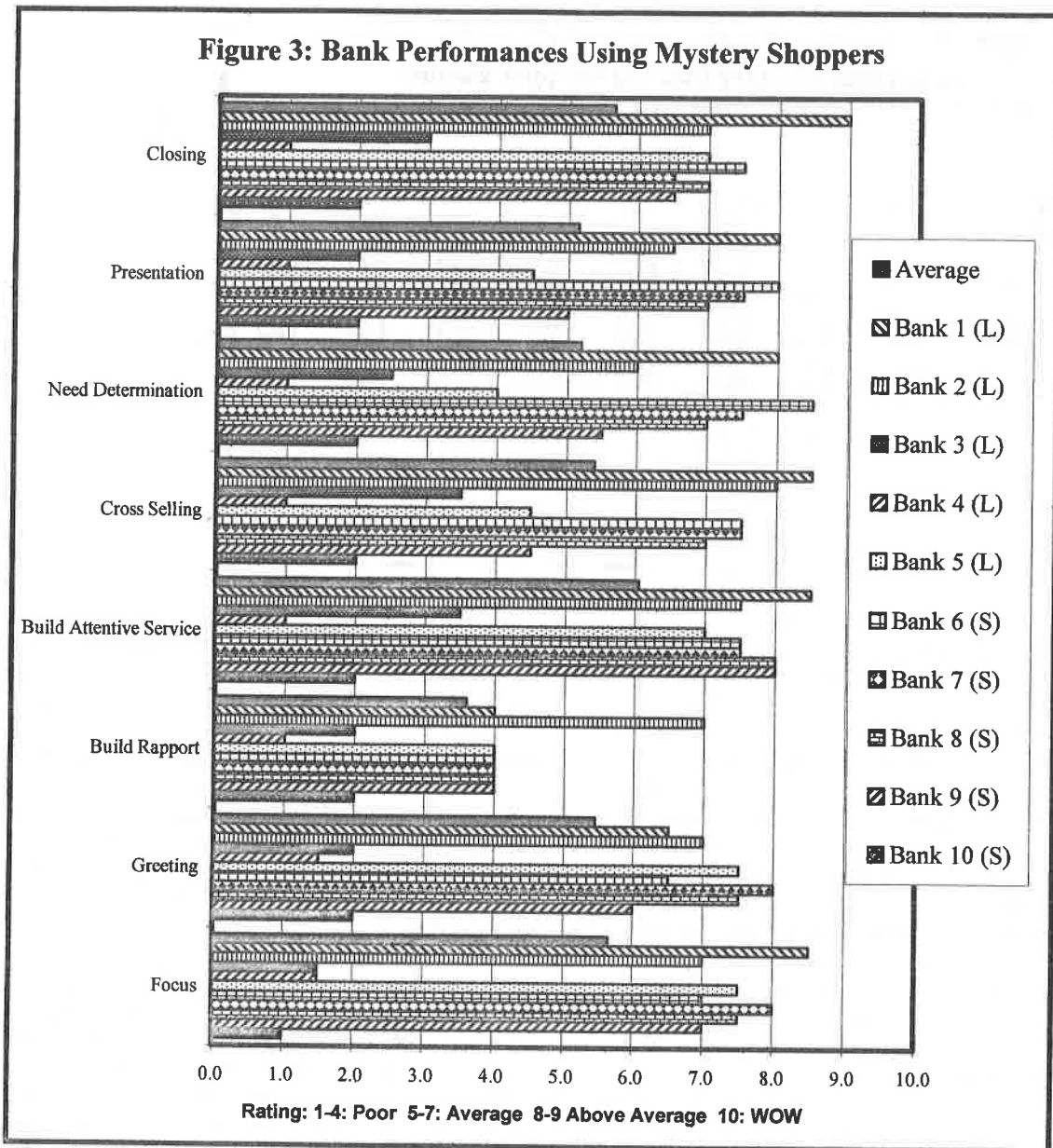
One of the objectives of the paper was to examine how the banks in the small town were performing on the individual sections/factors covered on the mystery (secret) shopping form. Figure 3 shows the average rating or performance of each bank in different section of mystery shopper form, and also the average ratings for each section of the mystery shopper form. Since these ratings in Figure 3 are more specific, it is possible to examine how each bank is performing in each category covered by the mystery shopper form. The data on Figure 3 indicate that no bank scored a perfect ten on any category. Bank 1 was the only bank to receive a nine and that was in one category (closing). Although Bank 1 may lack high scores in every category, employees there wanted to make sure that the customers left with adequate information and had all their questions answered as evidenced by the highest scores in 6 out of 8 sections. Bank 1 also scored the highest overall score of 7.63 among all banks as discussed earlier (Figure 1). The results in Figure 3 show that Bank 10 performed very poorly on all areas. It really needs to improve its performance in all areas in order to become more competitive in this market

The banks could utilize the ratings presented on Figure 3 to access their competitiveness by

examining how they performed in each category. This will allow them to identify the specific areas that they might need to improve, change, or maintain. Also, since the average rating for each category is presented on the graph, this can serve as a benchmark against which the banks can compare their performances to determine how well they are doing in their market. In addition to category averages, the banks can identify the best performing banks in each category. In this way, they can develop and design more effective strategies toward their competitors in the needed areas.

Along with Bank 1, Banks 5, 6, 7, 8, and 9 also received average ratings. The ratings may not have been excellent, but the banks did show interest in serving the customer. Many of them would acknowledge the group member's presence when he/she walked thru the door and politely ask how they could help. Some employees would go through a brochure, giving a better understanding of the services the bank offered and making sure all questions were answered. Many of the banks also gave the mystery shoppers their full attention and did not rush through the information.

**Figure 3: Bank Performances Using Mystery Shoppers**

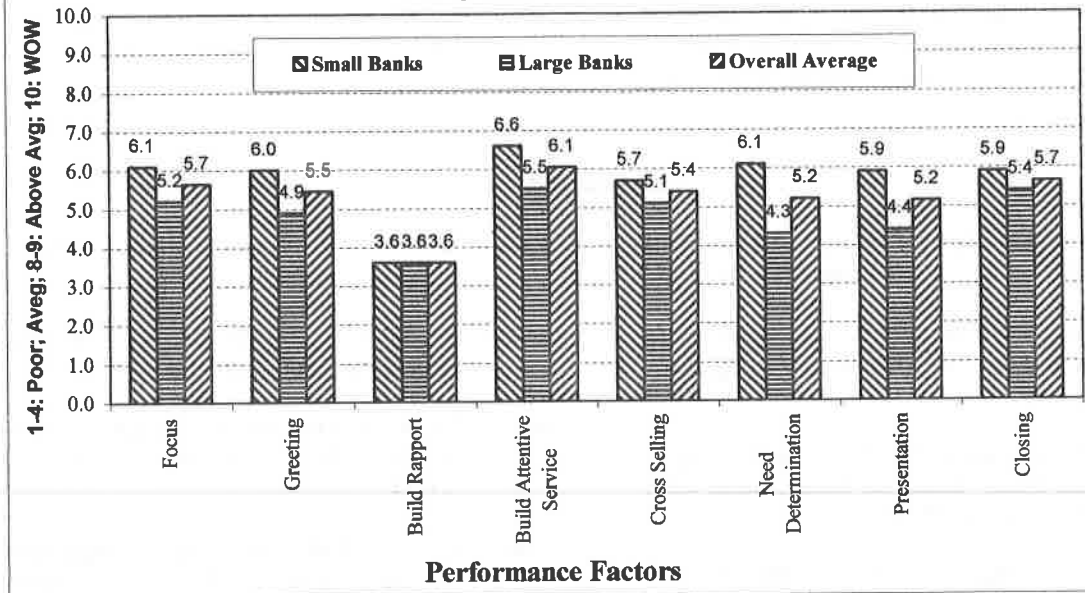


Banks that the group felt gave poor service included Banks 3, 4, and 10. Ratings were very low with these banks because they lacked customer service. Many of the employees would hand out brochures and walk away without follow up questions or comments to better describe the services they had to offer. This could have been a perfect opportunity for the bank to win the customer over but several failed.

A comparison of each of the mystery shopper factors for small banks vs. large banks is

presented in Figure 4. The results indicate that in all areas the small banks seem to provide better or equal quality service. However, because of the small sample size, it was not possible to conduct a statistical significance test. As shown in Figure 4, both small and large banks did a better job in the areas of focus (making a first impression), building attentive service, cross selling and closing, and the worst job in the areas of building rapport and greeting. These results also present areas of opportunities for the banks to improve and/or maintain their competitiveness.

**Figure 4: Comparison of Performances of Large vs. Small Banks Using Mystery Shoppers**



**CONCLUSION AND LIMITATIONS**

Acquiring new customers can be very costly to a bank. If a customer just shows interest by walking into a bank and is satisfied with the level of service provided, this can save the bank a huge amount of money on advertising and promotion. The majority of the banks in this study created a mediocre first impression and left the mystery shoppers feeling dissatisfied with the service the bank provided. "It is not possible to have a successful customer-driven bank without good service. Products won't differentiate, but good service will" (Stickler, 2001). Banks in both large and small markets have access to the mystery shopper approach to quality improvement. This approach can give a great benefit/cost ratio. Mystery shopping can be used to benchmark against competitors as well as to compare various operations that are internal to the firm.

Other approaches such as focus groups or surveys may never accurately capture the essence of what customers feel and think about the bank's service to customers. Mystery shopping is uniquely designed to provide this information.

Problems can be created by misuse of mystery shoppers. Banks must communicate well with their employees to avoid the creation of anxiety or hostility toward management during these studies.

Also, bank management must use ethical approaches to benchmarking their competition.

Benchmarking is a valuable management tool that can help banks be more successful. By examining internal and external benchmarks, a bank can devise strategies that will attract new customers and provide better service to them. Today many techniques are used in bank benchmarking, including Multidimensional Balanced Benchmarking, competency assessment, Customer Relationship Management, and secret shopping. This secret shopping study demonstrates that this is a viable technique in determining which banks are most effective in attracting new customers. This experience with one type of benchmarking serves as an example of how banks must continually undergo self-examination in order to be successful. Overall, benchmarking is a very useful process in the banking industry, and one that must continually evolve.

While this study provided very useful insights regarding the performance of the banks and their competitiveness by utilizing a mystery shopper technique, the study has a number of limitations. Therefore, caution should be exercised when interpreting the findings. One limitation is that a limited number of mystery shoppers visited the banks. While their experiences and perceptions are important and valid, a large number of mystery shoppers could have further strengthened the results.

The second limitation is that each mystery shopper group visited each bank or branch only once to evaluate the performance and customer service. If there were multiple visits by the same team, it could eliminate the potential problems or bias resulting from special situation during that particular visit. The other limitation of the study is that it covered only

one small midwestern town, which limits the findings to this market area. A future study with more mystery shoppers and covering more towns could overcome these limitations. Despite these limitations, the study shows that the mystery shopper can be an effective benchmarking tool for banks, or for any businesses.

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# ASSESSING THE VALUE OF A DISCIPLINE-SPECIFIC MARKETING TECHNOLOGY COURSE: WHAT DO EDUCATORS THINK?

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## ABSTRACT

Marketing academics have several options as to how to incorporate technology specific to marketing applications into their curriculum. Typical methods include infusing it into existing courses or the development of a course specific to this need.

This paper surveyed a nationwide sample of decision makers at 117 AACSB institutions to determine how this was accomplished at their schools. The survey defined the dedicated marketing technology course as a vehicle for learning how to proficiently use a variety of marketing software applications. Using that definition, respondents were asked whether the marketing faculty at the respondent's school offered a dedicated course. Only 16, or 13.7 percent, said yes. Moreover, only 12, or a little over 10 percent, are contemplating doing so within the next two years. Similarly, only 14.5 percent offer a course in web page design, with but 5 percent expecting to do so within two years. By contrast, a full two-thirds report that they offer a course in Internet marketing, and another 12 percent are contemplating adding such a course within two years.

While not many schools may offer the discipline-specific course in marketing technology, nearly 75 percent agree or strongly agree that teaching marketing technology is very important. Still more (84.5 percent) agree or strongly agree that it is of growing importance. Despite this need, the most commonly cited reasons for not including such a course in the marketing curriculum are a lack of qualified faculty, limited financial resources, lack of a clear technology strategy, and utilizing other (non-marketing) faculty for teaching such courses.

Beyond these major reasons, numerous additional insights were gathered on what educators identified as challenges to effectively offering the discipline-specific marketing technology course. These range from a simple preference for the infusion approach to unvarnished resistance to change.

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# USING THE SALES/CUSTOMER ORIENTATION SCALE IN A SMALL PERSONAL SELLING CLASS

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## ABSTRACT

*The purposes were to assess the sales/customer orientation of Personal Selling students and compare findings from the present study with findings from two previous studies. Total mean scores for the pretest-posttest measures improved eight points in 1999, changed little in 2000, and improved 14.49 points in 2001. Discrepancies are discussed.*

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## INTRODUCTION

Currently, corporate America is surrounded with controversy involving problems with corporate corruption, public trust, and ethics (Nussbaum 2002). Undergraduate students need to understand the importance of building long-term, satisfying relationships that involve mutual trust, honesty, and ethical behavior. (e.g., Weitz, Castleberry and Tanner 2001, pp. 39 and 57). Such understanding is particularly vital today given not only the environment surrounding corporations but also corporations' focus on strategic supply partners and customer relationship management. According to Nussbaum (2002), corporate American is undergoing major changes that need new ideas to ensure success (p. 6).

Salesperson orientation has been linked with a number of important outcomes including customer relationships, customer satisfaction, and salesperson performance. Salespeople who use a customer-oriented approach tailor sales strategies to help customers make purchase decisions that will meet their needs. They engage in behaviors aimed at increasing long-term customer satisfaction and avoid behaviors that might result in customer dissatisfaction (Saxe and Weitz 1982). "A high customer orientation is reflective of a heightened concern for the customer" (Clopton, Stoddard and Clay 2001, p. 4) coupled with a problem-solving approach.

Conversely, salespeople who use a sales-oriented approach tend to focus more on the product and its benefits rather than on each customer's individual needs. Sales-oriented salespeople focus on getting the sale and/or selling as much as possible

to every customer. Addressing customer interests is secondary.

Research has demonstrated that a customer orientation not only influences the degree of customer satisfaction (e.g., Goff et al 1997) but also the quality and duration of relationships (e.g., Parsons 2002). Salesperson orientation also has a direct influence on the level of sales success. Dwyer, et al. (2000) found that, overall, top-performing salespeople used a more personal, customer-oriented focus in meeting customers' needs, whereas, poor-performing salespeople used a more impersonal, sales-oriented approach that did not allow them to meet the unique needs of their customers (Dwyer, Hill and Martin 2000). These results are consistent with earlier studies reporting that more successful salespeople exhibited higher levels of customer orientation than equally experienced but less successful salespeople who showed higher levels of sales orientation (e.g., Swenson and Herche 1994; Dunlap, Dotson, and Chambers 1988). In a study using a retail setting, Boles et al (2001) also found that higher levels of customer orientation were associated with higher job performance. However, unlike previous studies, a sales orientation was not significantly related to salesperson performance. The authors suggest that, while a customer orientation helps the salesperson perform better, a sales orientation may not necessarily prove harmful in some retail sales positions (Boles et al 2001, p. 11).

The purposes of this paper were (1) to assess the orientation of students enrolled in a Personal Selling course and (2) to compare findings from the current study with findings from two previous studies conducted in falls 1999 (Totten 2001) and 2000 (Totten 2002a; Totten 2002b).

## METHODOLOGY

### Subjects

Subjects were 20 students enrolled in a Personal Selling course at a state university in the Midwestern U. S. The 20 students consisted of thirteen men and seven women, most of whom were seniors. Several of the students had sales experience in their work histories.

### Measures

The Sales Orientation/Customer Orientation (SOCO) Scale, developed by Saxe and Weitz (1982), was used to measure students' orientations. The SOCO scale was designed to measure the degree to which a salesperson uses "sales-oriented" selling behavior or "customer-oriented" selling behavior. The 24 items on the scale consist of twelve positive statements and twelve negative statements. The scale has been shown to be internally consistent and reliable, and demonstrated convergent, predictive and discriminant validity. The SOCO scale has been used in a number of studies of professional salespeople in a variety of settings. For example, it has been used in three studies, either in whole or in modified form, of service delivery quality (Kelley and Hoffman 1997); in salesperson-client communications in the pharmaceutical industry (Gillis et al., 1998), in the evaluation of salespeople by organizational buyers (Williams and Attaway 1996; Williams 1998), in the ethical selling behavior of insurance agents (Howe, Hoffman and Hardigree 1994), in retail salespeople in Romania (Chelariu, Brashear and Boles 1998), in the selling behavior of Indian pharmaceutical salespeople (Chakrabarty, Brown and Widing 1998), in the assessment of the effects of organizational control mechanisms (Joshi and Randall 2001), and in the effects of Hong Kong insurance salespersons' actions on customer satisfaction and trust (Tam and Wong 2001).

Martin, Kimball and Bush (1998) modified the instructions for the scale to include the phrase, "or, if you have no sales experience, the proportion of customers with whom you believe it would be appropriate to act" (p. 11). The change was done to adapt the scale for use in an academic setting, taking into account that some students might not have had any sales experience. The modified instructions were used in the present study. A score closer to "9" indicates that the item is "True for ALL of your customers—ALWAYS," which is desirable for the twelve customer-oriented statements. The twelve sales-oriented statements were reversed scored, so

that a low score of "1" (True for NONE of your customers—NEVER") was converted to a high score of "9" to reflect a customer-oriented answer.

### Procedure

Students completed the survey the first day of class in September 2001. Students were told that the survey was designed to measure attitudes toward selling. Implementing a suggestion by Martin, Kimball, and Bush to match pre- and post-measures with individual students through the use of a random identification method (1998, p. 12), students drew slips of paper on which the letters A through T had been written. One student was asked to list each student's name by the letter each had selected. The list was placed into an envelope, sealed by the student, to be opened after the post-test. The post-course administration of the survey took place on the last day (in December) after all course work had been completed. Students were told that the survey was the same as the one they had completed back in September. At this time, the gender of each student was noted on the posttest survey.

## RESULTS

Twenty students took the pre-course survey while 19 took the post-course survey. One male student dropped the class a few weeks into the semester. Following the lead of Martin, Kimball and Bush, the reliability of the SOCO instrument was assessed for both administrations by examining the internal consistency of scale items (1998, p. 12). Pre-course and post-course coefficient alphas of .8350 ( $n=20$ ) and .8713 ( $n=19$ ), respectively, indicate an acceptable degree of internal consistency, based on Nunnally (1978).

Total scores on the twenty-four items for the pre-course ranged from 131 to 196 (out of a maximum high score of 216). The mean score was 166.35, with a standard deviation of 17.57. Total scores for the post-course survey ranged from 142 to 208, with a mean equal to 180.8421 and a standard deviation of 17.06. There was a significant difference ( $p = .0064$ , one-tailed test) between the two total mean scores, unlike the results of the 1999 and 2000 studies. Students' average total score improved at the end of the 2001 course versus at the beginning.

In comparison, the mean total score improved eight points, from 165 to 173.154, in the study conducted in the Fall of 1999. However, this improvement was not significant. Students' scores

improved for 19 of the 24 items; however, only four improvements were significantly different. The effort to match students anonymously did not work well, with only four out of thirteen pairings possible (Totten 2001). In the Fall 2000 study, the mean total

score remained almost the same (165.1 vs. 165.3). The matching process worked much better, and significant findings were found (Totten 2002a and Totten 2002b). A comparison of the total scores from the three studies is shown in Table 1.

**TABLE 1**  
**Comparison of Pretest and Posttest Scores for the Two Studies**

<i>Pretest</i>					
Year	Low Score	High Score	Mean Score	Standard Deviation	N
Fall 1999	137	202	165.000	19.53	13
Fall 2000	109	201	165.111	20.53	27
Fall 2001	131	196	166.350	17.57	20
<i>Posttest</i>					
Year	Low Score	High Score	Mean Score	Standard Deviation	N
Fall 1999	146	199	173.154	19.07	12
Fall 2000	120	199	165.333	22.58	24
Fall 2001	142	208	180.842	17.06	19

It's interesting to note that the low scores on both pretest and posttest dropped for the Fall 2000 course, then rebounded for the Fall 2001 course. The standard deviations were also larger that semester than for the other semesters. One possible explanation for this drop might be the night class format of the course versus a normal three-day-a-week format. This is speculation based upon hindsight and anecdotal evidence (comments on student evaluations about not liking the night class format).

Means were calculated for the pre-course and post-course surveys, and are shown in Table 2. One-tailed independent t tests were conducted on the 24 items to determine any significant differences in pre- versus post-course means. The underlying hypothesis was that mean scores should improve, i.e., increase; therefore, one-tailed tests were used instead of two-tailed tests. Customer orientation improved by the end of the course for fourteen items, with eleven items being significantly different at  $p < .05$ . Also on a positive note, posttest scores were higher

than pretest scores for nine of the ten non-significant items.

In the Fall 2000 study, only three significant differences ( $p < .10$ ) were found (Totten 2002a). Students' scores improved significantly for "giving customers an accurate expectation" of product performance and for "having the customer's best interest in mind;" however, their scores dropped for the reverse-scored item, "I treat a customer as a rival." On a negative note, mean post-course scores were lower than mean pre-course scores for 12 of the 21 non-significant items.

In the 1999 study, four significant and positive differences ( $p < .10$ ) were found. Students' scores improved significantly for "giving customers an accurate expectation" of product performance, getting "customers to discuss their needs", "still apply pressure to get him to buy" (reverse scored), and "sell as much as I can" (reverse scored). Mean post-course scores were higher than mean pre-course scores for 15 of the 20 non-significant items (Totten 2001).



**TABLE 2**  
**Pre and Post Mean Scores on the SOCO Scale Items**

	Pre	Post
1. I try to give customers an accurate expectation of what the product will do for them.	7.95	8.21
2. I try to get customers to discuss their needs with me.	7.30	8.26+
3. If I am not sure a product is right for a customer, I will still apply pressure to get him to buy.*	5.85	6.63^
4. I imply to a customer that something is beyond my control when it is not.*	6.80	6.68
5. I try to influence a customer by information rather than by pressure.	8.05	8.26
6. I try to sell as much as I can, rather than to satisfy a customer.*	6.30	7.05^
7. I spend more time trying to persuade a customer to buy than I do trying to discover his needs.*	6.90	7.74+
8. I try to help customers achieve their goals.	7.60	8.16+
9. I answer a customer's questions about products as correctly as I can.	8.30	8.53
10. I pretend to agree with customers to please them.*	4.25	5.37+
11. I treat a customer as a rival.*	7.50	7.74
12. I try to figure out what a customer's needs are.	7.75	8.33+
13. A good salesperson has to have the customer's best interest in mind.	7.50	8.26+
14. I try to bring a customer with a problem together with a product that helps him solve that problem.	7.90	8.00
15. I am willing to disagree with a customer in order to help him make a better decision.	6.80	6.84
16. I offer the product of mine that is best suited to the customer's problem.	7.70	8.11
17. It is necessary to stretch the truth in describing a product to a customer.*	5.90	6.28
18. I begin the sales talk for a product before exploring a customer's needs with him.*	6.10	6.63
19. I try to sell a customer all I can convince him to buy, even if I think it is more than a wise customer would buy.*	5.60	7.32+
20. I paint too rosy a picture of my products, to make them sound as good as possible.*	5.60	6.58^
21. I try to achieve my goals by satisfying customers.	7.70	8.37+
22. I decide what products to offer on the basis of what I can convince customers to buy, not on the basis of what will satisfy them in the long run.*	6.40	7.79+
23. I try to find out what kind of product would be most helpful to a customer.	7.70	8.32+
24. I keep alert for weaknesses in a customer's personality so I can use them to put pressure on him to buy.*	6.90	8.16+

\*Reverse scored. +One-tailed significant difference ( $p \leq .05$ ). ^One-tailed marginally significant ( $p \leq .10$ ).

### LIMITATIONS & FURTHER STUDY

One limitation of the study is the use of the SOCO Scale in marketing education. The scale was developed for use with professional sales forces. The scale has been "borrowed" and modified for use in marketing education. As documented by Engelland,

et al. (2001), researchers should be careful when borrowing scales and apply them to different settings than those the scales were developed for. Although content validity through coefficient alpha was checked in the use of this scale, other procedures as recommended by Engelland, et al. (2001) would be beneficial to apply to the use of the SOCO scale in a

different setting, i.e., academic institutions of higher education.

A further limitation is the absence of controls for other potential explanatory factors, such as the impact of outside speakers and the extent of work experience the students have prior to taking the class. Other factors that probably should have been measured include types of sales experience (retail versus industrial), impact of textbook and other course materials, ethnicity (e.g., international versus American students), and consistency of focus on

customer orientation throughout the course by the professor. Finally, the samples used in all three studies were small.

For further study, it might be worthwhile to administer the survey midway through the semester, as well as at the end of the course. The downside is that students might become bored with the instrument, introducing bias. It would also be useful to use the scale in similar courses (e.g., Marketing Principles) at different universities and factor in additional variables besides gender.

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# IMPACT OF SPONSORSHIP ON STUDENT RESEARCH

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## **ABSTRACT**

This study examines the impact of sponsorship on response rate when conducting experiential learning projects with students. While previous research suggests that response rates are higher for studies endorsed by a university, does it also apply to *student* projects, which may be viewed as less valid or less important by respondents? The findings suggest that university affiliation facilitates response rate when the sample consists of older respondents (over the age of 40), while younger respondents are more likely to participate in a study sponsored by a research firm.

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# A NEW PARADIGM IN CLASSROOM ASSESSMENT: THE EXTERNALLY TRAINED (ET) - OBSERVER MODEL

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## ABSTRACT

*Traditional classroom assessment techniques are fraught with weaknesses and inherent contradictions. The proposed paradigm in classroom assessment -- the Externally Trained (ET) - Observer Model -- is not a traditional classroom assessment model. It is a quality control measure which ultimately benefits both students and instructor.*

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## INTRODUCTION

Assessing the effectiveness of classroom instruction is a top priority in academia, given the plethora of research. Cashin (1995) reported no less than 1,500 citations pertaining to student evaluations, not including multiple types of instruments used or interactions between methods. Hence, given the scope of professional attention, the issue of assessing classroom effectiveness appears warranted. However, Hill and Herche (2001) cautioned that the methods employed may be "woefully inadequate". Cashin (1995) stressed that the six areas most commonly investigated – organization; communication; interaction; workload; grading; and self-rated learning – have several limitations. Moreover, students are often ill-informed as to how these evaluations will be used.

Course assessment, for all practical purposes, is conceptually linked with the faculty evaluation process. Yet, one would have a difficult time arguing that any "paper and pencil" or "fill-in-the-blank" survey can significantly improve the quality of classroom instruction. Finkelstein (1995) strengthened this position when suggesting that without skilled consultants, instruments alone will not lead to improved classroom instruction. At best, Clayson (1999) argued that a researcher will find most course evaluations and their results to be contradictory. For example, Finkelstein (1995) noted that the National Education Association (NEA) reported that evaluation instruments are positively related to academic achievement; but, Cohen (1987) suggested that student ratings do not measure

instructional effectiveness nor do they measure intellectual achievement of students. More confusing are the Goldman (1985) findings, where approximately 70 percent of students indicated that the grade "they thought" they would get, influenced the level at which they rated their professors.

Given the contradictions inherent to the process of assessing classroom effectiveness, it is little wonder that many educators question the ability of students to adequately evaluate faculty (Simpson & Siguaw, 2000). However, this "lack of faith sentiment" has not diminished the zeal that college and university administrators continue to bring to the process of assessing classroom effectiveness. The Carnegie Foundation for the Advancement of Teaching reported that approximately 98 percent of the universities sampled used student evaluations of classroom instruction (Magner, 1997). Comm and Mathaisel (1998), in their research of Business schools, reported that 99.3 percent actively participated in student classroom course evaluations. As Simpson and Siguaw (2000) pointed out, these assessment efforts affect both the institution and their faculty; and for the most part, were initiated by outside parties, specifically state governments entrusted to measure institutional outcomes and ensure accountability.

Upcraft and Schuh (1996) affirmed the Commission on Higher Education's Standards for Accreditation when they acclaimed that it was necessary for an institution of higher education to document the extent to which it meets their educational goals and objectives. They stated further

that it is, and will be inescapable for an institution of higher education not to evaluate classroom effectiveness. This outlook may appear onerous, yet as Baldrige (1983) pointed out, an objective evaluation process is the first step in developing a long-term strategic plan; and an institution's strategic plan is invariably value-driven (Bryson, 1988). These values are articulated in the university mission statement. And if the mission statement involves the education of the student's academic, personal or social "well-being", then documenting assessment efforts becomes paramount.

Keeping a record of the institution's "assessment efforts" is the key function for an external accreditation agency or watch group. There are no clear criterion levels an institution must achieve, nor are there any indicators of "good" or "bad" instruction. Often, institutions themselves establish validity standards. One can only assume that the principal goal of university officials is to improve the quality of instruction. However, when it comes to "paper and pencil" or Likert scale student assessments, Trout (1997) noted that the most effective way for lowering academic standards is the numerical evaluation. Moreover, Trout concluded with three points: 1) that most faculty believe the student evaluations of teaching lead to lower educational standards; 2) student evaluations serve as a tool for revenge; and 3) the entire student evaluation of teaching model becomes over relied on by administrators. Marsh and Roche (1997) documented similar concerns and included the validity of assessment instruments. In the end, the authors concluded that researchers should recognize the multidimensionality of teaching and evaluation.

The authors of this paper agree with the concept of multidimensionality in teaching and assessment. Hence, what follows is a course assessment model that focuses on student and faculty development rather than instructor rating. The model is called ET- Observer. ET is an acronym for Externally Trained; Observer is the process of interviewing the classroom members, combined with observing what is and what is not being stated. The goal is not to numerically evaluate the instructor, but rather to report observations and conversations with the students in the class. From the onset, we assume

that the proposed model would be used in conjunction with existing evaluation systems. The objective is not to replace any working or practical process already established, nor is the process intended for every classroom. Rather, the goal is to increase student self-understanding of course relevance and to provide the faculty with useful feedback. For as Desai, Damewood and Jones (2001) suggested, student input into the educational process is encouraged and expected in most systems. Moreover, faculty generally want to respond to student concerns. By design, the purpose of the ET - Observer Model is to facilitate the educational experience for both the student and the faculty member. Overall, the process is non-threatening and is designed to enhance quality improvement initiatives frequently associated with outcomes-based measurements.

## METHODOLOGY

The ET - Observer Model assumes that a faculty member will request an observer for both the students' and his or her own personal and professional growth. To a certain extent, this process is not intended as a standard department or college evaluation model, but rather a quality control measure for the benefit of all parties directly involved, specifically, the students and the instructor.

Generally speaking, the ET - Observer Model consists of six distinct phases. In the first phase, an externally trained - observer is selected from outside the department or college to visit and discuss, with the class, specific course issues. The focus of the discussion is not on instruction but rather the course itself. It is recommended that a pre-meeting with the requesting faculty member take place to establish a list of specific questions of concern; that is, if key target questions appear warranted. However, from experience, this meeting appears to be optional given the natural flow of student interviews in discussion. Phases two through five include - orientation; transition; development; and consolidation. In phase six, a private meeting between the faculty member and observer takes place. Phases two through six will be discussed more fully below.

## Externally Trained - Observer

The selection of an externally trained observer is a critical component of the ET - Observer Model. The intent is to select an internal professional with non-faculty status to be the externally trained observer. This will complement the use of peer evaluations historically associated with the traditional faculty development process. However, if an external observer is not available, intuitive reflection suggests that a professional (i.e., faculty member) outside the department is preferable to one within it. A skip-level option (Dean or Adjunct) improves response validity. Yet, in the end, every attempt should be made to secure an externally trained observer. A faculty member is, after all, a faculty member, and a Dean or Chair is often viewed as a close personal colleague. The ET - Observer Model pre-supposes the primacy of student perception. If students view the process as "useless", all information gained may be of limited value. Therefore, the choice of an independent outside party to act as the Externally Trained - Observer is of vital importance.

A faculty member has several options, for there are many professionally trained interviewers and counselors within a university setting. For example, many universities have Directors, Coordinators or Vice Presidents of: Admission, Business, Retention, First-Year Experience, Student Affairs, Public Relations or Marketing. All would make excellent observers. Most of these professionals have years of experience in academia, earned graduate credentials, and have been trained in interviewing, advising, or counseling within their discipline. More importantly, students are likely to view all the aforementioned professionals as less biased than a faculty member or instructor facilitating a course evaluation. Remember, this process is intended to be non-threatening for both the student and the faculty member.

### Role of the Faculty

Once an Externally Trained - Observer has been selected, the next step is to introduce the course evaluation process in the syllabus and class discussion. The students are informed that an outside "observer" will meet with the class at some predetermined time. It should be stressed that this is a group interview or discussion, and has been personally scheduled by the faculty member, not department administrators. The goal is to improve

overall course quality. We have found that using the simple phrase "interview" or "discussion" compared with "focus group" or "evaluator" builds group trust and is less likely to produce rote responses. The faculty member should encourage the students to be open and honest, stressing that the interviewer will keep all personal information anonymous. The goal is not to associate any one person with specific information but to glean information and insights that will improve the overall quality of the course.

### Role of the Externally Trained - Observer

This is an active six-phase process. In the orientation phase, the observer must reassure the class that the discussion period has been scheduled at the instructor's request. The purpose is clarified - to improve the course by either modifying or sustaining course content. This phase also includes an introduction by the interviewer that includes credentials, background and personal role in the evaluation process. In the transition phase, the observer must minimize classroom anxiety by giving examples, using humor or paradox to reduce potential barriers to communication. In the development phase, issues are openly discussed and sought. Again, the goal is course improvement and/or personal or professional development. No attempt to "sugar coat" either the course or faculty member is made. In the consolidation phase, the classroom experience is reviewed and corrected by consensus, and the personal responsibilities (e.g., faculty or student) involved with life-long learning can be stressed. The Externally Trained - Observer role is now complete. What follows is phase six, a personal discussion and review with the involved faculty member.

### Interview Process

Since the ET - Observer Model is interdisciplinary, each observer can use an evaluation or interview process unique to their discipline. For example, a Business VP may use a SWOT analysis, detailing the strengths, weaknesses, opportunities, and threats associated with a course; a Marketing Director may employ a segmentation approach; an Admission Counselor may lead a focus group; a Personal Counselor could apply a systems approach. The important point is that the process can be tailored to fit the unique circumstances or characteristics of the class. Each observer can use props, create surveys, receive samples or hear positive and negative comments, all directly related to the course experience.

### Faculty Advantages

The use of the ET-- Observer Model offers many advantages listed in Table 1. However, one of the most salient advantages involves student perception. If students view the process as sufficiently different from the typical "fill-in-the-blank" methods common to university systems and departments, then the resulting comments (data) will likely have more direct impact on course

development. In addition, because of the interdisciplinary approach, the potential for developing a true community of learners exists. Another advantage highlights the difference between the traditional end-of-the-semester (or quarter) course evaluation, and the early or mid-semester interview. With early input, a faculty member can change the course direction, focus, assignments and/or content, if warranted.

**Table 1**  
**Faculty Advantages**  
**Use of the ET - Observer Model**

**The ET - Observer Model results are viewed as ...**

a means, not an end.

an experiment, the opportunity to test curriculum, processes and procedures.

an opportunity for personal and professional development.

fostering a "sense of community" among faculty, administration, and staff.

supporting program or department growth.

supplemental information to the Likert Scale evaluation.

promoting life-long learning improvement goal.

demonstrating faculty openness and concern for student development.

Note. The ET - Observer Model assumes that the request of an observer is faculty driven, not mandated.

### Student Advantages

The ET - Observer Model establishes the primacy of student development, be it as a person, customer, or professional. Encouraging students to exhibit an active and heard voice in classroom assessment will build and foster a learning community. Another benefit of this model is that it introduces "external professionals" to the classroom. Often students believe that only faculty members are responsible for the learning experience. Students typically downplay their own role and often are oblivious to the administration and staff functions. Table 2 identifies additional student advantages. Although not exhaustive, it does introduce a host of direct student advantages.

### Advantages of the ET - Observer Model

The ET - Observer Model is flexible, allows for interdisciplinary participation, and promotes perceptual changes in the "evaluation" process. First, every classroom will recognize the "risk" associated with having an external observer in the classroom. This point alone typically results in increased student respect for the course instructor. The faculty member is perceived as wanting to improve the course, not by simply administering the standard end of the semester "fill-in-the-blank" evaluations. Table 3 highlights some additional advantages associated with the ET - Observer Model.



**Table 2**  
**Student Advantages**  
**Use of the ET - Observer Model**

**The ET - Observer Model promotes and enhances ...**  
life-long learning.

an opportunity to network with university administration and staff.

a classroom catharsis.

an understanding of the purpose, meaning, and impact of faculty and course.

active and inclusive course development.

an understanding of the student's role and responsibilities in the learning process.

a detached understanding of the course experience.

an opportunity to compare consensus with self-assessment.

early understanding of what to expect from the course.

a redefinition of an administrator's or staff member's function.

Note. The ET - Observer Model is based on the assumption that the observer has volunteered to participate, and has not been assigned or mandated.

**Table 3**  
**Advantages**  
**Use of the ET - Observer Model**

**The ET - Observer Model enhances ...**

a "bias for action" classroom environment.

insights from the observation of body language.

the development and testing of hypotheses.

the use of props.

inferences drawn from class.

exploration of polarities.

a possible refocus of classroom priorities.

the introduction of multiple discussion formats.

Note. The ET - Observer Model assumes that observers are professionals within the university system and possess effective communication skills.

### Limitations of the ET - Observer Model

All evaluation models have limitations, and the ET - Observer Model is no exception. Its initial hurdle is one of relationships. Often, faculty members have limited communication and interaction with professionals external to their department or college. In this case, the externally trained - observer is not only outside the department, but is a campus administrator or staff member with historically restricted contact. Hence, approaching a potential candidate to be an externally trained - observer is often a new experience with built-in hesitation. Second, because of the disparity among professional

and academic disciplines, the class interview process and results could be difficult to communicate. For example, if a "quantitative" instructor meets a "qualitative" observer, it is unclear what could occur in a professional dialogue. And finally, one of the biggest concerns may be a "quality control" issue with potential inconsistency among multiple observers. This would necessitate the establishment of a training program, to be incorporated into a "Faculty College" or some similar faculty training venue. In the end, model limitations must be weighed against benefits. Table 4 highlights potential limitations associated with the ET - Observer Model.

**Table 4**  
**Model Limitations**  
**Use of the ET - Observer Model**

<p><b>The ET - Observer Model limitations include . . .</b></p> <ul style="list-style-type: none"><li>possible student skepticism.</li><li>theoretical bias and/or sensitivity of observer.</li><li>lack of qualified personnel.</li><li>limited generalizability of results, as Model is not a "stand-alone" assessment tool.</li><li>potential faculty resistance .</li></ul>
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### CONCLUSION

The importance of establishing an academic culture where life-long learning is encouraged and modeled is imperative for any university. The ET - Observer Model is one means available to faculty who wish to address both student and faculty development. It is a model between and among professionals designed to support a community of learning without the formal assessment structure. Yet, it supports what Desai, Damewood and Jones (2001) suggested when soliciting student input, specifically, that it is encouraged and expected in most university systems. It is implicitly assumed

that faculty want to address student concerns in a positive manner while recognizing the multidimensionality of teaching and evaluation. The ability of an externally trained - observer to work in conjunction with other standard methods of assessment enhances and promotes a triangulation of techniques. In the end, what the ET - Observer Model needs is follow-up research validating the methodological pros and cons, as well as the results a researcher can expect to obtain. More specifically, an empirical study is needed to assess perceived improvements in student and instructor satisfaction, and more importantly, student learning.

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# NON-TRADITIONAL LEARNERS: WHAT WE NEED TO KNOW ABOUT THE ADULT LEARNERS IN OUR MARKETING COURSES

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## ABSTRACT

*Adult learners represent a large, important segment of students in higher education. Researchers have reported these students may experience many difficulties that can be reduced by implementing collaborative activities into academic courses. By using a collaborative course structure, professors can increase the support students receive contributing to their academic success.*

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## INTRODUCTION

The importance of adult learners to higher education institutions cannot be overemphasized. By one estimate, approximately one-half of the 15 million students in higher education are 25 years old or older (Smith 1999). According to the National Center for Education Statistics (NCES) report, *Projections of Education Statistics to 2009* (Gerald & Hussar 1999) adult learners represent approximately 40% of total college enrollments and this group will continue to remain significant in the future.

Adult learners between the ages of 35 and 54 have been characterized as the fastest growing segment of education (Speer 1996). According to the author, the significance of this group is the fact that it represents the nation's most affluent age group and the fastest growing age group. As these non-traditional students return to the classroom, higher education has essentially developed a new profile (Brickell 1995). The typical college class is no longer simply comprised of traditional age students. Schools that have recognized and responded to these changes have reaped economic benefits. Harvard University, Johns Hopkins University and New York University are among those which have recognized the economic importance of these adult students and designed programs to reach these students (Gose 1999).

## THE NON-TRADITIONAL LEARNER

There are significant differences between the

traditional-age college student and the non-traditional learner. The typical adult learner is usually 25 years old or older, employed, and may be expected to experience varied difficulties upon returning to the classroom. These adult learners may find themselves overwhelmed by the difficulty of juggling family and work responsibilities along with their new academic responsibilities. They may also experience feelings of anxiety concerning their ability to perform successfully in the classroom. Frequently they are conflicted in their attempts to meet the competing demands of family, career and classroom. These multiple responsibilities allow little time for supportive interaction with other learners outside of the classroom, and the absence of this support places additional stress on these students. This lack of sustained contact and support from other students like themselves only exacerbates the situation. Unlike traditional students who live on campus and have the luxury of attending a variety of campus activities where they can meet and socialize with other students like themselves and in the process develop support networks, the adult learner lives an isolated campus life. The adult student typically spends little time on campus other than the required class time. This student typically works during the day, travels to campus in the evening for a class, and then immediately departs for home after the class ends. Opportunities to develop supportive relationships are limited for these adult students.

In studies of adult learners, researchers have reported that adult learners have a strong need for affiliation with other students like themselves. Barnett

and Caffarella (1992) found adult learners to have both a need and a desire to affiliate with other learners and a desire to be actively involved in their learning. The importance of these needs was underscored when *Involvement in Learning: Realizing the Potential of American Higher Education*, (U.S. Department of Education 1984) stressed the importance of learning communities and group learning in higher education. According to this report, a true learning community is characterized by a distinct spirit or culture of friendliness, cooperation, and respect between its members. Additionally members have a willingness and desire to learn from others, to share ideas, and to interact with all members. Members of this learning community remain united by a common focus, task or goal. A learner-friendly atmosphere in which all members actively participate is essential for a successful learning community. Creation of this type of environment benefits the adult learner and provides a supportive atmosphere to counteract the multiple stresses they experience.

### **COLLABORATIVE LEARNING**

The creation of a learning community and the group learning which occurs are frequently referred to as collaborative learning. Responsibility and authority in the learning community are shared by all members, and the resultant learning is a product of the collaborative efforts between the individuals. True collaborative learning requires that the group or community of learners operate autonomously, or at least, semi-autonomously. As the group establishes its own identity, power and authority emanate internally from within the group, not externally.

As collaborative learning occurs, individuals become interdependent. They recognize that they need one another, and with this recognition of dependency, they empower each member with the authority to share one's thoughts, opinions, comments, criticisms, and positive reinforcement. A collaborative group, by nature, is independent: It operates autonomously. This independence and freedom to share problem-solving and decision making among the members of the learner community contributes to its effectiveness: It is learner-active. As truly collaborative learning occurs, learners share and learn with and from one another, independent of the traditional classroom power structure which positions the instructor in the dominant role of dispenser of knowledge.

### **BENEFITS OF COLLABORATIVE LEARNING**

### **FOR ADULT LEARNERS**

Students need to prepare themselves for the realities of the workplace in which employees are required to work with others, to share responsibility, and to function as part of an effective team to achieve shared goals. According to Gamson (1994), collaborative learning produced increased student retention, resulted in increased complexity of thinking and motivation, and formed connections between students despite apparent differences in their backgrounds. This becomes a particularly important benefit when viewed in the context of educating students for our multicultural and diverse society. Lundeberg and Moch (1995) found that a collaborative environment produced a community of cooperation where intellectual risk-taking occurred, and students formed connections and linkages between concepts. The social and personal conversation that occurred was very important to collaborative learning and promoted acceptance of one another, despite differences between the students. Tompkins (1991) reported that this communication took the form of real conversations between people and resulted in a sense of community and an environment which encouraged collaboration between people. Another benefit of collaborative learning is that it is non-competitive and cooperative in nature. This runs counter to the traditional classroom environment where students view one another as competitors. With collaboration, students learn to view other members as collaborators, not competitors.

### **BENEFITS FOR ADULT LEARNERS IN MARKETING CLASSES**

Marketing professors who find non-traditional students increasing in number in their classes need to recognize that these students are different from traditional-age students and action should be taken to implement changes that will address the problems these older adults may encounter. Attempts to provide increased collaborative opportunities between these students will help create a positive, supportive learning environment. These collaborative opportunities will benefit the adult learner because:

1. They have learned to work with other adults in the workplace. They are familiar with this arrangement. In the work world, co-workers are regarded as team members with a shared goal.
2. These students have a strong need to interact

with others like themselves. As adult learners, they spend little time at campus other than attending class. This provides little time to develop supportive relationships with other students.

3. Adult learners typically are in search of a warm, supportive environment where they are able to interact with other adult learners and experience collegial relationships (Cunningham & Gresso 1993; Murphy 1992; Yerkes et al. 1995).
4. Adult learners may experience feelings of insecurity, low self-esteem, and isolation as they return to the classroom. These negative feelings can be a formidable obstacle to their ability to perform successfully. By using collaborative techniques students are forced to work with one another and develop ties that can be beneficial to them.

Suggestions for creating a more-collaborative classroom which will be non-traditional student friendly are:

1. At the very beginning of the term, assign or create small groups which last for the duration of the term. This will provide these adult learners with a support group which they must associate with and work within for the academic term. This should be implemented as early as possible in the academic term to provide students the necessary time to develop supportive relationships.
2. Assign one major group project, a paper which is due at the end of the semester. This paper must be done by the small group and all members receive the same grade. This will encourage students to work together and rely on one another. The increased time they spend together will help them develop supportive relationships and reduce the isolation they may otherwise encounter.
3. Assign several shorter, written assignments

over the semester that the group must complete outside the classroom. These shorter assignments provide students with confidence building time in which they learn one another's strengths and weaknesses and learn how to work together as an effective team.

4. Allow class time for these adult learners to work together. Remember, they work and have family responsibilities and spend relatively little time on campus. By providing class time for students to work on group assignments, collaboration and interdependency are encouraged and supported.
5. Assign several short group presentations in which all group members must present a portion of the assignment. This will require additional collaborative efforts among the group members and help build confidence and a support network. It also forces each member to accept responsibility for the success of the group since each member must stand in front of the classroom and present a portion of the assignment.

All of these activities are designed to encourage collaboration and communication between adult learners and help ensure their success. As these collaborative activities are assigned, the goal is to have students increase their communication with one another and ultimately become interdependent with one another.

This interdependency occurs when students realize that their success is tied to one another and they learn to depend on each other. These collaborative activities will contribute to building a positive, supportive learning environment where adult learners no longer experience isolation. By working with others like themselves, they can forge relationships which will help them build confidence in their own abilities and ultimately succeed academically.

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# AN EXPLORATION OF E-BUSINESS EDUCATION IN THE UNITED STATES

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## ABSTRACT

*The overall research objectives were to explore and analyze the prevalence of E-business programs at American colleges and universities, and to establish a base for future study of E-business education. A combination of exploratory and descriptive research methods was used to describe a sample of 139 U.S. colleges and universities.*

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## INTRODUCTION

The giddy ascent of the NASDAQ stock index in the late nineties was driven by the expansion of Internet technology. Investors felt that this expansion would revolutionize the economy through electronic business (E-business) applications. In response, E-business education also began taking off during this period. This parallel expansion of the number of E-business courses and programs was in response to students' demand for courses. As the stock market plummeted, many Internet companies evaporated as easily as they had appeared. Anecdotal evidence indicates that some schools also began paring back programs, as the stock market and demand for E-business courses seem to diminish simultaneously. Despite the deflation of the stock market bubble, few would argue that Internet technology has not revolutionized both the overall economy and how businesses operate. So, as the dust settles, we still need E-business education, but maybe not the previous pattern of knee-jerk addition of courses and programs. This paper attempts to take an objective view of E-business education in the U.S. and to build a foundation for future research.

## RESEARCH OBJECTIVES

The exploratory research objectives are the following: 1) Learn what is available at a few top B-schools in terms of courses and programs/degrees, 2) Develop a framework for classification of E-business offerings, and 3) Review of the literature. The descriptive research objectives are the following: 1) Geographical distribution of sample schools offering E-business, 2) Classification of offerings to students in terms of courses and programs, and 3) Determine whether E-business offerings are discipline specific or interdisciplinary.

## METHODOLOGY

### Exploratory Research Design

The exploratory phase consisted of two types of data collection; one method involved an in-depth review of the fifteen top B-schools web sites, as defined by *U.S. News and World Report*. The second method involved an examination of the relevant literature available regarding E-business at schools located in the United States. Initially, an in-depth review of fifteen highly ranked B-schools' web sites was performed, to determine the type of data that was available. Web sites were analyzed for applicable information relating to E-business offerings. These areas included those relating to: marketing; finance; management; engineering; computer science, and any other likely source. The search also included a review of any research links and any industry participation. Finally, the schools' search engine provided a way to search the full school web site, using germane terms to capture any information that might have been missed previously.

### Quantitative/Descriptive Research Design

Data was collected from a sample of 139 schools' web sites. The process included navigating the academic portion of Business, Information Systems/Computer Science/Engineering departments, or other likely locations to provide an overview and path to follow in locating the desired data. Then the Research section, if available, was reviewed to locate any appropriate data. These two sections of a school's web site sometimes led to other areas that had useful data. Both the terms E-business and E-commerce were used.

The research sample for the data came from, "America's Best Colleges," on the web site of *U.S.*



*News and World Report (USN&WR)* <<http://www.usnews.com/usnews/home.htm>>. This well-respected publication has been ranking colleges for many years and therefore was chosen as the source to build a sample. The data also included results from the fifteen "Top Graduate Business Schools" on the *USN&WR* web site. A stratified sample was drawn from the publication's rankings based upon the multiple national and regional categories of the undergraduate school rankings. Due to inclusion of all fifteen "Top Graduate Business Schools" the overall sample is enriched with respect to these schools. The categories used to create the

stratified sample were Top Graduate Schools, National Universities, National Liberal Arts Colleges, Regional Universities (Tier I through Tier IV schools.), and Regional Liberal Arts Colleges Tier I through Tier IV schools.). A minimum of two schools was included from each group category or sub-group category.

The following variables were collected during late summer and the fall of 2001 and used in the analysis. Some data were updated during the winter of 2001-2002.

• University Name	• Reputation Score	• Telephone Contact
• USN&WR Category	• Metro Area	• E-business Program Scale--# of courses
• USN&WR Sub-Category	• State	• # E-business Courses Offered—Graduate
• Special Category	• Web Site URL	• # E-business courses offered—Undergraduate
• Rank in Group	• Email Address—up to three	• Outside Constituency Sponsoring or Supporting E-business

## DISCUSSION OF RESULTS

### Exploratory Results

This review was enlightening in the breadth and variance of E-business data available on the fifteen initial web sites reviewed. Wharton, University of Pennsylvania appeared to have the most comprehensive E-business program. Their program encompassed the following: degrees, executive programs, a multi-disciplinary E-Commerce MBA degree, and the Wharton E-business Initiative (WeBI), a partnership among business leaders, Wharton faculty, and students. The in-depth reviews, of these fifteen business schools, were then used to formulate the selection and classification criteria for data to be collected from the remaining 139 schools in the sample.

Other examples of E-business activities at the fifteen business schools reviewed initially were: student organizations formed at University of Chicago and Wake Forest University; an E-business Fellows group established at Wharton; and 28 professors performing E-business research in the Stern School at New York University (NYU).

Interestingly, NYU offered few E-business courses. It was no surprise that some schools had already linked their E-business degrees and concentrations with those in Computer Science or other related disciplines.

Previous literature, however limited, was uncovered which added invaluable insight. Bentley College's (Waltham, Mass.) E-business program has a new approach, which addresses the many challenges facing higher education in this area. This program may serve as a model for schools wanting to move forward with a full-fledged program in E-business.

Bentley has one of the most comprehensive E-business programs in the United States as explained in the article "Fast-cycle curriculum development strategies..." (Fedorowicz & Gogan 2001). This college embarked upon an ambitious agenda to update its program shortly after it was launched. The new president of the college made the development and implementation, of an E-business program, his personal mission. Not only did he drive the development process, but also participated actively in its development and execution. These far-

reaching actions included: conducting case studies and review of existing literature on E-business strategy at startup and traditional firms; fact finding initiatives between stakeholders and faculty to identify fruitful avenues they should follow in their research; training to ensure the quality of instruction in IT skills and E-business models; a review of offerings by top B-schools; and continuing reviews of the success/failures of early actions.

It remains to be seen how much influence industry will have on the depth and speed of higher education's adoption of E-business offerings. However, there is some evidence of cooperation between business and educational institutions, as some firms are supporting E-business curriculum development with large grants (Dobbs 1999). Additionally, some colleges are seeking out guidance from business (Fedorowicz & Gogan 2001) without external funding. Yet, the number one reason courses are established at The Association to Advance Collegiate Business Schools (AACBS) member schools is because of student interest (Etheridge & Hsu, 2001).

Several articles addressed the current market size and projections for the future growth of E-

business (Bartholome and Olsen 2002; Celsi and Wolfinbarger 2001; Dobbs 1999; Etheridge, Hsu, and Wilson 2001). The wide disparity in current size estimations can be attributed to how the market is defined. Projections of future size are hampered by the uncertainty of current size along with a lack of historical data from which to make estimations. In addition, the E-business, like any emerging area has a tremendous number of participants entering and leaving the market. It seems reasonable to conclude that the market was about \$100 billion in 1999 and will grow to as much as \$7 trillion by 2004. Furthermore, one must understand that the measurement of the overall financial and efficiency benefits that E-business brings to firms, is difficult to measure. However, it is difficult to argue that these benefits are not substantial.

### Descriptive Results

The sample of 139 schools was distributed across 41 states in the United States. Table 1 shows the sample distribution by location, metro vs. non-metro, of E-business offerings. Approximately 40% were in metro areas, and 60% were non-metro schools.

**Table 1. School Location Metro or Non-metro**

<u>Location</u>	<u>Frequency</u>	<u>Percent</u>	<u>Valid Percent</u>	<u>Cumulative Percent</u>
Non-metro	83	59.7	59.7	59
Metro	56	40.3	40.3	100
Total	139	100.0	100.0	

### Quantity of E-business Course Offerings

An ordinal scale was used to measure the quantity of E-business courses offerings, where 0=no courses, 1=a few courses, 2=more than a few courses, 3=many courses, and 4=a degree or concentration.

Table 2 shows the results concerning E-business course offerings. Sixty-eight percent of schools in the sample offered no courses. About 32% of 139 schools offered some type of E-business course or offering. About 12% offered a program of some type, such as a degree or concentration.

**Table 2. Quantity of E-business Course Offerings**

<u>Course Scale</u>	<u>Frequency</u>	<u>Percent</u>	<u>Valid Percent</u>	<u>Cumulative Percent</u>
0 = no courses evident	95	68.3	68.3	68.3
1 = a few courses	21	15.1	15.1	83.5
2 = more than a few courses	5	3.6	3.6	87.1
3 = many courses	1	.7	.7	87.8
4 = major or concentration offered	17	12.2	12.2	100.0
Total	139	100.0	100.0	

### Inter-disciplinary Nature of E-business Course Offerings

A nominal scale was used to capture this variable. Classifications include the following measures for the Interdisciplinary nature of E-business offerings: 0=none evident, 1=maybe, 2=mostly tech courses, 3=interdisciplinary, and 4=mostly business courses. The data was collected based upon an analysis of each school's web site by looking at courses and programs in the

Business/Management School or other schools such as Computer Science at both the graduate and undergraduate level.

Table 3 shows the results of how interdisciplinary or discipline-specific current E-business offering are at U.S. colleges and universities. About 71% of the schools have no E-business offerings. Less than 2% offer mostly technical courses. About 12% of the offerings appeared to be interdisciplinary, and 5% are predominantly business courses.

**Table 3. Frequency of Inter-Disciplinary or Discipline Specific E-business Offerings**

<u>Program Scale</u>	<u>Frequency</u>	<u>Percent</u>	<u>Valid Percent</u>	<u>Cumulative Percent</u>
0 = none evident	99	71.2	71.2	71.2
1 = maybe has program	14	10.1	10.1	81.3
2 = mostly technical courses	2	1.4	1.4	82.7
3 = interdisciplinary courses	17	12.2	12.2	95.0
4 = mostly business courses	7	5.0	5.0	100.0
Total	139	100.0	100.0	

### CONCLUSION

E-business is an area where industry is leading academics. If academics do not want to become irrelevant, business educators need to participate in the research and debate on how to integrate E-business into the curriculum. There is a need for schools to have collaboration between functional areas: marketing, management; engineering and information technology; etc. to properly prepare students to deal with the complexities they face in the electronic world upon graduation or their current employment. Industry involvement is mandatory to assure students learn what they need to apply in the business world. Scholars have an opportunity to lead in the effort to accurately measure the economic and material impact in terms of revenue and cost/efficiency of utilizing (or not using) technology.

The stock market hysteria is over, but the Internet has truly revolutionized the world economy. Business education needs to seriously reflect this fact. Research and the integration of E-business courses and programs into B-school's curriculum must be managed in ways that are meaningful and add value to students' education. B-schools need to do more than a simple change of course titles and the offering of isolated courses and programs in E-business. Granted, the fundamentals of business education may not have changed significantly, but

the ways in which business research, transactions, and strategies are executed have undergone a phenomenal revolution. Thus, B-schools must develop curricula that effectively train students how to use the new technology to execute more cost-effective research, transactions, and strategies. The competitive race is the same, but the mode of transportation has changed, and the winners will be those who can best harness and utilize E-business technology.

The limitation of this paper is related to the fact that this was an introductory and exploratory project. The observation mode of data collection has its limitations. The data collected from a web site may be out-dated or incorrect. Collecting data through questioning methods would obviously provide more insight into current and future programs. Other important questions remain, e.g., which types of courses or programs would add to the depth and understanding of E-business education in the U.S.

There is much to be learned about E-business in higher education. We have more questions than answers at this point. Instructor training appears to be a major issue for many schools and could likely benefit from broad insight on what is successful for schools with existing programs. The degree of industry involvement should be of paramount importance as schools train students in

this emerging discipline. Some are adamant that inter-disciplinary instruction across marketing/management and technology/computer science-engineering or other applicable disciplines are consequential to students' success in applied learning in the workplace and therefore deserves to be investigated. It is also important to look at

schools, large and small, and across all geographical areas. E-business can be an important tool for firms in less populated locations to reach customers across the globe and many of them might rely upon small local schools for training of current or future employees.

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# MARKET ORIENTATION PERCEPTIONS FROM THE ACADEMIC IVORY TOWER

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## ABSTRACT

Both marketing practitioners and academicians are interested in the effectiveness of market orientation (a condition characterized by customer orientation, competitor orientation, and coordination of activities toward customer satisfaction) in various situations and for various types of organizations. Theory and empirical research to date suggest that greater levels of market orientation result in a greater ability of the organization to achieve its objectives. However, empirical research in the not for profit sector has been very limited and application at the college and university level has been slow in forthcoming.

This research investigates the market orientation perceptions in the university setting. Specifically, market orientation perceptions of Chief Academic Officers of member schools of the AACSB-International, the Association for the Advancement of Collegiate Schools of Business, and the ACBSP, the Association of Collegiate Business Schools and Programs were sought. Member schools of these organizations were chosen because they subscribe to a commitment of continuous improvement and are recognized as leading organizations in the field of evaluating business management programs.

Though there are numerous stakeholders that could be addressed in the university setting, in this study we have limited these stakeholders to students, parents of students, and employers. Therefore, we address market orientation toward these "markets", but not toward the other possible "markets" of the university. The objectives of the study were to answer the following research questions:

1. What are the mean levels of perceived market orientation of chief academic officers of AACSB and ACBSP member schools?
2. How do these mean levels of market orientation compare to the reported levels from previous research on businesses?

The data for this study were collected by way of a mailed survey. Survey instruments along with a cover letter were mailed to the Chief Academic Officers of the 448 member schools of ACBSP and 604 AACSB member schools located in the United States. As key informants (Campbell 1995; Phillips 1981), the chief academic officers were asked to complete the surveys and return them in business reply envelopes that were provided. Of the total of 1052 survey instruments mailed, 239 were completed and returned. 102 responses were from AACSB members and 137 were from ACBSP members. The overall response rate was 23%.

In 34 of the 36 statistical comparisons made between chief academic officers and business managers, the business managers reported higher levels of market orientation than did the academic leaders. 31 of the 36 statistical tests demonstrated significant statistical differences between business managers and chief academic officers. In each of these cases, the specialty business managers reported the higher levels of market orientation. As chief academic officers generally perceived a lower level of market orientation in their organizations than did their business counterparts, a significant opportunity would seem to exist for schools that will put more effort into their market orientation. As students of the school may be viewed as the most visible of the numerous markets served, market orientation efforts focused at students would seem to have the potential for the fastest and highest payoff.

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# AN EMPIRICAL INVESTIGATION REGARDING THE EFFECTS OF INDIVIDUAL AND SITUATIONAL FACTORS ON ETHICAL DECISION MAKING

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## ABSTRACT

*This study measures the effects of individual and organizational factors on the ethicality of business decisions and judgments. MBA students were exposed to a scenario and responded to a survey that measured individual characteristics. Analysis showed the probability of being caught and punished and Locus of Control had significant effects.*

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## INTRODUCTION

The purpose of this paper is to empirically examine the effects of situational and individual factors that influence ethical decision-making. After an extensive review of the literature, three individual factors (locus of control, cognitive moral development and Machiavellianism) and two situational factors (actions of direct supervisor, and the probability that behavior will be discovered and punished) have been chosen for empirical investigation. Following is a survey of the current literature regarding ethical decision making and an experiment designed to determine how individual differences and situations within a corporate culture affect the ethical decisions and judgments of employees in a sales context.

## FACTORS THAT INFLUENCE ETHICAL DECISION MAKING BEHAVIOR

Factors that influence ethical decisions, as seen by most models, arise from the individual and the situation. Individual variables that have frequently been studied in relationship to ethical behavior include level of moral development, locus of control, Machiavellianism, age, national origin, gender and values.

### Individual Variables

While many individual variables have been studied, it can arguably be stated that cognitive moral development, locus of control, and Machiavellianism have received the most attention. These three variables and others will be reviewed in this section.

Cognitive moral development (CMD) is a psychographic factor commonly identified as influencing moral behavior. Cognition, the way an individual thinks or processes information, is the basis of moral judgment and the individual's stage of cognitive moral development. Several studies have addressed the factor of CMD in ethical decision making but with varying results. While the preponderance of studies show that those with higher levels of reasoning tend to act more ethically, Leming's (1978) study of college students found that preconventional and principled moral reasoners are equally likely to engage in "get away with it if you can" behaviors in low supervision situations. These results support the situationally specific nature of moral conduct. Malinowski and Smith (1985) found students with low CMD scores cheated more, but those with high CMD scores also succumbed when temptation was high. Trevino and Youngblood (1990) found that those with higher CMD behave more ethically. Findings of a study by Goolsby and Hunt (1992) found "marketers scoring high on CMD tend to be female and highly educated, and marketers with advanced moral reasoning properties tend to have socially responsible attitudes and behaviors." While several studies have examined the relationship between CMD and ethical behavior, there is little consensus.

Locus of Control (LOC) is a psychographic factor most typically measured by Rotter's (1966) Scale for LOC (Trevino 1986). LOC relates to the extent to which an individual believes s/he has control over events. Based on social learning theory, reinforcement is seen to strengthen an expectancy that a behavior will be followed by the same reinforcement in the future. Rotter (1966) suggests

that one's beliefs about the relationship between his/her own actions and their consequences will affect behavior choices. An Internal, one who believes that the individual has a strong influence on events, is less likely to allow others to pressure them into acts that they perceive as wrong (Trevino and Nelson 1995, p. 94). An External, one who believes events are controlled by forces External to him or herself, is less likely to resist pressure from others and more likely to disclaim responsibility (Trevino and Nelson 1995, p. 94). A positive relationship was found between LOC and ethical decision making behavior by Adams-Weber (1969), Hegarty and Sims (1978), Trevino and Youngblood (1990), and Baehr, Jones and Nerad (1993), Terpstra, Rozell and Robinson (1993). Singhapakdi and Vitell (1990), however, found no relationship between LOC and perception of ethical problems or perceived further investigation.

Machiavellianism, a construct based on the writings of Niccolo Machiavelli (1665, 1513), is defined as "manipulative, exploiting, and devious moves" (Calhoun 1969) in the achievement of goals and objectives. Machiavellianism was found to have a significant inverse relationship with ethical behaviors (Hegarty and Sims 1979, Singhapakdi and Vitell 1990).

Other individual differences thought to influence judgments of morality and behavioral intentions include: personal values (Finegan 1994), need for approval, (Malinowski and Smith 1985), competitiveness and religious beliefs (Terpstra, Rozell, and Robinson 1993), economic and political value orientation (Hegarty and Sims 1978, 1979), ethical theory espoused, (Fritzsche and Becker 1984); ego strength and field dependence, (Trevino 1986), gender (Chonko and Hunt 1985, Ferrell and Skinner 1988, Goolsby and Hunt 1992, Martin 1981, Whipple and Wolf 1991, Hunt and Chonko 1984, Hegarty and Sims 1979, Singhapakdi and Vitell 1990), age (Longnecker, McKinney and Moore 1989; Goolsby and Hunt 1992; Terpstra, Rozell and Robinson 1993; Dubinsky, Jolson, Michaels, Kotabe and Un Lim 1992), national origin (Hegarty and Sims 1978, 1979; Kaikati and Label 1980), major field of study (Arlow and Ulrich 1980, 1985), and education (Bass and Hebert 1995, Chonko 1996).

### **Organizational Situational Factors**

Organizational factors are of particular interest because they are the factors over which managers should have more control. Of the

many organizational variables reviewed here, no fewer than seven relate to either role modeling (supervisor's example), or the possibility of getting caught. For many, corporate culture is exemplified by behaviors of members of management. Formal and informal systems relate to the fact that the influence of a supervisor constitutes an informal system. Behaviors and beliefs are informally transmitted from supervisor to employee. Formal systems (codes of ethics and ethical policies) can either agree with or be in direct opposition to informal systems.

Actions of top management show an obvious relationship to role modeling and getting caught. Supervisors are role models. And, supervisors are directly responsible for the enforcement, or lack thereof, of ethical policy. Supervisors can also be seen as referent others. Level of supervision and supervisor attitudes relate directly to both opportunity and risk. The reward system perspective states that if unethical behavior is not punished but rewarded, it is more likely to recur, which is, of course, dependent on the supervisor.

Corporate Culture has been particularly addressed as an organizational factor of influence in ethical decision-making (Akaah 1993). Behavior coalesces around beliefs and values that are embodied by corporate culture (Gregory 1983, Webster 1990). It influences the ethical environment of the organization by giving expression to what is and what is not appropriate behavior, (Akaah and Riordan 1990, Trevino 1986). Many suggest that organizational culture exerts more influence than written regulations (Akaah 1993).

Formal and Informal Systems were examined by Falkenberg and Herremans (1995) as they relate to ethical behavior in organizations. They propose that even as the person and the situation interact, so do formal and informal systems. Actions of top management were found to be a very strong influence on ethical behavior by Baumhart (1968) and to be the most important influence on unethical decisions by Brenner and Molander (1977). Andrews (1989) proposes that employees will do what the supervisors do rather than follow policy. Pozner and Schmidt (1984) explain this by the fact that it is the supervisor who makes judgments about employee actions.

Actions of referent others were found to be influential in ethical behavior. Zey-Ferrell, Weaver and Ferrell (1979) found actions of peers to be influential with personal beliefs and the beliefs of top management to contribute little to the behavior. Codes of Ethics have been found to significantly



reduce unethical decision behavior (Hegarty and Sims 1979, Singhapakdi and Vitell 1990; McCabe, Trevino and Butterfield 1996). However, Brenner and Molander (1977) report that managers believe formal company policy is a somewhat distant secondary influence on ethical beliefs and behaviors. Enforcement of the Code of Ethics was found by Ferrell and Skinner (1988) to be less important than existence of the code. Enforcement of a code of ethics was represented in enforcement was not significant.

Opportunity to behave in an unethical manner has been identified by many as a significant factor in the determination of ethical actions (Zey-Ferrell, Weaver and Ferrell 1979; Ferrell, Zey-Ferrell and Krugman 1983; Zey-Ferrell and Ferrell 1982; Ferrell and Gresham 1985, Mayer 1970). Risk is identified by Knight (1921) as measurable uncertainty. Rettig and Rawson (1963) defined ethical risk as "public exposure and censure of getting caught." Their study found risk to be "an important antecedent to the engagement of ethical behavior, accounting for up to 52 percent of the variation in respondents' behavior."

Other organizational factors are of particular interest include: Bureaucratic structure - formalization, centralization, and controls (Ferrell and Skinner 1988), the reward system perspective (Kerr 1975, p. 769; Jansen and Von Glinow 1985, Mayer 1970, Daboval, Comish and Swindle 1995, Hegarty and Sims 1978, Trevino and Youngblood 1990), the nature of the harm and the magnitude of the consequences (Weber 1996), importance of the ethical issue (Robin, Reidenbach and Forrest 1996) economic value orientation (Hensel and Dubinsky 1986, Hegarty and Sims 1979), and acceptance of authority (Ferrell and Skinner 1988). Further organizational variables include: organizational dependence (Wahn 1993), and quality of the work experience (Jones and Kavanagh 1996).

#### **INDEPENDENT VARIABLES AND HYPOTHESES**

Examined here are the independent and dependent variables that are the focus of this study. Hypotheses related to each are proposed based on the findings in the literature. Two variables are manipulated: supervisor's example, ethical or unethical; and the probability of being caught doing something unethical (with the stated result of dismissal), high probability or low probability. Variables that are measured include Cognitive

Moral Development, Locus of Control, and Machiavellianism, due to the important place they hold in the literature.

#### **Example of Immediate Supervisor/Probability of Being Caught**

Variables reflecting ethical aspects of corporate culture are manipulated in the scenarios presented to respondents. The example set by the immediate supervisor will be represented as either ethical or unethical. The probability of getting caught and subsequently punished will be either high or low. Based on previous studies we predict that the more factors encouraging ethical behavior that are present, the more ethical behavior will occur. Logically then, the more unethical factors that are present, the less often ethical behavior will occur. Based on the previous research, the following hypotheses are proposed:

Hypothesis 1: Decision making will be more ethical when the supervisor sets a good example than when he sets a bad example.

Hypothesis 1a: Decision making behavior will be more ethical when there is a high possibility of being caught and punished than when there is little possibility of being caught and punished.

#### **Cognitive Moral Development**

Strong empirical support exists supporting a relationship between Cognitive Moral Development and ethical decision making behaviors. Hypotheses 2 and 2a demonstrate the expected behaviors based on the literature.

Hypothesis 2: Highly principled respondents will be more likely to make ethical decisions than those with lower levels of principle.

Hypothesis 2a: The possibility of being caught and punished will have the greatest effect on those with lower levels of principle.

#### **Locus of Control**

Locus of Control is a psychographic factor measured most typically by Rotter's (1966) Internal External Scale (see Appendix 5). Based on the literature, Figure 7 and Hypotheses 3 and 3a demonstrate the expected behaviors. The main effect



of Locus of Control has been previously tested, but the interaction between Locus of Control and supervisor's example has not.

Hypothesis 3 : Respondents with an Internal Locus of Control will be more likely to make ethical decisions than those with an External Locus.

Hypothesis 3a: Supervisor's example will have a greater effect on those with an External Locus than on those with an Internal Locus.

### **Machiavellianism**

Machiavellianism is a personal variable characterized by "manipulative, exploiting, and devious moves" (Calhoun 1969). Machiavellianism has consistently been found to have a significant inverse relationship with ethical behaviors. The possibility of being caught and punished will have a greater effect on those with high levels of Machiavellianism because it would have a direct effect on the self-interest of the individual, whereas the example of the supervisor does not. The following hypotheses are consistent with previous research. While the main effect of Machiavellianism has been researched, the interaction between Machiavellianism and the possibility of being caught and punished has not.

Hypothesis 4: Respondents with low levels of Machiavellianism will be more likely to make ethical decisions than those with higher levels of Machiavellianism.

Hypothesis 4a: The possibility of being caught and punished will have a greater effect on respondents with high levels of Machiavellianism.

### **RESEARCH DESIGN AND METHODOLOGY**

The study uses a 2X2 full factorial design depicting ethical and unethical situations related to supervisor's example, and the possibility that behavior will be discovered and punished, with personal characteristics as covariates. The variables, example of direct superior, and the possibility that behavior will be discovered and punished are manipulated to create four scenarios.

#### **Dependent Variable**

The dependent variable relates to the degree of ethicality in subjects' responses. Answers for the questions are on a 6-point opposite adjective scale with the extremes being Extremely Likely and Extremely Unlikely. Responses are treated as a single-item scale. The questions relating to intended ethical behavior are as follows:

How likely is it that you would have behaved in the same manner as Frank?

How likely is it that your peers would have behaved in the same manner as Frank?

### **Independent Variables**

Cognitive Moral Development (CMD) is a psychographic factor commonly identified as influencing moral behavior. Rest's (1986) Defining Issues Test (DIT), the test most frequently used, was implemented in measuring CMD for this study. Principle (P) scores are derived from the test to indicate "...the relative importance a subject gives to principled moral considerations in making a decision about moral dilemmas" (Rest 1986). Rest says that those scoring 50 or more can be said to be principled. So, like Jacobs (1977), I designate those scoring 50 or more as principled, and those scoring less as not principled.

Locus of Control is a psychographic factor measured most typically by Rotter's (1966) Internal External Scale (see Appendix 5). This 23-item forced choice scale reflects the number of External choices; thus, those having a high score demonstrate an External locus of control, and those with a low score have an internal locus. The scores were summed and divided by the number of questions (23). Those with a score of 1.5 and above were termed External, a score of 1.49 or below demonstrates study locus.

Machiavellianism is a personal variable characterized by "manipulative, exploiting, and devious moves" (Calhoun 1969). Machiavellianism is typically measured by Christie and Geis (1970) MACH IV test, a 20-item scale with 10 items reversed. Based on the works of Christie & Geis (1970), Machiavellianism (when using a 6 point scale) has a minimum score of  $1 \times 20 \text{ items} + 20$  (a theoretical constant) = 40; a maximum score of  $6 \times 20 \text{ items} + 20 = 140$ ; and a theoretical neutral point of  $3.5 \times 20 + 20 = 90$ . Above the theoretical neutral point one could be said to be a high Mach, below the theoretical neutral point, one could be said to be a

low Mach. This is how Machiavellianism is typically operationalized. The mean score of the respondents of this research was 79.17 (that includes the theoretical constant of 20.) This is an uncommonly low mean.

According to Hunt and Chonko (1984), representative mean scores from other studies include 99.6 for purchasing managers, 88.7 for community college teachers, 85.7 for marketing professionals, 82.1 for student teachers, and 73.3 for school superintendents. Given the low scores, had I designated everyone scoring 90 or above as a High Machiavellian, there would have been only 13 out of 99 total respondents. When dividing the respondents into quartiles the cut-off point for the 4<sup>th</sup> quartile was 67 and above. To use this cut off gave me 13 more High Machiavellians with a scoring difference of only 3 points. In order to have a larger number of High Machs, I designated anyone 67 or above a High Mach, anyone 66 or below a Low Mach.

### **The Scenario**

The scenario, involving bribery in a sales situation, is adapted from one designed by Vitell (1986) and subsequently used by Hunt and Vitell (1986), and Singhapakdi and Vitell (1990). It depicts a salesperson, Frank, who is under pressure to perform and faced with competitors who offer "gifts" to customers to secure orders. These gifts are in the form of tickets to concerts and other forms of entertainment with values between \$100 and \$200 and do not violate any laws. None of the other sales representatives in the company pay bribes. Frank decides to offer gifts to purchasing agents. The following demonstrates manipulation of supervisor's example and the likelihood of being caught.

### **Manipulation of Independent Variables Within the Scenario**

#### **Ethical Example Set By Supervisor**

Harold's (Frank's supervisor's) attitudes are well known. He believes that, with hard work and initiative, meeting sales expectations shouldn't be a problem. His integrity as a manager is unquestioned. He follows the spirit as well as the letter of the company's ethical code. Harold has never cut corners or behaved in a manner that was in any way questionable.

#### **Unethical Example Set By Supervisor**

Harold's attitudes are well known. He is definitely a bottom line person and puts strong pressure on his salespeople for results. Harold firmly tells his reps that the ends justify the means and has been known to cut corners himself. More than once, Frank has silently questioned the appropriateness of Harold's methods. Frank suspects that Harold would stop at very little to achieve the results he wants.

#### **Strong Possibility That Behavior Will Be Discovered And Punished**

The primary risk is that auditing might notice, question, and investigate the increased level of expenditures made to the supply house. If he is found guilty of an ethics violation, he can expect dismissal. He thinks there is a strong chance of discovery and dismissal. Everyone in the company knows that audits are frequent. In the 7 years Frank has been with the company, more than a few people on the sales force have been asked to explain expenditures found in an audit.

#### **Slight Possibility That Behavior Will Be Discovered And Punished**

The primary risk is that auditing might notice, question, and investigate the increased level of expenditures made to the supply house. If he is found guilty of an ethics violation, he can expect dismissal. He thinks there is only a slight chance of discovery and dismissal. Everyone knows audits are few and far between, and they are reputed to be very lax. In the 7 years Frank has been with the company, no one on the sales force has ever been asked to explain expenditures found in an audit. The chance that Frank would be the first and only one is extremely minimal.

### **RESEARCH FINDINGS AND TESTS OF HYPOTHESES**

Hypotheses are tested to determine the extent of the relationship between variables. The dependent variable is a two-item, single measure scale representing the respondent's ethical decision. The independent variables are Cognitive Moral Development, Locus of Control, Machiavellianism, and indicators of corporate culture including the example set by the immediate supervisor and the possibility of being caught and punished. Interactions between personal variables and indicators of corporate culture will be examined.

## Collection of Data

Several colleges and universities in the Midwest and East were approached for permission from the Institutional Review Boards to survey a number of their MBA students. There were two surveys that were given two weeks apart. The first survey contained scales to measure cognitive moral development, locus of control and Machiavellianism. The second survey asked various demographic information, presented one of four scenarios, questions to check manipulations, measures of dependent variables, as well as questions that relate to ethical training experienced by the respondent. Respondents were asked to record the last 6 digits of their social security number for the purpose of matching their responses to data that might be collected at a later date. Of the more than 800 sets of questionnaires sent out, 101 were usable upon return. The biggest problem was matching the sets of data, since many students neglected to record the last 6 digits of their social security number.

## Reliability Estimates

	This Study	Goolsby & Hunt (1992)	Rest (1974)
Mean	37.50	43.1	65.2
S.D	15.00	17.2	9.5
N	101	269	15
Sample Students	MBA members	AMA	Philosophy Ph.D. students

## Correlations

Correlations at the 0.01 level include Machiavellianism and Gender. At the 0.05 level we find correlations between Gender and CMD, and Age and Machiavellianism. We find that older respondents are more likely to be study, and to score low on Machiavellianism. We get nicer as we get older. Females respondents were more likely to be Internals, to score low in Machiavellianism and high in Cognitive Moral Development. Externals tend to be more Machiavellian.

## Demographic Profile of Respondents

The respondents were students attending MBA classes in several eastern and midwestern universities (See Table 1). Fifty-four and 5 tenths percent of the respondents were female. Their mean age was 28.59 years, 52% were married and

The reliability estimate for the two-item, single-measure, dependent variable is .70. This is equal to the score supported by Nunnally (1978) as sufficient for exploratory research. Reliability analysis for Locus of Control is .74, which the same as that achieved by Trevino and Youngblood (1990). For Machiavellianism, a Cronbach's Alpha of .6747 was found which compares slightly less than favorably with the .79 split-half reliability coefficient achieved by Christie and Geis,(1970), and .76 by Hunt and Chonko (1984).

Because of the way CMD is calculated, a reliability estimate is not available. I can, however, compare mean and standard deviation with other studies (see Table 1). The range in score for this study was from 3.3 to 76.66 (with 95 being the highest possible score), and for Goolsby and Hunt (1992), they were 3.3-83.3. As you can see, respondents in this study did not score as high as either the moral philosophy students or the AMA members. Considering, however, the differences in sample, I believe my CMD scores are readily comparable.

their mean GPA was 3.647. The majority of the respondents (83.3%) were from the United States. Nearly 30% belonged to a professional organization. Eighty-six percent of the respondents had at one time been or were currently members of the job force. Thirty-seven percent reported sales experience, and of those, the mean number of years reported was 3.5. Nearly 50% reported having taken one or more ethics classes for college credit, of those 75% reported having received 1-3 hours credit. Twenty percent had received ethical training from their current employer; twenty-eight had received ethical training from a previous employer. Approximately 56% reported they had known someone to be fired because of unethical business behavior.

## Test of Model

A Univariate analysis was conducted on the full model, including main effects for all

independent variables, and all interactions predicted by hypotheses. The level of significance achieved was .216, with none of the main effects or interactions being significant. By removing from the model, the main effect of supervisor's example and Machiavellianism, and the corresponding interactions, the model achieves a .039 level of significance. Significant within the model, at the .10 level (.091), was the interaction between the possibility of being caught and CMD.

### Hypothesis Tests

Four groups of hypotheses were tested relating to the example set by the supervisor, the possibility of being caught, CMD, LOC, and Machiavellianism. These hypotheses were presented previously and are presented here below with results of simple anova and univariate tests. Each hypothesis is tested with the dependent variable to determine support.

Hypothesis 1: Decision making will be more ethical when the supervisor sets a good example than when he sets a bad example. NOT SUPPORTED

Hypothesis 1a: Decision making will be more ethical when there is a high possibility of getting caught than when there is little possibility of being caught. SUPPORTED

Hypothesis 2: Highly principled respondents will be more likely to make ethical decisions than those with lower levels of principle. NOT SUPPORTED

Hypothesis 2a: The possibility of being caught will have the greatest effect on those with lower levels of principle. SUPPORTED AT THE .1 LEVEL

Hypothesis 3 : Respondents with an Internal Locus of Control will be more likely to make ethical decisions than those with an External Locus. SUPPORTED

Hypothesis 3a: Supervisor's example will have a greater effect on those with an External Locus than on those with an Internal Locus. NOT SUPPORTED

Hypothesis 4: Respondents with low levels of Machiavellianism will be more likely to make ethical decisions than those with higher

levels of Machiavellianism. NOT SUPPORTED

Hypothesis 4a: The possibility of being caught and punished will have a greater effect on respondents with high levels of Machiavellianism. NOT SUPPORTED

### LIMITATIONS

The greatest limitation to this study is that only one scenario is used, which limits its generalizability to situations in which bribery is a question. A second limitation involves the use of graduate students as respondents. The third limitation is in the low number of respondents.

Manipulations were problematic in that a significant number of those in the slight chance of discovery situation believed they were likely to be discovered. A final limitation is the interpretation of the scenarios. The manipulations had unintended effects. The best example was the check on understanding related to how likely one was to be dismissed if discovered. There should have been no significant difference there since this factor was held constant, but the difference between means was significant at the .009 level with 59.1 percent of those in the unethical supervisor/slight chance of discovery situation indicating they were unlikely to be dismissed.

### CONTRIBUTIONS

This study opens up a new avenue of research, that of interaction between personal and situational variables. I think few can doubt that interactions exist, but efforts need to be made to better understand them so we can better manage them. This research has been instrumental in revealing the need for further research to gain consensus concerning effects of Cognitive Moral Development and Locus of Control. A further contribution was the confirmation of the strong effect of demographic variables, including gender, age, and nationality.

Contributions of this study can also be seen in its application to the hiring and supervising of employees. Studies previously cited have shown managers to have a serious interest in the ethical behavior of employees. It should be an indicator of what personal characteristics to look for when screening applicants and an indicator of helpful areas of training.

This is far from the first study of ethics, as evidenced by the reference section of the paper, and it will surely not be the last. There is continually news of a product on the market, an advertising campaign, a package design, or a business practice about which ethical questions can be raised. Due to

the growth of international trade, and a lack of global ethical standards, it seems logical that this will only occur more frequently. Given that, it is essential that the study of ethics continue so we can better understand how to encourage ethical behavior and decision-making at all levels of organizations.

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# A SHOCK TO THE SYSTEM: MBA STUDENT AND FACULTY PERSPECTIVES ON THE IMPACT OF EXECUTIVE IMPROPPRIETY

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## ABSTRACT

*Malfesance by top executives in a number of industries has brought to light a dark side of free market enterprise. Student and faculty perceptions of business may be affected. Responses from MBA students and faculty at a private university in the South point to different interpretations of these events.*

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## INTRODUCTION

The year 2002 will likely be remembered for a wave of scandals involving business firms that, up until that time, were counted among the best performing, and with some of the best and brightest executives at the head of their respective organizations. From allegations of insider trading by Martha Stewart, to widespread shredding of documents by the accounting firm Arthur Andersen, the impropriety and charges of abuse by executives at Global Crossing, Tyco, Adelphia Communications, and Enron to name a few have brought into focus the potential for abuse that goes along with the open market system.

In a free-market economy, organizations are supposed to fail because of the business cycle or poor business decisions, but not from loose and sleazy practices or outright fraud. For some, these revelations represent scandals so vast and penetrating that they profoundly shock people's most deeply held beliefs about the honesty and integrity of corporate culture (Nussbaum, 2002). The currently evolving scorecard of scandals involves so many different industries and alleged criminal acts that it calls into question some of the basic tenets of fair and open markets. The most recent "accounting" includes: John, Michael, and Tim Rigas (founder and former chairman, VP-Operations, and former CFO, respectively) of Adelphia charged with using billions of dollars of company money for personal use and coverage of loans secured using stock; former senior audit partner David Duncan at Arthur Andersen for helping Enron conceal partnerships whose debt eventually brought down the firm and shredding documents; David Thatcher (former CFO), Timothy

Ganley (former VP), Kevin Clark (former regional VP), and Jonathon Beck (former VP) at Critical Path for numerous charges of securities fraud and insider trading; Andrew Fastow (former CFO) and Michael Kopper (former managing director) at Enron for orchestrating hidden partnerships, disguising debt, and conspiracy to commit money laundering and wire fraud; and ImClone Systems' founder and former CEO Samuel Waksal for insider trading, perjury, bank fraud, and obstruction of justice (Calandra, 2002). While the ethical and legal lapses currently under investigation were presumably undertaken with a the goal of increasing the bottom line of their respective firms (at least as reported in financial statements) trust, fairness, and integrity do matter and are crucial to the bottom line (Byrne, 2002). When these presumed virtues are called into question the fallout can be widespread.

For current employees of firms in the news for fraud or unethical practices, the charges and revelations potentially place a stigma on their resumes that may need to be addressed when they apply for other positions (White, 2002). For former workers of firms currently in the spotlight, some who may have left their employ many years prior to the allegations, the suspicion and taint may also affect them and their current job hunting efforts (Armour, 2002) as well as how they themselves view their status and career prospects (Wild, 2002). With these developments, a logical question for inquiry is to what extent, if any, they have impacted the views of current students and faculty on the future behavior of business professionals and the attractiveness of careers in business.

**Scandals Effect on Business Students' Attitudes**

For individuals currently enrolled in graduate programs, a number of the studies that have been published since the breaking wave of scandals suggest that business majors and MBA candidates are stepping back and reassessing their choices and futures in business (Mitchell & DeFazio, 2002). According to their study, the scandals have caused some MBA candidates to re-think their career choices, although there was no uniform pattern to the responses. When asked, "Are you likely to seek a job working for corporate America after the recent accounting scandals?" over 15 percent of those surveyed said they were "less likely," while 20 percent were "more likely."

Despite the reassessments by many, there does not appear to be a downturn in business school applicants and individual class enrollments – at least in the short-term. At New York University's school of continuing studies, enrolment in accounting courses has jumped 42% compared with last year (Uttam, 2002). From a faculty perspective, the scandal's influence on its students is hampered by the gap that exists between undergraduates and the corporate world. This disconnect is good because students remain undeterred by instances of corporate corruption and remain focused on seeking out their dreams (Mah, 2002).

According to Koo (2002), students are looking more closely at perspective employers and scrutinizing their ethics and stability. In the aftermath of the Enron scandal, people are scratching their heads and approaching interviews with a different set of eyes. They are looking for an ethical component – and that is a major change (Lehmann-Haupt and St. John, 2002). Students are somewhat more wary of business, and many are doing additional research and asking more questions about the stability of companies (Lehmann-Haupt & St. John, 2002).

Another student concern is how they will be viewed by the government when they enter the business community. Some fear a backlash; that the government and the S.E.C. might use these revelations as a way of grabbing power with the result that in the future business executives are going to be presumed guilty (Lehmann-Haupt & St. John, 2002). Additional fallout from the scandals, coupled with the current economic slowdown, the fall of major companies, and forced reassessment of businesses is that only 26 percent of this year's MBA graduates have job offers to date (Mast, 2002).

Beyond the concerns of the current roster of undergraduate and MBA students is the potential impact on high school students looking at future careers in business. While nine out of ten teenagers surveyed say they would refuse to work for a company accused of misconduct, 62 percent of the students said they were "just as likely" to consider a career in business, 30 percent said "less likely," and 8 percent said it "made no difference" (Bodensiek, 2002). When asked how the recent scandals might have changed their opinions of business, 59 percent of respondents said the scandals made no difference, 34 percent answered "for the worse," and 7 percent said "for the better." (Bodensiek, 2002).

With these events as both backdrop and stimulus for inquiry, the authors decided to gauge the early impact of these events and reporting on those most likely to be affected; graduate business students and faculty. Although employing a convenience sample to explore events that are still evolving, it is believed that the results will provide direction for a longer-term study of stakeholder attitudes toward business study and factors that influence those attitudes.

## STUDY METHODOLOGY

The population chosen for the present study consists of the faculty of a business school at a small private university in the south and enrolled MBA students during the fall 2002 academic term. An e-mail-based survey was sent to all 167 students (81 men and 86 women) in the weeknight, weekend, and executive MBA programs. The survey was also sent to the 29 tenure-track, contract, and adjunct teaching faculty in the school of business (23 men and 6 women). The electronic survey consisted of four rating scale questions as well as a collection of three recently published editorials which recipients were asked to respond to. Lastly, a number of classification questions were included for the two populations.

Over the course of three weeks, two follow-up e-mail messages were distributed to non-respondents again requesting their participation in the study. At the close of data collection, 16% of the student population returned the survey (10 men and 16 women). Although the twenty-six student respondents reflected a broad cross-section of work experience, employed at 22 different companies and holding a variety of positions within their organizations (see table 1) the overall small response set limits the generalizability of the conclusions. The typical student respondent was 35 years of age

(range 22-51 years of age); has worked in their present position for just under 2 ½ years (range 1-8 years); and has worked for 3 different employers

since completing their undergraduate degree (range 1-7 employers).

**TABLE 1**  
**Profile of Student Respondents**

<u>Current Firm</u>	<u>Position Title</u>
• AIC	• Accountant
• Andersen Windows, Inc.	• Administrative Assistant
• Atria	• Architect
• Bank One	• Budget Analyst
• Bellarmine and Floyd Memorial Hospital	• Dealer Account Representative
• Bellarmine University	• Director of Marketing and Public Relations
• Clark Memorial Hospital	• Director Of Operations
• Fund for the Arts	• Finance Director
• GE Consumer Products	• Human Resources Manager
• Genlyte Group	• Industrial Engineer
• TIAA-CREF	• Information Systems Specialist
• Henkel Loctite	• Instructor and Medical Technician
• Johnson Controls, Inc.	• Investor Relations
• Louisville Gas & Electric	• Line Maintenance Finance Intern
• McDonald's	• Marketing and Campaign Associate
• Mobile Medical Imaging, Inc.	• Marketing Manager
• National City Bank	• Operation Engineer
• Nolan & Nolan, Inc.	• Operations Officer
• Papercone Corp.	• President
• ResCare, Inc.	• Research Adjustment Associate
• Service Net Insurance	• Reseller Relations Mgr.
• United Parcel Service	• Tax Accountant
	• Training Manager

Almost 70% of the faculty participated in the survey (15 men and 5 women). These 20 faculty represented all three business-related academic departments at the university (accounting, business administration, and economics) as well the executives-in-residence at the institution and adjunct personnel. Length of time in academe for faculty respondents ranged from newly hired to those with over 20 years of teaching and research experience.

**DISCUSSION OF RESULTS**

Much of the news reporting on the various scandals has linked the alleged abuses to the wide discretion upper level management executives typically possess in free market enterprises. In

chronicling the rise of these organizations and executives, reporting has highlighted their entrepreneurial past. The first question in the survey sought to address to what degree, if any, respondents believe recent events will discourage the creation of new entrepreneurial ventures, which are often reported as linked with more assertive risk-taking leanings. There was a significant difference in opinions between faculty and student respondents. Faculty overwhelmingly believe that these events will not have a significantly negative effect on new venture creation. Student opinion by comparison is not as uniform and a significant percentage do believe that it will have a negative effect, at least to some degree (see table 2).

**TABLE 2**  
**Potential Impact on New Entrepreneurial Ventures**

To what extent do you agree with the following statement: "the activities of executives at companies like Enron, Global Crossing, Arthur Andersen, Adelphia Communications, Tyco, etc., as reported in the media, will have a significantly negative effect on the creation of new entrepreneurial ventures."

		(1)	(2)	(3)	(4)	(5)
	Mean	Strongly Agree	Somewhat Agree	Neither Agree Nor Disagree	Somewhat Disagree	Strongly Disagree
Students	3.3	4%	31%	8%	46%	12%
Faculty	4.4		10%		30%	60%

The next two questions on the survey explore whether and to what degree the recent scandals will have an impact on the behavior of current and future business executives at the top levels of their organizations. On these issues there is general agreement between students and faculty that the bulk of the impact will be for the better however,

for current executives student believe there will be more long-term impact for the better while faculty believe there will be more short-term impact for the better. When it comes to the behavior of future top-level executives both groups believe there will be more long-term impact for the better than in the short-term (see table 3).

**TABLE 3**  
**Potential Impact on Current and Future Executive's Behavior**

Concerning the activities of executives at companies like Enron, Global Crossing, Arthur Anderson, Adelphia Communications, Tyco, etc., as reported in the media, what do you believe will be the impact on the behavior of other executives (now holding top-level positions)?

	Mean	For the Better				(5) No Impact	For the Worse			
		Short-Term		Long-Term			Short-Term		Long-Term	
		(1) Some	(2) Great	(3) Some	(4) Great		(6) Some	(7) Great	(8) Some	(9) Great
Students	3.0	15%	35%	31%	8%	8%				
Faculty	3.2	40%	20%	35%			5%	4%		

Concerning the activities of executives at companies like Enron, Global Crossing, Arthur Anderson, Adelphia Communications, Tyco, etc., as reported in the media, what do you believe will be the impact on the behavior of future executives (those not now holding top-level positions)?

	Mean	For the Better				(5) No Impact	For the Worse			
		Short-Term		Long-Term			Short-Term		Long-Term	
		(1) Some	(2) Great	(3) Some	(4) Great		(6) Some	(7) Great	(8) Some	(9) Great
Students	2.6	15%	4%	58%	12%	12%				
Faculty	3.0	25%	5%	60%		5%			5%	

The last of the scale questions asked on the survey concerned what impact if any these scandals would have on how individuals viewed business as a career path. In the past, the exposure and popularity

of television shows such as L.A. Law and E.R. have had a measurable positive impact on applications to their respective professional schools. Could these real-life events have a depressing (or encouraging)

effect on business as a career path? On this question student and faculty respondents were in general agreement although there was more diversity of

opinion among students. The general consensus is that it will not have any significant effect (see table 4).

**TABLE 4**  
**Outlook on Business As A Career Path**

To what degree have the activities of executives at companies like Enron, Global Crossing, Arthur Anderson, Adelphia Communications, Tyco, etc., as reported in the media, affected your outlook on business as a career path?

	<u>Mean</u>	(1) Significant Negative <u>Effect</u>	(2) Slight Negative <u>Effect</u>	(3) No <u>Effect</u>	(4) Slight Positive <u>Effect</u>	(5) Significant Positive <u>Effect</u>
Students	2.9	4%	23%	62%	4%	8%
Faculty	3.0		10%	80%	10%	

The second section of the survey presented three, one paragraph editorials from the *Financial Times*, *Wall Street Journal*, and *The Economist* as reproduced in *This Week* magazine. Faculty and students were asked to respond to the editorials

whether they concurred, disagreed, or felt that other issues were being neglected in the editorials related to CEO certification of financial statements, a central aspect of reform that had been called for in response to the scandals (see table 5).

#### Student Comments in Response to Editorials

Generally speaking, comments provided by students were fairly brief and dealt primarily with the single issue of whether certification will indeed deter corruption rather than reacting to each editorial's points separately. The student respondents were divided in whether certification would be a deterrent to future illegal and/or objectionable behavior.

Almost one third of the student respondents expressed the opinion that making CEOs personally certify financial statements for their organizations will not deter corruption. A typical rationale for this position is typified by one statement, "Many have enough money to go through the long litigation process which will almost guarantee their ability to dodge the bullet." Another perspective in support of this stance contents that there will only be a short-term effect on corruption. In one student's opinion, "CEOs will work to avoid the public opinion chopping block however, once the spotlight fades, it

will back to business as usual." Many students expressed the belief that real reform will come when changes in accounting practices are made and that additional regulations will only work at the price of free enterprise.

- "Only when shareholders insist that boards of directors and corporate officers adhere to a clear code of ethics and return their earnings potential to realistic incomes will you see any real change."
- "The law of supply and demand will eventually move corporations to a point of acceptable ethical standards."
- "It is interesting how the 'market' sets the trends in what is considered valuable leadership. Excuse me, did I say interesting? I meant Horrifying! Perhaps if the media and Wall Street work together promoting honorable characteristics we will see real business at work instead of the superficial version."

**TABLE 5**  
**Three Editorials Presented for Respondent Commentary**

Will CEO Certifications Deter Corruption?

(Editorial #1) Bring on the "big stick," said the *Financial Times*. The new requirement for CEOs and CFOs to file sworn statements certifying the accuracy of their books with the Securities and Exchange Commission may not clean up American business, but it's a start. For instance, "the restatements of accounts were either trivial or expected." AOL Time Warner announced that \$49 million in revenue was incorrectly booked, a pittance for the media giant. Adelphia Communications chairman and interim CEO Erland Kailbourne admitted his scandal-plagued company could not meet the Aug. 14 certification deadline. No surprise there. Still, certifications should sour business leaders on "aggressive accounting techniques" and "slavish adherence to analysts' expectations." Better yet, certification should scare executives straight, said Michelle Singletary in *The Washington Post*. By signing on the dotted line, CEOs and CFOs open themselves up to criminal prosecution. "It raises the standard for what corporate leaders should know and what they will be able to get away with later." The I-didn't know excuse employed by former Enron CEO Jeffrey K. Skilling is history.

(Editorial #2) Apparently naiveté is not history, said *The Wall Street Journal*. "Most executives already had assumed they were vouching for something when their company issued their quarterly reports, and seem appropriately mystified by the demand for an additional certification". Sun Microsystems CEO Scott McNealy even threatened not to sign. The markets rightly view certification as a government PR move; the buildup to the SEC deadline brought yawns or swoons. Certification is a non-event. True, but it won't stay that way for long, said Alan Reynolds in *USA Today*. First, "the certification ritual" will discourage risk-taking. Why should companies launch new ventures sure to draw regulatory flak? Second, the procedure is "mainly a political gift to trial lawyers who chase sick companies the way ambulance chasers go after sick people." Higher premiums for anti-lawsuit insurance will further punish struggling firms. Third, since certification applies only to public companies, more successful private companies will stay private. "Potential shareholders will miss out" on future Microsofts. Thanks for nothing.

(Editorial #3) The SEC deserves our thanks, but "oaths are only a small step in the business of cleaning up American companies," said *The Economist*. The Sarbanes-Oxley legislation will do far more, especially with the crackdown on subsidized personal loans to executives. The new five-member accounting oversight board also looks promising. Yet lawmakers and regulators missed the opportunity to propose real reforms. Take corporate boards. "Federal law has much less to say on the duties of company boards than on day-care centers." Tyco's chummy board agreed that a felony conviction could not force former CEO Dennis Kozlowski out of his job - unless the crime hurt the company. Nonetheless, two intangible factors will deter corporate corruption more than reforms and would-be reforms. Seeing a few CFOs in chains "has already had an electric effect in corner offices." And investors have already bid up stock prices for companies known for integrity. "If the market comes to admire honesty, transparency, and good corporate governance, executives will rush to acquire those characteristics." Investors get the morality they demand.

Source: *The Week*, August 9, 2002, William Falk, editor-in-chief.

**Faculty Comments in Response to Editorials**

The faculty comments on the other hand were much more conclusive. Almost all of the responding faculty expressed the belief that certification would not act as a deterrent to corruption. There was also considerable agreement with the third editorial's content except that they believed politics would intrude in the oversight boards, lessening their effectiveness.

Commenting on each editorial individually, faculty members who responded disagreed with the first editorial, contended that the certification process and criminal prosecution that would arise out of abuse of the process would not add any deterrent to corruption. Further, they were all in agreement that the certification process was just a public relations move by the government.

- "Prison sentences would be a much more telling weapon to raise the ethical performances of senior management."

- As to Editorial 2: "If it is the risk of getting caught with one's hand in the cookie jar – well that is precisely the problem this action is meant to address."
- "Government regulation will never create morality and the free market will kill those who push the envelope too much."
- "The term, loop-hole, comes to mind. Incentives work better than punitive measures."
- "I think the underlying problem is that government is trying to legislate morality. In my opinion (and you did ask), passing laws to ensure honesty and other values runs at cross purposes to a government so concerned with the separation of church and state as well as the emphasis on taking care of societal problems through government as opposed to community solutions.:

The faculty feels that government interference by passing new laws is primarily a public relations effort arising out of the Enron, etc. debacles as they affected both employees and stockholders. Investors and boards of directors have the power to make ethical changes and require the CEO's to toe the line through their effect on the market and the economy. Certification only addresses the visible symptom, not the problem itself.

The faculty has a much more experienced view of the ability of the new certification process to help clean up corruption in the business world compared to students. Most see the market itself eventually taking care of corrupt businesses by driving stock prices down. Students still have the idealistic learning view that people will either be

honest or can be forced to be honest by a government which has not had much luck in the past in regulating issues of morality in the business world other than through criminal prosecution (the country's morality codified).

## CONCLUSIONS

Unethical and illegal behavior has been a part of every human endeavor; business is no exception. It is more likely true that the identification and chronicling of incidence of wrongdoings runs in cycles than the activity that is being currently reported. Even so, advancing technology has allowed not only for new forms of dishonesty for those so inclined but also for new ways of detecting impropriety. With the advent of 24-hour news operations and the internet, the reporting of misdeeds typically occurs more quickly and to a wider, potentially global audience.

The current scandals will produce change. The nature of those changes; long-term vs. short-term, increased use of criminal penalties vs. legislative rule changes, or even whether true attitude and behavior change will come about will not be known for some time. The evaluations and comments made by a convenience sample of faculty and graduate business students indicate a general agreement that while painful at present, the scandals hold the promise of a stronger business community for the future. While the impact of public prosecutions (or hangings in the public square), new rules promulgated by government and other appropriate bodies, and newly energized Boards of Directors, watchdog groups, and individual investors has yet to be assessed.

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# CROSS-CULTURAL PERCEPTION OF ETHICAL BUSINESS PRACTICES: AN EXPLORATORY STUDY

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## ABSTRACT

*This is an empirical study of cross-cultural ethics in business. By using a questioner with scenarios, we constructed a cross-cultural scale of ethics. These surveys were distributed to graduate and undergraduate students in the USA and India. The results are inspiring and form a basis for more research.*

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## INTRODUCTION

The ethical merit of a business practice largely depends on the perceptions and value systems of the manager. The business world today is grappling with the issue of questionable business practices being carried out by managers with a callous disregard for the ethical propriety of the action itself. It is ironic that while we strive to gain customer trust and loyalty for our products our corporate governance systems are evoking the opposite reaction from our constituents. While one could plead guilty to not knowing a business skill or tool, it would be sad (and in some cases criminal) for one to be ignorant of the ethical ramifications of their business decisions.

Scholars in philosophy, sociology, and religious studies have long grappled with ethics in all its manifestations: relativism, absolutism, and pluralism (Benedict 1934); religious convictions; egoistical ethics (Halberstam 1983); utilitarianism; Kantian concepts of duty and respect; ethical rights; and virtuous ethics (Brink 1984, Lafollete 1991, Wolf 1992). International business has a paucity of empirical studies that actually apply the learning from other disciplines to our profession with any degree of empirical evidence. Issues of gender, race, an ethnicity differences in business practices, for instance, are rife with possibilities of intellectual contribution in human understanding of ethics as a rudimentary concept. Our research attempts to make a humble contribution in this direction.

This study is the first stage of a larger study in progress. We examine the extant models of cross-cultural and cross-national determinants

of ethical behavior. We then proceed to create data collection instruments leading to in-depth interviews with business managers. We envisage comparing and contrasting data from several nations as a part of this empirical international study. In this paper we report our initial findings from two nations, USA and India.

## CONCEPTUAL FOUNDATIONS

Wines and Napier (1992) provide us with a comprehensive model of cross-cultural ethics (Figure 1). They posit that ethical values may vary from person to person and culture to culture, therefore business practices couldn't be categorized as completely unethical in all cultures, nations, and circumstances.

Our challenge then was to build a measurement instrument that respected the various nuances of this model as well as covered the gamut of cross-cultural business practices that would challenge the respondent to thoughtfully weigh the ethical implications of their actions. Coleman (1998) provides us with a typology of unethical business practices that was useful in creating a set of hypothetical scenarios that we eventually used in collecting our data (See Figure 2).

Twelve scenarios were created in all ranging from the practices of tax evasion to corporate fraud. We pretested and refined the scenarios and then sought expert reviews from colleagues to further ensure validity. Each scenario was followed by a set of probing questions for that was to act as the preamble to an in-depth interview with the respondent, which

will be reviewed for further research. Classificatory information on nationality, business type, scale and size of business, respondent position etc. were also sought. Further personal data on gender, age, education was requested in order to facilitate a comprehensive understanding of factors effecting decision making per Wines et al model.

In order to allow the researcher to explicitly state the organizational criteria to be used in responding to questions and reduce researcher bias, the questionnaire was pretested through personal interviews with colleagues. Suggestions on improving the questionnaire were sought from academic experts in other disciplines. Next, international scholars on our college campus were requested to respond to earlier versions of the questionnaire. Respondents were asked to comment on the task difficulty, flow of the sections, order of the questions, and the levels of interest and attention that the questions generated. Pretesting helped in restructuring the instrument, modifying the response format, refining the operational measures, eliminating any ambiguity in the questions, and ensuring the clarity of instructions provided.

#### **EMPIRICAL METHODOLOGY**

The data collection instrument has a series of statements to be rated on a 5-point Likert-type scale anchored at the two ends by Strongly Disagree (1) and Strongly Agree (5). One important consideration in constructing a semantic-differential type scale using bipolar adjectives is to facilitate the respondent's choice of a midpoint rather than a forced response devoid of the choice of "neither agree nor disagree." The choice of a 5-point scale allows for such a midpoint, reducing subjectivity on part of the respondents.

Finally, the data collection instruments were revised to make them more aesthetically pleasing and easily transferable from print to electronic medium.

For this exploratory study a convenience sample of graduate and undergraduate students was used. The students were from leading institutions of business, training in India and USA. In order to even out sample selection effects we sought samples that were as similar as possible in their characteristics as possible. As you will note the two samples of

33 respondents each is similar in respondent's personal characteristics. In addition this exploratory study made use of three scenarios. Every effort was made to ensure that the number of scenarios administered were also similar in both samples. In both samples 10 females and 23 males responded to the survey, the samples has uniformity of age and education. This was not hard given that we were using student samples. Our initial results are heartening.

#### **FINDINGS AND CONCLUSIONS**

On an average we find that the India sample finds the ethical infraction to be more acceptable than the USA sample. By the same token, females seem to be less permissive of ethical infractions than male irrespective of the country of origin. While one could argue that the differences are marginal, it is to be noted that the small sample size might be the reason for this. Our initial goal of exploring if our instrument was indeed effectively discriminating between respondent preferences seems to have been satisfied. A larger random sample with a more formal sampling frame would yield more valid and reliable results.

When the respondents were asked to state if they thought that the ethically questionable decision made by the manager in the scenario was logically acceptable to them the Indian sample was far more in agreement than the US sample. In fact, a one-way ANOVA yielded statistically significant difference despite the small sample size ( $F: 3.88; p: .05$ ). Similarly, when the respondents were asked if they had encountered an ethically challenging situation such as the one presented in the scenario, the India sample reported a significantly higher agreement with the statement ( $F: 2.9; p: 0.09$ ).

When the data was compared across gender it was found that a statistically significant difference was exhibited to the question of associating with a manager with questionable ethical behavior. Females across both samples were unwilling to deal in business transactions with such an individual ( $f: 12.58; p: 0.001$ ). We did not have sufficient sample size to compare genders by country; the cell sizes would have been insufficient for any meaningful conclusions to be drawn. It must also be noted that the females were more dominantly represented (70%) in both samples, purely due to the

constitution of the students in attendance at our institutions.

We have plans for future research and continuing the project. Over the next year, we are going to be administering the surveys throughout the world either directly or indirectly. It is planned to obtain data from several nations over the next year, in the form of completed

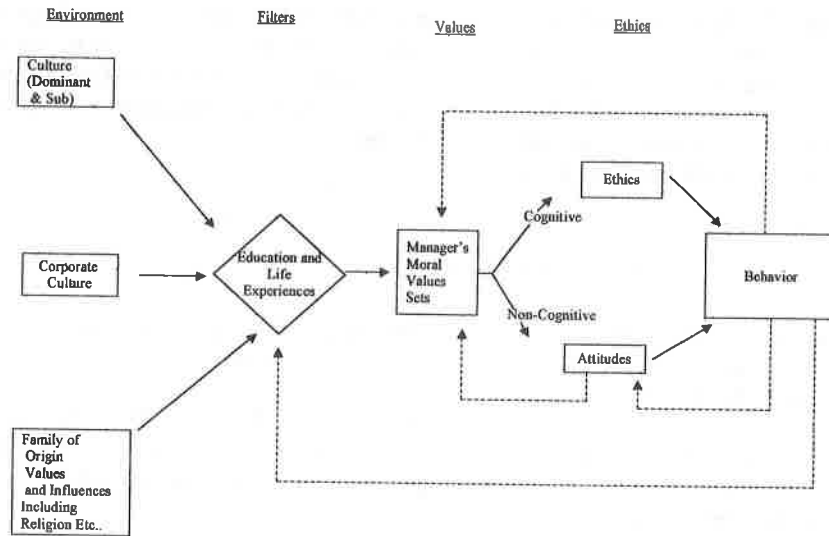
surveys as well as in-depth interviews obtained from managers. These interviews will stem from the surveys by corresponding to the probing questions at the end of it. Our hopes are that with the interviews and surveys we can construct a spectrum in which actions of businesses can be deemed ethical or unethical in a cross-cultural setting.

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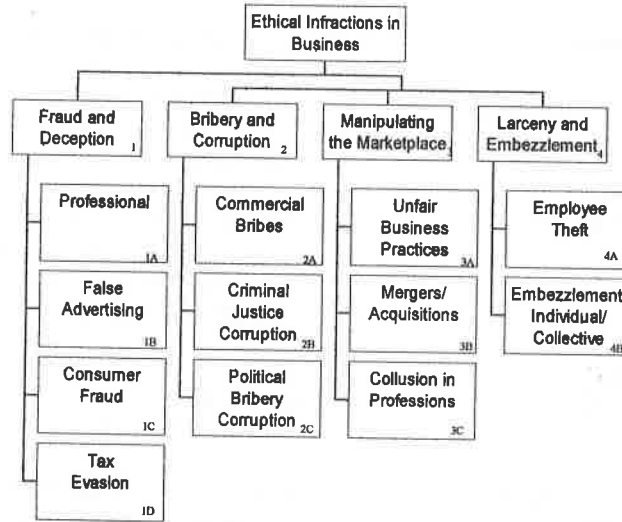
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**Figure 1**



**Figure 2**

A Taxonomy of Ethical Infractions



Adapted from *The Criminal Elite: Understanding White-Collar Crime*  
 James William Coleman 1998

Table 1. Average Responses by Country

Construct	India	USA
Ethical Acceptability of Action	2.12 (1.24)	2.03 (1.02)
Legal Acceptability of Action	2.76 (1.56)	2.36 (1.22)
Social Acceptability of Action	2.39 (1.36)	2.58 (1.22)
Moral Acceptability of Action	1.97 (1.38)	2.12 (1.14)
Cultural Acceptability of Action	2.54 (1.20)	2.79 (1.22)
Personal Acceptability of Action	2.67 (1.45)	2.24 (1.28)
Universal Acceptability of Action	2.60 (1.06)	2.33 (0.99)
Logical Acceptability of Action	2.61 (1.46)	2.00 (1.00)

Mean Ratings (Standard Deviation)

1: Low acceptability 5: High Acceptability

Table 2. Average Responses by Gender

Construct	Females	Males
Ethical Acceptability of Action	1.95 (1.23)	2.13 (1.09)
Legal Acceptability of Action	2.45 (1.57)	2.61 (1.34)
Social Acceptability of Action	2.10 (1.33)	2.65 (1.25)
Moral Acceptability of Action	1.90 (1.33)	2.11 (1.23)
Cultural Acceptability of Action	2.65 (1.27)	2.67 (1.19)
Personal Acceptability of Action	2.25 (1.37)	2.54 (1.37)
Universal Acceptability of Action	2.45 (1.09)	2.48 (1.01)
Logical Acceptability of Action	1.95 (0.99)	2.46 (1.36)

Mean Ratings (Standard Deviation)

1: Low acceptability 5: High Acceptability

# CUSTOMER INQUIRIES AND COMPLAINTS: THE IMPACT OF FIRM RESPONSE TIME TO EMAIL COMMUNICATIONS

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## ABSTRACT

Imagine walking into your local Sears, going to the appliance area and asking the salesperson if a certain refrigerator model comes in a specific color. The salesperson walks away from you and contacts you a week later. Rather ludicrous you may think? Yet, that is exactly how many web businesses handle customer inquiries. Within the past few years, Web based consumer sales have gone from practically nothing to over 25 billion dollars. The increase in transactions has been accompanied by an increase in the customer service expectations of consumers.

Safely behind an impersonal keyboard, consumers are more likely to use electronic mail, or email, to contact companies with both complaints and inquiries. The ability of the internet to provide seamless immediate communication through the use of email has prompted a renewed emphasis on understanding customer relationships and in particular, one component of relationship marketing, customer relationship management (hereafter CRM). CRM has quickly become one of the most ambitious and potentially profitable tools for online businesses.

With the huge interest and investment in online CRM operations, how do communication efforts affect subsequent consumer actions? Though a relationship between communication responses and consumer attitudes and behaviors has been shown to exist in face to face and telephone communications, current research is lacking in understanding email based communications. Email presents an interesting means of customer communication; it marries the instantaneous component associated with face-to-face communication along with the permanence of written communications and tracking capabilities unique to the web.

In this paper we explore the implications of online CRM on consumer satisfaction and intended behaviors. We investigate the effects of two specific forms of consumer communication—customer *inquiries* for product information and customer *complaints* regarding a failure on the part of the firm. Given the communication type, we hypothesize and test in an experiment how a firm's speed of response, firm reputation, and customer-firm relationship affects consumer satisfaction, attitudes toward the firm, and word-of-mouth tendencies.

To test the relationships hypothesized, we constructed an experiment using scenarios that manipulated the four independent variables. The between-subject full factorial design was a 2 (type of customer) x 3 (speed of response) x 2 (firm reputation) x 2 (type of communication). Customer type was either committed (high loyalty to that one firm) or transactional (shopping across various firms).

The results suggest that regardless of the type of customer a firm has, the speed of the response is especially critical in maintaining customer goodwill and loyalty. In the past it was believed that committed customers will be more forgiving of mistakes or service failures than transactional customers, however the findings here suggest that individuals will not tolerate communication failures regardless of their relationship with the company.

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# BEHAVIORS, EMPATHY, AND SALES EFFECTIVENESS IN A RETAIL AUTOMOTIVE SETTING

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## ABSTRACT

The impact of empathy in selling relationships has been studied and discussed during most of the twentieth century. While results have been mixed, in general it is thought that salespeople who are more empathetic are likely to be more successful. This study briefly reviews the extant literature and tests the relationship of selling behaviors to empathy to selling performance.

The target sample for this research was new vehicle shoppers, which included both actual buyers and people "just looking." The study was conducted over a two-week period at five automobile dealers. The survey administrators asked everyone possible (those customers who had spoken to a salesperson and were ready to leave) to participate. There were 321 surveys completed and usable, four incomplete or spoiled, and 11 customers who declined to participate. This calculates to a 95% usable response rate.

Survey administrators asked that the "buyer" complete the questionnaire. Of the 321 respondents, 60% were men. Age of the customers was well distributed, ranging from 18 to over 65. The sample showed that the respondents were experienced buyers with 70% having bought new vehicles previously. Customers demonstrated a strong propensity for doing business with a familiar salesperson with 53% of the respondents having previously purchased from the salesperson. Customers also showed a predilection for repeated transactions at the same dealership with 70% saying that they had purchased one or more other vehicles from the dealership indicating a relationship.

The following four hypotheses were tested.

- H1: Getting of information is correlated to perceived empathy
- H2: Using information by the salesperson is correlated to perceived empathy
- H3: Giving information is correlated to perceived empathy
- H4: Perceived empathy is correlated to sales performance ratings

The behavior model explains over 45% of the empathy variance and getting and using information were significant predictors, but giving information was not significant at the .05 level. Thus hypotheses 1,2, and 4 were supported.

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# COMMITMENT, COOPERATION AND INTERDEPENDENCE AS DISTINCTIVE ELEMENTS OF THE RELATIONSHIP MARKETING BETWEEN SUPPLIERS AND CARMAKERS: THE CASE STUDY OF THE BRAZILIAN AUTOMOTIVE INDUSTRY

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## ABSTRACT

*This work aims to identify within the relations established between suppliers and carmakers, the presence of commitment premises as described in the relationship marketing theory. Case studies of the three biggest Brazilian carmakers were thus carried out, depicting the existing relations, the routines and standards ruling such relations.*

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## INTRODUCTION

From its appearance with the *Emerging Perspectives on Services Marketing*, by Leonard Berry (Berry et al., 1983) to this date, literature on relationship marketing has been quite abundant. Authors have quickly followed one another, describing techniques, formulating concepts, measuring results, studying cases, identifying directions and featuring the growth tendencies of this activity. Accordingly, Coote (1994) identified the contributions from the interactive network theories of quality management, services marketing and relationship economy as constituting the theoretical body of relationship marketing.

Recently the interactive network approach has assumed a decisive role in the structuring of Relationship Marketing Theory, supported by authors such as Gummerson (1987), Morgan and Hunt (1994 and 1995), Cravens and Piercy (1994). The interactive network of relations approach refers to the strengthening of relations among organizations increasing competitiveness along the chains, creating and delivering value to the market through cooperative relationships among independent companies. In the context of the cooperation paradigm, commitment, cooperation and interdependence concepts have been taken, in the specialized literature, as essential to the relationship marketing.

**Commitment and long-term relationship**

To Morgan and Hunt (1994), collaborative behavior is the basis for obtaining competitive advantages. The feasibility of this reality stresses the paradoxical nature of relationship marketing: to be an effective competitor, one has to be a reliable cooperator. These authors have done a study that shows that cooperation is a consequence of the commitment and trust present in the relationship. Commitment, in the opinion of the authors, is central in the relationship marketing theory. Berry and Parasuraman (1991) share the same opinion when stating: "*Indeed, mutual commitment is essential to maintain a long-term relationship*".

Malley and Tayman (1997) have reviewed the most important definitions on the term "commitment", with the purpose of finding certain cohesion among them. They saw, in the various existing constructions, that the expression implies a component of attitude: the idea of the "*wish to continue*" (Moorman and others, 1994) the relationship, or an "*attitude in the sense of interacting*" (Storbaka and others, 1994).

Some models have been proposed, identifying the variables that precede the commitment. Morgan and Hunt (1994), for instance, have identified the cost of ending the relationship, the benefits of the relationship, the values shared, the trust and the variables that come before it. The variables that precede trust are, according to this model, open communication and the absence of opportunistic behavior.

**Cooperation in long term relationships**



Sheth (1994), Cravens and Piercy (1994) have considered cooperation and interdependence to be central characteristics in networked organizations. Sheth (1994) understood that *“relationship marketing involves the creation and distribution of value through cooperation and interdependence”*. Morgan and Hunt (1994) define that *“cooperation means situations in which the parties work together with a view to reaching mutual objectives”*. Neilson and Wilson (1994), in an effort of analysis involving a series of definitions, have built a quite similar concept, affirming that *“cooperation means a company working with another, aiming at obtaining mutual benefits”*. These authors suggest, also based on an extensive bibliographic revision, that the following dimensions are implicit in the concept of cooperation: sharing information and resources, joint actions, harmony and flexibility.

### Interdependence in long term relationships

The concept of interdependence between organizations occurs whenever the parties involved in the relationship are actually connected to each other, in such a way that the performance of one company depends on the performance of the other.

Business network relations require a relation of mutualism (‘win-win’ type) within a context of a *“mutual value generating system”* (Wehrly and Jüttner, 1994). These authors define the *“mutual value generating system”* as *“a system of interdependent players that has its total value increased by the value generating interactive process and competes with other value generating systems in the competitive system in which they take part”*.

Hakansson and Snehota (1995) propose some connection forms that affect the companies’ developments; it is among these that interdependence appears, which may take shape through the following aspects:

- **Technology** – The relationships may be regarded as links showing an existing technology. The technical connections between different relationships in a company are generally very strong.
- **Knowledge** – In these relationships, one company’s knowledge is faced with another company’s knowledge, and new knowledge is born. As the new knowledge belongs to both parties, this means that both parties are connected thereby.

- **Social relations** –The social bonds arising between the two companies are important to provide mutual trust among people.
- **Administrative systems and routines** – Much of what occurs in relationships is administrative by nature. A series of administrative activities in the form of information processing or control is required to render behavior coordination among the different parties easier. Thus, administrative systems create bonds among companies.

### HISTORY OF THE EXISTING RELATIONSHIP BETWEEN BRAZILIAN SUPPLIERS AND MANUFACTURERS

The relationship between car manufacturers and car parts suppliers in Brazil has been clearly subjected to important aspects of the complex world automotive scenario. A research carried out by Rampazzo (1998) shows the growth of large domestic or regional groups of car parts makers, which are becoming worldwide groups, mainly as a result of the growth of US car makers in Europe and Asia, as well as the operation of European car makers in search of larger shares in the so-called emerging markets. According to that author, such accelerated growth caused a strong movement of mergers and acquisitions that changed the country’s scenario of industrial suppliers, starting a denationalization process in the industry. Domestically, the policies adopted by governments affected the industry’s structure and performance in the region. The economic opening processes have reduced tariffs in South America, while the use of non-tariff barriers in the other economic blocks was growing. (Santos and Gonçalves, 2000.)

Such movements have caused a new cycle of investments in the Country, with the purpose of fostering the technological updating of products and processes, and brought with them a deep change in the relations between carmakers and their suppliers. The investments of the carmaking complex have followed the logic of the activity-restructuring process while always observing the plant specialization trend. Within that period of time, carmakers have reorganized their purchase processes, aiming at: (a) Centralization and joint development of parts, which ascribes a strategic role to suppliers in charge of product engineering. Codesign, as such a practice is known, enables car makers to ensure the supply of vehicle parts to the market, whether they are manufactured in Brazil or abroad; (b) Focus on few, and sometimes on just one supplier, for the purpose of reducing the costs incurred in research and development, tools and other items of similar nature,

through the economic scale created by such purchases (Sindipeças, 2001).

Such a restructuring process has brought about, as a consequence, a change in the relations between suppliers and car makers, marked most of all by the evolution of suppliers' choice criteria and new parameters to determine either the increase or the end of such relations. Lubben (1989) suggest that the evolution of the relations between suppliers and manufacturers has occurred at three different levels of cooperation and integration:

*First-level relations:* at the first moment, the product projects, which have part of their content delegated to suppliers, produced a high level of confidence between the parties, making long-term agreements appear. New productive and administrative techniques supported the resulting confidence: statistic control of the process, analysis of failure manner and effect, quality circle, just-in-time, full preventive maintenance, outlining of experiments.

*Second-level relations:* the latter technological progress and the accumulated experience have allowed a higher level of integration between suppliers and manufacturers: the former are not only able to meet the needs of customers concerning their product requirements, but they also established a high level of R&D, being faster than the market as regards highly reliable products and services and innovations. Turnkey or full-services product and service packages are negotiated. Manufacturers only specify the performance expectation and efficacy of their products and services, fully delegating the development and implementation to suppliers, with minimum quality control.

*Third-level relations:* finally, manufacturers and suppliers start experiencing a high level of mutual confidence and search, on a continuous basis, for excellence within full quality concepts. They have an intelligent vision of the future of their businesses, and make long-term plans for the evolution of their products and services. They focus on alliances, which enables them to expand their markets and preserve their competitiveness. Strategies are discussed and defined considering suppliers as an integral part of the productive process.

The description of the evolution of the relations between suppliers and manufacturers materializes the relation marketing concepts, whether because it evidences negotiations which put a purchase system and a sale system in interface, each one of them consisting of several individuals and

organizational structures, or whether because it confirms the strengthening of relations among organizations and the resulting organization of relations as a network, the purpose of which is to enhance competitiveness throughout the networks, creating and providing value to the market, by means of relations of cooperation among independent companies.

#### **RESEARCH-IDENTIFICATION OF ESSENTIAL ELEMENTS FOR THE RELATIONSHIP MARKETING BETWEEN SUPPLIERS AND CARMAKERS: COMMITMENT, COOPERATION AND INTERDEPENDENCE**

Although the concepts presented and discussed in relationship marketing literature have a clear meaning, they seem, on the other hand, to lack accurate operating elements. The various efforts made in this sense could not yet define, with the necessary accuracy, sufficiently generic and indicating criteria, which may provide such concepts with the operating elements required.

Thus, an exploratory research was carried out with the three largest Brazilian carmakers, with the following general subject: to identify, by characterizing supplier-car maker relations, the existence of elements that characterize the commitment, cooperation and interdependency behavior, as stated in relationship marketing literature.

The following research questions were verified:

- a) What is the relationship level developed between carmakers and their suppliers concerning their levels of cooperation and integration?
- b) Do the studied cases show typical routines and procedures performed by both parties in order to strength their relationship?
- c) Are there elements in the routines and procedures of these relationships that characterize commitment, cooperation and interdependency behaviors?
- d) Are there, in these relationships, characteristic reasons for their breaking up?
- e) Do the reasons defined to determine this breaking up concern the breaking of the commitment, the cooperation or the interdependency?

## METHODOLOGY

Because of the nature of the purposes of the study, the research developed is an exploratory one. As regards the cases, the three major car makers operating in Brazil were studied, and they represented, in 2000, about 70% of the domestic production and almost all the export of light cars performed by Brazil in that same period (Anfavea, 2000). The interviews were carried out with 12 top managers in the organizational structures of manufacturers, the ones responsible for the commercial procurement of car parts.

## SUBMISSION OF THE RESULTS

The interviews performed showed that:

- 1) The general trend of the three carmakers is to preserve the suppliers' development policy, thus avoiding the verticalisation of production. The replacement of the in-house production by the outsourced production shall only be performed in case the cost and quality are equivalent to the ones of the in-house production.
- 2) The marketing process between suppliers and manufacturers involves a relatively large set of organizational structures by both parties. As regards the car makers, the decision is always taken by a committee named "make or buy", made up of representatives from the fields of finance, personnel, manufacture, procurement, product engineering and quality engineering.
- 3) The so-called first-level relationships are now exceptions and are not accepted as a form of business relationship anymore. The interviewed carmakers excluded as suppliers companies that did not make it to the next stage.
- 4) The second-level supply relationships show cooperative business relationships, implying competitive business practices that require a high level of information and value exchange in order to support their implementation.
- 5) The evaluation process of these relationships is therefore a formal one and is developed with the purpose of identifying problems and providing the necessary actions to solve the problems found.
- 6) Purchase and repurchase procedures are submitted to permanent routines and standards. Thus, all the purchases are programmed on a monthly basis. However, every week, the carmaker updates the information on the production of vehicles so as to allow for the necessary adjustments to be performed by the suppliers. Quotas are agreed on from time to time and the required after-sales services, product warranty and help for specific problems. The technical help problems are the full responsibility of the suppliers.
- 7) The most frequent partnerships and interdependencies are found at the economic/financial, production, R&D and marketing levels. Shared investments in tools (50% each) are common at the economic-financial levels. Less usual, but not rare, is the sharing of expenses concerning the development of new processes and technologies. Any other financial support is rare, although there are efforts of another nature, such as putting together parties interested in similar technologies or forming occasional joint ventures. At the production and R&D level, technical cooperation with the car makers' units abroad is usual, while at the marketing level, cooperative advertising and other common efforts, especially in the launching of new models, are traditional.
- 8) The reasons for the breaking up of the relationships between the suppliers and carmakers were identified as: price, whether as regards price level and payment conditions, or further, as regards the noncompliance with or changes to the agreed prices; quality of the products and noncompliance, even if occasional, with the technical specifications already certified; fulfillment of delivery terms, thus preventing delays and delivery of rejected and not accepted batches; and, finally, technological laggardness or decrease in technology investment levels.
- 9) The people interviewed further stated that because of the growth of the integration of the management, production, distribution and research and development systems, cooperation between suppliers and manufacturers has become much closer. And the sharing of activities and the levels of commitment with the results began to require regular and joint evaluations in order to check the defined relationships, so as to preserve an attitude of permanent trust between them.
- 10) People interviewed report as customary behavior, in these relationships, the carmaker's encouraging its suppliers towards technological advances, regarding products, processes, and the modernization of their machinery. Whenever this appears relevant to the maintenance of their supply policies – favoring the reduction of supply costs, the preservation of the

guaranty of supply, the improvement of quality or the development and improvement of the product - the carmakers support or suggest initiatives to their suppliers. They finance additional investments, advance amounts corresponding to future purchases, supply or finance machinery, encourage association with other suppliers, and they make available, to a certain extent, their research centers, or bring corporations having relevant technologies in developed countries closer.

### CONCLUSIONS

This research allows us to conclude that:

- 1) The carmakers try to reach a third level relationship with their car parts suppliers. There is commitment, cooperation and interdependency in the supplier-carmaker relations. The so-called *make or buy* committees present as their fundamental goal the development of suppliers, and act deliberately so as to prevent the verticality of production. They develop procedures and standards oriented towards encouraging the deepening of their relations with suppliers, they organize their structures, they attribute specific functions to each one of them, they define the interactions and the way of evaluating them. The description of these procedures coincides with the thoughts proffered by the authors mentioned in the review on relationship marketing: relationship is valued by the parties, the parties wish to maintain it, and try hard to do so. They share resources and maintain mutualistic relations.
- 2) There is a set of routines and procedures that preside over these relations, and which are established by consensus between suppliers and manufacturers. Such procedures and standards are relevant for the characterization of the presence of

relationship marketing, since, pursuant to the authors referred to, it demands an intense sharing of information and values, the absence of which entails the undoing of the business relation. Therefore, the theoretical assumptions of relationship marketing are present, in these relations, in the organization of the structures involved, in the establishment of processes compatible with the evaluation criteria of the established relations, and in the preparation of people whose values, attitudes, skills and knowledge are compatible with the relationship required.

- 3) Cooperation and interdependency are also shown in the study of methods and routines. The variables that characterize these two concepts were found in their relationships. The traits identified with cooperation were the sharing of resources and information (R&D, production and marketing), joint actions (R&D, quality control, certifications and tests), harmony (warranty and assistance) and flexibility (prices, compliance with schedules and production reprogramming). Concerning interdependency, it was identified that mutualism is the kind of relation pursued by the parties. Carmakers and suppliers plan and perform actions they may confer upon the corporate network competitive advantages regarding price, technology and services.

- 4) The reasons that determine the dissolution of supply relationships are related to breach of commitment, of cooperation or of interdependency: quality, price, technology and delivery schedule compliance. All these variables affect the competitiveness of the network, damage mutualistic relations, disturb harmony, reduce the flexibility of the network, jeopardize the sharing of information and resources and prevent the efficacy of common actions.

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# DOES ON-LINE CONSUMER PRIVACY MATTER: YES, IF YOU ARE EUROPEAN!

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## ABSTRACT

*Anecdotal evidence suggests that U.S. consumers view personal privacy very differently from their European counterparts, particularly consumers in the European Union. This paper examines the debate involving consumer privacy from a theoretical perspective and offers a framework for assessing electronic privacy issues in the U.S. and the European Union.*

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## INTRODUCTION

There is little doubt that the Internet and e-commerce are now integral to global business. Although estimates vary considerably, some reports suggest that global e-commerce transactions may exceed seven trillion dollars by 2004 (Gartner Group 2000). While the U.S. currently dominates the web universe with more than 165 million adults connected to the Internet and leads in both business-to-business (B2B) and business-to-consumer (B2C) transactions (NUA Surveys 2002), in recent years, many European countries, particularly those that are members of the European Union (EU), have shown significant growth in Internet penetration and e-commerce. In fact, research companies predict that Europe should experience explosive e-business growth over the next few years both in the B2B and the B2C sectors (Jupiter Communications 2002; Forrester Research 2002). For example, Jupiter Communications predicts that around 56 percent of Internet users will shop online by 2007 whereas an estimate by Forrester Research suggests that by the year 2006, on-line trade would comprise 22 percent of all European business trade. Germany and UK are considered e-commerce leaders in Europe and Fletcher Research predicts that five countries—Germany, UK, France, Italy, and Spain will account for 75% of Europe's online consumers in the future. Thus, it is not surprising that U.S. companies view EU countries as a "prime" market for their products and services.

Despite these seeming similarities, however, U.S. and EU e-commerce environments are significantly different. For example, EU directives require that before information on a consumer is

transmitted outside of Europe, he/she must give consent. Additionally, companies collecting and transmitting the information would be required to show that the information collected is accurate and would not be used for purposes other than for which it was collected. Many EU consumers have consistently supported their governments' efforts to enact laws such as these, which protect consumers' privacy (Tedeschi 1999). Recent "Net Initiatives" developed by the European Commission, while attempting to remove legal and other barriers to e-commerce in EU, are nevertheless geared to protect the consumer (Connellan 2000). EU privacy protection laws are often cited with considerable vigor by both proponents and opponents of consumer privacy rights in the U.S. and elsewhere. In contrast, as noted by Caudill and Murphy (2000), individual privacy protection in the U.S. is a relatively recent phenomenon; the first federal law regarding individual privacy was passed less than thirty years ago. A recent approval by the U.S. House of Representatives Judiciary Committee of the Federal Agency Protection of Privacy Act is already raising concerns even though it has not yet become law. This paper offers a comparative assessment of Internet privacy in the two regions and supplements it with a theoretical model by identifying the many variables that govern it.

## BACKGROUND

### Privacy and personal information

While issues surrounding personal privacy have been addressed in many philosophical treatises, in modern times, works of Fried (1968), Westin (1967) and Rachels (1975) are often cited more



copiously than others; these philosophers have equated the right to privacy with a fundamental right of freedom. Within the context of the present debate, where storage, collection analysis and dissemination of information are the key issues, Nissenbaum's (1998) work is notable. It strikes at the very heart of what marketers would call "segmentation" but what the author argues is really an effort to "profile" people based upon personal data. She deems such profiling a fundamental assault on personal privacy.

At the very outset of this discussion it is useful to understand the various constructs surrounding the debate on privacy. Surprisingly, seemingly innocuous terms such as "personal information", "public information" and "private information" are relatively contentious in so far their legal treatment within the U.S. is concerned. To illustrate, the FTC's definition of personal information is very specific; it considers personal information to be: (a) information that personally identifies someone such as a person's name and social security number, and (b) aggregate non-identifying information which is used for market analysis but used in conjunction with identifying information which enables consumer "profiling". In a seminal article on personal privacy, Caudill and Murphy (2000) argue that both public and private information should be included in the definition of privacy. On the other hand, Wang, Lee and Wang (1998) define consumer privacy much more specifically—they refer to it as the "...the unauthorized collection, disclosure, or other use of personal information as a direct result of electronic commerce transaction" (p. 64). This definition of consumer privacy is limited to electronic transactions alone. Goodwin (1991) who believes that within a legal context consumer privacy is a fundamental consumer right, defines it as a two-dimensional construct, involving physical space and information.

Foxman and Kilcoyne (1993) prefer to look at privacy from a continuum perspective. They suggest that privacy is not absolute but context specific and involves two factors—control and knowledge. The first factor pertains to whether consumers have any control over what information is collected about them. Implicit in this discussion is an acknowledgement that information collection may not necessarily be viewed by all consumers as questionable. It also admits that some consumers may be willing to exchange/share information about themselves for valued rewards. These rewards may range from monetary/material incentives to simple convenience of transactions. The second factor addresses whether consumers have the knowledge

that personal data about them is being collected and used for commercial or other purposes. Thus, in order to understand people's views regarding privacy on the Internet, it is also important to understand what they believe to be private and personal information. Further, it is equally critical to distinguish between the control and the knowledge dimensions of personal privacy, which may affect consumer attitudes differently. Clearly, this relativistic approach to privacy is significantly different from the absolutist version and is perhaps more applicable within the current context of electronic privacy.

The contextual aspect of privacy is also relevant in the present discussion because research suggests that past experiences and attitudes that people have towards technology influence their attitudes towards new technology (Dabholkar 1996). People who have positive attitude toward technology in general may view Internet technologies positively and thus, view the issue of Internet privacy differently than those who do not take a positive view of technology. Finally, the significance of collected information might also determine consumers' attitude toward whether they are willing to part with the information for a perceived benefit. To illustrate, while one consumer might willingly share information on his/her on-line spending patterns, the same consumer may not wish to divulge information regarding his/her medical history. Thus, the perceived significance of information may affect consumer attitude towards Internet privacy differently.

#### **Privacy theories and their applicability to Internet privacy**

When discussing privacy within the context of electronic commerce in the U.S., researchers primarily draw from the legal and the moral dimensions of privacy. The legal dimensions of privacy originate from the government and are generally person and context independent whereas the moral dimensions of privacy are more complex. There is considerable diversity in so far as privacy rights are considered—some philosophers view privacy rights as fundamental and absolute (McWhirter and Bible 1992). The moral right to privacy is based upon the assertion that each individual must be treated as a free person and equal to everyone else (Velasquez 1992). Philosophers disagree however, about whether rights to privacy are absolute or that they should be balanced against the common good (Etzioni 1999). There may be cases where an individual's right to privacy must be subjugated to the rights of the society as a whole.

At least on the surface it appears that most EU nations consider privacy rights to be fundamental and not relative or contextual. Therefore, it is not surprising that consumers in EU countries have significantly more privacy rights than consumer in the U.S. "The European Community Directives on Data Protection" is an example of the legally afforded nature of privacy protection. No comparable legal statues exist in the U.S. It is quite possible that people's attitudes toward privacy could be a function of cultural variables such as whether peoples of a nation consider privacy rights to be absolute or relative.

In order to understand the foundations of personal privacy concerns, it is pertinent to put the debate within an appropriate theoretical context. Caudill and Murphy's (2000) treatment of privacy within a consumer context is perhaps one of the most comprehensive in marketing; addressing privacy issues from an ethical perspective, they have identified several theories which could potentially be used to explain on-line as well as off-line privacy. These include the Social Contract Theory (Dunfee, Smith and Ross 1999), Duty-based Theories (Laczniak and Murphy 1993), and the Stakeholder Theory (Donaldson and Preston 1995). Social Contract Theory posits that participants to an exchange, such as consumers and businesses, are engaged in a reciprocal relationship, which is governed by a social contract. The existence of a social contract also entails norms, which will govern the behaviors of those involved in the transaction. Thus, within the context of Internet privacy, consumers might provide information to a business in exchange for incentives they consider valuable. Both parties to the contract enter into this exchange and have supposedly evaluated the risks and returns. Since Internet transactions constitute a kind of relationship between a business and an Internet user, trust and commitment to the relationship would be important for the relationship to be successful. Duty based theories (Laczniak and Murphy 1993) postulate that companies are obligated to tell the truth, must act to benefit their consumers and ensure that their actions do not injure their consumers. When translated into Internet behaviors, this suggests that companies must disclose how they use consumer information, and must ensure that this information is protected unless the consumer has given a specific consent to the company to share this information with others. Finally, Stakeholder Theory (Donaldson and Preston 1995) holds that the various stakeholders of an organization often have conflicting interests, which result in tradeoffs. Thus, within an Internet

context, companies must develop strategies to ensure that stakeholder interests are not compromised.

A review of these theories suggests a contextual view of privacy—one which is applicable within a business setting where information sharing between businesses and consumers has become the norm at least in countries such as the U.S. and the question is not whether consumer have the right to absolute privacy but rather that these rights are respected by businesses with whom consumers choose to engage in transactions. This view, combined with a culture-specific assessment of privacy issues could provide valuable insights into the privacy debate.

### **Region-specific dimensions of consumer privacy**

As noted earlier, there are considerable legal differences between the U.S. and the EU nations regarding protection of personal privacy. For example, EU directive prohibits the transfer of customer data from EU companies to those countries that do not offer specific, written guarantees regarding the protection of such data. The directive, which has not yet been completely enforced in all EU nations, is one of the most comprehensive and codified measures, which specifically takes a consumer-centered approach. It requires that when information is collected from individuals, companies must disclose what they intend to do with it. Additionally, permission to use the data is limited to the original purpose for which the data was collected.

However, whether these legal differences emanate from cultural differences needs to be assessed. In other words, while it is known that the legal treatment of privacy in EU nations is significantly different from the U.S., a more important question, the one pertaining to why it is so, has not been addressed. In general, regulatory actions in countries are, to a large extent, governed by consumer concerns. Thus, the EU regulatory decisions regarding consumer privacy should at least partially reflect EU consumers' beliefs and concerns. In contrast, self-regulation is the norm in the U.S. and compliance is voluntary, and despite growing concerns regarding Internet privacy, consumers have generally not been supportive of the government policing the Internet industry (Markoff, 1998). In the U.S., most Internet privacy cases have been evaluated on an individual merit. To illustrate the effectiveness (or lack thereof) of such voluntary measures, research by the FTC suggests that only 14% of the Internet sites provide information on data collection even though 92% of the sites collect personal data. Thus,



it is not surprising that some researchers suggest that U.S. privacy laws are lax and mostly inadequate (e.g., Kelly and Rowland 2000). On the other hand, there is concern that EU laws, at least in their present form, may stifle innovation and competition (Rohde 2000). Regardless of the merits of this debate, these differences in regulatory climates are beginning to affect U.S. companies as indicated by the legal action taken by the U.S.-based Sabre Group, which is fighting to keep information on its global customers, which include EU consumers as well (Lardner 1999).

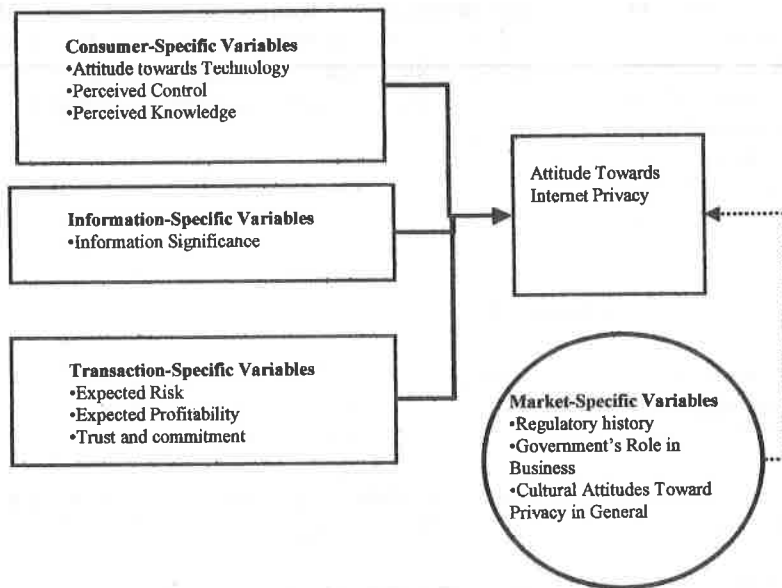
### A FRAMEWORK OF INTERNET PRIVACY

In order to understand Internet privacy, constructs such as public versus private information must be understood if one is to understand how people's attitudes towards privacy might differ. It is possible that consumers in the EU countries might

view all information to be private whereas U.S. consumers might make a distinction between what they consider public information and thus less sacrosanct, relative to what they view as private, which must be protected. If consumers indeed view privacy as a continuum as proposed Foxman and Kilcoyne (1993), it must be validated to assess whether such distinctions are more apparent in the U.S. than in EU countries, where private information has been much more closely guarded. Finally, the larger question: do consumer attitudes differ significantly in the two regions and what may be done by businesses and public policy makers to address these differences, must be addressed within an appropriate theoretical framework.

Figure I depicts a conceptual framework of Internet privacy based upon the preceding discussion.

Figure I: A Conceptual Model of Electronic Privacy



We postulate that consumer, information, and transaction-specific variables will affect consumers' attitude toward Internet privacy. Additionally market-specific variables such as government's role in business, regulatory history and cultural attitudes towards privacy in general, will act as moderating variables. Perceived control, perceived knowledge and attitude towards technology are identified as consumer-specific variables, which are hypothesized to affect consumer attitude towards

Internet privacy. For example, consumers will be less concerned about Internet privacy if they believed that they had control over the information that is made available to others as well as the knowledge about information usage by companies. Attitude towards technology will also affect attitude toward Internet privacy because people with a positive attitude toward technology may be willing to accept the trade-offs that come from using technology such as convenience and economic benefits. The

significance of information within a given context will also determine consumer attitude towards Internet privacy; consumers may feel less or more secure about sharing certain types of information and treat each type of information differently.

Various theories from social psychology provide the grounding for variables labeled transaction specific variables in the model. For example, consumers might provide information to a business in exchange for incentives they consider valuable and thus, they weigh the risks and profitability associated with each transaction differently. Duty-Based theories hold companies responsible for maintaining consumer trust in a relationship. Thus, within the context of Internet behavior, trust and commitment will govern consumer attitude towards Internet privacy. For example, in an established relationship where trust and commitment are high, privacy concerns might be minimal.

Finally, the model proposes that market-specific variables such as the regulatory history and government's perceived role in business by consumers will moderate the relationship as well. As discussed earlier, regulatory decisions in countries are to a large extent, governed by the desire of the people in country. EU countries in general have instituted several laws governing consumer privacy partially in response to consumer demands whereas

the U.S. government has adopted a more laissez faire approach. Since citizens of many EU nations view privacy rights as fundamental, this may also affect their attitude toward Internet privacy. Thus, cultural attitudes towards privacy in general should moderate attitude towards Internet privacy in particular.

## CONCLUSION

It has been suggested that EU countries have been considerably more active in instituting privacy laws relative to the U.S. The manner in which Internet privacy issues are addressed by businesses and countries will affect the growth of global e-commerce significantly. This paper offers a theoretical framework for understanding how consumer attitudes towards Internet privacy might differ across regions. Since U.S. companies consider EU countries to be important markets from an e-business perspective, empirically validating this framework would be particularly useful to businesses in the U.S. and the EU, who can develop a better understanding of whether and how consumers differ in the two regions, and what specific strategies they can implement to facilitate e-business transactions. An empirical validation should also be useful to public policy makers who might use the results to propose more effective policies regarding Internet privacy.

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# THE STATUS OF BASEBALL AMONG MIDDLE SCHOOL STUDENTS: A PERSPECTIVE ON THE FUTURE OF THE SPORT

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## ABSTRACT

*This article examines future participation in baseball in the U.S. based upon a survey of middle school students in the Southeastern State. A discussion of the problems the sport has faced in recent years is discussed, both at the Major League level, but among organized youth leagues as well.*

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## INTRODUCTION

Marketers of Major League Baseball (MLB) have been concerned with future ticket sales for the sport based on a number of problems the industry has faced in recent years. Baseball has been the focus of a significant amount of negative publicity from a number of issues: player strikes, high player salaries, and drug problems among players, unprofitable franchises, and expensive ticket prices. (Swift 2000, Burton and Howard 2000). These challenges are compounded by competition from other sports and recreational activities, all contributing to a longer-term downward trend in baseball's prominence as the "national pastime" (Harbrecht & Dallas 1997). In 1937, when Gallup Polls first began asking Americans to name their favorite sport, 34 percent named baseball. Today it is at an all-time low of 12 percent (White 2001).

Of particular concern to the industry, is evidence that the sport is "losing ground" among young people in the U.S (Dortch 1996). In a *Business Week* (6/2/97) article entitled "Take Me Out To The Soccer Game," it was reported that there are "4 kids playing soccer for every one playing baseball." The average TV viewer of baseball is older than the viewers of other major sports (Walker 2002). According to Nielsen data, the number of male teenagers who watched baseball broadcasts during the regular season has dropped 50 percent in four years. The National Sporting Goods Association reported that participation in any form of baseball more than once in a one-year

period among people seven or older has been flat for five years.

It has been argued that baseball, as an industry, has matured, thus facing the decline stage of its product life cycle in the U.S. (Burton and Howard 2000). A great deal of speculation has emerged around the question of what the future holds for baseball as a sport in the U.S., and for Major League Baseball. Whatever that future is, young people play a key role. This study reports the results of a survey administered to Middle School students in central Georgia. Attitudes, interest and participation in major sports are examined, with implications as to the future of baseball.

## The Status Of Baseball As An Industry In The U.S.

Major League Baseball clearly has problems, but when looking at the industry in its entirety, the status is confusing. Baseball is made up of several components, with fan attendance to professional events being only one measure of its health. Other components of baseball are equipment sales, tv audience size, concessions and licensed products, celebrity endorsements, advertising and sponsorships and of course participation. Participation includes organized participation at all levels, including high school, college, and minor leagues. Unorganized recreational activity, often referred to as "sandlot" games, accounts for a great deal of equipment sales.

Major League Baseball attendance has

recovered from the 1994 strike, when attendance fell 29 percent from the previous year. By 1998, attendance had reached post-strike levels, and in 2001 had reached just over 72 million. Among the other problems Major League Baseball faces are several unprofitable franchises which are struggling, including Montreal, Minnesota and Tampa Bay. This problem resulted in the passage of a new revenue sharing scheme in August 2002 as a part of the strike settlement. Another problem for MLB is TV ratings, which have declined (Petrecca 2002). Ratings hit a low point during the 1994 strike, and in 1998, MLB saw its lowest-rated World Series according to data from Nielsen Media Research.

However, other components of the industry do not face such problems. In fact, minor league baseball has experienced a resurgence during the 1990's, experiencing increases in attendance, increases number of franchises, and dramatic increases in the value of franchises (Bravold, Pan and Gabert 1997). While total participation in baseball has decreased, according to the Sporting Goods Manufacturing Association, the dollar value of equipment sales has increased in recent years when softball is included. TV audiences for MLB on the major networks have decreased, but fan attendance to some college baseball and softball programs is growing. Colleges and universities around the country are building larger new baseball stadiums to accommodate fans.

Adult participation in recreational softball leagues reached record levels in the 1990's, causing cities and municipalities around the country to build new recreational baseball facilities. Chamber's of Commerce, and their member food and lodging industry, look to summer softball tournaments as a major source of revenue, and have begun funding organized efforts to recruit tournaments. College and high school softball teams for females grew during the 1980's and 1990's as schools added these sports to their list of varsity sports (Carr 2001).

A problem for baseball, as well as all "major" U.S. sports, has been increased competition from other "new" sports and activities. Soccer, skateboarding, video games, the computer and numerous TV channels have been cited as competing for young people's time (Minkoff 1995). According to the National Soccer Participation Survey, soccer became the largest participation sport for young people in the U.S. in 1993. The Maryland Youth Soccer Association doubled in size during the mid-1990's.

## BACKGROUND LITERATURE

Sports involvement has been the subject of a substantial amount of academic research from a number of fields including sociologists, psychologists, health, recreation and physical education, as well as marketing. Much of this research examines influences on attendance to sporting events. A number of studies have examined major league baseball attendance specifically, and a long list of influences has been identified associated with attendance (Bravold, Pan and Gabert 1997). Most of these studies have focused on attendance to a particular team's games, not focusing on interest in the sport on a macro level.

A number of studies have centered around the effect of winning or team-performance on attendance (Hansen & Gather 1989, Jones 1984, and Zhang et.al.1995). Others have focused on fan identify with the team, coach or specific players (1995, Stone, Jones & Montgomery 1999, Wann & Branscombe 1993). Another stream of research has examined the impact of promotion on attendance ( Helitzer 1996, Wells, Southall and Ping 2000, Wilkenson 1993). A host of other factors have been determined to influence attendance including ticket prices, attractiveness of the stadium, population characteristics of the community, and the attractiveness of a specific game.

Though a number of studies have addressed sociodemographic characteristics of fans (Wells, Southall and Peng 2000), there appears to be little empirical evidence associating adult interest in a sport to childhood participation. Which experiences from youth translate into adult interest in a sport?: having a hometown team one supported, having a sports hero one admired, playing the sport with friends during school recess or in the neighborhood, or playing on an organized little league team. The assumption would be that youth attitudes and interest would influence adult behavior in terms of sports interest.

### Research Objectives

The objectives of this study are to determine the participation in, attitudes toward, veiwership of and attendance to the game of baseball among middle school children, in relation to other sports. The study does not attempt to link the current attitudes and interest of youth to future adult baseball participation or attendance, but to investigate the apparent concerns

about the lack interest in the sport among youth.

Selected students from 12 middle schools in central Georgia were administered a questionnaire while at school, with permission of the school. These 12 schools were selected randomly from the 48

identified in a fifty mile radius. Middle schools students were chosen over elementary based upon their ability to complete a questionnaire. One hundred seventy usable questionnaires were completed, providing a sample with the following demographic characteristic.

Sample Demographics							
Sex		Race		Grade		Age (yrs.)	
Male	51 %	White	45 %	4 <sup>th</sup>	15 %	10	11 %
Female	49 %	African Am.	46 %	5 <sup>th</sup>	28 %	11	27 %
		Hispanic	4 %	6 <sup>th</sup>	26 %	12	17 %
		Other	5 %	7 <sup>th</sup>	22 %	13	21 %
				8 <sup>th</sup>	9 %	14	21 %
				15		3 %	

The racial composition of the sample is representative of the region. An obvious weakness in the study is the regional bias of the sample. Interest in and participation in sports and recreation varies substantially among regions of the U.S. based on factors such as culture, weather and opportunities. Further, the area from which the sample was drawn is within 75 miles from Atlanta, making it subject to the influence of the Atlanta Braves Baseball Team, therefore not being a neutral site.

## RESULTS

### Favorite Sports

Respondents were asked to select their three favorite sports to watch live, to watch on TV, and to play, from a list provided. Results showing the percentage that mentioned each are presented in Table 1. It appears that football is "king" among those in the

sample, which is consistent with the culture and interest of the area at large. Baseball, though third, was rated higher than might have been expected. The conventional "big three" pattern, which has traditionally existed in professional team sports in the U.S., is exhibited in the sample. Baseball clearly seems to be one of the three favorites to play, though of less interest to watch on TV, which is consistent with TV audience data. Though Soccer is ranked 4<sup>th</sup>, it is a surprise that it is a distant 4<sup>th</sup> behind the top three. Another surprise is the level of interest in watching track! The high interest in watching wrestling, which is the fourth favorite to watch both live and on TV, is likely due to the so-called "Professional Wrestling," as opposed to true competitive wrestling. Unfortunately, this finding is consistent with audience data for professional wrestling. Those 5 percent who indicated they enjoyed auto racing as a sport to play is difficult to explain, unless video games account for the activity.

SPORT	PLAY	WATCH TV	WATCH LIVE
Football	58	64	62
Basketball	58	52	57
Baseball	51	42	45
Soccer	20	13	13
Track	20	12	18
Tennis	11	10	8
Swimming	11	21	8
Wrestling	8	25	25
Hunting	8	13	15
Racing	5	17	22

In a separate question, a 7 point likert scale was used to determine if baseball was the sport they "liked best," or "liked least" compared to others (7 meaning "like best"). Instructions indicated that "4 was about the middle." The same 7 item scale was used to measure attitudes toward watching baseball on TV, and playing baseball. The means of the ratings of the three items are presented in Table 2. As noted, playing baseball was rated highest of the three, based upon the means (4.51). Consistent with the Nielsen ratings mentioned earlier in, watching baseball on TV was least favorite of the three items rated (3.87). Almost one fourth indicated they "hated to watch baseball on TV because it was boring." In terms of being liked best or least, baseball scored just above neutral (4.17). Almost one third (31 %) rated baseball

as a sport they liked less than average, and almost one third (29 %) rated in baseball the middle point of the scale, suggesting a more "average" status for baseball than was indicated by the responses in Table 1.

**TABLE 2**  
**Rating Baseball On A 7 Point Scale**

	Mean	Std. Dev.
"Like Best"	4.17	1.91
"Like Watching on TV"	3.37	2.17
"Like Playing"	4.51	2.25

### Participation In Baseball

When asked if they had played baseball with family or friends, 89 percent said they had. It is surprising that 11 percent indicated they had never played the sport. Thirty-eight percent indicated they had participated in organized baseball.

### Attendance to Games

Only 56 percent indicated they had ever attended a little league baseball game, a number surprisingly low. However, 28 percent had attended high school games, and 30 percent had attended professional games. It is interesting that more had seen professional games than high school games.

### Recognition of Baseball Celebrities vs. Other Sports

Respondents were given a list of 13 celebrities

### CONCLUSIONS

While not intended to be predictive, this study supports concerns about the status of baseball for the future. Though baseball is not the most popular sport among most young people in the study, the findings do not suggest that the industry is heading into a steep decline. There is some inconsistency with responses. For example, in that data in Table 1 appear more favorable for baseball, than those in Table 2 or 3. Limitations of the regional sample are acknowledged, so "national" inferences cannot be made.

These results suggest that baseball may be a mature industry. However, the data do not suggest a rapid state of decline, as some have suggested. Efforts by MLB to target youth in promotion in order to improve the sports long term standing appear warranted. There is

from a number of sports, and ask if they could identify the sport associated with the person's celebrity. Responses are presented in Table 3. Baseball's "biggest" stars ranked fourth, seventh and tenth among the celebrities listed, which might be expected. Chipper Jones of the Atlanta Braves ranked high due to regional proximity. It is interesting to note that at the time the survey was administered, Barry Bonds had recently broken single season record for home runs in a single season, yet only 40 percent could name him. Though data might not be available, one would assume that similar feats by Babe Ruth, Mickey Mantle and Hank Aaron achieved much higher recognition.

**TABLE 3**  
**Correct Association of Celebrities**  
**With Their Sport**

Celebrity	% Correct Identity
Michael Jordon	84
Shaquille O'Neil	80
Tiger Woods	80
Mark McGuire	77
Chipper Jones	73
Jeff Gordon	70
Sammy Sosa	67
Jamal Anderson	57
Venus Williams	54
Barry Bonds	40
Ray Lewis	35
Peyton Manning	27
Wayne Gretsky	24

reason to conclude that potential exists for an extension of the life cycle of this mature industry.

Recommendations are made for more research focusing on question of past youth involvement of current fans in the sport. Does an adult who played organized baseball as a child have a higher probability of becoming a fan, and if so, what type of fan? Can fans be developed from people who had little interest in or experience with a sport as a child? Will Major League Baseball marketers, who are targeting youth with marketing effort, see a payoff in 15-20 years? Such research would be of interest to growth sports industries as well: will all of the children playing soccer have a higher propensity to watch college soccer or professional when they are adults? With the environment young people live in changing as fast as it does, these questions appear to be fertile areas for the sport industry to investigate.



Another observation is made which has implications for future research. Based upon significant experience and observation, baseball seems to be a difficult sport for the very young, due to the skills needed for individual performance. There is pressure for a young player to catch the ball or hit the ball. Further, the "lack of attention span" of children at the t-ball age (4-6) make standing in the field "boring." Little league soccer, on the other hand, allows constant involvement as all the players chase the ball almost continuously, requires less need to understand rules,

and does not place as much pressure or attention on an individual. Thus, disparity among player's ability is seems diminished more in soccer. It is hypothesized that parents are drawn more to soccer for these reasons, therefore influencing the children's participation and attitudes. More research is needed to determine if this is true. A strategy implication for early age little league baseball (t-ball) is to address the rules, making the game fun for all, faster moving, and less stressful due to fear of poor performance.

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# BRAND EXTENSIONS: WHAT DO WE KNOW?

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## ABSTRACT

*More than ten years of brand extension research have yielded a set of important findings. The purpose of this paper is to review these findings and assess what we really know about brand extensions. A conceptual model is presented. Empirical findings are then reviewed. Implications are drawn for future investigations.*

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## INTRODUCTION

The strategy of introducing new products as extensions has become widespread. Along with this increasingly popular marketing strategy, researchers have given rather empirical attentions to this phenomenon. The purpose of this paper is to review existing studies and attempt to find what has been done and what has not been done in the area. This paper is structured as follows. First, a conceptual model of brand extensions based on existing studies is developed. Second, theories and findings regarding types of factors that may affect consumers' evaluations of brand extensions are reviewed. Third, theories and findings regarding the effects of consumers' extension evaluations on their subsequent evaluations of parent brands are reviewed. Implications for future research are also drawn within each of the above two parts. A conclusion finally closes this review.

## A CONCEPTUAL MODEL OF BRAND EXTENSIONS

More than ten years of research on brand extensions have yielded many important findings. Among issues addressed by researchers in the context of brand extensions, they can be summarized as answers to two broad questions: What factors may influence consumers' evaluations of brand extensions and how do these factors work? How do brand extensions affect consumers' attitudes about the core brand? In the answers to these two questions, researchers have examined various factors, including

## CONSUMERS' EVALUATIONS OF BRAND EXTENSIONS

### Extension Characteristics

*Perceived fit.* The degree of perceived fit between the core brand and the extension has long been recognized as a key determinant of brand

perceived fit, brand strength, brand breadth, company credibility, company size, culture, mood, age differences, positioning, advertising, pricing, product knowledge, technology, and order of extensions. Clearly, some of aforementioned factors share common features. For example, culture, mood and age differences are all related to consumers. Thus, it would be beneficial to classify these factors into following categories in order to facilitate our understanding of this research stream.

- Firm characteristics - firm size and firm reputation.
- Core brand characteristics - brand strength and brand breadth.
- Extension characteristics - perceived fit and technology.
- Consumer characteristics - product knowledge, and individual (e.g., mood and age) and cultural differences.
- Marketing strategies - positioning, advertising, pricing and order of extensions.

Based on this classification, a conceptual model is developed for brand extension studies (Figure 1). As illustrated in Figure 1, consumers' extension evaluations is a function of extension characteristics, core brand characteristics, firm characteristics, consumer characteristics, and marketing strategies employed for promoting extensions; the antecedents of extension evaluations as well as extension evaluations influence consumers' subsequent evaluations of core brands.

extension success. Aaker and Keller (1990) identify three dimensions of perceived fit between the core and extension products, namely, complement, substitute and transfer (i.e., the transferability of resources a firm uses to make the original product to the product extension) and find that perceived transferability has the greatest impact on extension evaluations among three dimensions. Smith and

Andrews (1995) further term transferability as customer certainty (i.e., a company's ability to deliver a product that meets his/her expectations) and find that the relationship between fit and extension evaluations is mediated by customer certainty. Research in brand extensions has illustrated a positive relationship between the perceived fit and consumers' extension evaluations (Aaker and Keller 1990; Boush and Loken 1991; Keller and Aaker 1992; Smith and Andrews 1995). For example, Smith and Andrews (1995) suggest that perceived fit can influence extension evaluations in two interrelated ways. First, it affects the extent to which consumers transfer their core brand affect to an extension. Second, consumers may view fit as a cue to make their inferences about an extension.

*Technology.* It refers to the technological level employed in making a core brand compared to that in making an extension product (Jun, Mazumdar and Raj 1999). It has been found that consumers view an extension more favorably when the parent product has a higher level of technology than the extension (Jun, Mazumdar and Raj 1999). However, Aaker and Keller (1990) indicate that consumers may evaluate an extension less favorably when they perceive the extension to be "trivial" or very easy to make. Thus, an appropriate level of technological differences between an extension and the core brand may be necessary for the success of the extension.

#### **Core Brand characteristics**

*Brand strength.* In brand extension research, the brand strength is often interpreted in terms of brand-related associations (e.g., perceived quality of the core brand). Previous studies primarily focus on under what circumstances and how brand associations may influence the extension evaluations. Aaker and Keller (1990) suggest a perceived fit as a necessary condition. Keller and Aaker (1992) also find that consumers evaluate dissimilar extensions more favorably when the parent brand is at high quality than when it is at average quality. Similarly, Broniarczyk and Alba (1994) state that consumers evaluate dissimilar extensions more favorably when brand associations are relevant than similar extensions when the associations are irrelevant. It should be noted that brand associations may also have negative effects. For example, some researchers have discovered that brand names have certain features that limit their extensibility (Aaker and Keller 1990; Boush and Loken 1991). Specifically, Aaker and Keller (1990) state that "the Betty Crocker attribute association might be viewed as negative if

the name were used on a fashion product designed to appeal to young women."

*Brand breadth.* Previous studies involving brand breadth demonstrate how brand breadth interacts with perceived fit. Boush and Loken (1991) suggest that brand breadth is a function of the similarity of past extensions, the more similar the past extensions, the narrower the brand breadth. They further indicate that greater breadth increases the perceived fit of moderately discrepant extensions.

Brand strength and brand breadth have also been examined simultaneously. For example, Dacin and Smith (1994) identify three dimensions of brand characteristics, namely, the number of different product categories affiliated with a brand (i.e., breadth), quality variance across products affiliated with a brand (i.e., strength), and the degree of relatedness among products affiliated with a brand (i.e., breadth). Their empirical findings suggest that the number of products is positively linked to consumers' extension evaluations, that quality variance is negatively linked to consumers' extension evaluations, and that product relatedness is positively linked to the effect of the perceived fit on extension evaluations.

#### **Firm Characteristics**

*Firm size.* This is a factor that its effect on extension evaluations may vary in terms of consumers' cultural background. For example, Han and Schmitt (1997) find that U.S. consumers view perceived fit as a more important factor than firm size, whereas Hong Kong consumers view company size irrelevant for high fit extensions but relevant for low fit extensions. This finding explains why firm size is of little interest among researchers in Western countries.

*Firm credibility.* A firm's credibility will be increased as long as it consistently provides successful extensions (Keller and Aaker 1992). However, whether and how a firm's reputation may mediate consumers' extension evaluations is unclear in Keller and Aaker's study due to the difficulty in designing an experiment in which the directions of causal relationships between extension evaluations and firm reputations can be clarified.

#### **Consumer Characteristics**

*Product knowledge.* Product knowledge refers to consumers' familiarity with the core brand and has been recognized as a mediator on the

consumers' extension evaluations. Muthukrishnan and Weitz (1991) find that experts are more likely than novices to transfer their core brand affect to the extension when perceived fit is based on deep factors (e.g., computer vs. camera), whereas novices are more likely than experts to transfer their core brand affect to the extension when perceived fit is based on surface factors (e.g., camera vs. film). Broniarczyk and Alba (1994) also suggest that consumers who are aware of a brand-specific association tend to evaluate the extension more favorably.

*Individual and Cultural differences.* Among factors under investigation, culture, mood and age differences are three of them. For example, Han and Schmitt (1996) find that in Hong Kong, company size affects extension evaluations only when fit is low, while in U.S., fit rather than the company size affects extension evaluations. Barone, Miniard and Romeo (2000) find that positive mood can enhance consumers' evaluations of brand extensions. Zhang and Sood (2002) also find that extension name characteristics rather than perceived fit dominate children's extension evaluations.

### **Marketing Strategies**

*Positioning.* It has been found that different positioning approaches lead to different extension evaluations. For example, Aaker and Keller (1990) investigate two positioning strategies and find that extension evaluations are unchanged when the general quality of the core brand is made salient, while extension evaluations are enhanced when a specific extension attribute is made salient. The importance of an extension's positioning was also demonstrated by Milberg, Park, and McCarthy (1997). Their findings suggest that for dissimilar extensions, sub-branding strategy (an extension is named along with a parent brand name) leads to more favorable evaluations than direct branding (an extension is named alone).

*Order of extensions.* The effects of order and direction on multiple brand extensions have been illustrated by Dawer and Anderson (1994), who state that introducing intermediate extensions can mitigate the lack of fit. Specifically, they suggest that introducing extensions from close to distant allows distant extensions to be perceived as typical of the original product category thus result in greater purchase likelihood for the target extensions.

*Advertising.* Lane (2000) investigates how repeated exposure of the extension ad may influence consumers' evaluations of incongruent extensions

and finds that subjects who view extension advertisements five times have more favorable evaluations than subjects who view the advertisements only once.

*Pricing.* Taylor and Bearden (2002) investigate how price information may affect extension evaluations based on two different levels of fit. They find that high price enhances perceived quality of dissimilar extensions but not similar extensions and the negative effects of price on perceived value and purchase intention are larger for similar extensions than for dissimilar extensions. One notable implication of their study is that firms may consider using price as a promoting instrument for dissimilar extensions.

To conclude, studies previously reviewed have identified five types of factors (firm characteristics, core brand characteristics, extension characteristics, consumer characteristics and marketing strategies) that may affect consumers' extension evaluations and subsequent evaluations of family brands as well as the interactions among these factors. Among these studies, various combinations of those factors are examined. It is certain that those combinations do not subsume all the possibilities. Therefore, following research directions are suggested for future investigations.

First, marketing strategies and company characteristics should be studied jointly with other factors. Both marketing strategies and company characteristics have been shown to affect brand extension evaluations. However, subjects are not provided with them simultaneously. Aaker and Keller (1990) indicate that for generally well-known brands, consumers' extension evaluations rely more on extension attributes than on the general quality of the parent brand. However, they do not consider how company reputations (e.g., high vs. average) may moderate such effect. Second, future research should consider the interaction of marketing strategies and consumer characteristics. Different consumer segments may view the same marketing strategy differently. For example, consumers' attitudes toward ads vary in terms of age and culture. An advertisement having been shown successfully promoting certain brand extension in one consumer segment (e.g., U.S.) may not be effective in other consumer segments (e.g., Asian countries). Lane (2000) reports that ad repetition can enhance consumers' evaluations of incongruent brand extensions in the U.S.. Whether this effect still holds in other countries with different cultural background remains unknown. Third, the interaction of consumer

characteristics and core brand characteristics needs further investigations. Aaker and Keller (1990) indicate that the quality of the original brand strongly affect the evaluation of a brand extension only when there is a basis of fit between the two product classes. What if under different cultures? Specifically, in a collectivist society, does the brand strength influence extension evaluations regardless of the nature of fit? Fourth, more attentions should be given to company characteristics. Only several researchers attempt to investigate the effects of firm characteristics such as size and credibility on consumers' extension evaluations. However, the effects of company credibility are still unclear (Keller and Aaker 1992). Credibility or reputation is an invaluable asset for firms which can enhance consumers' positive attitudes toward the firm. Research to date only examines how brand affect can be transferred to brand extension evaluations, but has not investigated whether company affect can be transferred to brand extension evaluations. If so, how is the company affect-transfer process executed? What are facilitative factors and inhibitive factors? Fifth, new concerns about marketing strategies should be addressed in future. Past research primarily focuses on a single strategy. An avenue for future research is to develop a marketing mix for brand extensions. For example, how can the effectiveness of an extension ad be improved when price information and positioning approaches are incorporated? Finally, some constructs, such as brand personality, brand satisfaction, brand loyalty, and brand relationships which are important concepts in the brand research, may also be worth pursuing in the context of brand extensions.

Another issue should be addressed here. That is, whether we need a complete study including all five categories. A view adopted here is that such study would be beneficial but not necessary. The benefit is that the potential problem of missing variables can be avoided in such study. The risk is that if many constructs are manipulated at the same time, potential confoundings may occur. It is not necessary because we can hold certain factor as constant when we are interested in other factors. For example, if our focus is on a certain consumer segment, holding consumer characteristics as constant is realistic.

#### **BRAND EXTENSIONS' FEEDBACK EFFECTS**

How consumers' extension evaluations may affect their evaluations of the core brand is another focal issue empirically examined by marketing researchers. However, research findings in this area

have shown mixed results. Some researchers found no evidence that unsuccessful brand extensions may result in negative effects on consumers' attitudes toward the core brand (Romeo 1991; Keller and Aaker 1992). For example, Keller and Aaker (1992) found that an unsuccessful extension does not impact core brand evaluations regardless of the quality level of the original brand and the perceived fit between the extension and the original brand. However, Loken and John (1993) examine this issue from a different perspective. Specifically, they investigate whether an unsuccessful brand extension can dilute specific attribute beliefs rather than the global evaluation of an established brand emphasized in previous studies. Their findings indicate that core brand beliefs are diluted when extension information (e.g., quality) are inconsistent with the core brand, whereas the negative effects are less likely to occur when the perceived fit is low. They further attribute the differences to the previous studies not measuring brand beliefs prior to extension measures (e.g., fit). Contrary to above studies, Sheinin (2000) found that successful brand extensions may weaken existing beliefs, whereas brand extension failures may not affect existing beliefs. This, as indicated by Sheinin (2000), may be due to the previous research not considering the effects of consumers' parent product knowledge and experience with a brand extension.

Recent studies also try to identify situations under which extension evaluations may or may not influence subsequent evaluations of the original brand. Following Loken and John's notion that brand evaluations should be measured first, Milberg, Park and MacCarthy (1997) find that negative feedback effects occur when perceived fit is low and when extension attribute is inconsistent with brand-specific association. From a perspective of technology, Jun, Mazumdar and Raj (1999) find that the feedback effects do not exist when the family brand is at a higher level of technology, whereas consumers' subsequent family brand evaluations are significantly improved when the family brand is at a lower level of technology. In addition, Sheinin (2000) states that whether consumers have positive or negative experience with a brand extension does not influence their attitudes toward familiar parent brands, but does influence their attitudes toward unfamiliar parent brands. Specifically, for unfamiliar parent brands, subjects improve their extension-derived beliefs but dilute their initial brand beliefs following a positive experience with a brand extension.

To conclude, since conflicting empirical results are found in the context of brand extensions' feedback effects, in order to reconcile this

contradiction, researchers have suggested three possible explanations. First, researchers adopt different research perspectives. Some investigate the overall subsequent attitudes toward the core brand. Others consider the attribute-based attitudes toward the core brand. Second, core brand attitudes are measured at different time, before or after measures of extension evaluations. It is presumed that measures of brand extension evaluations may influence consumers' attitude toward the core brand. Third, researchers attempt to find which factors may influence extension feedback effects. As a result, some factors in one study are not considered in other study. Without further studies, our confidence in these three explanations cannot be established. In addition, constructs of researchers' interests in this area include perceived fit, core brand quality, sub-branding, technology, product knowledge, and the success or failure of the brand extension. It is possible that other factors, such as company credibility and cultural background, may also

influence extension feedback effects. Thus, further examinations in this field are necessary.

### SUMMARY

Years of brand extension research have dramatically enriched our knowledge about this phenomenon. Based on findings previously reviewed, there can be no doubt that a set of factors (e.g., extension and core brand features) may contribute to consumers' extension evaluations as well as their subsequent core brand evaluations. Although much has been learned about the antecedents and outcomes of brand extensions, much remains to be learned particularly in the field of the outcomes of brand extensions. Specifically, only one cross-cultural study to date certainly suggests the need for more cultural studies in the future. Technologic innovations, such as the Internet, also suggest the need to reassess what we already know about brand extensions.

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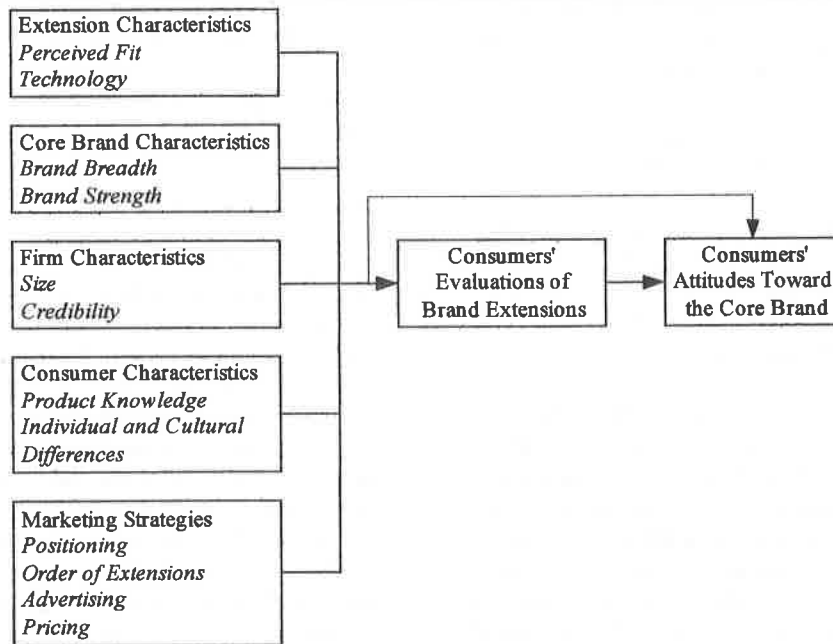
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**Figure 1**  
**A Conceptual Model of Brand Extensions**



# THE COLLABORATION OF CRM AND SCM: GAINING LONG TERM COMPETITIVENESS IN GROCERY E-COMMERCE BY RELEASING THE POTENTIALS OF THE MAIN EUROPEAN MARKET

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## ABSTRACT

*This paper shows the essential requirements of a successful e-commerce solution for foods. The consumers' requirements and their evaluation of the leading e-commerce business models are elaborated. Most companies fail by approaching the requirements solely from the marketing side while neglecting the interaction of CRM and SCM.*

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## INTRODUCTION

Incorporating the Internet in the everyday life of enterprises changes the structures of value chains and develops perfectly new business fields. Both traditional enterprises and newly founded Internet dealers operate Business to Consumer (B to C) solutions. The increasing use of information and communication technologies enables the transformation to individual marketing.

The detachment from conventional marketing and supply chain concepts is the problem in this still largely unknown business field. Online grocery retailers have a crucial advantage in contrast to other consumer goods dealers: As food is a basic need, customers do not have to be convinced of its necessity. On-line dealers have to offer added value through on-line ordering opposed to conventional supermarkets which have to convince the customers to transact their purchases over the Internet. The large disadvantage is based on the relatively small value in relation to the articles' volume and transport costs, making a sophisticated logistics system essential. Moreover, the food market is principally saturated and the existing suppliers well established. Additionally, on-line retailers are required to penetrate the market rapidly to amortize the initial investments.

First, the advantages of Internet retailers in contrast to stationary grocers and associated specific characteristics of food marketing over the Internet are illustrated briefly. Second, the advantages and disadvantages of on-line food trade, in comparison to the stationary retail, are studied from the customers'

and food dealers' viewpoint respectively. The critical success factors for the marketing of foodstuffs over the Internet are identified and utilized to evaluate the leading enterprises in Germany. Certain results from a corresponding study carried out at the Justus-Liebig-University are presented.

## ADVANTAGES OF ON-LINE GROCERS COMPARED TO STATIONARY GROCERS

Since the Internet functions according to network rules, the economic connections are ever more determined by these new laws, some of which are briefly described in the following (Fritz 2000).

Electronic markets are independent from time and place resulting in a constant availability for all market participants independent of their location. This becomes particularly important in Germany with its legal restrictions on store opening hours. This explains why unlimited store opening times are mentioned as the most important reason for on-line shopping. A positive basic condition, viewed from the supply side, is that all consumers with Internet access are prospective customers. They represent the total number of all potential customers of a website, comparable to the total number of the inhabitants of the trading area of a certain grocer (Dickey, Piccoli and Ives 2000).

In contrast to the normal food purchase, the collective use of on-line food retail sites leads to advantages for operators and customers. Customers benefit from a larger user population which results in better supply intervals and a smaller share of the fixed costs apportioned to customers. With each new user,



the net gains attractiveness and is a step further towards reaching the critical mass of potential customers (Picot and Neuburger 2001).

Additional characteristics of electronic markets are their openness and the lower market entrance costs. As a result, the threat caused by potential new competitors rises and is further intensified by the dissolution of traditional industry borders. If a quick differentiation of the supplier is followed by a successful build-up of high customer loyalty, market entrance barriers are reestablished. Supply chain service is an important component of assuring customer loyalty. The comparatively low market entrance barriers offer companies new opportunities to successfully compete in this market. The direct communication between the market participants, the application of new sales and service models, the faster access to data, and improved information processing via technologies such as data mining lead to increasing demand for customer service (Piermentel 2000).

The transparency of the market increases. By simpler provision of information, the comparability between the market participants' performance is improved clearly (Fritz 2000). At the same time, the employment of information and communication technologies causes a decrease of transaction and switching costs (Wamser 2001).

In summary, the documented characteristics of an e-commerce solution, compared to the stationary trade, result in an approximation to the much quoted, ideal form of the "perfect market" and to the requirements for the business model (figure 1). At the center of customer relationship management is a company-wide customer orientation that is not limited to technical aspects of software but represents a holistic approach in the company's philosophy. CRM is regarded as central starting point for increasing customer orientation in an enterprise, next to the management of products and processes (Eggert 2001).

### CRM ASPECTS OF THE E-COMMERCE SOLUTION

A close business relationship between supplier and customer is not an end in itself but aims at increasing the net utility of both parties. The traditional strength of this relation lies in serving each customer individually and an equally profitable, close, and trusting relationship (Rapp 2001). An additional aspect in this context is the attempt to shape a long-term seller-customer relationship

because, among other things, acquiring a new customer causes five to eight times the costs of binding an existing one. Several business transactions are elements of a long-term seller-customer relationship on which effective marketing should focus (Meier 2001). An on-line marketing directed at relationship management is based on the following strategic principles of classical relation marketing that are briefly introduced in the next paragraphs.

**Information about the customer:** Prerequisite for the meaningful conversion of a CRM concept is the precise compilation of already collected customer information and their comprehensive evaluation (Data Warehousing, Data Mining) (Radecke 2001). The Internet offers an additional possibility to gather information, next to evaluating the data of direct customer contact. Through this information a basis for more intense customer relationship is built, as access to all these data can be granted to all departments with direct contact to the customers.

**Individualization for the customer:** Treating the customer as individually as possible belongs to the basic principles of relationship management. The chance for customer loyalty exists only if the customer has the feeling of not being treated as one among many and that the company obviously cares about him/her (Diller 2001).

**Investing in the customer:** The foundation of this principle is an orientation of the marketing expenditures according to the respective customer value. Those customers considered "valuable" can be animated to engage into an even closer and more constant relationship with specific marketing activities. To accomplish this, a clear orientation towards lucrative customer groups rather than pure turnover-/number of customers is substantial.

**Interaction with the customer:** The customer should not only consume but interact actively with the communication contents, thereby, at best, increasing the retention period on a page. An example for this is a "virtual community" with interactions between the users, animating them to revisit (Nickel 2001). At the same time, the standard ordering process must be simple to handle without complications and delays for the user (see shop performance results in figure 3).

**Customer integration:** The customers' expectations and needs have to be collected and taken into consideration in the development and improvement of a product if it is to satisfy these parameters (Meier 2001). As can be proven, a

customer oriented product development can be regarded as an essential factor in securing the existence of a company.

### CRITICAL SUCCESS FACTORS

Once the strategic considerations regarding the implementation of e-commerce in the enterprise and installation of an on-line shop are finalized, the conceptual part follows, determining the offer's modalities as well as the website's structure and organization. The essential factors that decide the mid/long term success of the business model are customer orientation and costs. Both are influenced directly by the design of the supply chain.

A crucial success factor is consistent orientation towards the characteristics of the potential customers and, in particular, their expectations of an on-line offer. An inquiry in Germany about the advantages of on-line shopping produced the following results (Steinmassl 1999): Independence from store opening hours (81.5 percent); stress free shopping, e.g. no rush for special offers (61.9); uncomplicated ordering (61.1); quick order handling (54.4), time-saving shopping, e.g. no queues (53.3).

The first two points – “independence from store opening hours” and “stress-free shopping” – are basic requirements and lie in the nature of the Internet. Only the second can be addressed by the on-line shop structure and processes. The other points are CRM-requirements. “Uncomplicated ordering” and “quick order handling” are factors which point out that the Internet customer expects a simple order form that can be filled out within a short time followed by fast supply of the purchases. The most important prerequisite for this is an integration of the on-line shop into the dealer's ordering system (connection to the enterprise resource planning software, no stand-alone solution). The last point “time-saving shopping” can be accounted for by providing an optimal navigation that allows finding all products fast and displaying only relevant items on customized product listings.

However, the points mentioned above neglect long term aspects which are determined and can therefore be influenced by the design/adaptation of the supply chain. To account for these joint “SCM” and “CRM” requirements of a long-term e-commerce solution, a study was conducted at the Justus-Liebig-University examining a representative cross section (10 dealers) of the existing on-line grocer formats. The is-situation and the course of development of the

business models for on-line food trade in Germany were compared on the basis of the following critical success factors which cover aspects of the flow of goods, the customer relationship, the influences on customer satisfaction, and the associated conditions/restrictions:

- A. Supply Chain conditions
- B. Ordering and delivery
- C. Product range consistent with target group
- D. Order process, order confirmation, expenditure of time
- E. Special services (e.g. customization, short-term interaction)

The total evaluation took place with the background that the business model must supply the customer ordering over the Internet with added value that a real-world store does not offer. Thus, it is usually not sufficient to simply transfer the existing offer into an on-line shop (Scheffler et al. 2000).

The following specifications will focus on the dimensions that are primarily defined by the Supply Chain aspects of the business model. Therefore, we will inspect the design of the conditions of the offer concurring with Supply Chain set up, the ordering process and delivery, the products as the determining factor for the overall complexity of the Supply Chain requirements, and the Supply Chain implications of special services offered.

A. The Supply Chain conditions result directly in restrictions for the customers. With the definition of the on-line shop's conditions fundamental decisions are made, affecting, among other things, the customer structure, the customer utility, and, accompanying this, the development of the user numbers. Most important from the SCM point of view are the conditions distribution area, the delivery costs charged/chargeable to the customers, the minimum order size, the degree of freedom in choosing delivery time, and the payment procedure. The next paragraphs elaborate all these conditions.

Delivery areas: From the marketing point of view the dimensions and restrictions of the distribution areas are essential. This implies adjusting the necessary infrastructure which has to amortize and defining delivery areas according to customer clusters. Additionally, service companies remain the only interface with the customer in distant areas, requiring additional efforts to bind customers.

Delivery costs: The delivery costs usually amount to 2.50 to 7.50 US \$. Only one supplier delivers free of charge and half of the suppliers offer

their customers free shipping if the order value exceeds a certain amount (between 25 and 85 US \$ among the food on-line dealers studied). According to the Boston Consulting Group, free delivery, apart from some other factors (such as low prices, free order canceling, possibility of product comparison, security, guaranteed delivery times, navigation, product presentation, and fast supply), belongs to the most important and promising measures in marketing (Scheffler et al. 2000). Positive examples of these effects are available. They cause a break through in customer acceptance and accelerate reaching the critical mass.

**Minimum order value:** Half of the on-line food dealers require a minimum order value between 15 and 25 US \$ (figure 2, left); the others do not set a lower boundary for their customers. The minimum order value represents a barrier particularly for new customers. One competitor offers the following solution: With their initial order, customers can test the shop with a small quantity of articles. Another system, in which the buyer becomes a regular customer when fulfilling certain conditions, e.g. the time after the first order, the cumulated order value, or the total number of orders placed, and thus eliminating the minimum order value, is also possible.

**Payment options:** Usually the payment methods are the same as in stationary supermarkets. Since the delivery services are equipped with mobile POS-systems, the customers can select between cash payment, invoice, debit card, and credit cards. Sometimes the charge may be settled by debit. Secure and efficient payment methods are crucial for the success of e-commerce. The available payment methods per company are used as an indicator for the freedom of choice in the psychological dimension. All companies accept cash (one with an extra charge of 4 US \$), all other payment methods (invoice = 3, debit = 4, debit card = 4, credit card = 3) are accepted by less than 50 percent of all companies.

**B.** The available delivery dates are of central importance to the customers. This means defining them more specifically than just delivery days with the respective time frames. Most dealers offer different time windows during the day usually extending over two to four hours. The narrowest time frame offered is 30 minutes (figure 2, right). Other suppliers even consider their time windows of 3 to 4 hours as acceptable. Additionally, the lead time calculated from order reception up to distribution plays a role. For the customers it is important to know the order deadline for same day delivery. Most food on-line dealers offer this option.

As further aspect, the delivery itself is examined. Figure 3 shows the performance of the online retailers distinguished in the study, measured on five different levels: very good = 1, good = 2, average = 3, sufficient = 4, inadequate = 5. As shown in the graph, only two of the Supply Chain business models receive an acceptable or good overall assessment. All others will have to review their existing model in order to become more competitive and not run out of business in the medium-term.

**C.** Related to the average number of SKU's in the average supermarket (5,000 to 8,000) with a 90 percent share of grocery products or to Supercenters with up to 60,000 food-SKU's, the performance of on-line grocers is just comparable to discounters. The number of available SKU's varies from 1,500 to a maximum of 5,000 SKU's. This does not mean that all competitors provide all categories. Even the assortment leader (product variety) with its 5,000 SKU's does not deliver deep-frozen products. Just 50 percent of the researched companies offer both deep frozen and fresh products. This does not imply their capability to deliver all types of fresh categories. The best marketing approach is in vain, if the assortment's dimensions do not appeal to the target group, thus rendering the critical mass unreachable.

**D.** The study evaluates performance indicators for the complete order process as well. The two companies with acceptable Supply Chain performance do not belong to the set with good performance in this sub-dimension (see figure 3).

**E.** Some companies already started diverse service programs to increase sales or to assure customer loyalty. Just two competitors did not choose any of these possibilities of service improvement. 50 percent have programs running that affect the overall margin by extra supply chain effort (e.g. delivery of plants, flowers and cakes or pick-up of dry-cleaning and photo development orders). The commissioning costs increase by offering not-predefined gift packages and party service product arrangements. Pure margin reduction comes from special price offers and customer loyalty programs with sales discounts.

## SUMMARY

The large disadvantage of on-line food trade is that the market exists "only" virtually. Particularly with food strong arguments exist to continue

purchasing in retail stores. Many customers want to see and touch the product (quality), especially in the category of fresh products. Particularly in rural areas, shopping is a form of habitual social interaction for many people (communication).

A major problem for Internet retailers are the low net margins in the German food trade industry, seldomly exceeding 1.4 percent in the stationary trade – this with a logistic structure that is based on pooled deliveries with full-sized trucks used to capacity in a network optimized over a long-term. The average receipt in the delivery service of 75 US \$, thus being three times as high as in the stationary branches (Peters 2002), helps little. As long as the majority of customers unwilling to pay for additional services, such as the delivery as the simplest form, a “non-local” e-commerce solution can only be profitable with large volumes and consistent SCM strategy. In addition, the development of the infrastructure has to amortize: The retail industry’s existing central and regional storage and picking systems are not suitable for handling small and fractioned packages and quantities that are connected to the e-commerce business. The resulting additional expenditures offset the commercial advantages of using the Internet in e-commerce in more than just a few cases. Assuring the products’ freshness represents another cost factor. Particularly the on-line shop must create trust through the quality of the products delivered as the customers do not choose the products themselves. For this reason, the quality expectations are generally higher than those in the outlet, thus affecting the costs.

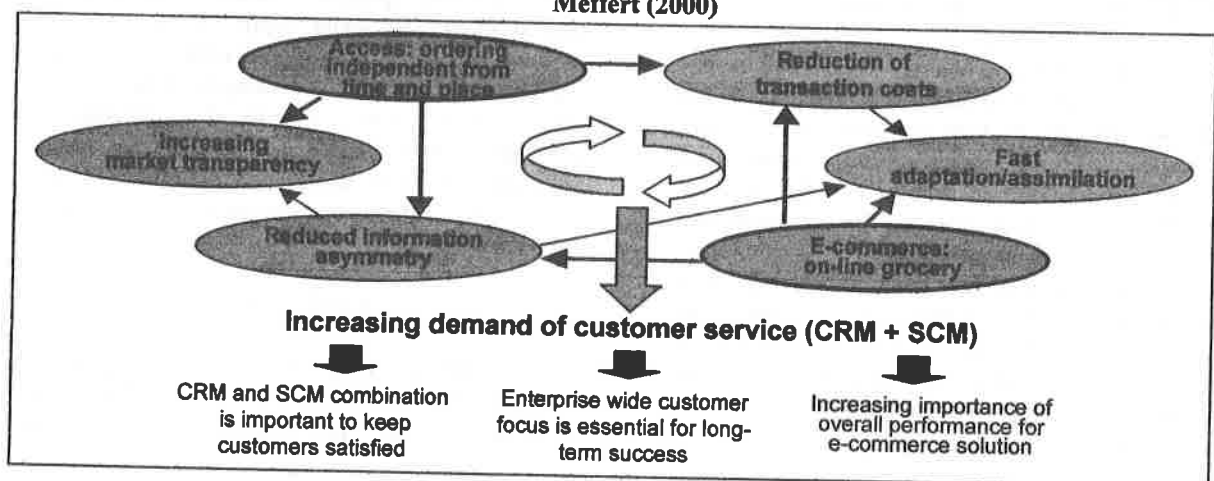
The stronger inclusion of collection points and pick points (as pick-up stations) takes into

account not only expense but also service and payment aspects. In so doing, the so far average delivery service of the larger suppliers can be improved significantly and better vehicle utilization attained. At the same time, the own delivery service can promote customer binding effects. But even the big suppliers have barely 20,000 customers in metropolitan areas, spread out over the entire area and rarely placing more than 9,000 orders per month.

Concerning the holistic perception of on-line dealers, reflected by the customers’ assessment, small regional suppliers (frequently independent grocers) come off the best (see argumentation in paragraph 4). These have, apart from the spatial proximity and the often existing customer relationship, an additional advantage: Except for the IT interface and the delivery vehicles no further expenses accrue because, in general, commissioning takes place on existing space in the outlet using available employees. By using their own market they increase their merchandise turnover locally while offering considerably more articles than the competition. In addition, they are more flexible because an order with the larger dealers has to be placed sometimes as early as 1 pm to assure same day delivery.

SCM alone may assure principal competitiveness but it does not provide a breakthrough. A queue of 10 minutes at check-out is relatively short compared to the average on-line order time of 18 to 39 minutes (Stiftung Warentest 2002). The share of Internet orders of dealers accepting orders via telephone lies around 23 percent not only but also for this reason.

**FIGURE 1**  
**Changing competition by e-commerce and its impact on the collaboration of CRM and SCM. Based on Meffert (2000)**



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# ELECTRONIC COMMERCE: ELECTRONIC SIGNATURES AND LEGAL IMPLICATION ISSUES IN PUBLIC AND PRIVATE SECTOR MARKETING

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## ABSTRACT

*Electronic commerce is an important global phenomenon with the potential to reduce paper overheads, get products to market quickly and reduce production, storage and transaction costs. Business sectors and regulators need to understand the key implications of major issues associated with conducting business using electronic commerce.*

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## INTRODUCTION

Electronic commerce is one of the most dynamic drivers of economic growth in the world today. As the Internet moves the world toward truly global markets, it seems that Internet transactions will grow large enough to measurably impact trade flows. It is also clear that the opportunity the Internet offers to access new markets has attracted attention to expand global reach. For government sectors, they are leading edge users, and in country such as United States, people can now pay income taxes and parking fines, register their cars or order government document over the Internet. By its nature, E-commerce does not recognize borders, which means small business can more easily export and import. Meanwhile, many questions are raised regarding security of transactions, standards, protection of intellectual property, taxation, trade law, privacy, confidentiality and reliability, and other issues. Government and business need to understand the implications of the ever-increasing use of e-commerce both nationally and internationally.

Even though the business sector has taken the lead in the development of e-commerce, the governments' role is also important in providing the infrastructure necessary to do business electronically. Governments are also considering how to reduce and remove barriers that may already exist, such as inefficient or outdated administrative and/or communication systems. The most important thing is the government's role to ensure that no barriers are established to reduce the development and growth of e-commerce.

This paper is appropriate for the private sector (e.g., marketers & business traders) as well as regulators as an overview of the issues and the implications of electronic commerce in the context of a legal framework. With the advance technology of the Internet and information technology, doing business electronically (business-to business) produces the greatest efficiency gains through reduced transaction costs or large transaction volumes. Marketers need to understand and follow up the existing and new scope and liability of electronic commerce legislation. It is just as important to understand the implication and impact toward certain procedures and conducts, rules and regulations of Internet technology to ensure that things go in an expected way. As the private sector has increasingly influenced the direction and the development of marketing/technical solutions of electronic commerce, the theme in this paper is to encourage users and developers to pay more attention and participation to building legal frameworks and infrastructure in order to create an environment that will facilitate and remove the barriers of electronic commerce's growth, benefits, and flexibility.

## ELECTRONIC COMMERCE AND ITS IMPORTANCE

Around the world, electronic commerce is the subject of intense interest in many sectors, including government, business, and service sectors. Electronic commerce refers to all commercial transactions based on the electronic processing and transmission of data, text sound and image. This includes EDI, Eftpos, electronic



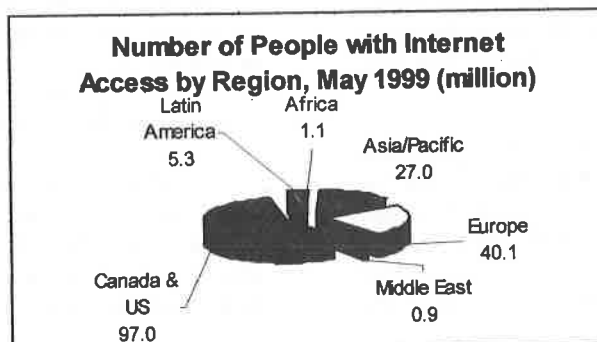
banking, digital cash and other electronic payment systems, as well as Internet and other network based commerce. The definition used here includes transactions on closed and open electronic networks and includes those transactions only partly completed using electronic means. Electronic commerce has expanded from the closed world of business to business transactions between known parties to include electronic data interchange, a complex web of different activities involving large numbers of individuals, many of whom will never meet each other. It has implications for many paces of economic and social life and its development is ushering in a new era of global communication and trade. It has the potential to fundamentally change the way commercial transactions, the business of government, and the delivery of services. Its potentials raise issues at the heart of policies directed at the regulation of traditional practices and procedures. The greatest impact is the shrinking of the distance between producers and consumers, in an environment where geographical and political boundaries are no longer as significant as in the paper-based world (Minihan 1998).

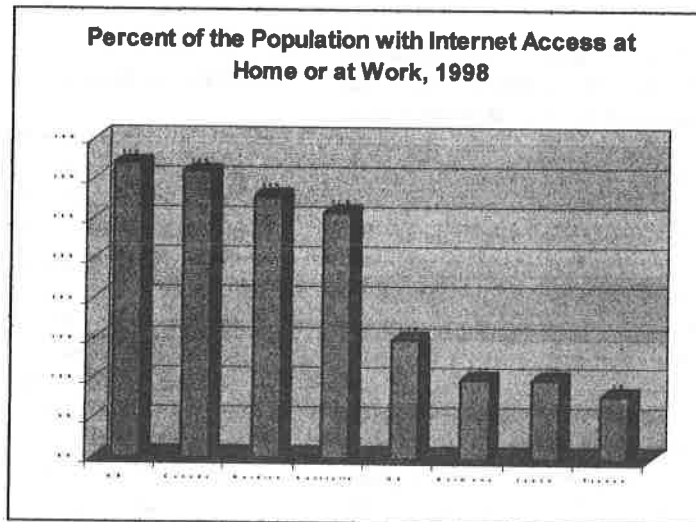
Many of these changes provide a significant challenge to existing regulatory structures, and may be viewed as having a negative impact on accepted rules and practices; however, electronic commerce will provide tremendous opportunities. It will reduce the cost of transactions, reduce barriers to entry into business, remove the necessity for a physical presence in any particular market, and provide improved access to information to consumers. For governments, there is the potential to make efficiency gains using electronic networks to deliver information and services to citizens. These potential benefits of electronic commerce underlie the future relationship and roles of government and the private sector (USA Department of Commerce 1999).

## THE RISE IN ELECTRONIC COMMERCE

There are many facts and figures cited about Internet usage, the types and patterns of domestic and international Internet commerce, and the growth of the Internet and its projected future. While individual private estimates of Internet access and size vary significantly from each other, taken together they indicate remarkable growth. For example, The Industry Standard reports that from 1998 to 1999 the number of web users world-wide increased by 55 percent, the number of Internet hosts rose by 46 percent, the number of web servers increased by 128 percent, and the number of new web address registrations rose by 137 percent. According to a recent study by International Data Corporation between 1998 and 1999 revenues of U.S. Internet service providers will rise by 41 percent. IDC projects that these ISP revenues will continue growing at a compound annual rate of 28 percent through 2003. By any measure, the ability of consumers and business to reach the Internet and to engage in e-commerce is increasing rapidly.

According to Nua, an Internet strategy firm, as of May 1999, 171 million people across the globe had access to the Internet, over half of them in the United States and Canada. Not only do the United States and Canada occupy a large absolute share of the Internet world, but they also have a high level of Internet participation on a per capita basis. More disaggregate data derived from a variety of sources show the percentage of the population with access to the Internet, either at home or at work, by country or country group. Relative to population, the United States, Canada, the Nordic countries, and Australia have at least twice the level of Internet access so far achieved by the United Kingdom, Germany, Japan, and France.





Sources: United Kingdom Department of Trade and Industry

However, the conflicting information makes it difficult to assess accurately where the Internet fits in terms of its overall impact on commerce and trade and to certain the magnitude of the problems being encountered with its use and to use that information to ensure that business decisions and policy responses by government are appropriate (USA Department of Commerce 1999).

#### ISSUES RAISED BY ELECTRONIC COMMERCE

One of the principal difficulties in measuring Internet Usage relates to the definition of electronic commerce and what is included for statistical purposes, which serves to underline the problem of collecting accurate and reliable information on which government can base policy responses and business investment decisions. Despite the difficulties of precise measurement, there are general indicators of increasing growth and usage. Care must be taken in generalizing from those trends to conclude that usage is widespread in all sectors of the economy and that users are encountering problems of significant magnitude at this early stage.

Clearly the setting for electronic commerce is different to that which exists for paper exchanges. This raises a number of legal issues, and challenges, of both domestic and international significance. As Johnson and Post point out: Cyberspace radically undermines the

relationship between legally significant phenomena and physical location. The rise of the global computer network is destroying the link between geographical location and the power of the local government to assert control over online behavior; the effects of online behavior on individuals or things; the legitimacy of the efforts of a local sovereign to enforce rules applicable to global phenomena; and the ability of physical location to give notice of which sets of rules apply.

An important issue is how to build business and consumer confidence in the security of electronic transactions which occur on the Internet between parties that do not have a pre-existing relationship (Ghaemian 1999). It seems clear that trust and confidence are important parts of the growth of electronic commerce. There must be confidence that the infrastructure which already exists for paper exchanges can also be established for electronic exchanges, so that: services and networks are secure and reliable; transactions are safe and private; there are ways to prove the origin, receipt, and integrity of information received; there are ways to identify the parties involved; and there are appropriate mechanisms available if something goes wrong (Minihan 1998).

Other issues relate to taxation and tariffs, potential trade barriers; legal questions relating to the formation of contracts electronically; questions of applicable law, authentication and integrity of electronic



communications and the admissibility in court of electronic evidence; consumer protection and privacy; the ability to seek redress across national borders; time and place of receipt and dispatch of electronic communications; and transaction and other record retention and management (APEC Electronic Commerce Task Force 1998).

In some jurisdictions, legislation has been bypassed because it has been regarded as not providing appropriate, market-oriented, non-regulatory solutions. Some of the legislation is now regarded as a better example of what not to do, than as a model which should be followed. A number of laws currently being drafted in the US have undergone significant changes in the course of the drafting process and more can be expected before they reach their final form (Newcombe 1998). Also, it is clear that what needs to be avoided at this early stage is an undue rush to legislation where none is needed, or where the need for it has not yet been clearly demonstrated. It is difficult to judge the magnitude of legal problems being encountered, although it is clear that some action to remove obvious legal obstacles would certainly facilitate electronic commerce.

A number of tensions have emerged from the electronic commerce regulation debate. Daniel Greenwood, Deputy General Counsel for the Commonwealth of Massachusetts, sums up these tensions in this way:

“A number of voices have sounded the alarm to be aware of the wild west of cyberspace. Some advocate enactment of an array of protective comprehensive statutes, tailored to meet the special host of issues presented by the new information technologies. It is doubtful that any particular suite of laws would be sufficient, or desirable as a legal response to the information age. It may be more accurate to say that nearly all fields of law will undergo a transition that reflects and shapes the underlying movement toward electronically based information and communication. When our civilization transition to the industrial age, our legal system did not adapt by the mere addition of a new area of industrial law. Rather, nearly every area of law was transformed by, and helped to create, the new economic, social and political realities associated with the industrial revolution and our subsequent

industrial civilization. Similarly the pervasive information revolution will relegate many current familiar concepts to irrelevant historical curiosities. The meaning of signature will certainly be among the definitions to evolve. Yet, the law has proven to be resilient and capable of undergoing dynamic reshaping over the centuries.”

The five principles first set out in a report released by the President and Vice President in 1997 have provided a useful starting point for national and international discussions of how to foster electronic commerce development. “A Framework for Global Electronic Commerce,” - private sector leadership, avoidance of undue restrictions, establishment of a legal environment based on a contractual model of law, recognition of the unique qualities of the Internet, and facilitation of global e-commerce.

In addition to the tensions raised by the electronic commerce regulation debate, which is occurring on a domestic basis, international considerations must also be taken into account (APEC Electronic Commerce Task Force 1998). A number of international organizations are currently working on projects which have the potential to influence the direction of domestic regulation in a number of areas relevant to electronic commerce.

#### **BALANCING THE RESPECTIVE ROLES**

An example of the respective roles of government and the private sector lies in the area of transaction security – the process for authentication of identity over the Internet and the entities that will provide guarantee services that referred to as certification authorities (APEC Electronic Commerce Task Force 1999). Certification authorities would check the identity of individuals and organizations and provide them with identity certificates so others who wish to do business with them can independently verify their identity (Jolicoeur 1998). It has been suggested that certification authorities need to be established by government to provide electronic businesses and consumers the level of trust and certainty they need to use the certification authorities’ services (Smedinghoff 1999). According to APEC Electronic Commerce Task force, there are at least four possible scenarios

that involve different levels of government action and industry self-regulation:

The first two would involve the government either acting as the high-level certification authority, or acting to guarantee such a certification authority. These are much the same thing with the government being the ultimate guarantor for all transactions undertaken within its certification authority hierarchy. This could prove problematic for governments and would be contrary to the trend of governments to move away from such insurance mechanisms. If governments chose to follow one of these options, they could limit their liability, but this might create the wrong incentives, encouraging multiple low value transactions in preference to fewer high value transactions.

The third scenario is one where a government would license private sector organizations to act as certification authorities. In this case, government might have a role in setting standards or conditions for prospective certification authorities to meet. Because reputation will have a significant part in determining who will gain the most from electronic commerce, there will be a strong incentive for self-regulation by the certification authorities that licensed. However, there is still a possibility that the government might be considered liable for the negligence of a certification authority it has licensed and may have to limit any liability it may face.

The fourth scenario, the government would be the provider of the environment for a competitive private sector led certification authority market. In this situation, government would provide appropriate regulations relating to fair trading, accurate reporting of financial status, location or registration of the company and would allow redress through the courts for disputes arising out of the transactions. It would not act as a guarantor. This scenario would rely heavily on self-regulation by the certification authorities. Government would need to put provisions for organizations to protect their reputations. This last scenario suggests that new legislation or regulation is not required for the establishment of certification authorities. Private sector initiatives could take the lead in setting up these institutions without legislation. In this case, trust is obviously an issue. Users of certification authority services may feel more confident if an organization is legislatively

guaranteed. However, what is required is that the parties to a transaction know the jurisdiction the guarantor is established in. What appropriate is for government to adjust the underlying framework rather than creating a whole new legal framework, to allow for greater self-regulation and the need to find international agreements on a range of complex issues.

## ELECTRONIC SIGNATURES

The movement of commercial and other related information is a critical part of the international trading system. For business and government to function in this environment a mechanism to reliably and securely authenticate an electronic communication will be critical. Therefore, we need mechanisms to insure there are ways to identify parties involved. United States need to be aware of international trends and developments in relation to electronic signature legislation before considering an appropriate regulatory framework for electronic commerce.

### Electronic Signature Technology

Electronic signatures can be defined as any symbol or method executed or adopted by a party with the present intention to be bound by or to authenticate a record, accomplished by electronic means (Danner 1998). Authentication is defined as establishing the validity of the identity of a particular entity (Danner 1998). Electronic signatures include a sophisticated biometric device, such as a fingerprint computer recognition system or even the simple entry of a typed name at the end of an email message (Jolicoeur 1998). One of the technologies that could be used to accomplish the signature is that of digital signatures.

### Digital signature

It is a transformation of a record using an asymmetric cryptosystem and a hash function so that a person having the initial message and the signer's public key can accurately determine: whether the transformation was created using the private key that corresponds to the signer's public key and whether the initial record has been altered since the transformation was made. Two keys are used – a public key and a private key which form a key pair. The private key is used only by the signer to create the digital

signature and the public key is distributed to third parties so that they can verify that document has been signed by the holder of private key. Even the keys of the pair are mathematically related; it is infeasible to derive the private key from knowledge of the public key. In other words, they cannot discover the signer's private key and use it to forge digital signatures because the mathematics involved ensure that the probability of two persons having the same key pair or two messages having the same hash is low enough for both to be considered unique (Danner 1998).

Each digital signature will be document specific that a unique number being created is totally dependent on the contents of the particular document being signed; therefore, the digital signature is being changed upon the change of document (Thibodeau 1999). In a number of examples of digital signature legislation, the two concepts of authentication and message integrity have been joined together (Smedinghoff 1999).

#### **Certification Authorities**

To verify the identity of the signer and the integrity of the message, the receiver must have assurance that the signer's public key corresponds to the private key. Since a public and private key pair have no association with a particular individual, an additional mechanism is needed to securely and reliably associate a particular person or entity to a particular key pair. The third party, a certification authority, can be used to bind the identity of a particular entity to a particular public key and issue a certificate attesting to that binding (Philippidis 2000). When a signer wishes to use their private key to sign a message, they would send a certificate issued by the certification authority along with the message. The receiver can then independently verify the identity of the signer by reference to the certification authority (Philippidis 2000).

#### **Public Key Infrastructures**

Certification authorities are being organized hierarchically into what is referred to as a public key infrastructure (PKI) or public key authentication framework (PKAF). Establishing a public key infrastructure is a way to provide confidence that: a signer's public key corresponds to their private key; keys are

generated and managed in a trusted and legally based manner; different encryption systems are interoperable; and there is an effective framework for the distribution and management of public certificates including provision of information on key revocation and key compromise (Ghaemian 1999).

#### **EXISTING AND PROPOSED LEGISLATIVE REGIMES**

A number of jurisdictions around the world have either enacted or are in the process of enacting legislation that has the purpose of promoting electronic commerce or legitimizing certain technology that is generally identified as electronic signature technology, including digital signature technology. There is no single approach to legislation emerged, although the various approaches can be placed into a number of broad categories which share similar characteristics. It would be advantage for commerce if there were a uniform international electronic signature legislative framework. However, it is unlikely that a uniform regime will be achieved within the short term (Electronic Commerce Expert Group 1998).

There are three broad categories described by the Internet Law and Policy Forum (ILPF): prescriptive, criteria-based, and signature enabling. The prescriptive delineates specific PKI schemes for digital signatures. The Utah Digital Signature Act 1995 (the Utah Act) would be fit in this category. The criteria-based approach recognizes electronic or digital signatures to satisfy certain criteria of reliability and security. California's digital signature regime represents this category and has been widely followed by many states that prefer this approach. The signature enabling approach is the minimalist approach that recognizes electronic signatures and documents in a manner which is parallel to traditional signature and writing laws. These laws are generally technology neutral, adopting no specific technological criteria or standard. Massachusetts' 'electronic Records and Signature Act (Massachusetts Bill) and the NCCUSL Uniform Electronic Transactions Act would fall in this category. Other legislation such as the Illinois Electronic Commerce Security Act (Illinois Bill) and the Federal Electronic Financial Services Efficiency Act (Baker Bill) adopt features across these categories. This is

the most useful way of categorizing existing legislative regimes and proposals.

**The Utah Digital Signature Act** was enacted in 1995. It establishes a substantial and comprehensive legislative regime concerning the legal recognition of digital signatures and the business model to support a digital signature infrastructure. It provides rules: for recognition and validity of digital signatures; on licensing of certification authorities; on issuance, suspension and revocation of certificates; on reliance limits and issues of liability; and on duties, warranties and obligations of licensed certification authorities, subscribers, third parties and key repositories. While technically "voluntary", unlicensed certification authorities do not enjoy the benefits of the evidentiary presumptions of authenticity and civil liability limitations. The Utah Act is not only technology specific but also restrictive. The liability of licensed certification authorities is limited under the Act to a fixed amount that is determined by a complex formula or administrative rule. One commentator has argued that the Utah Act will not work as a business model because the open PKI model envisaged by it and other existing and proposed digital signature laws is not viable. In other words, the Utah Act, as developed under the Utah Digital Signature Project of 1998, presumes a business model that cannot internalize the costs associated with its implementation.

**German Digital Signature Law** was enacted by Parliament Bundestag. It forms part of a package of laws dealing with multimedia. It does not deal with the legal validity of digital signatures, but is a technical law that establishes a detailed framework for the use of digital signatures. The Law addresses: establishment of the Authority which supervises the performance of functions under the Law; licensing of certification authorities, issuance of certificates, certificate content; duties of certification authorities to instruct the subscriber on certain matters, blocking or revocation of certificates; termination of the activities of a certification authority; data protection; and technical components. It does not deal with issues of liability of certification authorities or subscribers. It is one of only a few laws that deal with the recognition of foreign certificates. The legislation does not go far as to identify how certificates are to be recognized nor does it deal with the recognition of certificate policies or international recognition of certification practice

statement. It does create significant commercial barriers for non-European certification authorities, since no international treaties dealing with recognition issues are contemplated at this stage (Electronic Commerce Expert Group 1998).

**Californian Digital Signature Legislature** explicitly considers and rejects the Utah approach on the basis of concerns about market distortion and technology neutrality. It is regarded by commentators as being technologically neutral, even though it uses the term digital signature. Its definition is sufficiently broad to suggest what is intended is the more general electronic signature. Like the Massachusetts Bill, Californian approach is a minimalist one. The legislation deals principally with recognition of forms of digital signatures and establishes a process for approval of acceptable technologies. It does not create an extensive regime governing certification authorities and their practices. One issue it does not deal with is authentication. It assumes that authentication will be achieved if the digital signature satisfies: unique to the person using it; capable of verification; under the sole control of the person using it; linked to data in such a manner that if the data is changed the digital signature is invalidated; and conforms with regulations adopted by the Secretary of State.

**The Massachusetts Electronic Records and Signature Act** adopts a minimalist approach that simply addresses legal effect and validity of electronic signature records. The first part of the Bill concerns transactions involving public entities and recognizes the legal effect, validity and enforceability of electronic records and signatures, deals with issues of admissibility for evidentiary purposes and allows for record retention requirements to be met by the retention of electronic records. The second part deals with general transactions involving business entities and provides that a contract between business entities shall not be unenforceable or inadmissible in evidence on the sole ground that it is evidenced by an electronic record or that it has been signed with an electronic signature. Of all the legislation that has been proposed in USA, this model is a minimalist perspective. The legislation does not concern itself with any issues relating to approval of specific technology such as the Californian Bill, or the establishment of any infrastructure or regulatory within which those technologies can be used such as the Utah

Act. The effect of the legislation is basically to recognize and legitimize the use of digital and other electronic signature within the State of Massachusetts (Electronic Commerce Expert Group 1998).

**NCCUSL Uniform Electronic Transactions Acts** is prepared by the US National Conference of Commissioners on Uniform State Laws (NCCUSL). While this Bill gives broad recognition to electronic signatures, it does not specify particular technologies that would satisfy the test of commercial reasonableness nor does it facilitate the development of digital signatures or the PKI model. Although it does go beyond the Massachusetts Bill by providing for the establishment of criteria procedures to which certain, albeit limited, presumptions apply. An interesting aspect of this Bill is that it deals with the issue of electronic agents – a computer program that has been designed to act as an agent for and on behalf of its owner in relation to the automatic negotiation, execution, or performance of transactions. The use of electronic agents is becoming more prevalent as it allows the owner to select particular characteristics such that the agent will negotiate and/or contract on behalf of its owner (Electronic Commerce Expert Group 1998).

**Illinois Electronic Commerce Security Act** covers electronic signatures, secure electronic signatures and digital signatures. It falls between the Massachusetts and Utah approaches and incorporates aspects of the California criteria-based model. It gives broad recognition to electronic signatures, adopting a number of provisions of the UNCITRAL Model Law; creates a new category of signature called secure electronic signatures; authorizes the use of digital signatures, imposes duties on certification authorities and subscribers; authorizes the Secretary of State to take several steps to ensure quality of certificates, including the adoption of security standards. It does not include provisions on liability (Electronic Commerce Expert Group 1998).

**Electronic Financial Services Efficiency Act (Baker Bill)** was introduced by Congressman Richard A Baker. This Bill is one of a number of proposals for preemptive Federal legislation to deal with electronic commerce issues, including signature. Like the Illinois Bill, it adopts a hybrid approach including the criteria-

based model of California, as well as provisions dealing with licensing of certification authorities and standards setting for the emerging electronic authentication industry. The approach of this Bill combines a legislative requirement and industry action. It is a minimalist approach that gives the certification authority industry the ability to govern their environment without extensive legislative impediment. Some commentators have questions this approach because it does not provide sufficient protection to the consumer. Furthermore, the legislation does not deal with such issues as liability associated with certification authorities (McBride Baker and Coles 1998).

### CONCLUSION AND RECOMMENDATIONS

As mentioned earlier, one of the questions currently faced by regulators is whether the details of an electronic signature framework should be specified by statute, regulation by administrative agencies, or the marketplace. Proponents of comprehensive legislation (Utah Bill) for public key authentication argue that public key cryptography and verifiable certificates offer the best commitment for sending secure, authenticated electronic messages over open networks, which facilitate electronic commerce. They argue that legislation is necessary to support the emergence of a certification authority industry, specifically, legislation that offers benefits that clarify and limit the liability of certification authorities.

The argument is that it is too early to decide how the market will develop, but it is clear that certification authorities are emerging even in the absence of facilitating legislation. Opponents of legislation argue that the real danger is the imposition of a set of flawed rules that will skew a dynamic infant marketplace and lock in a set of business models that the market would reject. According to the same commentator, the basic flaw in the arguments supporting comprehensive legislation is that the infrastructure established by many existing digital signature laws is not viable because of issues of liability. The liability exposure for certification authorities under the open PKI model on which existing legislation is a product of a business model that cannot internalize the costs associated with its implementation (Electronic Commerce Expert Group 1998).

From the legislation and draft legislation discussed above, the attempts to address electronic and digital signatures are diverse without the emergence of single approach. While public key cryptography is playing an important role in emerging electronic commerce practice, technology neutrality is still considering an important feature of electronic commerce legislation and a standard by which new legislative regimes are judged. Legislation should not discourage the use of other technologies. As electronic commerce practice develops, it is likely to be a need to provide various levels of security, legal effect, and liability that correspond to the various types of services being provided in the context of electronic or digital signatures.

Also, there is an assumption from the expert group that existing electronic signature laws will need to be revised when the use of certification and electronic signatures expands and electronic commerce evolves. In other words, significant redrafting may be necessary if uniform laws are to be promulgated among different jurisdictions.

Up to this point, it is certain that electronic and digital era is changing the roles of regulator and private sector. New technological developments will mean that private sector has a greater role in resolving some of the potential obstacles or market failures that electronic commerce raises. Coordination of such solutions could be achieved by industry self-regulation. Required government input should consist of simple and predictable legal tools that are sensitive to technology and to the pace of change. The speed of changes in technology makes it important to ensure that regulation, whenever required, not falls behind nor interferes with the development of electronic commerce.

While it is difficult to discuss a legislative option without specifying the form and scope of legislation under consideration, there are a number of general points to be considered. It is often said that the lack of a comprehensive statutory and regulatory framework is preventing electronic commerce from reaching its full potential. What this statutory and regulatory framework should be directed at is establishing certainty of legal effect and building business and consumer confidence in the security of electronic transactions that

occur on the Internet between parties that do not have a pre-existing relationship. What is needed is a non-regulatory, market-oriented approach that facilitates the emergence of a predictable legal environment to support business and commerce. Government and industry must support the development of a domestically and globally uniform commercial legal framework that recognizes, facilitates, and enforces electronic transactions worldwide.

Achieving this goal will not necessarily require new legislation. However, the adoption of legislation would facilitate electronic commerce by enabling problematic issues to be addressed. Legislation could directly remove legal impediments to the implementation of electronic commerce. Also, it ensures certainty as to the application of the law to electronic commerce and enhances business and consumer trust and confidence. Meanwhile, it satisfies the objective of minimizing regulatory burdens on government and business by adopting a minimal approach and simply ensuring functional equivalence between paper-based and electronic transaction (Electronic Commerce Expert Group 1998).

An important point in considering legislation is the advisability of broad neutrality between the treatment of businesses engaged in traditional physical commerce and those engaged in electronic commerce. Practically, wherever possible and subject to the differences in the environments, business engaged in electronic commerce should be subject to arrangements equivalent to those affecting businesses engaged in physical commerce (Electronic Commerce Expert Group 1998). Many proponents of government action in the area of electronic commerce seek legislation in order to clarify rights and responsibilities as well as to adapt the law to the perceived needs of new technology. In some instances, the legislation which has been enacted seems to pick technology winners, apportion liability among private parties to electronic transactions, grant special liability limitations for certain parties, and generally introduce regulatory controls beyond that currently required under other bodies of law.

What is needed is that the infrastructure which already exists for paper exchanges can also be established for electronic exchanges, so that the services and networks are secure and reliable; transactions are safe and private; there

are ways to prove the origin, receipt and integrity of information received; there are ways to identify the parties involved; and there are appropriate redress mechanisms available if something goes wrong. Care need to be taken in adopting a policy that recognizes electronic records or data messages for all purposes.

Government policy should promote a competitive market for new technologies by clearing obvious legal obstacles rather than trying to ensure that unknown obstacles do not

arise. As the market develops, legislation or regulation can be developed to deal specifically with market failures and other issues that may emerge with respect to consumers, corporate market needs, law enforcement and other public concerns. In choosing legislation to facilitate electronic commerce, flexibility and neutrality should be major considerations. Where possible, a principled approach should be followed, by ignoring the detail that might otherwise necessitate constant updating of the legislation.

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# KNOWLEDGE MANAGEMENT AND THE VALUE CHAIN: THE ASSET VALUE OF MARKET RESEARCH

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## ABSTRACT

*Knowledge management is a critical concern as organizations attempt to respond more effectively to rapidly changing market conditions throughout their value chains. Our purpose is to review the traditional models of value chain and knowledge management and to propose a new model of knowledge management across the value chain.*

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## INTRODUCTION

Effective management of knowledge within and across organizations is becoming increasingly critical as competition intensifies and value chain boundaries blur. Knowledge provides a basis for the effective development of organizational design and renewal of competitive advantage (Almeida, Grant and Song 1998). Knowledge is also an asset that develops as one outcome of strategic relationships that the organization has nurtured over time along the value chain with its customers, suppliers, and partners (Brannen and Salk 1999). Understanding knowledge management processes in organizations requires developing insights into the complexities of acquiring, transferring, and integrating knowledge. Generally, effective transfer of knowledge across organizations is facilitated by the ability of the transferring and the recipient organizations to use appropriate institutional mechanisms (e.g., licensing agreements, patent-related intellectual property rights, and so forth) to accomplish and protect such transfers of knowledge.

Our review of the literature indicates that although a great deal is known about how knowledge is created and managed within an organization, relatively little is known about how knowledge is created and transmitted across organizations, particularly as part of value chain management. Knowledge management becomes a critical concern as organizations attempt to respond more effectively to rapidly changing market conditions throughout their value chains. In the present paper, we provide a review of the traditional model of value chain management in the context of knowledge management and propose new model of knowledge

management across the value chain. First, we define knowledge and its dimensions and discuss the traditional view of knowledge management in the value chain. We then contrast the traditional perspective with an emerging view with knowledge as the base of the value chain and members are actively engaged in creating, transmitting, and absorbing knowledge through intentional action to leverage the value that each member creates in that stage of the value chain. Finally, we present several examples of academic and practitioner tools that have potential to facilitate knowledge flows across value chains.

## KNOWLEDGE

Knowledge can be defined as a fluid mix of framed experience, important values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information (see, e.g., Davenport and Prusak 1998). Knowledge originates from unique experiences and organizational learning by key constituents, and it often remains embedded, not only in written documents but also in the routines, tasks, processes, practices, norms, and values of organizations. Just as information is derived from data, knowledge is derived from information by contextualizing the information and comparing it with an existing standard and by examining the consequences a given body of information may have for immediate and long-term organizational actions and decisions.

Three bipolar dimensions of knowledge have been proposed: These are simple versus complex, explicit versus tacit, and independent



versus systemic (Garud and Nayyar 1994). Complex knowledge evokes more causal uncertainties, and, therefore, the amount of factual information required to completely and accurately convey this type of knowledge is greater than would be the case with simple knowledge. Simple knowledge can be captured with a small amount of information and is, therefore, relatively easy to transfer. The explicit versus tacit dimension concerns how well articulated and, therefore, accessible the knowledge is. Knowledge is often highly personal in nature, difficult to communicate (Polanyi 1958), highly specialized, and not always valued or easily traded in the external marketplace. The transfer of tacit knowledge requires richer context and richer media, because tacit knowledge requires more than just codification (i.e., indexing). Explicit knowledge, however, can be codified and is transferred with relative ease. The third dimension of knowledge deals with the independent versus systemic character of knowledge—that is, the extent to which the knowledge is embedded in the organizational context or not. Knowledge that is independent can be described by itself, whereas knowledge that is systemic must be described in relation to a body of knowledge existing in the transferring organization. Garud and Nayyar (1994) note that the position of knowledge along each of the three dimensions affects the amount of information required to describe it and the amount of effort needed to transfer it. Therefore, if the knowledge being transferred is tacit, complex, and systemic, then it is more difficult to transfer and also to absorb. The next section discusses the traditional view of knowledge management and the value chain as affected by the role of Internet and other electronic facilitating mechanisms, the role of channel members, and the overall knowledge management strategy employed.

### **Knowledge Management and the Value Chain**

Porter (1985) cites a number of ways that firms can leverage linkages across their value chains to reduce cost, increase performance and be more effective. These leverage opportunities include: performing the same function in different ways (e.g., high quality inputs, specifying close tolerances, achieving conformance to specifications), improving the value or performance of indirect activities (such as improved scheduling or delivery time based on servicing customer needs gained through online data), reducing the need to demonstrate, explain or service a product in the field by performing these activities within the firm.

Under the traditional model of knowledge management across the value chain, knowledge management strategy has focused on utilizing channel relationships to increase efficiency. The emphasis on the type of knowledge that is transferred under this system tends to simple, explicit, and independent. We believe that firms are also emphasizing effectiveness and using the knowledge management systems as learning tools that facilitate the creation, transfer and absorption of knowledge. We believe that the type of knowledge flow will also be different. Knowledge that is more complex, tacit, and systemic is more likely to be created, transferred and absorbed. By developing a knowledge management system that is integrated into channel partners, firms can develop early warning devices for opportunity detection. We believe that under the new model firms will focus on identifying and integrating to “leverage opportunities” and information gained through online interaction with key stakeholders to increase firm effectiveness across the value chain (such as co-design with customers through Internet-based platforms). Thus, knowledge and knowledge management systems across the value chain can become sources of competitive advantage. Table 1 contrasts the traditional model and the proposed emerging model of knowledge management across the value chain along the characteristics of types of knowledge transferred, use of Internet/electronic facilitating mechanisms, role of channel members, and the knowledge management strategy.

Firms under the traditional model of knowledge management tend to work with channel members such as suppliers to more closely schedule component deliveries, reduce cycle time, cut inventories, and decrease the overall costs of production. Clearly, these are important goals for firms under both models. When large retailers such as Wal-Mart mandated the use of electronic data integration (EDI) systems for their suppliers and utilized bar-code readers for inventory management and purchase transactions, they were hailed as pioneers. This system enabled knowledge to be transferred that was simple, explicit, and independent (i.e., number of Toshiba 24-inch televisions sold on June 24, 2002 at a particular Wal-Mart location). One result of this system-wide mandate has been to reduce the amount of time needed for suppliers to restock items and to use electronic tools as passive systems to reduce human intervention. This approach was successful at cutting cycle time, reducing costs and minimizing human error. Firms operating under the emerging model of knowledge management are pushing the envelope beyond.

In contrast, the leaders of the emerging model of knowledge management not only reap the benefits of reduced costs and cycle time but also use these systems to learn. For instance, knowledge management systems such as those used by Wal-Mart can be for new product development. In larger rollouts of modular product variations, Wal-Mart provides real-time data on the purchase decisions of nearly entire populations of consumers and enables manufacturing firms to gather more accurate data on

consumer reactions (Sanchez 1999). Indeed, by carefully examining product features, functions and performance levels desired by different populations of consumers, firms can conduct more fine-grained analysis of the consumer preferences. And, these data can be made available in real time. Manufacturers can also track future activities such as product maintenance or repair which gives more insight into the reliability of components.

Table 1  
Models Knowledge Management and the Value Chain Management

	Traditional View	Emerging Model
Knowledge Flow	Emphasis on Simple, Complex develops over time	Emphasis on Complex, Simple through routines
<i>Complex/Simple</i>	Emphasis on Explicit	Tacit and Explicit
<i>Tacit/Explicit</i>	Emphasis on Independent	Systemic and Independent
<i>Systemic/Independent</i>	Passive use of EDI, Internet, Progressive companies use open architecture	Dynamic use of EDI, Internet, Progressive companies use 'sensory systems' for learning
Use of Internet/ Electronic Facilitating Mechanisms	Passive, Focused on explicit, discrete transactions	Engaged, Channel members form agile web
Channel Member Role	Emphasis on reducing cost, Decreasing cycle time	Emphasis on learning, Emphasis on effective knowledge creation, transfer and absorption
Knowledge Management Strategy	Little emphasis on knowledge management across firm boundaries	Emphasis on leveraging knowledge management as a source of competitive advantage

An important outcome is that consumer satisfaction can be improve because firms are identifying key features of products that relate to consumers' desires and that have greater potential to result in consumer satisfaction. Thus, even the most rudimentary EDI represents not just an efficiency tool that reduces time and cost. It can be seen under the emerging knowledge management model as a way to link all stages of the product through the value chain and the integrated partner network from product development to real-time sales and service data. EDI may drive not only manufacturing and smooth logistics but also become an integrated learning tool firm that helps to define and create new product components and architectures (Sanchez 1999). Firms that use established systems such as EDI to create, transfer, and absorb knowledge are limited by the capabilities of the system. We propose that some firms are now turning to the Internet to build their own knowledge management systems that push the envelope even further by creating active (sensory) as well as passive systems to provide feedback loops throughout the value chain. Wal-Mart's EDI system (and many similar systems) relies on analysis of

passively collected data such as cash register transactions to assess the "market value" of product feature sets. In contrast, consumers can be actively involved in creating data flows concerning their current and potential future product preferences. In parallel with such approaches with end users, organizations can also include active data collection systems to better anticipate the needs of value chain members.

#### Web-Based Approaches

One of the unique features of the Web is its ability to reach large and/or geographically dispersed populations and to do so very cost effectively. The Web is also a multi-media platform that can be used to more efficiently utilize consumer and value-chain member inputs in the process of product improvement and new product development (e.g., Englis and Solomon 2000). The Web has enormous potential not only as a data capture tool, but also as a medium for analyzing, summarizing and making generally available research findings online within the firm and across the value chain. Indeed, the true

value of an online value-chain management system lies in the potential to provide "real-time" access to data concerning the behaviors and perceptions of relevant value chain members. The resulting rich information flow back to upstream members of the value chain and its potential to facilitate more effective value-chain management has yet to be explored.

Typically data analysis and reporting of results presents a "snapshot" of the data. As a result information and knowledge are "old" as soon as they are generated. For example, one of the biggest problems in traditional market research is that the reports are delivered weeks or months after data are collected. Even then, these reports often sit on the shelves of one or two members of the organization and are rarely consulted beyond the confines of those offices, if at all. By transferring data capture, analysis and reporting to the Web, the knowledge created by research all along the value chain is made more valuable through its greater accessibility. Web-based platforms for publishing the results of these research efforts offer a tremendous value-added for firms throughout the value chain – and they do so at similar or lower costs than generating traditional paper reports (i.e., copying costs, mailings costs). To better manage their value chains through open systems architecture, firms may decide to open these information platforms to channel members. Security concerns surrounding access to sensitive information (as during new product development) can be readily addressed by using login systems and by limiting access to key value chain members. Thus, a firm's product offering can be enhanced by the added value created by a data flow that represents the current preferences of other value-chain members (from end-users to raw-materials producers).

In contrast to static web reports, dynamic web reports provide a method to animate the view by providing online access to a changing database structure. The apparent structure of a dynamic report might match that of a static web report in that a series of analyses are structured by the pages that make up the report. However, dynamic web reports contain active links between the web page being viewed and the database/s that contain the raw materials of the analyses shown, as well as to the analysis software that provides the underlying computations. Thus, dynamic web reports can take two forms that differ in the mechanisms that trigger a refreshing of the data analysis as new data are posted. One approach is to have the web reports refreshed passively by using a time-based triggering mechanism. For example, a certain time of day can act as a server-based trigger

of an analysis and web-report creating process on the server. The second approach updates or otherwise produces reports as a function of the user's demands on the database and analysis software.

The use of dynamic web reporting and the resulting enhanced access to information for channel members can profoundly impact value chain flexibility. For example, product customization could increase if channel members are given access to real time information regarding changing customer specifications. For instance, Dell shares its ordering system information with suppliers such as Sony. This enables Sony to deliver specific components exactly when Dell needs them in order to reduce the time necessary to assemble and deliver custom built computers. The dynamic reporting also allows Dell to change production in response to changes in customer demand as it did in responding to customer requests for Pentium III processors instead of Pentium II processors. Other computer manufacturers were stuck with 60-90 day supplies of Pentium processors and were unable to meet the increase in customer demand.

## CONCLUSION AND FUTURE WORK

Taken as a whole, the emerging electronic data collection, reporting and analysis solutions described here have the potential to impact the way firms manage knowledge flow that is more complex, tacit and systemic across their value chains. Although there are some interesting examples of value chain feedback systems such as those described here, very little research activity is aimed at systematically providing such feedback as an input to ongoing value chain management and strategic development. Careful study of firms that have had some measure of success in applying web-based knowledge management systems is clearly needed as numerous anecdotal examples suggest that some firms achieve their success largely as a function of how well they integrate their data capture systems with higher-order knowledge management systems. For example in the garment industry, when Escada A.G. entered the U.S. market it sought a premium pricing and brand image position and achieved success owing largely to its fully vertically integrated channel an effective knowledge management systems, despite the fact that its manufacturing facilities are located in a high-cost labor market (Germany). Moreover, Escada was able to compete successfully against firms such as Nike, The Limited, and Tommy Hilfiger, all of which have moved away from vertical integration strategy and rely on a loosely knit value chain with high levels of outsourcing.

Similarly, some upstream firms are also moving toward integrating knowledge creation, transfer, and absorption systems across the value chain not through formal integration strategies, but by creating appropriate flows along key alliance pathways in the value chain. For example, E. I. DuPont de Nemours has developed a successful program in the U.K. (Tactel Visions) that integrates feedback from key customers (manufacturers, retailers, brand houses) directly into the constituent materials and fabric design process. The knowledge created is made part of the product offering when

DuPont introduces new fabric technologies into its value chain.

These examples suggest that there is no one "right" way to manage knowledge across the value chain. Some firms have found success through vertical integration while others such as Dell have found success through open system architecture of web-based ordering systems with channel members. Firms should map their value chains, examine their core competencies, and system architecture needs and act accordingly.

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# MIGRATING TOWARD A WEB-CENTERED MARKETING STRATEGY: EXPERIENCE FROM THE CAPITAL GOODS MARKETPLACE

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## ABSTRACT

*The authors of this research propose a shift from an offline-media-centered marketing strategy to a web-centered marketing strategy. We propose a framework for designing efficient web-centered strategies and illustrate the advantages of a web-centered marketing strategy. We then proceed with accompanying materials on trends in marketing that support this position, and point to considerations for future research.*

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## INTRODUCTION

Traditionally, business-to-business (hereafter B2B) capital goods marketers have utilized a mix of print, direct mail and telemarketing media to reach B2B decision makers. However, recent studies polling B2B decision making executives on how they source product information, coupled with experiences in the capital goods market space provides sufficient evidence to suggest that the Internet has eclipsed all traditional media and is now the most powerful medium in reaching B2B decision makers with timely and relevant information (Mulcahy 2002, Schwartz 1997) The authors of this research propose a shift from an offline-media-centered marketing strategy to a web-centered marketing strategy. We propose a framework for designing efficient web-centered strategies and illustrate the advantages of a web-centered marketing strategy. We then proceed with accompanying materials on trends in marketing that support this position, and point to considerations for future research.

## RATIONALE FOR A WEB-CENTERED MARKETING STRATEGY

Increased competition, industry consolidation, and most recently, a slumped economy have pressured B2B capital goods firms to adopt a marketing strategy based more strictly on business objectives and ROI. Heretofore, not things that B2B marketers were overly concerned with. Marketing plans that included shotgun marketing campaigns in trade

journals, business papers, and industry publications seemed to suffice. Recently however, the dual issues of decision maker's shift of attention away from utilizing print as an information source when researching purchasing decisions and the infusion of increasing scrutiny and discipline in B2B capital goods' marketing departments has necessitated a more efficient strategy (Tapscott 1995).

Consumer packaged goods (hereafter CPG) firms have long had such discipline in their marketing departments with such measures as gross rating points (GRP) and ad impressions (CPM). Many firms in the CPG realm are also privy to large nationwide data repositories via such large retailers as Wal\*Mart, Kmart, and Target and syndicated data from industry associations and third party providers of consumer data such as Experian and Nielsen. Further, CPG firms have also implemented sophisticated analysis tools and sales technologies such as statistical modeling software and category management teams to aid their marketing teams in making accurate and effective marketing strategy decisions. In the absence of these high technology tools and massive stores of consumer data, B2B companies must employ marketing strategies that account for this deficit (Bezian-Avery, Calder, and Iacobucci 1998).

It can be excessively challenging for a B2B capital goods company to create a data-rich information driven marketing strategy that meets the business objectives and ROI goals without



the aid of industry wide stores of consumer data, third party information repositories, rigorous data analysis practices, and a history of marketing intelligence, all while utilizing the same methodology employed for decades.

This paper presents a web-centered marketing solution as a possible key to sustaining competitive advantage and meeting the new requirements of customer demand management. Such a strategy is inherently data-rich, easier to manipulate, and meets the customer information search across multiple media.

A web-centered marketing strategy is one in which interactive, one-on-one communications, and interactions tied to business objectives, are at the heart of the overall marketing strategy. Such a strategy meets customer needs and provides a sustainable competitive advantage to the business. A web-centered marketing strategy employs data-rich information-gathering environment, which is especially suited to rapid decision-making and data modeling with quickly accumulating data sets (Deighton 1996).

Unlike traditional media, web-centered marketing allows for real-time collection of data on customers perceptions, attitudes, decision patterns and ultimately, purchasing habits (Day 1998, Deighton 1996). ROI is quickly calculated against pre-defined business objectives and decision makers have multiple web-enabled venues with which to communicate with the company of their choosing at any time of the day or night. The underlying principle is not that all marketing shifts over to the Internet and becomes entirely web-based, but that all communiqué are centered on capturing the customer interaction at a web-enabled touch point (Hoffman and Novak 1996, Zeff and Aronson 1997).

### **CREATING A WEB-CENTERED MARKETING STRATEGY**

The rationale and discipline behind creating a web-centered marketing strategy are closely tied to other prominent strategic processes in B2B capital goods firms such as new product development, fiscal, and manufacturing planning strategies. Strategies such as new product development are managed by ROI, breakeven, and stage-gate methodologies to ensure that projects are strictly managed to timescale and budget figures. Web-

centered marketing strategies can be managed to similar rigid measures and held to metrics and yardsticks much better than traditional marketing strategies.

A web-centered marketing strategy does not purport the abandonment of all traditional media that a B2B capital goods firm may have already have developed. Rather, a web-centered strategy advocates the wholesale integration of all available media and pre-existing marketing communiqué (Leong, Xueli, and Stanners 1998). This does not mean that significant effort can be avoided in migrating to a B2B web-centered marketing strategy. Exhibit 1 illustrates the steps necessary to create a marketing strategy that is web centered.

#### **1. Setting Business Objectives**

In devising a web-centered marketing strategy, the first element of concern is that of the governing business objectives that will drive all subsequent steps in the strategy development process. As with any properly devised marketing strategy, the needs of the business are of utmost concern and the strategy should be constructed along those lines. For example, in a B2B capital goods company the business objectives of the web-centered marketing strategy may be constructed to support the unique go-to-market strategy of the company. In this case the company uses a direct go-to-market demand generation model in the core vertical markets that it serves. Thus, the marketing strategy needed to support direct demand and lead generation as well as sales process support in the absence of dealers, which are used in the traditional go-to-market model employed by most B2B capital goods company.

In our case study the business objectives ultimately agreed upon as the guiding direction for the web-centered marketing strategy were as follows:

1. Generate leads for the direct field sales representatives
2. Retain customers through e-communications and customer extranets
3. Make it easy for customers to do business with the company
4. Convert web leads of <\$15,000 to sales via inside sales team
5. Redirect sales on low-margin products to channel partners

## 2. Marketing Communication Audit

A critical second step in the process of creating a web-centered marketing strategy is the evaluation and audit of all marketing communication channels and touch points. For the purpose of this paper, all communicational forms which can be employed in reaching a customer, will be considered communicational channels, and will be covered under the communications audit. A communications audit, in its simplest form, is an in-depth review of every piece of material that comes into contact with a customer at each and every touch point.

## 3. Marketing Communication Web-Amenability Evaluation

In the next stage of the strategy creation process, each channel was measured against the following criteria, in accordance with the business objectives set forth earlier.

1. What type of channel/touch point is it? E. G., Print, multimedia, TV, Internet, physical asset?
2. Is the channel or touch point web centered? Can a measurable web-centered customer touch point track the medium in question?
3. If the channel or touch point is deemed to be non-web-centered, what steps are needed to achieve the interactivity and measurability that are mandated by a web-centered strategy.
4. What is the scope of this channel or touch point? Does it span internal customers only, a single core market, or the entire current and prospective customer base?

## 4. Develop Channel Metrics

Effective and illustrative metrics (measurement units) are the bedrock on which an effective web-centered marketing strategy is built (Zeff and Aronson 1997). Without the right metrics assigned and key performance indicators agreed upon, it is impossible to ascertain the effectiveness of a web-centered strategy for a particular company. Metrics must be developed in accordance with the business objectives set forth in the first step of this process. For the purpose of this paper, the metrics we used in our case study are few but powerful.

### A. Number of leads in core markets

- B. Number of customer extranets created
- C. Number of documents referenced from key areas
- D. Aggregate of sales closed under \$15,000
- E. Partner reports on lead close rate

## 5. Center Marketing Communication Channels Around the Web

Web-centering marketing communication channels involves little more than tying all marketing communiqué, as identified and analyzed in the previous audit and analysis steps, to a measurable web touch point. The simple goal now is to capture data as required by the business objectives and web-metrics that have already been established. Using unique tracking URLs or identification codes at touchpoints can easily capture this data.

## 6. Deploy Creative to Support a Web-Centered Marketing Strategy

The final stage of devising and implementing a web-centered marketing strategy is the creation and deployment of marketing materials or "creative" to conform to the rigors of the Internet based marketing medium. There are several factors contributing to this reliance on media and creative (Hespos 2000):

1. The importance of placement in generating response.
2. The tendency of the departments to be well informed with regard to the state of the marketplace.
3. The trend toward relationships between media departments and technology/rich media vendors.

B2B purchasers are using the Internet to source information partly because of the speed at which information can be retrieved. It is of utmost importance that creative materials are focused, precise, and quickly capture the attention of the decision maker.

## ADVANTAGES OF A WEB-CENTERED MARKETING STRATEGY

The web-centered model for marketing strategy provides several rational advantages over traditional offline media centered strategies or on mixed media strategies with little or no web component. First, the advantage of a

strategy that is ultimately permission based is attractive in that you are communicating with receptive member of a target audience which has explicitly agreed to receive marketing messages from your firm, or from firms like your due to the fact that what you have to say and sell is directly related to their particular are of purchasing jurisdiction or job function. A permission driven marketing strategy ultimately ensures that you are communicating with the most qualified audience possible (Godin 1999).

Secondly, ROI is notoriously difficult to measure in offline marketing strategies due to the lack of data capture at a customer touch point. Moreover, B2B capital goods firms do not usually have the extensive data and information resources available to CPG firms that sell in a B2C environment to supplement that lack of customer touch point data.

A tertiary benefit is web-centered marketing strategies are easily altered and redeployed with minimal manpower based on data gathered and analyzed in the capturing of customer data as the interact in the web-based medium available. Offline media can and are

usually not altered therefore redeployment gets difficult without more significant resources.

Other ancillary benefits of web-centered marketing strategies include easy transfer of print assets to the web, higher ROI on web-based marketing materials, and highly targeted and immediate communication opportunities due to the amount of customer information that is known and the immediacy of web-based communiqué.

## CONCLUDING REMARKS

In conclusion, the shift from a traditional marketing strategy to a web-centered marketing strategy for a B2B capital goods firm is not of revolution but of evolution. As marketing budgets tighten, solid ROI on marketing is mandated and marketers held accountable for marketing strategy, and decision makers migrate to utilizing the web as their primary information resource, a web-centered marketing strategy is a logical next step for B2B firms seeking to gain and maintain a competitive advantage.

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# A COMPARISON OF IN-STORE VERSUS ONLINE ATMOSPHERICS

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## ABSTRACT

*Atmospheric studies of brick and mortar facilities address physical elements of the store environment, while online atmospheric studies examine web site design, and navigation. This suggests past studies are not comparable. This study modifies an existing scale and tests it to measure atmospherics in both venues*

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## INTRODUCTION

Although brick and mortar and online retailers strive to satisfy consumer needs and generate sales revenue, little research has been conducted to reconcile possible consumer perceptions of similarities and differences between these two venues. Although atmospheric studies of brick and mortar facilities address physical elements including merchandise layout, color, lighting, design elements, and sales associate assistance most online e-store atmospheric studies examine web site design, navigation toolbars, site maps, search engines, and return policies. No known research has attempted to compare these two venues based on common evaluative criteria. This suggests that the results of past studies are not comparable and an argument can be made that online atmospheric studies have investigated web site design factors rather than online consumer behavior issues. In response to the call by Eroglu, Machleit and Davis (p 147, 2000) to investigate whether shoppers respond differently to the same atmospheric cues in online and brick-and-mortar contexts, this study modifies an existing scale and tests this revised scale to measure in-store and online retail atmospherics. Recently, there has been a great deal of interest among retail researchers in consumers' responses to store atmospherics, especially the monitoring of consumers' affective reactions. This previous research focuses on several major issues, including customer service (Bush, Bakier, Rice, & Veneable, 1999; Long & McMellon, 2000); shopping experience (Lindquist & Kaufman-Scarborough, 2000; Wright & Noble, 1999); perceived shopping value (Babin & Attaway, 2000; Wright & Noble, 1999); and shopping expectations (Bush et al., 1999).

## REVIEW OF LITERATURE

### Retail Atmospherics

Atmospherics is the process managers use to manipulate the physical retail or service environment to create specific mood responses in shoppers (Hawkins, Best, & Coney, 2001). A store's atmosphere affects the shopper's mood and willingness to visit and linger (Hawkins et al., 2001). It also influences the consumer's judgments of the quality of the store and the store's image. Perhaps more importantly, it is believed that a positive mood induced while in the store increases satisfaction with the store, which can produce repeat visits and store loyalty (Babin & Darden, 1996). Kotler, (1973-74) among others, has emphasized the effects of atmospherics on emotions. His approach links the study of atmospherics directly to the experiential perspective on consumer behavior (Mowen & Minor, 1998). Kotler defines atmospherics as the effort to design buying environments to produce specific emotional effects in the buyer that enhance his purchase probability. Specific attention is given to lighting, color, materials used for flooring, walls and fixtures, along with the way merchandise is displayed and stocked. Other elements employed in developing specific atmospheric components may include music and aromas. Retailers use a store's physical characteristics to develop an image and draw customers. Thus, they create an "atmosphere" or the psychological feeling a customer gets when visiting a retailer. Some will refer to this as the personality of the store, (Berman & Evans, 2001). Atmospherics create an environment via visual communications, lighting, colors, music and scent to stimulate customers' perceptual and emotional responses and

ultimately to affect their purchase behavior (Levy & Weitz, 2001).

In the physical retail store context, atmospheric effects, and layout and design variables have been reported to affect many different forms of retail patronage behavior (Childers, Carr, Peck, & Carson, 2001). These atmospheric effects can differentially affect positive and negative emotions. The researchers found hedonic and utilitarian retail shopping value, and customer repeat spending behavior were affected by atmospheric effects. However, the authors state that very little is known about how the design characteristic of interactive shopping site may affect online purchase behavior. Research finds that store environmental factors strongly influence evaluations of product quality (Mazursky & Jacoby, 1986; Mazursky, 1988) and purchase decisions (Sherman, Mathur, & Smith, 1997). Kotler (1998) suggests that the design of buying environments produce specific emotional effects on consumers.

## RESEARCH QUESTIONS

The purpose of this study was three-fold. The first objective was to measure in-store and online atmospherics using the same measures. The second purpose was to investigate and compare the importance of atmospherics in-store versus online. The third objective was to examine differences based upon demographics within each venue of atmospherics. The research questions this study attempted to answer were:

1. Do consumers perceive the importance of atmospherics differently for in-store versus online retailers?
2. Do differences exist for the perceived importance of in-store atmospherics based upon consumer demographics?
3. Do differences exist for the perceived importance of online atmospherics based upon consumer demographics?

## METHODOLOGY

### Questionnaire

A questionnaire was developed to gather information about perceived retail atmospherics and consumer demographics. Atmospherics of brick-and-mortar stores was measured using a semantic differential consumer retail store image scale developed by Dickson and Albaum (1999) designed

to measure attitudes toward retail prices, products, store layout and facilities, service and personnel, and promotion. For this study, the scale was modified to include the items identified by Dickson and Albaum that measured the store environment. The researchers determined this existing scale instrument and the environment items simulated the components of store atmospherics. See Figure 1 for this scale. A pilot test administered to students in a marketing class at a regional south-eastern university asked to evaluate retail websites, using the identical scale, revealed some items within the consumer retail store image scale were badly chosen for website evaluation. For example, students noted "dirty-clean" and "too few clerks-too many clerks" were inappropriate responses for an online shopping experience. These items were changed and a second pilot test was administered to another student group. The final OCIRS is displayed in Figure 2.

### Data Gathering

As partial credit for an undergraduate research methods class, students administered the scale via a mall intercept survey at four mid-sized shopping malls in Ohio and Kentucky. A total of 160 usable questionnaires were gathered. The Online Consumer Retail Store Image Scale (OCIRS) was lodged on the university web server. An opt-in e-mail list was purchased, and a request to complete the online survey was sent to 2000 list subscribers; 184 usable responses were obtained. The opt-in e-mail list purchased from a commercial service and identified as "online shoppers."

### Respondent Profile

Mall shoppers tended to be married and female, while online shoppers were more equally distributed between single and married, with a smaller majority of female respondents. Education levels attained were similar between the two groups. The online shoppers were younger than the mall shoppers. Sixty-two percent of the online respondents were younger than 30, while only 42% of the mall shoppers were younger than 30. No online shoppers reported being over the age of 54, but 10% of the mall shoppers were 55 or over. The mall shoppers reported higher levels of income than the online shopper, with 49% of the online shoppers reporting income levels below \$30,000, and only 19% of the mall shoppers in this income range. Twenty-two of mall shoppers reported income levels of \$75,000 or higher, while only 8% of the online shoppers reported the same income level.

Interestingly enough, 44% of both groups of shoppers indicated they were professionals. However, a considerably higher percentage of the online shoppers were technically employed or students, with 15% and 22% respectively. This could explain the difference in reported income levels.

## RESULTS

### Data Analysis

The CIRS and OCIRS scales were examined for reliability. Cronbach's alpha of the CIRS scale was .895 and the OCRIS was .831. Thus it was determined these modified scales were reliable and effective measures for this study. Mean scores for the Atmospheric scales (CIRS/OCIRS) were tested between the groups using independent t-test. There was a significant difference between the mall and online shopper, with the mean higher for in-store atmospherics. See Table 1.

	N	Mean	T	Df	Sig.
Mall	160	80.22	3.174	342	.002
Online	184	74.45			

A one-way ANOVA was performed to determine if there were differences of the perceived importance of atmospherics for each group, based upon demographics. Findings indicate that mall shoppers differ based upon gender and income level. (See Table 2) Specifically, female mall shoppers indicated higher importance of atmospherics than male shoppers, and the lowest income level, less than \$15,000 annual income, rated importance of atmospherics lower than other income levels. The one-way ANOVA results indicate the online respondents differ based upon occupation and income. (See Table 3) Examination of mean scores for online shoppers, based upon income, indicate online shoppers are similar to the mall shoppers. Respondents with lower income had lower mean scores for atmospherics. Results based upon occupation show machine operators and service workers rated importance of atmospherics lower than the other occupations. However, the low numbers of

respondents in the categories make these results somewhat unreliable.

## DISCUSSION

The purpose of this study was to examine atmospherics for in-store and online consumers, using the same measures and scale. An existing scale was adapted to measure the components of both in-store and online store environment. Results indicate that this modified scale was effective in measuring atmospherics in both venues. Thus the first question posed by the researchers, do consumers perceive the importance of atmospherics differently for in-store versus online retailers, can be answered. Yes, respondents indicated importance of in-store atmospherics was more important than atmospherics for online stores. The second and third questions posed by the researchers wanted to know if there were differences based upon demographics for mall and for online shoppers. Again, the results indicate that yes there were differences. Both groups differed based upon income level. Female mall shoppers rated atmospherics higher than male mall shoppers. Online shoppers differed based upon occupation; with laborers and service workers rating online atmospherics lower than other occupations.

## LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH

This study provides a preliminary insight into measuring atmospherics in both brick and mortar and online venues. However, the small, regional sample, of mall subjects cannot be generalized to the population as a whole. Online survey respondents are self-selective, and again may not be generalized to the overall online population. Further examination by product category and specific store types would be beneficial. It may be that higher-end, designer stores in either or both environments provide different additional services and personalized service, which comprise part of the overall atmospheric environment of the store. It was also be beneficial to examine shoppers from both venues, based upon the amount spent and frequency of purchase at the respective environment.

Table 2: ANOVA Mall Shoppers and Demographics

		Sum of Squares	df	Mean Square	F	Sig.
SEX	Between Groups	1074.485	3	358.162	3.624	.014
	Within Groups	15418.509	156	98.837		
	Total	16492.994	159			
INCM	Between Groups	1387.050	6	231.175	2.398	.031
	Within Groups	12145.251	126	96.391		
	Total	13532.301	132			

Table 3: 1-way ANOVA Online Shoppers and Demographics

		Sum of Squares	df	Mean Square	F	Sig.
OCCP	Between Groups	5300.294	6	883.382	3.272	.005
	Within Groups	46430.376	172	269.944		
	Total	51730.670	178			
INCM	Between Groups	4421.630	6	736.938	2.669	.017
	Within Groups	36664.916	169	276.124		
	Total	51086.545	175			

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Figure 1 Modified CIRS

Crammed merchandise	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Well spaced merchandise
Bright store	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Dull store
Well organized store	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Unorganized layout
Unpleasant store to shop in	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Pleasant store to shop in
Unattractive store	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Attractive store
Messy	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Neat
Spacious shopping	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Crowded shopping
Dirty	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Clean
Good displays	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Bad displays
Inconvenient	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Convenient
High merchandise price	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Low merchandise price
Limited merchandise assortment	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Wide merchandise assortment
Poor quality merchandise	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	High quality merchandise

Figure 2 Modified OCIRS

Merchandise crammed on page	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Merchandise well spaced on page
Bright web page	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Dull web page
Well organized website	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Unorganized website
Unpleasant site to shop	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Pleasant site to shop
Unattractive web page	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Attractive web page
Poorly organize web site	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Well organized web site
Spacious shopping	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Crowded shopping
Cluttered web page	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Uncluttered web page
Good merchandise graphic images	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Bad merchandise graphic images
Hard to find items you want	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Easy to find items you want
Inconvenient	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Convenient
High merchandise price	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Low merchandise price
Limited merchandise assortment	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	Wide merchandise assortment
Poor quality merchandise	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	High quality merchandise

# UNDERSTANDING CONSUMER PATRONAGE OF RETAIL FOOD OUTLETS: THE IMPACT OF STUDYING RECENCY VERSUS FREQUENCY IN PREDICTING BEHAVIOR

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## ABSTRACT

*A total of 600 consumers distributed evenly throughout a 40-census tract city in the Southern United States rated supermarkets, convenience stores, quick-service restaurants, and full-service restaurants using the numerical comparative scale. Results indicate that safety had the greatest perceived difference between outlet visited most frequently and outlet visited most recently.*

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## INTRODUCTION

The U.S. Department of Agriculture's Economic Research Service predicts that over the next decade U.S. consumer expenditures on food will increase to \$1.2 trillion per year (Nayyar 2002). As supermarkets, convenience stores, quick-service restaurants, and full-service restaurants battle for "shares of stomach," they must identify and clearly communicate their niches and market positioning strategies. Before this can be done, however, the food providers must better understand consumer perceptions of their outlets. Restaurants, supermarkets, and convenience stores are relying increasingly on strategic planning to ensure long run viability. Due to increased competition among food providers, many restaurants that traditionally had not considered themselves as retailers are now adopting retailing principles to attract customers and satisfy their needs.

The number of restaurants in the U.S. is expected to exceed 1 million by 2010 (Nayyar 2002). Increased competition has kept food prices down in recent years while incomes (on average) have risen. Thus, consumers can afford to be more selective (Nayyar 2002). Americans spend just 10 percent of their disposable income on snacks, meals and beverages compared with 24 percent in 1929 (Nayyar 2002).

Although location has long been touted as the single most important factor in determining the success of a retail outlet, Ingene (1984) suggests that

customer satisfaction with a retail outlet is dependent both on location and the manager's ability to employ the retailing mix. Mejia (2002) argues that non-spatial factors are as important to shopping center patronage as spatial factors.

A controversial topic in the literature involves the way in which subjects are asked about their shopping trips. Louviere and Johnson (1990) suggest that subjects usually report either the most frequent store choice for an outlet type or the most recent store choice for an outlet type. Studies that ask subjects to report the most frequent store choice (or favorite store) include Gautschi (1981), Jain and Mahajan (1979), and Nevin and Houston (1980). Stanley and Sewall (1976) asked subjects to report the store in which they spent the most dollars. Ghosh (1984) had subjects name every store within the study area in which they had shopped at least once during the previous year. Ghosh and McLafferty (1987) suggest that a method ideally suited to telephone surveys is to ask subjects to name the store they visited on their most recent shopping trip.

The purpose of the present study is to examine whether asking consumers about the "most recently shopped outlet" versus their "most frequently shopped outlet" has any influence on their ratings of 20 retail image attributes on four types of food outlets: supermarkets, convenience stores, quick-service restaurants, and full-service restaurants. The study uses Golden, Albaum, and Zimmer's (1987) numerical comparative scale to elicit perceptions of multiple image objects (food outlets)



across multiple image attributes dimensions (price, location, safety, friendliness, etc.).

## METHODOLOGY

The study's 20 scaled image perceptions include the 19 store characteristics chosen by Golden, Albaum, and Zimmer (1987, p. 398-399) to "(1) reflect a comprehensive array of image attribute dimensions, (2) represent attributes most frequently investigated in the literature, and (3) reduce redundancy in attribute dimensions." The 19 scale items include: inconvenient/convenient; low/high price; dirty/clean; hard/easy to get credit; cluttered/spacious; unpleasant/pleasant atmosphere; low/high quality merchandise; dull/exciting; bad/good selection; unsophisticated/sophisticated customers; unfriendly/friendly salespeople; low/high caliber; dislike/like; unhelpful/helpful salesperson; bad/good reputation; uncongested/congested; not enjoyable/enjoyable; hard/easy to exchange merchandise; bad/good value. In addition to these 19 store characteristics, a twentieth store characteristic, safe/unsafe, is included due to consumer concerns about safety in light of the events of September 11, 2001.

Golden, et al.'s (1987) numerical comparative scale was selected because of the ease of obtaining ratings of multiple objects across multiple dimensions in a shorter questionnaire space than can be done with the traditional or modified semantic differential scales. Instructions to data collectors and subjects are also simple with the numerical comparative scale. In addition, the numerical comparative scale has been found to be particularly effective for subjects rating familiar retail outlets. Finally, the numerical comparative scale compares favorably with other scales on response rate, data content and data quantity measures.

The present study asked subjects to rate the outlet they had visited most often in the last year as well as the outlet visited most recently for each of the outlet categories: supermarkets, convenience stores, quick service restaurants, and full-service restaurants. Demographic data gathered for the study included age, gender, marital status, ethnic group, education, number of children (under 18) living in the household, number of adults (18+) living in the household, and annual gross household income.

## RESULTS

### Analysis of Means

Means and variances were computed for each retail image attribute dimension. Subjects rated the retail image attribute dimensions on a seven-point scale with "1" considered the worst rating and "7" considered the best rating. Subjects rated the store shopped "most frequently" in the last year for each of the four outlet types as well as the store shopped "most recently" for each of the four outlet types. The means for the retail attributes were then ranked from highest to lowest for each of the four outlet types.

**Supermarket Data.** Subjects rated safety higher than any other retail image attribute for the supermarkets shopped most frequently. Safety, however, dropped to 14<sup>th</sup> place for the supermarkets shopped most recently. Subjects rated convenient location in second place for the supermarkets shopped most frequently while they ranked convenient location in first place for the supermarkets shopped most recently. Subjects rated "uncongested" (with a mean of 3.870) lower than any of the other retail image attributes for the supermarkets shopped most frequently. The image attribute of "exciting" (with a mean of 3.405) was ranked lower than any of the other retail image attributes for the supermarkets shopped most recently. The standard deviation for "uncongested" was the largest standard deviation among the retail attributes for supermarkets shopped most frequently while the standard deviation for "safe" was the largest standard deviation among the retail attributes for supermarkets shopped most recently. "Low price" was the only other retail image attribute with a mean rating below 4.0 for supermarkets shopped most frequently while "low price" was the only other retail image attribute with a mean rating below 4.0 for supermarkets shopped most recently.

**Convenience Store Data.** Subjects rated "convenient location" higher than any other retail image attribute for both convenience stores shopped most frequently and convenience stores shopped most recently. "Safe" ranked second highest for convenience stores shopped most frequently, but dropped all the way to 20<sup>th</sup> place for convenience stores shopped most recently. "Safe" had the largest standard deviation for supermarkets shopped most frequently while this retail image attribute had the second largest standard deviation for convenience stores shopped most recently. Subjects rated "exciting" (with a mean of 3.552) the lowest among the 20 retail image attributes for convenience stores shopped most frequently. Only the retail attribute ratings in 20<sup>th</sup> place (for both convenience stores shopped most frequently and convenience stores

shopped most recently) received a mean rating below 4.0.

**Quick-Service Restaurant Data.** The top retail image attributes were identical for quick-service restaurants shopped most frequently and quick-service restaurants shopped most recently. Safety came in first place followed by "convenient location" in second place and "like" in third place.

"Easy to get credit" ranked the lowest of retail image dimensions for quick service restaurants shopped most frequently. Other dimensions receiving less than a 4.0 mean included "exciting" and "low price." For shopped most recently, "uncongested," "easy to obtain refund," and "exciting" were all rated at the bottom. The primary differences in the rankings are "good selection," which rated fifth for most frequently shopped but 12<sup>th</sup> for most recently shopped, and "good value," which rated 14<sup>th</sup> for most frequently shopped but 12<sup>th</sup> for most recently shopped.

**Full-Service Restaurant Data.** Subjects rated the global perception of "like" higher than any other retail image dimension for full-service restaurants. Safety, pleasant atmosphere and good value were also among the top retail image attributes for full-service restaurants shopped most frequently. "Easy to obtain refund" was rated lowest for full service restaurants shopped most frequently. Others at the low end of the ratings included "easy to get credit," "uncongested," and "low price." Rankings were similar between most frequently shopped and most recently shopped, except for the attributes "safe," rated second for most frequently shopped and 10<sup>th</sup> for most recently shopped, "good value," rated fourth for most frequently shopped and ninth for most recently shopped, "helpful staff," rated sixth for frequent but 12<sup>th</sup> for most recently, and "friendly personnel," rated 10<sup>th</sup> for frequent but third for most recent. Otherwise, top to bottom rankings are very similar for full-service restaurants.

#### **Analysis of Sums of Means**

Since consumers often come up with a global attribute rating for a retail outlet, the means for all 20 retail image attributes were summed to provide a total score for each outlet type for the store visited most frequently and the store visited most often.

Using paired t-tests to compare the summed means, we found that the summed means for each outlet type were not significantly different at the .05 level for the outlets shopped most frequently versus

the outlets shopped most recently, except for supermarkets, with a p-value of .043.

#### **Demographic Data**

Respondents are primarily young with 82.6 percent of the respondents under 45 years of age, and nearly evenly split between female and male (52.3 to 47.7 percent). Thirty-five percent of the respondents were married, and 80 percent of the respondents are Caucasian. A large majority (86.8 percent) has at least some college education. The sample shows 63.3 percent with no children in the household, and 57.3 percent live with one other adult. An additional 24.4 percent report living with more than two adults. A large percentage, 31 percent, reports household income of less than \$10,000. Since this sample is drawn from a county where the primary employers are state government and two major state universities, the county population skews toward young and relatively low income. A comparison of survey respondents to demographic data for the county indicates the sample is representative of the county's population.

## **DISCUSSION**

### **Ratings of Retail Image Attributes**

Gardyn (2002) suggests that the events of September 11, 2001 are likely to fuel consumer demand for "traceability" or the ability to trace food to its place of origin. As consumers solve their physiological need for food, they also want to solve their needs for safety. Safety was rated the highest amongst the 20 retail image dimensions for both supermarkets and quick-service restaurants for most frequently shopped and second highest for both convenience stores and full-service restaurants. Safety ratings dropped to 14<sup>th</sup> for supermarkets, 20<sup>th</sup> for convenience stores, and 10<sup>th</sup> for full service restaurants for most recently shopped. Since the subjects provided ratings for their favorite store for each retail outlet type, it appears that they are gravitating toward locations they perceive to be safe for stores they shop at most frequently. Consumers do not consider safety as important an issue for the stores they shopped at the most recently. The single exception was for quick-service restaurants that subjects using the two shopping modalities reported as equally important. It seems likely that due to the more urgent nature of recency, shopping location simply overwhelmed other image attributes.

Future research should also ask consumers the *importance* of the retail attributes in their



selection of retail outlets. Rankings of attributes may provide more information to retail managers than ratings of attributes.

### Managerial Implications

In a recent *American Demographics* article, Rebecca Gardyn (2002) identifies five key trends taking shape in the three major food industry categories (packaged food manufacturers, restaurants and retail distributors). The trends include (1) convenience; (2) good for you; (3) customized; (4) flavor burst and (5) safe. The present study is in full agreement with the convenience trend as well as the safety trend. The other three trends are beyond the scope of the present study.

It appears that consumers seek similar attributes with supermarkets, convenience stores and quick-service restaurants. Consumers in the present study, however, rated full-service restaurant attributes very differently. Thus, managers in the supermarket, convenience store, and quick-service restaurant industries may think of themselves as direct competitors while they think of full-service restaurants as indirect competitors. Full-service restaurants appear to be solving different needs such as entertainment and excitement while supermarkets, convenience stores and quick-service restaurants solve more routine day-to-day needs. Of course, managers should also be aware that we are assessing cognitions as well as affective reactions interpreted through cognition. For instance, the perceived excitement of a restaurant is actually an evaluation of affect filtered through cognition.

### Limitations of the Study

The present study has several limitations. First, it is limited to only one medium-size southern city. Cities of varying sizes may have different results. Regional differences may also exist. Ghosh, et al. (1984) surmised nearly twenty years ago, however, that many results of many retail studies could be generalizable throughout the U.S. "due to the proliferation of retail outlets selling almost identical goods and services."

A final limitation of the study is that it relies on consumers' willingness to reveal their honest perceptions. A few subjects may have given "expected" or "socially acceptable" answers to the survey rather than their true perceptions.

### Conclusions

Overall, the study indicates that global perceptions of retail outlets may not be significantly different for outlets shopped most frequently versus outlets shopped most recently, with the exception of supermarkets. Managers of supermarkets, convenience stores, quick-service restaurants, and full-service restaurants, however, should pay particular attention to the varying perceptions of individual retail image attributes for outlets shopped most versus outlets shopped most recently. Safety appears to be an issue which is particularly important for managers to look after. Although many consumers in the study gave up safety on their most recent visit to an outlet, safety was extremely important when it came to the most frequently visited or favorite outlets in the study.

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*Tables are available upon request from the authors.*

# CONSUMER PURCHASING OF FAKE PRODUCTS IN A TRANSITIONAL ECONOMY

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## ABSTRACT

*This study examines consumers' inclination to purchase counterfeits at various price levels relative to retail prices of genuine branded products, and explores the effects of various socio-economic and socio-psychological characteristics. Using path analyses to test the system of structural relationships among the variables, inconsistent pattern of results were found across three classes of fake products.*

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## INTRODUCTION

According to some estimates, international trade in counterfeit products accounts for three to six percent of overall world trade, with trends indicating that the counterfeit product market is booming (Delener 2000). With counterfeit merchandise cutting across various industries in business-to-consumer and business-to-business markets in industrialized and emerging economies alike, trademark infringement cannot be ignored. Such illegal practices can be reduced by cutting into either of the two sides in the exchange: the supply side of counterfeits or the demand side for counterfeits. While the supply side of counterfeiting has received considerable attention in the literature, investigations focusing on the demand side are still scarce (Ang, Cheng, Lim and Tambyah 2001; Bloch, Bush and Campbell 1993). This study focuses on the demand side of counterfeiting, examining consumer perceptions of non-deceptive counterfeiting in an emerging transitional economy of Slovenia. More specifically, this study addresses factors underlying consumers' attraction to lower priced counterfeits in three product-categories, two fashion-oriented products (a branded T-shirt and a watch), and a software.

## LITERATURE REVIEW

While various theories and models attempt to explain ethical behavior in a marketing context, studies specifically addressing determinants of illegal and inappropriate consumer behavior are scarce and scattered. For instance, Ferrell and Gresham's (1985) model suggests that the decision process individuals encounter when faced with an ethical issue (such as in case of non-deceptive counterfeit product

purchasing dilemma) is affected by individual factors (e.g., knowledge, values, attitudes, and intentions), significant others (differential association and role set configuration) and opportunity (e.g., professional codes, rewards and punishments). Yet other researchers believe context specific frameworks are needed when examining determinants of individual illicit products, such as in case of software piracy (Simpson, Banerjee and Simpson 1994).

Despite the paucity of theoretical guidance, literature in the field and recent empirical studies seem to suggest that various individual characteristics and situational factors motivate people to willingly engage in misbehavior such as the purchasing of fake branded products. Price advantages of counterfeits relative to genuine products play a major factor in consumer continuing demand for counterfeit products (Bloch et al 1993; Schlegelmilch et al 1998). Other factors underlying consumer counterfeiting behavior suggested in the literature include a) the penalty and sanctions associated with criminal behavior, b) direct or indirect social pressure (e.g., whether the person is conducting illegal behavior in the presence or absence of others), c) personality traits and characteristics of individuals, and d) the ability of participants to rationalize the behavior (Albers-Miller 1999; Ang et al 2001; Simpson et al 1994; Strutton et al 1997). Hence, against this background, we explore consumer willingness to purchase fake products. As several consumer behavior researchers suggest, consumers always balance monetary cost on one hand and other types of costs on the other against perceived benefits, and there is no reason to believe the case of consumers contemplating the purchase of a fake product over a genuine product would be different (Ang et al 2001; Bloch et al 1993). Hence,

the willingness to purchase construct refers to an individual's inclination to purchase counterfeits at various price levels relative to retail prices of genuine branded products.

We propose that consumer willingness to purchase a fake product will be a function of three underlying factors previously identified in the literature, and believed to be category- (counterfeit products) rather than product- specific: a) a person's attitude towards piracy and counterfeiting, b) consumer innovativeness as a personality trait factor, and c) consumer perception of social consequences of purchasing and using fake products. In turn, these three factors are influenced by consumer demographics and religious beliefs, which affect an individual's willingness to purchase counterfeits only indirectly. We hypothesize that consumer willingness to purchase counterfeit products is influenced by their attitudes towards counterfeit products, perceptions of social consequences, and by their innovativeness with regard to new products in general. In turn, these three factors are influenced by consumer demographics and religious beliefs. As most ethical behavior models and empirical studies suggest, factors endemic to the individual such as age, gender, educational, marital status and income, as well religious beliefs will impact a person's ethical dilemmas (i.e., willingness to purchase a counterfeit product) directly or indirectly (Schlegelmilch 1998; Simpson et al 1994; Ferrell and Grisham 1985). Not only do we hypothesize in our conceptual model that the three socio-psychological constructs directly affect an individual's willingness to purchase fakes, but we also postulate that innovativeness influences the other two factors, i.e., attitudes towards piracy and perceptions of social consequences. Consistent with the literature reviewed earlier, more innovative people are believed to have a greater ability to rationalize particular behavior (i.e., positive attitude towards piracy) and they are less prone to conform to what is considered socially desirable in a given cultural environment (i.e., perceptions of social consequences).

#### METHODOLOGY AND SAMPLE CHARACTERISTICS

Research propositions were investigated on a convenience sample of 223 consumers in the advanced transitional CSEE economy of Slovenia. As part of their study program, senior undergraduate and part-time MBA students at two major universities were asked to administer the survey in their local communities and at work. A self-administered survey was utilized as a data collection methodology. The

questionnaire was divided into four parts and was based on the existing knowledge of counterfeiting, established measures in the literature (e.g., Bloch et al. 1993; Kecskes and Wolf 1993; Raju, 1980; Schlegelmilch et al 1998) and self-constructed measures. Five point Likert type scales were used to measure socio-psychological constructs and respondents' willingness to purchase a fake at various prices levels.

As for demographic characteristics of our respondents, our sample consisted of 61.8% female respondents with an average age of 28.33 years (SD of 13.37). Less than a quarter of the sample (23.3%) attained college education, and 36.75% of the respondents were married or shared a household with a partner. For two-thirds of the respondents, their net monthly income was lower than 100.000 SIT, which was, at the time of the data collection, comparable to the average net monthly income in Slovenia (*Statistical Yearbook of Republic of Slovenia, 1999*).

#### DATA ANALYSES

Analyses of data were performed in two steps. First, all Likert-scale type statements were factor analyzed and alpha estimates computed to obtain reliable measures of the constructs in the model. Second, path analysis was run to test the system of structural relationships among the variables, and examine the determinants of consumer willingness to purchase counterfeit products. The variables consisted of four constructs, five socio-economic variables, and three measures of consumer willingness to purchase fake goods. The four constructs included attitudes towards purchasing counterfeit goods, perceived social consequences of purchasing fake goods, innovativeness and religiosity. The three measures of consumer willingness to purchase fake goods were: a) consumer willingness to purchase a fake LaCoste™ shirt (WTP<sub>s</sub>), b) willingness to purchase counterfeit software (WTP<sub>c</sub>), and c) willingness to purchase a fake Rolex™ watch (WTP<sub>w</sub>). Each WTP item consisted of three 5-point scales measuring consumer willingness to purchase a counterfeit merchandise if it were priced below the price of the genuine brand at a 20, 40 and 60 percent lower price. For all four constructs, the Cronbach's alphas are within the prescribed range of alpha requirement for psychometric scales.

In the second stage of analyses, path analysis was run to test the system of structural relationships. We ran three separate models, one for each product specific measure of consumer

## FINDINGS AND DISCUSSION

willingness to purchase fake goods. Each model was specified as a recursive system with six exogenous variables  $x_i$  and four jointly dependent endogenous variables  $Y_i$ . The exogenous variables included the religiosity construct and the five socio-economic variables, and the endogenous variables included consumer attitudes towards piracy, perceived social consequences, the innovativeness construct and a willingness to pay construct. The five socio-economic variables tested in the model were age, sex, education, partnered status, and income. Due to a broad range of respondents' age and a consequently large variance, a logarithm of age was used. Since the observations of other socio-economic categories were found unevenly distributed in the sample, they were converted to binary variables (Bollen 1989). The three models were identical in their set up, replacing  $WTP_s$  in the first model with  $WTP_c$  in the second model, and with  $WTP_w$  in the third model. Basic identification rules followed guidelines provided by Bollen (1989). As several of the variables were dichotomous, a polychoric correlation matrix was computed using the PRELIS software (Joreskog and Sorbom, 1996), and all estimations were performed using Weighted Least Squares option in the LISREL software.

The findings of the path analysis are discussed in three steps. For each step, the findings for each of the three models ( $WTP_s$ ,  $WTP_c$  and  $WTP_w$ ) are presented. Table 1 reports on the results of the first step, specifying standardized total effects of socio-economic variables and the religiosity construct on consumer attitudes towards piracy, perceived social consequences and consumer innovativeness. Results indicate that religiosity was a significant predictor of respondents' attitudes toward piracy in all three models, with the two variables being negatively related. As expected, more religious people were less able to rationalize the existence of, costs involved, pricing and quality of fakes than their less religious counterparts. Religiosity seemed to have impacted the perception of social consequences in the case of pirated software (with more religious people more concerned with the embarrassment potential of being discovered), but not in the case of branded fashion products (a T-shirt and a watch). The effect of religiosity on innovativeness was significant in two models, i.e., for a T-shirt and a computer software, but not in the model of willingness to purchase a fake Rolex.

**Table 1. Standardized Total Effects of Socio-Economic Variables and the construct of Religiosity on Consumer Attitudes, Social Consequences and Innovativeness**

		<i>Religiosity</i>	<i>Age</i>	<i>Sex</i>	<i>Partner</i>	<i>Education</i>	<i>Income</i>
Model 1	Attitudes tw. Piracy	-0.25***	-0.19	-0.21**	-0.06	0.31	-0.17
Counterfeit shirt	Social Consequences	0.09	-0.12	0.06	0.10	0.13	-0.10
	Innovativeness	-0.20***	0.15	-0.05	-0.05	-0.02	0.16
Model 2	Attitudes tw. Piracy	-0.17***	-0.06	-0.23***	0.32	0.25	0.10
Counterfeit software	Social Consequences	0.18***	-0.31	0.05	-0.37	0.18	-0.33
	Innovativeness	-0.05***	0.19	-0.06	-0.07	-0.24	0.29
Model 3	Attitudes tw. Piracy	-0.15**	-0.11	-0.19	0.17	0.30	0.02
Counterfeit watch	Social Consequences	0.09	-0.40	0.07	-0.32	0.28**	-0.33
	Innovativeness	-0.07	0.09	-0.11	-0.09	-0.20	0.31

Note: \*  $p < 0.05$  \*\*  $p < 0.01$  \*\*\*  $p < 0.001$

Contrary to our expectations, other socio-economic variables had little effect on the three socio-psychological variables in our conceptual model, with the exception of *sex* influencing respondents' attitudes towards piracy when modeling data for a T-shirt and computer software, and the level of *respondents' education* on perceived social consequences when modeling consumer willingness to purchase a fake Rolex watch. In both models 1 and 2, men had significantly more positive attitudes

towards counterfeiting practices and were better able to justify their existence than the females in the sample. This finding is consistent with the evidence obtained in a recent study of buyers vs. non-buyers of a pirated music CD in Asia (Ang et al 2001). Furthermore, in model 3 ( $WTP_{watch}$ ) only, the education had a positive and significant effect on the respondents' attitudes towards social consequences of buying and using a knock-off product, with more educated respondents being more concerned with the

social consequences of being discovered should they engage in an illicit behavior.

We also postulated that innovativeness influences the other two factors, i.e., attitudes towards piracy and perceptions of social consequences. Table 2 shows the results of this second step of the path analysis for all three measures of consumer willingness to purchase a counterfeit merchandise. The results indicate a negative and strong relationship between innovativeness and respondents perception of social risks involved in purchasing and using fake products in all three models, i.e., counterfeit T-shirt, computer software and a fake Rolex watch. This is consistent with the

existing knowledge of the associations between personality traits and actual adoption behavior (for a review, see Rogers, 1983). Early adopters of novel products have been frequently (though not always) found to have higher ability to deal with abstractions and cope with uncertainty and risk, and they are less fatalistic and dogmatic (Steenkamp et al 1999). Moreover, findings of the first model indicate that more innovative people not only care less about the social consequences, but also have a stronger ability to justify counterfeiting practices. On the other hand, results presented in Table 2 indicate that consumer innovativeness has no bearing on respondents' attitudes towards piracy in models 2 in 3.

**Table 2. Standardized Total Effects of Innovativeness on Consumer Attitudes and Social Consequences**

		<i>Innovativeness</i>
Model 1 <sup>a</sup>	Attitudes tw. Piracy	0.19***
Counterfeit shirt	Social Consequences	-0.29***
Model 2 <sup>b</sup>	Attitudes tw. Piracy	0.00
Counterfeit software	Social Consequences	- 0.19***
Model 3	Attitudes tw. Piracy	0.00
Counterfeit watch	Social Consequences	-0.19***

Note: \*  $p < 0.05$  \*\*  $p < 0.01$  \*\*\*  $p < 0.001$

Finally, in the last step, we focus on direct effects of consumer attitudes towards piracy, innovativeness, and perceptions of social consequences on respondents' willingness to purchase fakes regardless of the product class involved. Standardized effects of consumer attitudes, innovativeness and social consequences on willingness to purchase fakes are presented in Table 3 for all three models. The hypothesized effects of consumer attitudes towards piracy and perceptions of social consequences on willingness to purchase fakes are confirmed when modeling data for respondents' willingness to purchase a counterfeit T-shirt and a

watch (models 1 and 3), but not their willingness to purchase a counterfeit computer software (model 2). This means that respondents with greater ability to rationalize illicit behavior and weaker perceptions of social risks involved in purchasing and using fakes are more willing to purchase pirated branded fashion products, but no more willing to buy a pirated software. Results in Table 3 also indicate that consumer innovativeness is significantly and positively related to consumer willingness to purchase a counterfeit software and a Rolex but not his/her willingness to purchase a fake LaCoste T-shirt.

**Table 3. Standardized Total Effects of Consumer Attitudes, Innovativeness and Social Consequences on Willingness to Purchase Fakes**

	<i>Attitudes tw. Piracy</i>	<i>Social Consequences</i>	<i>Innovative-ness</i>
Model 1: WTP shirt	0.27***	-0.54***	0.04
Model 2: WTP software	-0.02	-0.03	0.36***
Model 3: WTP watch	0.14***	-0.38***	0.24***

Note: \*  $p < 0.05$  \*\*  $p < 0.01$  \*\*\*  $p < 0.001$

## FINDINGS AND CONCLUSIONS

This study sought to generate some insights into non-deceptive counterfeiting by focusing on

consumers in an emerging CSEE country. The findings of modeling a fake T-shirt data indicate, that consumer willingness to purchase this product is a function of religiosity and gender (indirect effects



through attitudes for both variables and through innovativeness for religiosity), and a function of respondents' attitudes towards piracy and their perceptions of social consequences. In model 1, consumer innovativeness had only an indirect effect through the other two socio-psychological variables. Despite the somewhat similar product class in the third model (a pirated branded fashion product, i.e., a Rolex watch), the indirect effects of religiosity and socio-economic variables on the WTP watch were different (i.e., impact of religiosity through the attitudes only and education through social consequences variable) as were the indirect effects of innovativeness (influenced the social consequences only - rather than both central constructs as in model 1). Furthermore, the differences pertained to the direct effects on WTP as, unlike in the WTP shirt model (1), all three socio-psychological constructs had a significant impact on the endogenous WTP watch variable. Yet another pattern of results can be seen when modeling WTP pirated computer software. In model 2, the indirect effects of exogenous variables were somewhat similar to those in model 1 (WTP shirt) with religiosity influencing WTP through all three socio-psychological variables and gender through the attitudes only. The indirect effect of innovativeness (through social consequences) represents a pattern of influences which is closer to that of model 3. Unlike in models 1 and 3, consumer

innovativeness was the only socio-psychological variable with a direct effect on consumer WTP a pirated computer software.

In comparing the measures of fit across the three models of WTP (Table 4), we find that these are comparable. As a standard measure of fit, the chi-squares (ranging between 113 and 327) are provided - although were significant (at  $p < 0.001$ ); this is not surprising considering that correlation rather than covariance matrices were used in the estimation. Bollen (1989) suggests using other measures of fit. These are within an acceptable range for all three models of WTP. Next, we examined the variance in WTP explained in each model. The amount of variance in WTP was calculated using a measure of squared multiple correlations for the structural equations, indicating that model 1 performed best since significant variables in the model explained 38 percent of the variance, followed by model 3 (24 percent of variance) and model 2 (14 percent of variance explained). Overall, we can conclude that the pattern of findings, while inconsistent across the three product classes, seem more coherent for WTP pirated fashion products (models 1 and 3) than in the case of a counterfeit computer software. As suggested by others, consumer illicit behavior may be product specific (Chakraborty et al 1996).

**Table 4. Measures of Fit**

	Model 1	Model 2	Model 3
Chi-square(df)	326.9	166.7	113.1
Goodness of Fit Index (GFI)	0.98	0.99	0.99
Adjusted Goodness of Fit Index (AGFI)	0.96	0.98	0.99
Root mean square Error of Approximation (RMSEA)	0.23	0.16	0.12
Root Mean Square Residual (RMR)	0.12	0.09	0.07
Standardized RMR	0.088	0.08	0.06

Since this study represents a preliminary attempt at studying factors underlying consumer counterfeiting behavior in a different cultural environment relative to existing empirical research, our findings should be interpreted with caution. Future studies should further examine the role of product specificity in consumer illicit behavior, and possibly examine other psycho-sociological constructs to increase the explained variance of the models. Our findings indicate that studying direct and indirect effects of consumer innovativeness, in particular, should bear useful results.

As the countries of Central, Southern and Eastern Europe (CSEE) continue to make progress in

their evolving market economies, international marketers and investors will have an increasing need for understanding behavioral patterns and attitudes of CSEE consumers, particularly in view of the reportedly increasing volume of counterfeiting practices in the region (Crisp 1993; Delener 2000). It is our contention that any strategy aimed at managing the counterfeit problem should include ways to reduce the demand for counterfeits. In order to accomplish this, managers need to have a strong cognizance of the most effective means of communication to be directed at the right target audience. Studies such as this one can facilitate this understanding.

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# STRATEGY AS A PREDICTOR OF RESOURCE MANAGEMENT EMPHASIS: A THEORETICAL PERSPECTIVE

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## ABSTRACT

Scholars have shifted their emphasis from firm resource levels to resource management. From this perspective, resources must be "transferable" to varied business environments. Morgan (1999) enumerates a set of resource management activities that allows managers to construct superior resource stocks: a) acquisition of resources, b) bundling/combining resources, c) positioning of resources, and d) maintenance/protection of resources.

P<sub>1</sub>: Emphasis on efficient acquisition of resources will be more positively linked to firms that adopt a low cost strategy than to firms that adopt a differentiation strategy

Morgan (1999) holds that "efficient acquisition" means obtaining resources at "bargain" prices. Acquiring resources at "high" prices provides no potential to earn profits in excess of the market return. Firms pursuing a cost strategy have opportunities to reduce acquisition costs. "The cost of a value activity can decline over time due to learning" (Porter, 1985, p. 73). White (1986) suggests that a cost strategy requires efficient management of organization processes. He finds that, among firms pursuing a cost strategy, performance improves when management limits autonomy at lower levels; conversely, allowing managers at lower levels discretion drives costs higher.

P<sub>2</sub>: Emphasis on bundling/combining resources will be more positively linked to firms that adopt a differentiation strategy than to firms that adopt a low cost strategy

For Wernerfelt (1984, p. 171), bundling/combining is important because "resources and products are two sides of the same coin." The value of a resource derives from the ability to bundle multiple resources into products. White (1986) finds that successful differentiators excel at "fusing" resources from across the organization. Porter (1985, p. 119) asserts, "Successful differentiation strategies grow out of coordinated efforts of all parts of a firm."

P<sub>3</sub>: Emphasis on positioning of resources will be more positively linked to firms that adopt a differentiation strategy than to firms that adopt a low cost strategy

Collis (1991) states that the ability to craft a unique competitive space often provides the basis for competitive advantage. Porter also notes that finding a unique position is particularly important because "Marketing and sales activities also frequently have an impact on differentiation. A firm may also differentiate itself through the breadth of its activities, or its competitive scope" (Porter, 1985, p. 121).

P<sub>4</sub>: Emphasis on maintenance/protection of resources will be more positively linked to firms that adopt a low cost strategy than to firms that adopt a differentiation strategy

Competitive advantage flows only from resources that remain protected. "Where spillover of learning among firms is high in a value activity, the rate of learning may stem more from total industry learning than from the learning of one firm. Since a sustainable cost advantage results only from proprietary learning, the rate of spillover also determines whether learning serves to create a cost advantage..." (Porter, 1985, p. 74).

P<sub>5</sub>: An emphasis on bundling/combining resources, positioning resources, and adoption of a differentiation strategy will be positively related to financial success

P<sub>6</sub>: An emphasis on efficient acquisition of resources, maintenance/protection of resources, and adoption of a low cost strategy will be positively related to firm financial success

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# MARKETING AND LEGAL ASPECTS OF MASTER FRANCHISING FOR INTERNATIONAL VENTURES

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## ABSTRACT

*This paper explores some of the marketing and legal considerations associated with the establishment of franchise agreements, with emphasis on master franchising. The authors review the franchising, identify master franchising as a strategic option, focus on the mechanics of structuring agreements, and explore strategies, trends, opportunities and limitations of international franchising.*

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## INTRODUCTION

It is clear that franchising played critical role in the U.S. economy in the Twentieth Century, and will continue to be increasingly important in the Twenty-first. There are more than 1,500 franchises whose franchisees operate nearly 500,000 outlets in the United States, accounting for about *one trillion* dollars in annual retail sales, well over one third of total retail sales in the United States ([www.franchise.org/news/usatoday/feb00.asp](http://www.franchise.org/news/usatoday/feb00.asp)). Of particular interest is the fact that in many underdeveloped and emerging economies around the world, U.S. franchises are just now beginning to change the face and the feel of the marketplace. ([www.franchise.org/intl/News/Prjf6.asp](http://www.franchise.org/intl/News/Prjf6.asp)). Our purpose for this paper is to explore some of the marketing and legal considerations that are associated with the establishment of franchise agreements. In particular, our focus is on the strategy called *master franchising*.

## OVERVIEW OF FRANCHISING

Franchising is "a method of doing business by which the franchiser is granted the right to engage in offering, selling, or distributing goods or services under a marketing format which is designed by the franchiser. The franchiser permits the franchisee to use the franchiser's trademark, name, and advertising." (USDOC 1987: 2). Under a traditional franchise relationship, the franchiser offers the right to distribute goods or services that bear the franchiser's trademark, service mark, trade name, advertising, or other commercial symbol. There are two general types of franchise arrangements:

- *Product and trade name franchising*, characterized by product distribution arrangements in which the dealer is identified with the manufacturer or supplier ([www.frannet.com/resource/international.html](http://www.frannet.com/resource/international.html)). As such, the franchisee concentrates on one product line. "The franchiser grants the franchisee the right to sell the franchiser's product(s) at a particular location within a particular territory" (Lamkin 2002)
- *Business format franchising* in which there is complete identification of the dealer with the buyer ([www.frannet.com/resource/international.html](http://www.frannet.com/resource/international.html)). This option involves the licensing of a trademark or service mark, plus a standardized format for conducting business, and an image attached to the goods and/or services (Lamkin 2002).

In master franchising, a franchiser has the ability to open numerous franchise locations either individually, called *single unit franchises*, or by a process called *subfranchising*. Master franchising is especially prevalent in two circumstances: (1) When a new franchise opportunity is being launched in the domestic market and the franchiser wishes to expand locations rapidly; and (2) In international franchising, where the franchiser wishes to establish large territorial franchises (city/region/nation) through one individual or a single business entity that will then be responsible to create subfranchisees, either on the basis of an overall plan or according to the dictates of the market.

For the subfranchisee, it is key to differentiate between a *contractual obligation* to create additional

locations, a practice that may involve expansion before time or financial realities might dictate such expansion, and the *opportunity to open* new franchise locations, based upon the existence of sound financial data and an exercise of business judgment. In recent years, a majority of U.S. franchisers, including such giants as McDonald's, KFC, Pizza Hut, Holiday Inn, and Wendy's, have employed a multi-faceted strategy in creating subfranchises in foreign countries. Franchisers have awarded *multiple-unit franchises* to aggressive entrepreneurs who will develop an entire geographic region, either through their own efforts and resources or by subfranchising to third parties. Alternatively, franchisers may engage a foreign business partner through a *joint venture* or, in some cases, through a traditional *licensing arrangement*. The inclusion of multiple-unit franchises in a franchiser's overall development strategy or strategic plan allows for rapid market penetration and a reduction in administrative burdens and costs to the franchiser through effective cost-shifting techniques.

Subfranchisers generally act as independent marketing agents and are responsible for the recruitment and continuous support of franchisees within their region. To ensure uniformity and in the exercise of its core *quality control* obligation, the franchiser controls how franchisees conduct their businesses. Examples of such controls include site approval, design or appearance standards, restrictions on goods or services offered for sale, restrictions on the method of operation, and restrictions on sales areas. Franchisers may also establish *area developers*, who have no resale rights, but are responsible instead for meeting a "mandatory development schedule" in their region. Key issues in structuring an area development agreement revolve around the size of the territory, fees, and establishing a mandatory timetable for development of the individual franchise units. Additionally, there are three basic fees in the franchising relationship: the **franchise fee**, the **royalty fee**, and a **marketing or advertising fee**. The franchiser will typically retain certain rights in the event the franchisee defaults on its development obligations. The area developer will pay an umbrella fee for a region, termed a **development fee**. The amount of the fee is contingent upon factors such as the strength of the franchiser's trademarks, reputation, market share, the size of the territory, and the term (including any renewal period) of the agreement. The development fee is essentially a payment to the franchiser that prevents the franchiser from offering any other franchises

within that region unless there is default, most especially where the franchisee fails to meet any mandatory development schedule.

## STRUCTURING SUBFRANCHISING AGREEMENTS

In most subfranchising relationships, the franchiser will share a portion of the initial franchise fee and any ongoing royalties with the subfranchiser. In exchange, the subfranchiser will assume many management responsibilities in the region. The proportion in which fees are shared is in direct relationship to the responsibilities assumed by the subfranchiser. In addition, and as a reflection of the quality control obligation of the franchiser, the subfranchiser will receive a comprehensive regional operations manual that deals with sales and promotions, training, and field supervision. The regional operations manual will be more detailed than the information contained in the standard operations manuals normally provided to the individual franchisees because of the unique nature of the relationship between the parties in a subfranchising relationship. Many franchisers provide extensive training at their own "universities" (e.g., *Hamburger University* (McDonald's)). Contents of a typical franchisee training manual, which are held to be confidential, might include: basic information on the industry, the franchiser, the franchise contract, licenses, and patents; financial and accounting information; marketing information; operations information; service and production information; and management and personnel information (cf., Justice and Judd 1998, Emerson 1990).

### The Regional Development Agreement

A subfranchiser may enter into a *regional development agreement* (RDA) with the master franchiser, under which the subfranchiser is granted certain rights to develop a particular region. The RDA is not in itself a franchise agreement and grants no rights to a subfranchisee to operate any individual franchise units. Rather, the RDA grants the subfranchiser *the right to offer franchises* to individuals using the master franchiser's marketing system and proprietary marks solely for the purpose of recruitment, management, supervision, and support of individual franchise units. To the extent that the subfranchiser itself is permitted to develop franchise units, a standard individual franchise agreement for each unit will be executed. The advantages of subfranchising to the master franchiser include the possibility of rapid market

penetration, the delegation of obligations that the master franchiser would otherwise be required to fulfill to each franchisee in its "franchise network" to the subfranchisee, and the opportunity to collect a portion of the initial franchise and royalty fee from each franchisee, generally without the same level of effort that would be required in a more direct single-unit relationship.

### Joint Ventures

In the context of international franchising, many prominent American franchisers have successfully penetrated foreign markets through the use of a joint venture agreement in which parties enjoy co-ownership and are responsible for co-development of the franchise market, and they also share risks (Harrigan 1988). The franchiser licenses trademarks and service marks to the joint venture entity. A joint venture may also be established when a franchiser wishes to offer products or services to existing franchises. However, before a joint venture can be undertaken, several preliminary questions should be addressed, for example: (1) What tangible and intangible assets will each party contribute? Which party will possess ownership rights to the property? Who will own the property developed, created, or acquired as a result of the joint development efforts?; (2) What covenants of nondisclosure or non-competition will be required of each joint venture partner during the term of the agreement and for how long a period after the agreement has been terminated or the relationship has ended? Will specific timetables or performance quotas be included in the agreement? What are the rights and remedies of each joint venture partner if these performance standards or quotas are not met?; (3) How will the issues of "management and control" be addressed in the agreement? What are the procedures or mechanisms for resolving disputes, disagreements, or deadlocks? Is arbitration or mediation required?; and (4) What is the precise nature of the relationship between the parties? Will the relationship be a partnership, "official" joint venture, or assume some corporate form?

### INTERNATIONAL FRANCHISING: STRATEGIES, TRENDS AND CURRENT OPPORTUNITIES

Global expansion of franchising continues to boom despite the existence of political and economic hurdles or *political risk*. Political risk may arise from a variety of sources, including: corrupt or poor political leadership; frequent changes in the form of government; political

involvement of religious or military leaders; an unstable political system; conflict among races, religions, or ethnic groups; and poor relations with other nations (Wild, Wild & Han 2000: 90). Political risk can take many forms, including conflict and violence; terrorism and kidnapping; property seizure (confiscation, expropriation, and nationalization); frequent policy changes; and local content requirements. For example, there is sustained interest in Mexico, South America, and Europe (especially Central and Eastern Europe), despite continued political and economic unrest and uncertainty (Bennett 1999; Gatland 1999; Hunter & Ryan 1998; see also [www.franchiseinfomall.com/infofacts.html](http://www.franchiseinfomall.com/infofacts.html)).

Franchising continues to grow rapidly in Japan, despite extreme cost factors for land acquisition and leasing (especially on the highly prized Ginza), and other impediments to "start-ups" on the retail side. Recent economic declines in many nations of Western Europe have not dampened enthusiasm for franchise expansion. In fact, franchising continues to expand in Germany, notwithstanding an economic recession, rents four to five times higher than comparable real estate costs in the United States, and the necessity that a reunited Germany restart and integrate the economy in its eastern territories, long stagnated under communist domination. Direct government assistance programs and rapidly expanding economies have helped franchising grow rapidly in many Pacific Rim nations. Franchising opportunities are especially strong in Singapore, Malaysia, Indonesia, Hong Kong, India, and Taiwan. Who could imagine that there would be sustained interest in franchising in the "emerging markets" of China and Vietnam? Naturally, these enhanced opportunities bring certain unique challenges not found in domestic franchising. Accordingly, appropriate entry and marketing strategies must be developed that indicate that the franchiser is not merely attempting to exploit or overwhelm a host country's economy. In many cases in the past, attempts were made on a "trial and error" basis. In fact, it was only in the mid-1960s that a few fast food chains began experimenting with foreign operations. McDonald's made its first major international push in 1970. Yet by 1992, McDonald's was generating fully 39 percent of its \$21.9 billion in worldwide system sales from its international operations. What is worth noting is that McDonald's was successful in its international operations employing the same formula as it had perfected in its domestic operations, even though the "culture" was quite different. Fast food, drive-ins, and self-service

restaurants were a uniquely American phenomenon. McDonald's had to export practices (and eating habits) that were endemic to the American middle class but virtually unknown throughout the world. Indeed, "whenever McDonald's International departed from its tried-and-true franchising methods, it stumbled" (Love 1995: 416). However, several well-known counter-examples are also worth noting.

The McDonald's corporation has been the object of intense scrutiny of its international franchise operations (Love 1995). McDonald's opened its first retail outlet in Iceland, but had to build an underground parking lot to attract customers who would not venture out into the extreme temperatures. McDonald's soon learned just how difficult it was for Japanese to pronounce McDonald's. The local franchisee, Den Fujita, made the pronunciation simple by transforming the name into *Makudonaldo!* For the same reason, Ronald McDonald became *Donald McDonald* in Japan. In Australia, the standard menu had to be designed to cater to uniquely Australian tastes. Australian McDonald's featured English-style fish and chips instead of the regular McDonald's *Filet-O-Fish* sandwich. McDonald's in Germany added beer (and considered adding bratwurst) to its menu. Store interiors featured dark colors, and an extensive use of wood and low-intensity lighting. One location in Munich was built to resemble a beer hall. McDonald's opened several locations in Israel, but spent some many months in negotiations with the Israeli Ministry of agriculture over the importation of the proper type of potatoes for its French fries and its hours of operation. The local joint venture partner had to assure McDonald's corporate office in the United States that closing from sundown Friday through sundown Saturday every week in celebration of the Sabbath would not negatively impact the overall profitability of the operation. It is not at all unusual for patrons in a Paris McDonald's to order a glass of wine with a "Big Mac" combination meal or for London customers in the Victoria Station vicinity to enjoy a lamb burger special meal or "crisp fries," which were very different from the soggy products regularly served in fish and chip outlets! There was also a controversy regarding the site location for the McDonald's in Krakow, Poland, and the architectural and historical considerations present in placing a restaurant in a five hundred year old building near one of the oldest medieval market squares in all of Europe. The widely publicized experiences of McDonald's, and no doubtless countless other franchisers, remind us that flexibility

and adaptability must be the watchwords in international franchising.

### Basic Considerations for International Franchising

Obviously, the key to success in international franchising lies in finding the right partner. The franchiser must develop and test objective systems and standards for recruiting and selecting appropriate international partners and for reviewing the qualifications, experience, and financial ability of franchise prospects. The master franchiser must engage in a detailed corporate "soul searching" and completely understand both its strengths and weaknesses. It must have a secure, "rock solid" domestic foundation from which its international program can be launched, including adequate capital, resources, personnel, language facility, support systems, and training programs. The master franchiser must know the "target market," and must appreciate the importance of such issues as: economic trends; political stability and political risk; currency exchange rates, ease of currency convertibility, and currency repatriation questions; foreign investment restrictions and approval procedures; the existence and frequency of currency "bottlenecks"; transparency of administrative regulations; land purchase and leasing restrictions; access to resources and raw materials; availability and quality of transportation and communication channels; labor and employment laws; technology transfer regulations; language and cultural differences; the availability of government assistance programs; taxation questions; customs laws and import restrictions; immigration restrictions regarding outside personnel, especially as such laws might impact on certain "key" managerial employees involved in training of joint venture partners; issues concerning "gray marketing"; trademark registration requirements, availability, and protections; and costs, nature, and methods of dispute resolution.

And then there is gray marketing. "Gray" goods are genuine in terms of their manufacture, but their distribution is "unauthorized" because the manufacturer or trademark registrant has not authorized the seller to make the sale (Inman 1993). Gray market goods are not counterfeit goods and are thus not subject to the Trademark Counterfeiting Act. Franchisers must take care that its goods, sold to overseas distributors, are not re-imported into the United States in competition with domestic goods. Franchisers must also be aware of "nongenuine" goods. Goods are considered as "nongenuine" not

because the trademark is false, but because the product is different from the product sold under the same trademark domestically.

The master franchiser must know the inherent value of the franchise. Any fee structure must fairly and realistically reflect the division of responsibility between the parties. Can the franchiser provide the necessary on-site support for the franchisee, including the ability to adequately translate training manuals and marketing materials into the local vernacular, as well as the ability to adapt the system, products, and services to meet local demands and cultural differences as necessary and warranted? The master franchiser must be sensitive to different tastes, cultures, norms, traditions, trends, and habits within the international market that will affect pricing, size, or other characteristics of products or services. Franchisers should be prepared for a "long-term" business relationship and should be willing to accept a more balanced and realistic approach to fees and ongoing royalties than might be expected in the more structured domestic market. The master franchiser must completely understand international copyright and trademark laws, which may vary in practical terms from country to country, or which, in reality, may not provide much protection at all. The franchiser must take all legitimate steps to protect its intellectual property rights, its trade secrets, and to register trademarks in all target markets. The master franchiser must determine if the franchisee should have the right to modify names, designs, slogans or logos because of translation difficulties or because of "pirating"

problems that may have previously occurred. In terms of its responsibility to provide quality control assistance to a franchise partner, the master franchiser must possess a core internal management team (consisting of key personnel in operations, marketing, management, and finance) and a competent cadre of external advisors (consultants, accountants, and lawyers) who have practical experience in international business and international franchising. An American franchiser will often require that a process called *ethnocentric staffing*, where individuals from the United States manage operations outside the United States. Under *polycentric staffing*, franchise operations outside the United States will be managed by individuals from the host country. *Geocentric staffing* occurs where the best-qualified managers, regardless of nationality, manage franchise operations. Most international franchising initially adopted the *ethnocentric* model, which may have caused some difficulties in acceptance by the local franchisee or the local population.

## CONCLUSION

International franchising can offer an exciting and potentially lucrative strategy for both franchisers and franchisees at various stages of growth and in a wide variety of industries. However, if not properly planned and executed, international franchising can easily turn into an expensive and disastrous venture that may dampen a company's ability to penetrate an important target market.

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# THE BRAND ASSOCIATION BASE A CONCEPTUAL FRAMEWORK FOR LEVERAGING SECONDARY BRAND ASSOCIATIONS

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## ABSTRACT

*An integrative conceptual framework for brand-to-brand collaboration is presented, in order to facilitate the management of the company's brand identity in relation to the equity of partner-brands and the culturally embedded associations of institutions. Empirical examples are discussed in order to highlight some of the arguments in the text.*

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## INTRODUCTION

Co-branding, in which key dimensions of a partner brand are incorporated into a host brand strategy is becoming increasingly popular among marketers. The phenomenon is example of a broader marketing trend, reflecting alliances between brands. The present paper outlines a conceptual framework for managing relationships between brands in a more structured way. A model is introduced that distinguishes between for components, the leader brand, the partner brand, institutional associations and the customer's image of the brand. The aim of the present paper is to provide a strategic framework for collaboration between brands. The model is grounded in brand theory, cognitive psychology and semiotics.

## THEORIES OF BRAND ALLIANCES

Prior research on this topic has more or less mirrored the co-branding strategies adopted by brands in the marketplace. Some research focuses on the benefits following from branded attributes and ingredients while other streams of research are more concerned with interactive and spill-over effects within a brand alliance (e.g., Simonin and Ruth, 1998) In an early conceptual effort, Norris (1992) outlined six strategy steps for ingredient branding. He argued that the ingredient brand should strive to collaborate with the manufacturer in promotion and expand the manufacturer usage base. Through a number of examples, he shows how brands like Chiquita and Nutrasweet have become transparent in the strategy of various host brands (e.g Chiquita bananas in Beechnut baby-foods, Nutrasweet

artificial sweetener in softdrinks. Norris (1992) makes an important contribution by hi-lighting the opportunities and threats with ingredient branding at an early stage and by making the distinction between supplier, versus manufacturer initiated ingredient branding.

In a similar manner, Baumgarth (2000) makes important distinctions between different forms of ingredient branding based on their category-belongingness into raw-material (e.g., Chiquita bananas), Ingredient parts (e.g Gore-Tex, Nutrasweet, Kevlar) and component parts (Intel Inside, Shimano and Hella). In an attempt to connect various forms of brand collaboration to different levels of shared value creation, Blackett and Boad (1999) distinguished between reach/awareness co-branding, values endorsement co-branding, ingredient co-branding and complementary competence co-branding. They argued that lower forms of co-branding, primarily devoted to reaching a larger customer base or capitalizing on the brand awareness of a partner do not require any harmonization of the involved brands core values and should therefore be viewed as low with respect to the level of shared value creation. In comparison, brand alliances that involve values and harmonization of each brands territory should be viewed as high with respect to level of shared value creation. Beyond the descriptive frameworks described above, a number of attempts have been made in order to investigate the role of co-branding in an interactive business context. Rao and Ruekert (1994) discussed brand alliances in relation to product quality; they suggested that brand alliances served as quality signals to customers when an individual brand was unable to signal quality



independently. By further developing the importance of quality in comparative interactive brand contexts, McCarthy and Norris (1999) argued that moderate-quality host brands more often benefited from ingredient branding than did higher quality host brands. In addition, moderate-quality host brands with branded ingredients narrowed or eliminated the

competitive advantage of higher-quality host brands. (Rao and Ruekert, 1999; Simonin and Ruth, 1998; Washburn, Till and Priluck, 2000). Park et al., (1996) viewed brand alliances as composite brand extension, they argued that composite brand extensions have different attribute and feedback effects, depending on the constituent brand names.

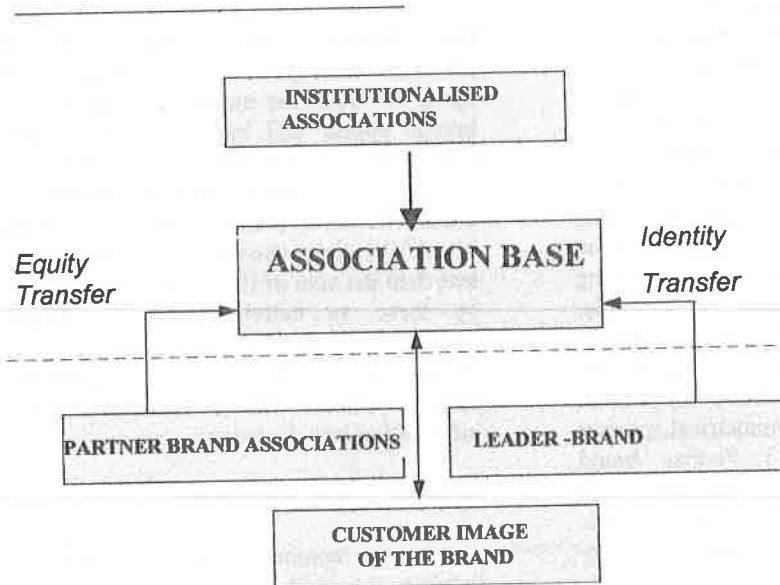


Figure 1

### The Leader Brand

The leader brand is the brand that owns the customer base and a channel to customer franchise and brand loyalty. It will often but not always be a corporate brand. For example, Universal Studios is a corporate brand but it is also a *leader brand*. Within the context of Universal Studios larger association base, the brand has established relations to a number of important partners. An important strategic consideration for the leader brand relates to how it should be positioned in relation to its partners. The roles and positions of partner brands will depend upon the more specific product market context where these partners appear. In the case of Universal Studios, a basic distinction has been created between partners, sponsors and supplier brands. Partner, sponsor and supplier brands differ, both with respect to their positions in the graphic portfolio and space in the theme parks. The leader brands connect to the larger association base through *identity transfer*, in some cases most of the brand identity of the leader brand will be *transferred* in relation to its partners. In other cases the brand identity associations of the

leader brand will be minimized. In a similar manner, The Ford Motor Company can be viewed as a leader brand, establishing the same kind of relationship to the Ford brand as it does to all other individual brands in its car brand portfolio, such as Jaguar, Volvo and Mazda. The challenge for the leader brand in this case, is to capitalize on the distinct core values of each brand in the portfolio, and even capitalize on shared production platforms, yet keep the individual brand identities as distinct as possible in order to avoid cannibalization.

### Partner brand associations

Partner brand associations are defined here as associations secondary to the identity and more immediate territory of the leader brand, Partner brand associations contribute with brand equity to the overarching leader brand and its association base in either of two ways, *asymmetrical* or *symmetrical* forms of collaboration (i.e., ingredient or co-branding). Asymmetrical collaboration refers to positioning based on a *visible asymmetry* in the graphic representation and expression of collaborating

brands, in many cases such as Intel Inside, in computers, Gortex in apparel and Reuteri in mineral water and food, the branded ingredient can contribute with a deepened functional dimension to the value proposition of the host brand, create synergy effects and facilitate positioning of the leader brand. In a similar fashion, endorsement strategies are based on asymmetrical collaboration, since one brand is generally more dominant than the other. This is the case with Marriott (i.e. the leader brand) endorsing a down scale extension Courtyard and with Lotus (an IBM company, c.f. Aaker and Joachimstahler, 2000)). On the contrary, co-branding, co-promotion and linked name strategies are based on a symmetrical attribution pattern where each brand is viewed as equally important with respect to the channelling distribution of brand equity. In some cases, partner brand associations becomes so strong and important as drivers for end consumer decision that they become a natural part of the overarching brand structure of the *leader brand*. For example, Goretex started out as an ingredient brand with an asymmetrical form of collaboration with the premium shoe brand ECCO, over the years however, Goretex have become upgraded to a symmetrical partner brand (i.e., ECCO-Goretex ) Partner brand associations are linked to the leader brand through the link equity transfer. The Goretex partner brand is based on a brand visibility strategy and a warranty strategy (Malaval, 2001).

#### **Institutionalized associations**

Institutionalized associations are the outcome of culturally embedded meaning that can be transformed into meaning, and also value for a specific brand. An institutionalized association refers to an association that has meaning to and recognition in a given cultural context. The categorization base for this kind of association is based on socio culturally shared meaning structures and or scientific authority (Rosa and Porac 2002). It can be compared with a non-product related association (Keller, 2003) A key feature of this kind of associations is that since they are already embedded in a larger surrounding context and culture, they also contain a certain amount of value. When this cultural and context-specific attribution structure becomes linked to the brand resource, it can be transformed in to a real brand value, (i.e., and customer-based brand equity. A strategy based on institutionalized associations aim to appropriate a given cultural meaning or value structure and internalize it into strategy. An important distinction should be made between institutionalized associations and institutionalized brand associations. A hospital is an institution, under very specific and

reciprocal circumstances; it can contribute with culturally embedded associations to a brand. Consequently, the Ronald McDonald house can be said to contain institutionalized brand associations.

#### **Customers brand image**

The customer will derive his or her perceived equity from one or more elements related to the association-base as outlined above. The customer brand image will ultimately depend on the brand knowledge and attitude towards the brands inherent to the system, but it will also be dependent upon the ways the more particular ways that these brands appear and interact together (Simonin and Ruth, 1998). For example, the brand image derived from a co-promotion campaign between the leader brand Motorola (cellular phones) and the partner brand Victorinox (Swiss Army knife) will be more or less than the sum of the brand equity structures given by these as individual brands. Moreover, the customer will also feed back associations to the base through a consolidation of use pattern and user imagery (Aaker 1991). Customers will feedback information into the system.

#### **Semiotic Brand Positioning**

In Semiotic theory, a distinction is made between a symbol, an icon and an index (Eco, 1979; Peirce 1931-58; Nöth, 1995). A symbol is an arbitrary sign which meaning is established by convention. We have been thought that the NIKE swoosh stands for sports fashion, but it is not a natural connection. In comparison, an icon represents its underlying object. The man/woman pictograms indicating the men's room and the ladies room on a restaurant are icons. An index finally, is connected to its underlying object through existential connections. Smoke is an index of fire and with the realm of strategic brand management, we might say that a qualified endorser is an index for the endorsed brand. In other words, Michael Jordan is an index for NIKE. If the leader brand wants to do dominate its brand association base, it should strive to create asymmetrical brand alliances and only use its partner brand as an icon or an index, however, complete control over partner brands can hardly be achieved (Blackett, 1999). In some cases, partner brand associations can be transformed into leader brand associations over time. For example, Michael Jordan started as an endorser for NIKE, transformed into status of a sub brand (i.e NIKE Air Jordan) and eventually became a leader brand in his own right (e.g., Michael Jordan Steakhouses). In semiotic terms, Jordan transformed from an index to a symbol



## CONCLUSION

The major contributions of the strategic model presented in this paper are as follows: First, this is the first model that is theoretically grounded in both brand alliance theory, brand equity theory and semiotic theory. Prior research in co-branding (Park, Jun, and Shocker 1996; Simonin and Ruth 1998; Rao *et al.* 1999; Desai and Keller; 2002; Keller 2003) has focused exclusively on brand theory and derived this into conventional information processing theories or cognitive theories of the human mind. Although most of the previous studies within the field of brand alliances aims to contribute to the creation, dissemination and sharing of brand meaning, they ignored structural semiotics as the science and foundation for meaning creation in favor of conventional stimulus response oriented theory. The present model has a synthetic nature that integrates both these perspectives.

Second, the brand association base is the first inclusive strategic model to consider all parts in the strategic brand alliance process in a network and interactive context (e.g., own brand, partner brand, institutional brand associations and customer brand image) from the intention and perspective of a *leader brand* and with explicit connections to each and every part in the system. It is the first holistic and

macroscopic model of brand-to-brand interaction. As such it can be viewed as a response to concerns rose by Broadie, Glynn and Van Durme (2002) for a conceptual framework that accommodates thinking based on networks, relationships and interactions between brands that also recognizes that the equity of a brand is also influenced by co-branding and alliance activity with brands from other organizations. The dynamics of brand identity transfer and brand equity transfer indicate the flows of meaning between brands in the model.

## LIMITATIONS AND FUTURE RESEARCH

There are several limitations with the conceptual framework presented in this article. One limitation with the brand association base is that has a descriptive and meta-theoretical rather than predictive nature. The integration of different streams of semiotic meaning in the model however, partially helps to overcome this problem. This new conceptual framework opens several avenues of further research with respect to brand alliances in general and more specific forms of co-branding in particular. I shall discuss five research themes where the brand association base model would be a particularly helpful tool in order to structure and design both theoretical and practical research.

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# ESTABLISHING EFFECTIVE NEW PRODUCT DEVELOPMENT TEAMS

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## ABSTRACT

*The challenges of competitive advantage require organizations to examine their new product development process. Organizations have looked to teams and teamwork to facilitate the development of innovative new products. In this paper we examine types of teams and question whether new product development teams are teams or groups.*

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## INTRODUCTION

The pressure of competitive advantage pushes organizations to create innovative products and processes in order to develop distinctive competencies in our global environment. To enhance innovation, teams and teamwork have been placed on a high pedestal, perhaps higher than their effectiveness would support. Organizations have adopted a variety of types of product development teams to create innovative products. In this paper we begin to identify the types of new product development teams, indicate how to integrate multiple functions within new product development teams and question whether cross-functional teams are really teams by noting the difference between groups and teams.

## TYPES OF NEW PRODUCT DEVELOPMENT TEAMS

In some organizations several departments may participate in new product development activities. Decisions about which department controls or oversees the product development or product management are based on company traditions (Kahn 2001). One recent trend in product development has been the integration of product development especially with the use of product teams. The importance of collaboration in successful product development performance has been identified in empirical research (e.g., Fisher et al. 1997; Kahn 1996).

There are several different types of product development teams: functional, multifunctional, balanced matrix, cross-functional and venture teams. Functional teams work within a department and have little or no contact with other areas. Such teams focus on specific departmental problem solutions

such as an electrical engineering problem in a wire harness. When problems are unidimensional, when changes occur within a functional area and when problems can be defined within the context of a single function, these teams can be very effective. For most new product situations where ramifications of a new product go beyond a single functional area, for example, marketing implications, financial and other resource requirements, and manufacturing issues, these single functional teams are both inappropriate and ineffective.

Multifunctional teams include members from different departments and these members are presumed to possess the skills necessary to solve interdepartmental product development or product management challenges. Many members on multifunctional teams are loyal to their departments as opposed to their team and have low motivation to work, therefore, on a specific project (Kahn 2001). Members have potential to suboptimize, that is, to be more concerned about their home area than the project outcome. Moreover, when a multifunctional team project is completed, individual team members return to their functional area. Any member who does not represent his or her functional area well, as functional area personnel define this, are not readily welcomed back into the social structure of the functional department. This conflict of loyalties, do what is best for the project or the functional area, is the source for the political question each multifunctional team member must individually answer.

Balanced matrix teams have representation from multiple departments as well but team members are rewarded based on performance in both their departments as well as their teams. This type of team is in limited use due to confusion over compensation and conflict between department managers and team



leaders (Kahn 2001). Likewise, Urban and Hauser (1993) suggest the dual loyalty issue also limits usage.

Similar to multifunctional and balanced matrix teams, cross-functional teams are composed of people from different departments. Typically, though, team leaders come from the department most critical for the output and as a result have responsibility for team management. Cross-functional teams provide primary focus on team responsibilities and priorities as opposed to departmental activities since the team leader is mostly responsible for team member rewards and recognition (Schilling and Hill 1998). At least the members from this key department can focus all energies on team output. The intent here is similar to the balanced matrix teams: to reduce or eliminate the political conflict created in multifunctional teams resulting from dual loyalties. Since rewards and recognition accrue based on team performance and are distributed or recommended by the team leader the loyalty issue is presumed to be resolved in favor of the team rather than a functional area. However, it is a functionally based leader who makes these determinations so some loyalty issues still remain.

When new products are going to form the basis ultimately for a unique stand-alone organization or become the focus of a new division, a venture team is the more appropriate vehicle. Here, team members often come from different departments and become totally accountable to the team. All resources to launch this new product must be allocated to and be within the authority of this new venture team. At least initially the loyalty conflict does not exist, as the focus is totally on team tasks. Venture teams are usually limited to major new product development projects such as new-to-the-world products. A now classic example is Saturn and its separate organizational structure (Whiteley 1994).

Organizations are currently replacing the traditional sequential model of new product development design with parallel processes that include cross-functional teams and others like them. This growing transition to cross-functional teams, occurring since such teams have proved to be more effective (e.g., Griffin 1997; McDonough 2000), is predicated upon changing demands of and relationships with the organization's environment.

Emery and Trist (1965), for example, describe four stages of organizational evolution based on relationship with the environment. In Step One organizations are small, have no impact on the

environment and basically follow a process of trial and error akin to most entrepreneurial enterprises. In this phase all problems and impetus for change are generated from within the organization since there is little or no relationship to the environment. In Step Two organizations begin to grow and develop a more formal structure, typically a traditional hierarchy with centralized decision-making processes. They become aware of their industry and market but react to the marketplace as if were an internal department. Most problems are generated from internal sources and given its functional structure all problems are defined within the context of a single function. So we could have a marketing problem or a production problem but not a marketing and production problem. Sequential models of new product development were created to work within this context. Any problem that crosses functional lines would go to each concerned area in sequence. This approach is both time consuming and ineffective since whatever solution the first function created would be changed as it moved through the sequence.

In Step Three of Emery and Trist's process organizations continue to grow and respond to their market but the industry evolves into an oligopoly. For the first time competitors, i.e., a small number of like firms, provide an important impact on the organization. Organizations, needing to respond more quickly, tend to become more decentralized and change from functional to divisional structures. Instead of problems being defined in terms of a function they must now be defined in terms of a product since this is how the organization is set up to solve them. While marketing and manufacturing aspects of a particular problem can be coincidentally considered, they can only be applied to a single existing product. Thus, even in these circumstances new product development tends to be very limited. While more problems are generated from external sources, especially competitors, new product development teams are narrowly focused and tend to be tradition-based. When the environment evolves into Step Four, organizations face what Emery and Trist (1965) call a "turbulent field." Organizations face a myriad of external influences that interact with each other, the effects of which also influence the organization. The impetus for change now comes primarily from external sources and for the organization to be aware of these factors it must have an effective environmental scanning mechanism. Interaction between elements of the environment creates what Emery and Trist (1965) call an increasing area of "relevant uncertainty." Being faced with multidimensional problems requires new product development teams that are much more

effective than sequentially based models. Multifunctional, balanced matrix and cross-functional teams are created to better resolve such multi-valued issues. Matrix organization structures and network designs are more appropriate in this dynamic environment than are the more traditional structures of functional or divisional designs. Research indicates that companies now rely on cross-functional teams between 70 and 75 percent of the time (Cooper and Kleinschmidt 1994; Griffin 1997).

### INTEGRATING MULTIPLE FUNCTIONS

Griffin and Hauser (1996) suggest several methods for integrating marketing and R&D. Their research focuses on the structural and process dimensions necessary to achieve functional integration. These include: co-location; personnel movement; formal product planning processes; informal social systems; incentives, rewards, and recognition; and, organizational structure. Since R&D and marketing functions are critical in the new product development process, successful integration of these areas is mandatory. With the increased use of cross-functional teams co-location has been beneficial in promoting communication. Griffin and Hauser (1996) observe that co-location increases communication and communication increases even more with nonterritorial spaces. Co-location can lead to increased product success (Doughterty 1990), however, communication opportunities must be fostered through programs designed to encourage open-door policies in cross-functional relationships (Souder 1987).

Although Griffin and Hauser (1996) note that movement of personnel between functional groups can improve marketplace success and reduce time to market, it is difficult to transfer people from marketing to R&D or vice versa. Such movement can increase skills, knowledge and language and help develop a common organizational culture which breaks down barriers between functions. Personnel movement is facilitated by hiring individuals with dual skills or creating part-time transfers where marketing professionals become advisors to the R&D group or the reverse.

Research suggests that informal contact often substitutes for formal new product processes (Workman 1993). Communities of practice can form to support and enhance participation in new product development teams (see, e.g., Wenger 1998) and serve to encourage open communication between various functional areas involved in the new product

development process. These informal contacts may have or can identify necessary expertise.

Project teams or cross-functional teams encourage information exchange, provide a degree of formalization and encourage cooperation. Griffin and Hauser (1996) suggest that: "Cross-functional project teams lead to higher marketplace success and shorter times to market decreasing the barriers of functionally specialized thought worlds, languages, and organizational responsibilities and providing a forum in which information is utilized better, decisions are made more effectively, and conflicts are resolved (p. 208)."

At present most organizations provide rewards based on individual performance. Such individual performance objectives do not encourage interdependence or coordination necessary for successful new product development. To encourage the necessary cooperation and coordination to develop successful new products, performance evaluations must recognize the importance of cross-functional decision making and project completion as well as encourage viable cross-functional conflict resolution (Griffin and Hauser 1996).

### ARE CROSS-FUNCTIONAL TEAMS REALLY TEAMS?

Many studies use the terms groups and teams interchangeably (Cohen and Bailey 1997) but an increasing body of literature distinguishes between them. It suggests that teams are more effective than groups. To the extent that there is a difference there are opportunities for performance improvements. This suggests that we can distinguish between them and that we can train, create, or develop teams as opposed to groups. Such distinctions, on the surface, seem superficial. Increased performance, however, is not superficial. Katz's (1997) description of a team at Digital creating the ALPHA chip is an excellent example of a functioning team. He notes the ALPHA team possessed all the elements of a high performance team but the role of leadership was also crucial in protecting the group against outside obstacles and energizing the team. The team's success came from focusing upon both the internal team dynamics and attending to its relationship to other areas within the organization. These distinctions seem particularly relevant to our discussion of cross-functional teams in new product development activities. Katzenbach and Smith (1993) establish a working definition: "A team is a small number of people with complementary skills



who are committed to a common purpose, set of performance goals, and approach for which they hold themselves mutually accountable (p. 112)." Teams require individual and mutual accountability where groups do not. It is helpful to identify the characteristics of teams and groups, noting which are common to both, to ultimately help develop greater organizational performance.

One common characteristic is accountability. Based on the definition above, however, group members are concerned with and are measured by individual accountability. Team members hold themselves to be mutually accountable. Likewise, both groups and teams have a sense of shared purpose (Katzenbach and Smith 1993). The group's purpose is essentially that of the organization while the team's purpose is jointly determined and planned with management (Zenger and Associates, 1994).

Both groups and teams have formal rules and norms. Work groups have a management role filled most often by the manager based on his/her hierarchical position. Teams have a leadership role shared by team members (Katzenbach and Smith 1993). Katz (1997) describes a high performing team as one that is empowered, self-directed, and cross-functional to have complementary skills. In addition, team members are committed to working together and achieving their agreed upon common goal. To accomplish this, they work collaboratively by respecting team members. This approach makes sense since they have a perspective of shared accountability where many tasks require collaboration and jointly produced outputs. Teams have collective work products requiring joint contributions of members (Katzenbach and Smith 1993) while typical work group members produce individual work outputs.

These characteristics suggest that groups are focused to accomplish imposed tasks under the strong

management of a supervisor. Individual performance and evaluation is the basis for determining success. Thus, groups can be very useful and important to organizations as they can complete critical tasks. Teams are also important and can perform at higher levels than typical work groups. (see, e.g., Majchrzak and Wang 1996; Mulvey, Veiga and Elsass 1996). This higher performance level is the result of a greater synergy resulting from collaboration and jointly produced outputs rather than a pooling of individual outputs (Katz 1997). New product development functional teams may fit the definition of team stated above but is not the most common or effective process for generating new products as they do not account for the multiple perspectives necessary. Multifunctional and balanced matrix teams also lack the critical characteristic of joint accountability. Venture teams, working toward the creation of a new organizational entity based on a new product concept, have the greatest potential to be teams as herein defined. To the extent that accountability and rewards are based on the performance of the new entity, i.e., joint accountability is used, these new venture processes are true teams leading often to higher performance. Since most new product development teams are cross-functional (Copper and Kleinschmidt 1994; Griffin 1997), however, of major concern here is whether these collections are groups or teams.

The determination of whether cross-functional teams are really teams or are groups seems to be dependent upon three criteria: whether there are collective work outputs or merely pooled individual output, whether rewards are offered on a joint basis or there is individual compensation and promotion opportunities, and, whether there is true leadership or only formal management relationships. Our belief is that most new product development cross-functional teams tend to have pooled individual outputs, certainly have individual compensation processes and have management versus true leadership.

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# AN ASSESSMENT TOOL TO EVALUATE NEW PRODUCT INNOVATIVENESS IN THE DAIRY INDUSTRY

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## ABSTRACT

Innovativeness is a challenging issue facing industries today. It is necessary to fulfill ever-changing needs of consumers. Dairy products are sixth on the food consumption list. However, their sales and market shares are declining. This paper proposes a model for the dairy industry to analyze the innovativeness of their products.

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## INTRODUCTION

The new product development (NPD) process is critical in developing innovative products that are essential in maintaining and developing sales and profits of companies. It is considered a lifeline for leading companies in the marketplace today. Innovativeness is one aspect of the NPD process. Studies have reported that innovation, or the lack thereof, is one of the primary determinants for new product failure (Jones and Steven, 1999). It is estimated that the average new product failure rate is 80% (Kotler, 2000; Loecke, 1994). Since previous studies (Berry, 2002; Jones and Steven, 1999) have reported that the lack of innovation is a primary cause of new product failure rates, it can be concluded that a steady stream of innovative and successful products is one of the most challenging issues facing companies today (Berry, 2001b; Poolton, and Ismail, 2000). It is the innovations that improve the standard of living and increase the flexibility and convenience for customers. As a result, many companies see innovation as the fuel for organizational growth and survival if it is approached in a realistic and economically feasible fashion (Tretheway, 1998). Wind, Mahajan and Bayles reported that 25% of current sales in companies are derived from the introduction of innovative new products (Urban and Hauser, 1993).

It is still extremely difficult to generate creative insights and freethinking within most food companies. The mid-1980s were instrumental in producing innovative new products significantly impacting the marketplace boosting traffic and company sales (Lisanti, 1997). Unfortunately, though, companies focus more on line-extensions creating additional shelf-space for their brands and

not innovative products directed towards the emerging needs of consumers. Overall, industries are beginning to give a more thoughtful interest and concern into the generation and screening of ideas.

One industry concerned about the innovativeness of their products is the dairy industry. Dairy products rank sixth on the food consumption list and comprise 9.8% of grocery sales (Cryan, 2002). In addition, six hundred pounds of milk and dairy products are produced yearly (Bardic, 2002). However, a downward spiral of sales over the last 30 years has occurred (Anonymous, 2002b). As a result, the industry, as a whole, is viewed as a relatively flat market. Out of the 5,287 new foods and beverages introduced in 2000 only 487 were categorized as dairy items (Anonymous, 2001). This industry, as a whole, is viewed as a relatively flat market. Consumers need to consume dairy products to obtain calcium, high-quality protein, potassium, vitamin A and riboflavin required by their bodies to reduce the onset of osteoporosis, maintain the youthful look of skin and maintain a continuous flow of nutrients. Even though consumers realize dairy products provide essential nutrients, they are not consuming the products due to unfavorable tastes and unmet needs (Anonymous, 2002a; Berry, 2001a). As a result, the industry, is striving to research and identify clues, to produce potential innovations. It is their hope that innovativeness will broaden the distribution and consumer usage of dairy products providing essential nutrients for growth and maintenance of the body. Therefore, the objectives of this paper are to (1) define innovation and what product types it encompasses and (2) propose a model identifying major factors affecting innovation in the dairy industry.

## WHAT IS NEW PRODUCT INNOVATION?

In general, innovation is the result of an activity used to produce a new, unique or novel product or service or a different way of doing things (Ali et al., 1995; Tuominen, et al., 1999). It is viewed as an economic implementation of an invention or idea that succeeds in the market and fulfills the company's goals (Stevens and Burley, 1997; Tuominen, et al, 1999). Innovation is often thought of as a multi-step process by firms and is referred to in terms of creativity. It becomes an essential and critical element during the NPD process. As a result, innovation is a never-ending quest for new and creative solutions used to attract and retain customers and increase customer satisfaction and usage among company's products.

### New product strategies involved in the innovation process

New product strategy is part of the overall corporate strategy, depends on the organizations capabilities and environment and should be realistic (Urban and Hauser, 1993). If goals and objectives are realistically set, benchmarks are formed in which to evaluate the products and markets throughout the NPD process. A basic innovation strategy utilized by companies in formulating and evaluating their innovative decision making process is whether to be proactive or reactive. This alternative innovative strategy aids companies in further understanding their strengths, weakness and overall corporate strategy and in developing their market share. Current market situations at the time of development will affect whether the company should choose a reactive or proactive approach.

Reactive strategies include defensive, imitative, second-but-better and responsive strategies. They are based on dealing with the pressures and competition, as each is made prevalent and focus on protecting the profitability and market share of the company (Urban and Hauser, 1993). Using these strategies companies may counter competitive new products, copy new products and expand product lines, copy the competitor's product but identify ways to improve both the product and its position, or/and react to customer's requests and needs not the competitors. These strategy types are useful and desirable when existing products and markets are the primary growth vehicle for the company (Urban and Hauser, 1993). Proactive strategies allow companies

to initiate and make the changes. Many firms identify with this new product innovation strategy because it involves researching the market and consumer needs and wants before starting the NPD process. Utilizing this strategy, firms may develop technically superior products, try to identify future customer needs, or form acquisitions or alliances. These strategies are the ones implemented when an organization has a policy of innovating or wants growth in their R&D and marketing area (Urban and Hauser, 1993).

### Types of innovation

Once the company chooses the type of strategy applicable, they can further classify and develop the type of innovation they wish to develop and implement. Innovations can be categorized as product innovations, process innovations, technological innovations, market innovations, management innovations, system innovations, organizational innovations and financial innovations (Tuominen, et al., 1999). Within these categories, innovations can range from those of incremental or continuous products to revolutionary or discontinuous products.

Line extensions or modifications of existing procedures are used to define and characterize incremental or continuous products. The majority of "new" and innovative products are categorized as continuous products due to the lower degree of risk associated with them. In addition, they tend to have an approximate unparallel 89% success and survival rate when compared with discontinuous products (Reddy, et al., 1994). The existing and established brand name of these products is extended to include new flavors or package sizes within the same product class or category (Kotler, 2000; Reddy, et al., 1994). Continuous products provide incremental benefits for the organization and their success increases with the strength and symbolism of the brand. However, it is often speculated that the addition of incremental products into a company's product line, may increase confusion among consumers.

Discontinuous products are often referred to as radical, pioneering, break-through, revolutionary, new-to-the-world or truly innovative (Ali, 1994; Ali et al, 1995). Products in this category are designed to target and discover specific markets with promise for new technology. They refer to products that involve dramatic departures from the current product or logical extension in terms of customer use and familiarity. One definition proposed for radical innovative products is the propensity of a firm to

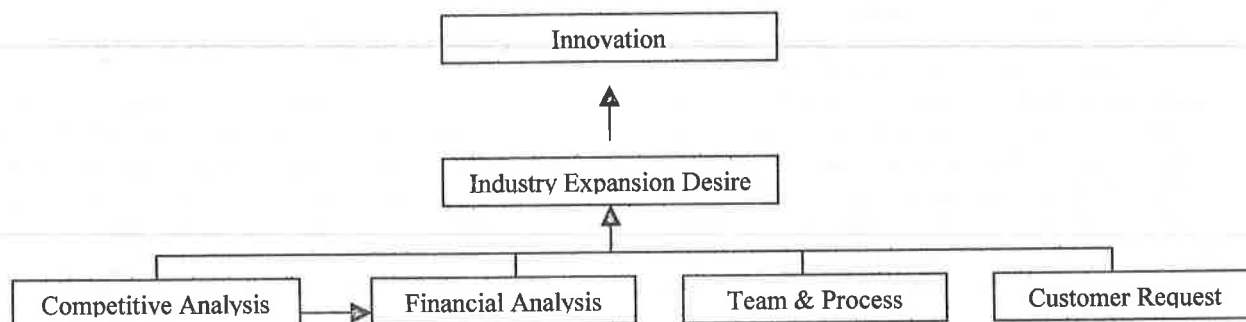
introduce new products that incorporate different technologies and that can fulfill key customer needs compared with existing products (Chandy and Tellis, 1998). In fact, discontinuous products contribute more significantly to a company's growth and profit. As a result, it is imperative that industries, especially the dairy industry due to their relatively flat market characterization, focus more on this type of product innovation in their NPD process.

### ASSESSMENT MODEL TO EVALUATE DAIRY PRODUCT INNOVATIVENESS

Regardless of the type of product and the level of innovation it falls within, it is essential that companies monitor and evaluate the idea generation and innovativeness of products developed. The

purpose of product innovation management is to promote effective new products and timely improvements of current products in line with company policies (Tuominen et al., 1999). It gives those involved in R&D, marketing, and other departments an opportunity to direct, control, evaluate and alter the processes, which drive the innovation and NPD process. In order to accomplish this feat, each industry needs to identify factors, which are applicable to them and use them in analyzing the innovativeness of the industry's products. Following is a proposed model containing five factors, which will allow the dairy industry to evaluate the innovativeness of their products. The model is a combination of factors proposed by Tuominen et al. (1999) and Chandrashekar, et al., (1999).

Figure 1: Dairy Innovativeness Assessment Model



The first factor and the one, most critical to the innovativeness of dairy products, is the desire of the industry to expand. In fact, this is deemed the most critical factor by those involved in the NPD of dairy products themselves. In a November 2001 survey, 71.1% of 174 respondents indicated this was the primary driving factor affecting innovative new products (Berry, 2002). An overwhelming percentage of respondents identified this a determinant to innovation indicating that the dairy industry is beginning to understand it is not an island and cannot survive as in the past. If a company does not want to think, "outside-the-box" and generate new innovative products, they must realize that their success and profitability will be limited. If the dairy industry lacks in this area, all other factors will fall on deaf ears and be ineffective.

The next component of the model is competitive analysis. Competition has a direct impact on everything else since it may alter how a firm feels it is situated in a market. The dairy industry must work within the constraints set by other

food industries generally. The number of competitors and the actual innovative activity (reactive versus proactive strategies) taken on part of the competition affect the innovativeness of the NPD (Tuominen et al, 1999). Since the dairy industry is a relatively flat industry it is critical for innovators to think "outside-the- box" and evaluate competition in other product areas, not just in the dairy case. For example, soft drinks and Gatorade are a more popular alternative to milk as a drink option. This has forced the dairy industry to develop an innovative carbonated-type product with the added benefits of the "normal" fluid milk. Currently, RPM is the first innovative product in the fluid replacement industry to provide a mouth sensation making milk more thirst quenching (Berry, 2001b). Other similar products are expected to follow such as e-Moo, PERQ-T and PERQ, and marketed to specific target markets to provide a thirst-quenching and nutrient-rich drinking experience.

Once the firm identifies their competitive situation, they must assess the availability of

financial resources. The need for sound earnings growth is one of the most important forces affecting innovativeness (Urban and Hauser, 1993). The amount of resources a company has available directly affects the type of technology available for use and the range of latitude developers may take. Over 40% of dairy employees/companies feel that their organization needs to invest in innovative products to move forward in the market and be successful and profitable (Berry, 2002).

A successful innovation also depends on having the right members and a repeatable process. In addition, the openness, creativeness and stability of the organizations environment affect the innovation process. NPD teams should have open-minded, flexible senior managers that clearly define and establish the company's objectives and goals. Since truly innovative individuals are often described as difficult to manage, this guidance will provide structure and guidance (Poolton and Ismail, 2000). It is imperative for firm's to understand how their innovativeness and the NPD process fit into the organizational structure and cultural support. Both organizational should create a mutually satisfying environment for all employees (Tretheway, 1998). It is often said that a "fun" organization, which provides rewards and compensations are key parts to a truly innovative organization. This in turn will determine if the employees are risk-takers and will show the degree of innovativeness of products proposed and developed. The dairy industry is still striving to improve an environment promoting "fun" and creativity, even though it has drastically improved over the last five years. "Fun," enriched drinkable yogurts and colored butters, cottage cheese and fruit combinations, the reinvention of cheese by combining it with other food products, and the development of soymilk products have begun to alter the previous stagnating environment in the industry. Finally, I believe, management realized they needed to change with their customers and within the marketplace.

Customer requests are often a source of many new, innovative products (Poolton and Ismail, 2000; Urban and Hauser, 1993). The marketing concept must be organized around the primary goal of identifying and satisfying the needs of the customers. It should be the goal of the NPD process to tap into the customer's needs so that innovative new products generate their own source of marketing momentum. Not only do consumer driven products appear to be more innovative at times, they also appear to be more successful (Chandrashekar, et

al., 1999). The dairy industry, like many other industries, survey's consumers to gain insight into likes/dislikes of products and formulates their NPD process around these. For example, in late 2000, Dairy Management, Inc., surveyed a total of 1,379 Americans regarding their beverage choices and opinions about milk. Based on information gathered a carbonated fluid milk drink, RPM, was invented to meet consumer demands for a cold, refreshing, satisfying, delicious and nutritional carbonated soft drink (Anonymous, 2002). In addition, aseptically packaged milk is now sold in half-pint containers around the world. Even though the idea is not a huge success in the United States, it does extend the shelf life of milk and allows it to remain fresh from at least 60 days. This is useful and popular in South American and Western Europe where chilled products are a luxury and not a way of life (Dolan, 2002).

## CONCLUSIONS AND IMPLICATIONS

The dairy industry is one industry, which has decided in recent years they need to look long and hard at the way innovativeness is being implemented and promoted within their companies and products. The sales and market share of dairy products has experiences a decline in many areas due to increased innovation in other segments of the food industry. Individuals and companies in the dairy segment of the food industry relied on nutritional benefits to sell their products and neglected consumer lifestyle choices and needs. As a result, innovativeness and market growth stagnated resulting in a relatively flat market. A model comprised of (1) analyzing competitive forces, (2) availability of financial resources, (3) correct team members and process, (4) considering customer requests and (5) the desire to expand, was proposed here as a means to help the dairy industry evaluate the innovativeness of their products and gain an insight into areas of improvement. One of the most significant and unique factors suggested was the desire of the company to expand its product line. In general the industry as a whole, should identify new uses for milk and butter. One idea is to merge dairy products with other food products like bread or fruit to create product packs or meal replacements. Identifying specific target markets and formulating dairy products specifically for them is another avenue to be explored, as well as looking at different colors and unique flavors to enhance the nutritional benefits. This combined with focusing on consumer needs and other markets should guide the dairy industry into the

21<sup>st</sup> century and beyond making them successful in producing innovative new products.

Future research includes testing the proposed model by allowing R&D members from dairy companies to evaluate the innovativeness of

recently developed products to aid in testing the application and validity. Repeatability over time should be another avenue considered. In addition, examining these five factors and applications in other food industries for exclusiveness is an additional avenue in need of exploration.

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# THE STATUS OF INTERNAL BRANDING: A PRELIMINARY INVESTIGATION OF EMPLOYEE PERCEPTIONS

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## ABSTRACT

Corporate branding efforts traditionally target existing and potential customers. However, a firm's own employees, when "living the brand" can bring it to life. The study addresses: (1) clarity of the brand identity; (2) whether and how employees learn about brand identity; and (3) how knowledge of brand identity impacts employees' jobs.

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## INTRODUCTION

A plethora of work in the field of brand management has been produced over the past decade. Extensive research by both academics and consultants has demonstrated the value of a well developed and implemented brand strategy. However, the vast majority of work focuses on the importance of the brand promise to the customer and other corporate stakeholders. It is only recently that firms have begun to realize the power of a commitment to their brand promise by their own employees and that a lack of such a commitment may severely limit the firm's ability to fulfill its brand promise.

Internal branding reinforces brand messages that have traditionally targeted external audiences. Through internal branding, companies incorporate brand messages across internal activities such as training, orientation, team building, and more, using an innovative mix of verbal, written and organizational strategies. The concept can take the average corporate brand and make it a great one. It harnesses the power of enthusiastically engaged employees delivering on a unique brand promise day in and day out. Internal branding can simply "bring the brand to life" (Interbrand 2001).

Internal branding is a process that literally bonds employees to a central cause that they not only believe, but also "live" while fulfilling their work responsibilities. By "living the vision" in day-to-day activities, employees are much more likely to provide products and services consistent with the brand message (Mitchell 2002). Successful internal branding can create powerful, internal, emotional

connections to a firm's products and services. Without this connection employees may, unknowingly, undermine the very brand promise meant for the customer. It is only when people are truly committed to the brand that they work diligently to incorporate the brand promise in their daily activities and subsequently "live the brand" (Mitchell 2002).

Communicating the brand promise internally has recently been garnering significant attention in both academic and corporate settings. Corporate giants such as Southwest (D'Innocenzo 2002), Standard Register, Cisco, Ernst & Young (Boon 2000), BASF (Buss 2002), Sears, BP, IBM, Nike and Miller Brewing (Mitchell 2002) have realized the inherent power of an informed workforce committed to delivering the brand promise. Articles appearing in the *Harvard Business Review* (Mitchell 2002), *Marketing Management* (Totsi and Stotz 2001), *Journal of Communication Management* (Morsing and Kristensen 2001), *Sales and Marketing Management* (Boone 2000), and *Brandweek* (Buss 2002), and books such as Nicholas Ind's (2001) *Living the Brand* trumpet the value of internal branding initiatives.

Firms that have embraced the internal branding concept implement it via a broad array of creative tactics tailored to their specific brand message and corporate culture. Southwest, for example, particularly well known for its "Freedom to Fly" brand communicated via the company's tongue-in-cheek humor, has incorporated an internal branding campaign appropriately labeled, "Freedom Begins With Me" ("How to Build..." 2001). But the implementation strategy Southwest uses to gain

employee support for its brand promise may be totally inappropriate at Harley-Davidson, where a similar "Freedom" message may be found, but within a significantly different workforce in an entirely different work environment.

Due in part to the superfluity of brand promises and corporate cultures present in the American business sector, Interbrand, one of the world's foremost consulting firms in the area of brand management, has found that benchmark companies communicate their commitment to their declared brand values in various ways. Firms like Starbucks, BMW and Disney all believe that delivering the brand promise to customers is the shared responsibility of employees:

*\* They effectively use internal communications to raise employee morale and commitment through the shared beliefs and vision.*

*\* They give managers and staff a deeper understanding of the brand promise and the behaviors and values the promise demands – and train them to adapt their behavior.*

*\* They enable all employees to understand how their own work processes and responsibilities contribute to delivering the brand promise to customers.*

*\* They change company policies, e.g., recruitment, training, rewards, so that the organization is also behaving in line with its brand promise (Interbrand 2001).*

Unfortunately, relatively little has been documented regarding the status of internal branding efforts across the broad sector of the American business community and the actual *impact* internal branding efforts have on the way employees perform their daily activities. A relative dearth of attention has been paid to *evaluating* the efforts of firms to reach internal audiences responsible for developing products and services and the fulfilling the brand promise.

A significant disagreement regarding the status of internal branding initiatives prevents academics and business practitioners from properly addressing the concept in their respective workplaces. For example, Mitchell (2002), in his hallmark *Harvard Business Review* article, states that, "Unfortunately, in most companies, internal marketing (branding) is done poorly, if at all" and that few companies, "understand the need to *convince* employees of the brand's power – they take it as a

given". Others find the concept to be much more pervasive. A survey of 150 firms conducted by Carlson Marketing Group, found that two-thirds were involved in employee branding and most foresaw an increase in budgeting for the concept (D'Innocenzo 2002).

In order to better understand the status and impact of internal branding activities, this preliminary study uncovers the views of American employees working in a variety of firms and at a range of managerial levels. The study, serving as a precursor to a forthcoming national survey of American managers, identifies respondent perceptions of internal branding activities, the sources of the brand message, methods utilized to deliver the message, and the impact that these messages have upon their daily work activities.

## STUDY METHODOLOGY

Two major mid-western universities collaborated in the development of a survey instrument aimed at uncovering the status of internal branding activities in American firms. The instrument was administered to two, adult, evening, MBA classes at one of the participating universities. All participants were employed at local companies, or had just recently left employment. Participants were assured that completion of the survey would have no impact on their grade in the class and that they should not include their name on the survey. Because this preliminary study is in effect pre-testing the survey instrument, respondents were encouraged to note any issues they had with the survey and/or questions that proved difficult to answer.

In total, 49 MBA students completed the survey and returned it for analysis. Questions that posed a problem for participants were identified and excluded from analysis in this study.

## PRELIMINARY FINDINGS

Participants found the survey instrument to be understandable and relatively error free. Only minor issues were noted and, in general, the instrument was deemed, sound and nearly ready for national introduction.

Analysis of the data proved enlightening. As is reported in Table 1, respondents were generally moderate to positive in their feelings that their firms stand for something that is distinctive (with a mean response of 2.18) and that each of their firms communicate a clear message about its brand identity

to its employees. A similar reaction was reported when participants were asked if their fellow

employees view the company's brand identity about the same as its customers.

Statement	Mean	Scale
"My company clearly stands for something that is distinctive."	2.18	1 = Strongly Agree 5 = Strongly Disagree
"My company communicates a clear message about its brand identity to its employees."	2.59	1 = Strongly Agree 5 = Strongly Disagree
"My company's employees view the company's brand identity about the same as or significantly differently than its customers."	2.67	1 = About the Same 5 = Significantly Different

Employees are also exposed to their company's brand message from internal sources. As is illustrated in Table 2, nearly three-quarters of the respondents receive these internally generated messages, and for those who have been exposed to

the internally delivered brand promise, the majority has heard the message from top management. The respondents are far less likely to receive branding messages from their immediate supervisors, human resources personnel and marketing personnel.

"Has your company's brand identity ever been communicated to you from an internal source?"	Yes – 73.5% No – 26.5%
"If so, who presented the brand message to you?"	
Top Management	63.3%
Immediate Supervisor	19.4%
Human Resources	16.7%
Marketing Personnel	13.9%
Other	2.8%

The methods by which respondents receive internal branding messages center around four media: in-house meetings, e-mail messages, corporate brochures, and corporate memos. Nearly 50% of respondents report the use of these media to receive

branding messages, while recognition and reward programs and intranet campaigns also play a significant role in the dissemination of branding information.

In-House Meetings	52.8%
E-Mail Messages	50.0%
Corporate Brochures	47.2%
Corporate Memos	47.2%
Recognition and Reward Programs	38.9%
Intranet Campaigns	36.1%
Company Videos	22.2%
*Percentage of those who have received an internal branding message.	

The timing and frequency of the reception of branding messages varies dramatically. Of notable interest is the fact only one-third of respondents who receive internal branding information, receive it when

there is a significant change in brand identity. As Table 4 illustrates, nearly 40% of respondents who receive an internal branding communication expect it on either a quarterly or monthly basis.

Whenever there is a significant change in brand identity	33.3%
Whenever there is a change in top management	2.8%
Whenever there is a change in middle management	0%
Whenever there is a merger or acquisition	5.6%
On a monthly basis	16.7%
On a quarterly basis	22.2%
On a semi-annual basis	2.8%
Annually	11.1%
Don't Know	11.1%
*Percentage of those who have received an internal branding message.	

Respondents were also asked if they had direct reports and what their involvement was in communicating the brand identity to them. Of those with people reporting directly to them, nearly one-fourth never provide branding information to their

direct reports, and only 41% do so when there is a significant change in brand identity. Other communication frequency figures, while consistently higher when sending branding information than when receiving appear somewhat redeeming.

Whenever there is a significant change in brand identity	41.2%
Whenever there is a change in top management	11.8%
Whenever there is a change in middle management	11.8%
Whenever there is a merger or acquisition	17.6%
On a monthly basis	17.6%
On a quarterly basis	5.9%
On a semi-annual basis	0%
Annually	0%
Never	23.5%
*Percentage of those who have direct reports.	

In-house meetings, the most frequently used medium in the receipt of branding messages, is also used by nearly 60% of respondents in the dissemination of the branding information. Just over one-third of respondents use email to reach their subordinates with brand messages.

are quite the same media used in the receipt of the message. In-house meetings appear to be the most common medium by which the internal branding message is sent. E-mail messages, while used by half of the respondents in the receipt of the message, is used by just over one-third in the transmission of the message. Other media mentioned were used by less than 20% of respondents.

The primary media used by respondents to transmit the internal branding message information

In-House Meetings	58.8%
E-Mail Messages	35.3%
Corporate Memos	17.6%
Corporate Brochures	11.8%
Recognition and Reward Programs	11.8%
Company Videos	5.9%
Intranet Campaigns	0%
*Percentage of those who have direct reports.	

For those respondents who have received information regarding their firm's brand identity from internal sources, the branding message has a

moderate impact on their daily job responsibilities, as Table 7 illustrates.

Statement	Mean	Scale
"How much impact does your company's brand message have upon your daily job responsibilities?"	2.72	1 = Very Much Impact 2 = Very Little Impact
*Addresses only those who have received an internal branding message.		

### DISCUSSION

The preliminary study indicates that American workers have moderately strong beliefs regarding their company's brand identity, and the great majority has received a brand message from an internal source. The brand message most commonly comes from top management, and typically via in-house meetings, e-mail messages, and corporate brochures and memos. The brand message is not conveyed frequently, and in many cases, irregularly. There is not an extremely strong conviction among employees regarding the message, and this is an area where further research is needed.

In spite of the uncertainty of the brand identity commitment among workers, many do see the value of delivering the brand message to their subordinates, and do so on a more consistent basis, and primarily via an in-house meeting format.

Of critical concern is the degree of impact the branding message has on employees' day-to-day activities. Given the importance of this particular variable, more emphasis will be placed on it in the national survey.

### CONCLUSION

While a primary purpose of the preliminary study was to pretest the instrument, an analysis of the findings indicates a moderate to potentially positive understanding of corporate brand identity by employees, as well as a perceptually moderate incorporation of the branding message in the employees' day-to-day jobs. Subsequent minor modifications to the instrument, national distribution, and thorough analysis will undoubtedly shed more light upon the topic and provide both the academic and business communities with valuable information that will have a significant impact on their branding initiatives.

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# PROFILING INTERNATIONAL OUTSHOPPERS: THE ROLE OF ECONOMIC PATRIOTISM

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## ABSTRACT

*The purpose of this study is to profile international outshoppers in terms of their demographic and socio-psychological characteristics relating to several facets of economic patriotism. Discriminant analysis of data collected in two countries of South-east Europe confirmed the results of previous research regarding the unstable effect of socio-demographic variables on outshopping behavior.*

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## INTRODUCTION

Outshopping is a well-documented phenomenon. It has long been an area of research interest, especially when studying sales leakages from rural to metropolitan communities leading to the demise of local independent retailers. The problem of sales leakages is accentuated when the purchasing power of consumers moves across a border, with an adverse impact on domestic economic activity. In spite of its importance, studies of international outshopping are relatively scarce and many concentrate on macro-economic effects rather than discovering the motivational and personal characteristics of those consumers who make their purchases abroad. The purpose of this study was to outline a profile of international outshoppers in terms of their demographic and socio-psychological characteristics that shape the form and the extent of their economic patriotism. The role of economic patriotism in international outshopping behavior was studied in two transitional countries of South-east Europe, i.e., Croatia and Yugoslavia.

## CONCEPTUAL BACKGROUND AND HYPOTHESES DEVELOPMENT

Outshopping ('out-of-town' shopping, also 'cross-border' shopping) refers to a situation where one travels outside of one's local shopping area to purchase goods. International outshopping may be viewed as a special subcategory of outshopping, which is regarded more narrowly (Sullivan and Kang 1997), but is often more complex than domestic outshopping due to the greater differences between international market environments and national controls on the movement of goods across boundaries (Piron 2002). Definitions of outshopping vary according to the required minimum number of 'out-of-town' purchases

within a given time period, from at least 24 (Samli, Riecken and Yavas 1983) to at least one per year (Herrmann and Beik 1968). Several studies attempted to determine which demographic, attitudinal, lifestyle and other characteristics distinguish the outshoppers from the inshoppers. While an extensive survey of the early literature was provided by Papadopolous (1980), a more recent overview can be found in Jarratt (1998), Smith (1999) and Piron (2002). Over the years, various outshopper typologies were developed that not only concentrated on the question of 'who' the outshoppers are, but also addressed questions with respect to 'why' people engage in outshopping, 'what' they purchase and 'when' they make their shopping trips (Smith 1999). However, results of these studies remain somewhat contradictory. Jarratt (1998) ascribed these inconsistencies to two factors, i.e., variations in the definition of outshopping and research designs used since most studies categorized outshoppers as one homogeneous group instead of acknowledging the possibility of more than one 'shopper' category.

Most researchers agree that the primary motivation for outshopping builds on the compelling financial advantages of an outshopping area, the broader choice of merchandise selection, product and service quality, all stemming from a dissatisfaction with consumers' local retail environments (e.g., Herrmann and Beik 1968; Thompson 1971; Reynolds and Darden 1972; Papadopoulos 1980; Chatterjee 1991). Attempts to describe the demographic profiles of outshoppers produced contradictory evidence. Most researchers found positive links between outshopping on one side, and income and education on another, as well as negative links with respondent's age, (e.g. Thompson 1971; Reynolds and Darden 1972; Papadopoulos 1980; Lumpkin, Hawes and Darden 1986; Piron 2002). So far, the evidence of the role of

family life-cycle stages (number of children) and household size is mixed. While some researchers found that outshopping is positively associated with a number of dependent children (Darden and Perreault 1976) and negatively associated with household size (Herrmann and Beik 1968; Lillis and Hawkins 1974), other studies found no significant relationship between these variables. Moreover, previous work found that outshoppers are predominantly males and that the educational level of other family members also matters (Darden and Perreault 1976).

In addition to demographic variables, researchers have identified a range of psychographic variables in consumer outshopping behavior, including enjoyment in shopping, self-confidence, innovativeness, etc. In more recent literature, Piron (2002) linked international outshopping to consumer ethnocentrism. Attempts to predict outshopping have generally reported weak relationships and a lack of generalizability across product categories (Hozier and Stern 1985), which calls for introduction of a new set of variables (Miller 2001). Empirical studies conducted in various international markets indicate that, given normal supply/demand conditions in the market, consumers will generally prefer domestic products, primarily due to their patriotic feelings (Han and Tepstra 1988). However, as international outshopping is a universal phenomenon, we can also reverse the causality and postulate that consumers who engage in international outshopping exhibit low levels of economic patriotism. In this study, the concept of 'economic patriotism' was used as an umbrella term for several concepts well established in the literature: (1) consumer ethnocentrism (Shimp and Sharma 1987); (2) local helping purchase behavior (Granzin and Olsen 1998) and positive attitudes to the local trading area; (3) the perceived quality of domestic vs. foreign made goods (Parameswaran and Pisharodi 1994) and (4) cosmopolitanism (Yoon, Cannon and Yaprak 1996), which refers to an individual's openness to other cultures and her/his desire to experience new things.

Based on the theoretical and empirical backgrounds presented above, the following hypotheses are proposed:

- H1: Male consumers will be more prone to international outshopping than female consumers.
- H2: Age will have a negative effect on international outshopping.
- H3: A respondent's education will have a positive effect on international outshopping.
- H4: The education level of the most educated member of a household will have a positive effect on outshopping.

- H5: Higher household income will have a positive effect on international outshopping.
- H6: The number of people living in a household will have a negative effect on international outshopping.
- H7: The number of children below the age of 18 living in a household will have a positive effect on outshopping.
- H8: Consumers exhibiting stronger ethnocentric tendencies will be less prone to international outshopping than consumers exhibiting weaker ethnocentric tendencies.
- H9: More pronounced local helping purchase behavior will have a negative effect on international outshopping.
- H10: The perceived quality of domestic goods will be negatively related to international outshopping.
- H11: Cosmopolitanism will have a positive effect on international outshopping.

#### DATA COLLECTION METHODOLOGY

Data was collected with the assistance of a professional research agency and its partners in Croatia and in the Yugoslav republic of Serbia. Personal face-to-face interviews were conducted (in local residents' households) in three and four major cities, respectively. Probability sampling was obtained utilizing a geographical area sampling methodology within the selected cities. Following guidelines for conducting international consumer research (Craig and Douglas 1999), the study instrument was initially double-blind translated into the local language and back into the original by two independent natives, and subsequently carefully adapted so as to incorporate idiosyncratic aspects of local cultures. The scale was also pre-tested on convenience samples of consumers in both countries for its comprehensibility and length (15 minutes), after which changes were incorporated.

*International outshopping* was measured with an open-ended question regarding the frequency of a respondent's shopping trips abroad. Responses were classified into groups (ranging from 'several times a month' to 'never') and subsequently entered into the questionnaire by trained interviewers. Construct measures relating to economic patriotism have been derived from existing literature and have been shown to be psychometrically sound in cross-cultural contexts (Shimp and Sharma 1987; Granzin and Olsen 1998; Parameswaran and Pisharodi 1994; Yoon et al 1996). Five-point Likert-type scales were utilized, ranging from 1 - strongly disagree to 5 - strongly agree. The instrument also consisted of open-ended questions related to socio-demographic variables,

some of which pertained to respondents (age, gender, education) and others to their household characteristics.

## DATA ANALYSES AND FINDINGS

Data analyses were conducted for both countries separately. Respondents were first classified into two groups, based on the frequency of their purchases abroad: **international outshoppers**, including all respondents who purchase away from their home country at least once in every few months (21.6 percent of the total sample of 333 respondents in Serbia and 33.2 percent of the total of 387 respondents in Croatia), and **domestic inshoppers**, who never make shopping trips to other countries (34.9 percent in Serbia and 53.6 percent in Croatia). Respondents who shop abroad once a year or less frequently were omitted from the analysis due to the possibly spurious or ambiguous nature of their shopping trips to other countries. A comparison of socio-demographic characteristics across the two countries indicates both samples are similar with respect to the households' income relative to national averages, but differ with respect to the gender structure, respondents' age, household size, and education (at  $p < 0.05$ ). Since data collection was limited to major cities, the samples do not fully correspond to the characteristics of the country population.

Next, primary motives for international outshopping, obtained through unaided recall, were examined. The responses quoted first were grouped and analyzed. Consumers' motivation for shopping abroad differs by country ( $\chi^2 = 49.93$ ;  $df = 4$ ;  $p = 0.000$ ), although 'low prices' seem to have the strongest appeal in both countries (for 75 percent of Croatians and 42 percent of Yugoslavs). While only one-quarter of Croatian respondents gave some other reason for outshopping (17.1 % cited 'larger assortment of goods' and 5 % 'higher quality of goods'), Yugoslav consumers seem to be guided by more diverse motives. They cited 'higher quality of goods' (26.1%), 'larger assortment of goods' (12.6 %) and 'good overall image' (7.5 %).

Previous research focusing on profiling outshoppers suggests that outshopping behavior stems from both the demographic and socio-psychological characteristics of consumers. As these evolve within a network of influences, we used discriminant analysis to delineate characteristics of international outshoppers from characteristics of domestic inshoppers. Our objectives were twofold: a) to determine if statistically significant differences existed between the profiles of both groups of shoppers; and

b) to identify highly noteworthy independent variables accounting for these differences. In spite of its shortcomings, the stepwise procedure was selected as the most appropriate method for a number of reasons, including the fact that an agreed upon set of discriminator variables has not yet been established in the literature, and that the univariate F-values generally represent a poor barometer of a variable's importance because they ignore interrelationships among the variables (Dillon and Goldstein 1984). To overcome the problems associated with the stepwise procedure, a more liberal probability-to-enter criterion (0.20 for entry and 0.25 for removal of a variable) as well as cross-validation were used (Tabachnick and Fidell 2001; Dillon and Goldstein 1984). As indicated by the results of discriminant analyses for both samples (Table 1), all significant coefficients have the expected sign, except the number of household members in Croatia. However, not all hypotheses could be confirmed for either of the two samples. The loading matrix of correlations between predictors and discriminant functions indicates which variables are the best predictors or distinguishing between international outshoppers and domestic inshoppers. While some authors suggest that loadings above 0.33 (10 percent of overlapping variance) may be considered eligible (Tabachnick and Fidell 2001), we used a cut-off value of 0.45 (Comrey and Lee 1992) in our interpretation of the results.

In Croatia, the characteristics that distinguish shoppers regularly making purchases in other countries from shoppers who never shop abroad involve less pronounced local helping purchase behavior, a less favorable perception of the quality of domestically produced goods, and a respondent's age. On the other hand, compared to domestic inshoppers, Yugoslav international outshoppers, are characterized by somewhat weaker ethnocentric tendencies, higher household income, and a higher level of education. These highly incoherent results across the two country samples can be partly explained by the high correlation among the three sets of variables which created a certain amount of redundancy. The results justify our decision to retain all variables in the analysis since different variables proved to be the best discriminators across the countries. It should be noted, however, that the predictive and classification power of both models remain relatively weak. The proportion of the variation between outshoppers and inshoppers accounted for by the discriminating variables is 16 % for Croatia and 25 % for Yugoslavia. In the case of Croatia, 69 percent of cross-validated grouped cases were correctly classified, an improvement of some 16 percentage points over the classification achieved by chance. For Yugoslavia, 73 percent of cases were classified correctly, compared to 52.8 percent



classified correctly by chance alone. Other empirical studies using discriminant analysis for profiling shoppers (Belenger and Korgaonkar 1980; Stille

Hopper and Budden 1989) produced comparable classification results.

**Table 1: Discriminant Analysis of Outshopping Behavior in Two Countries (stepwise procedure)**

Explanatory variable	Hypothesis	Structure matrix coefficients <sup>a)</sup>	
		CROATIA	YUGOSLAVIA
Gender (1=female)	H1 -	n.s.	n.s.
Age	H2 -	- 0.563	n.s.
Education			
• Number of respondent's years of schooling	H3 +	n.s.	0.487
• Number of years of schooling of the most educated household member	H4 +	0.373	n.s.
Household income	H5 +	n.s.	0.495
Household size:			
• Number of household members	H6 -	0.380	n.s.
• Number of children below the age of 18	H7 +	0.183	0.285
Consumer ethnocentrism	H8 -	n.s.	- 0.676
Local helping purchase behavior	H9 -	- 0.773	n.s.
Perceived quality of domestic goods	H10 -	- 0.593	n.s.
Cosmopolitanism	H11+	n.s.	0.374
<b>Summary of canonical discriminant functions</b>			
Eigenvalue		0.191	0.338
Canonical correlation		0.401	0.502
Proportional chance criterion <sup>b)</sup>		52.8 %	52.8 %
Percent of cross-validated grouped cases correctly classified <sup>c)</sup>		69.0 %	73.0 %

Notes:

a) Pooled within-groups correlation between discriminating variables and standardized canonical discriminant function. Coefficients are only given for the variables that were included in the model; all others are marked as n.s. (not significant).

b) Proportional chance criterion refers to classification by chance alone and was calculated as a sum of squared prior probabilities for groups.

c) Prior probabilities were computed from group sizes.

## DISCUSSION AND IMPLICATIONS

Several conclusions can be drawn from our results. Discriminant analysis confirmed findings of previous research regarding the unstable effect of socio-demographic variables in outshopping behavior. It also demonstrated that differences between both groups of consumers are better explained by socio-psychological than by demographic variables. Variables measuring economic patriotism appear the strongest predictors of international outshopping behavior, meaning that overall, consumers exhibiting stronger economic patriotism tend to shop less in foreign countries. In Croatia, the importance of factors related to the household's size and composition rather than to characteristics of individuals suggests that international outshopping occurs largely for economic reasons. Contrary to our hypothesis 5,

outshoppers are no more affluent than consumers who make their purchases exclusively in their home country. This conclusion is consistent with the primary motivation for shopping abroad, i.e., low prices. Yugoslav consumers, on the other hand, appear to be guided by more individualistic impulses when making their purchases in other countries. A lack of ethnocentric tendencies, coupled with cosmopolitanism, high education and also above-average household income play important roles in defining an outshopper in this country.

Countries with a high level of outshopping activity are potentially attractive targets for international retailers and marketers. Outshopping in the emerging transitional countries such as Croatia and Yugoslavia is still limited by the low purchasing power of the population. However, a large percentage

of the local population at least occasionally travels abroad for the purpose of shopping for food, household goods, apparel and footwear. With respect to unmet consumer needs, our analysis indicates that both markets offer a number of potentially lucrative business opportunities in the consumer goods market. Cognizance of the demographic and socio-psychological characteristics of outshoppers examined in this study should facilitate managerial decision-making. A carefully formulated marketing mix of international product offerings (i.e., brands, products and services) could constitute an alternative to the existing cross-border shopping activities of the local population. As demonstrated in the case of Canadian-USA international outshopping (Sillars 1994), the entry of international retailers can increase competitiveness in the domestic market and change the direction of outshopping flows. The findings of

this study should nevertheless be viewed from the perspective of the limitations inherent in this study. Since the predictive power of our discriminant model was less than desirable, additional factors underlying international outshopping behavior should be considered in future attempts to develop reliable profiles of international outshoppers. Moreover, our research also indicates that consumer segmentation schemes should take into account cultural differences across country markets. As Papadopoulos (1980) observed, 'what is known about outshopping does not necessarily allow generalizable predictions and the transfer of knowledge from one community to other'. The discrepancies in our results across the samples cannot be attributed to variations in the definition of outshoppers or research designs. Hence, a contextual approach may be called for in international outshopping behavior research.

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# A FOREIGN MARKET ORDER-OF-ENTRY DECISION MODEL INCORPORATING CONSUMER INVOLVEMENT AND LEARNING

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## ABSTRACT

*Traditionally, companies have expanded internationally by initially developing successful products in their home market and then, international expansion would proceed one country at a time. Current research suggests that approach may not be as profitable today. The alternative approach suggests firms introduce a new product simultaneously across the globe.*

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## INTRODUCTION

Faced with increased competition and saturated markets in their home market, many companies have attempted to grow their business by expanding overseas (Helsen, Jedidi, and DeSarbo, 1993). Products produced by foreign companies have now penetrated virtually every market in the free world (Kalish, Mahajan, and Muller, 1995). In addition, an increasing number of industries have become global in scope including automobile production, aerospace, telecommunications, electronics, and luxury consumer goods (Kalish et al., 1995). Firms must develop new products and compete in international markets to remain competitive (Kleinschmidt and Cooper, 2001).

The introduction of new products in international markets involves two strategic decisions – (1) foreign market selection and (2) order-of-entry (Ganesh, Kumar, and Subramaniam, 1997). These decisions are among the most critical made by a firm seeking to establish itself in an increasingly global marketplace (Ganesh and Kumar, 1996). A firm interested in international expansion can adopt one of two strategies regarding entry into foreign markets. The first approach is a simultaneous expansion in which the firm enters multiple foreign markets at the same time (Ganesh and Kumar, 1996). This global expansion method is referred to as the “sprinkler strategy”. Alternatively, a firm can use a sequential approach in international expansion in which the firm initially enters one or more lead markets and subsequently enters other markets in a phased manner (Ganesh and Kumar, 1996). This approach is referred to as the “waterfall strategy”.

While many large corporations are already involved in international entry decisions due to an

existing network of international operations, for small and medium companies not yet in international markets the entry decisions constitute a critical path to global markets (Douglas and Craig, 1992). Therefore, the critical question facing an international firm would be which strategy to adopt, a sprinkler approach or a waterfall approach. In addition, which markets the firm should expand into first and in what order must be answered if the firm selects the waterfall strategy (Ganesh and Kumar, 1996).

This paper describes the learning effect for new products in international lead and lag markets. Next, product involvement for new product innovations in international markets is examined. Two alternative approaches to foreign market expansion, the sprinkler strategy and the waterfall strategy, are outlined and appropriate circumstances for utilizing both strategies are depicted.

## LEARNING EFFECT FOR NEW PRODUCTS IN INTERNATIONAL MARKETS

A lead market is defined as the first country to adopt an innovation, while the potential adopters in the second country are referred to as the lag country. Consumers in a lag country may learn the features and benefits of a new product from the adopters in a lead country. The learning that can occur may result in a faster rate of diffusion in the lag markets (Ganesh et al., 1997). Diffusion of an innovation has been defined as the process by which an innovation is communicated through certain channels over time (Rogers, 1983). Diffusion theory suggests that the adoption of a new product within a social system is influenced by external and internal factors (Ganesh and Kumar, 1996). The external factors include mass media communications, while the internal factors consist of word-of-mouth communications. The

potential adopters in the second country, or lag market, can observe the success of the product in the first country or lead market. The ability of adopters of an innovation in one country to influence the potential adopters in another country provides a source of information to the second country (Kalish et al., 1995). If successful, the risk associated with the new product or innovation for the second country or lag market is reduced (Kalish et al., 1995).

When an innovation is introduced in the lead country with a time lag for introduction in other countries, the consumers in lag countries may have an opportunity to learn from the experiences of lead country consumers. This is referred to as the learning effect (Ganesh and Kumar, 1996). The learning effect provides lag country consumers an opportunity to assess the relative advantage of the product, the compatibility of the product, and the usage of the product by examining lead country consumers (Ganesh and Kumar, 1996).

Five factors that are strongly related to the learning process and influence the pace of learning have been identified. The factors include cultural similarity, economic similarity, time lag, type on innovation, and the existence of a technical standard (Ganesh et al., 1997). The variations in the learning effect between the lag markets are a function of country-specific, time lag, and product/innovation-specific factors (Ganesh et al., 1997).

If the information regarding an innovation from a lead country to the lag country is positive, the manufacturer has an incentive to follow the waterfall strategy. The learning effect can guide companies toward the appropriate strategy, sprinkler versus waterfall, and help in developing the order-of-entry sequence for introducing new products in international markets (Ganesh et al., 1997).

#### **PRODUCT INVOLVEMENT FOR NEW PRODUCTS IN INTERNATIONAL MARKETS**

One of the first steps to developing a global product strategy is to determine the level of consumer involvement in the product category for the target market in each country (Wills, Samli, and Jacobs, 1991). Many third world countries exhibit high levels of involvement in most purchases because of low incomes (Wills et al., 1991). However, for products that are familiar to consumers and do not require much examination, international markets should be developed quickly with a penetration strategy (Wills et al., 1991).

The interrelationship between learning and involvement has been identified as consisting of four groups of products in relation to four groups of behavior (Wills et al., 1991). The first group is categorized as fast-learning/high-involvement and includes products such as fashionable clothing. The second group of products is fast-learning/low-involvement and includes "new and improved" products. The slow-learning/high-involvement group consists of products such as a personal computer. Finally, the slow-learning/low-involvement group includes products such as home gym equipment. Multinational firms should understand the position of a new product with regard to the learning-involvement category for each target country (Wills et al., 1991). These groupings may be useful in identifying the appropriate order-of-entry strategies for international firms. For example, fast-learning countries may be markets in which the sprinkler strategy would be appropriate. On the other hand, slow-learning countries may benefit from a waterfall approach in which benefits can be communicated from lead to lag markets.

#### **WATERFALL STRATEGY FOR NEW PRODUCTS IN INTERNATIONAL MARKETS**

According to the waterfall model, innovations are introduced in a series of steps from the most to least technologically advanced countries. After a successful domestic introduction of a new product, multinational firms would introduce it to other advanced countries and then into less developed countries (Kalish et al., 1995). For years, firms assumed the best way to expand globally was to go one country at a time. The rationale for using the waterfall approach was that tailoring the product to each market took a great deal of time (Riesenbeck and Freeling, 1991).

Certain conditions may make a waterfall strategy profitable such as products with a very long life cycle, less favorable conditions in a foreign market, and weak competitiveness of a foreign market (Kalish et al., 1995). Less favorable conditions consist of a small foreign market compared to the home market, a slow growth foreign market, a non-innovative foreign market, or a market with high fixed costs of entry. Weak competitiveness can be categorized by weak competitors in the foreign market, competitors engaged in collusion, or the firm enjoying a monopoly position in the foreign market (Kalish et al., 1995).

Lag countries that show strong learning ties to lead countries make good potential candidates for

expansion using the waterfall approach (Ganesh et al., 1997). In addition, entry into lag markets that display a trend toward longer periods of learning may be delayed to give those consumers an opportunity to learn about the benefits of the innovation (Ganesh et al., 1997). Early entry in these weak learning countries using the sprinkler approach may prove disastrous because of perceived higher risks of uncertainty and thus result in slower diffusion rates (Ganesh et al., 1997).

A new product that falls under the category of a discontinuous innovation may benefit from a waterfall approach (Ganesh et al., 1997). A discontinuous innovation can be described as one in which consumers have very little knowledge regarding the core benefit (Ganesh et al., 1997). Examples of products classified as discontinuous innovations include computers and television because adoption requires new behavior patterns.

#### **SPRINKLER STRATEGY FOR NEW PRODUCTS IN INTERNATIONAL MARKETS**

Many of the conditions identified as being favorable for a waterfall strategy may not hold in today's global marketplace (Kalish et al., 1995). The costs of developing a new product are so high that firms must be able to sell the entire world simultaneously to recoup their investment (Ohmae, 1986). Companies that develop domestic markets first before expanding internationally may find markets that are blocked by entrenched competitors (Ohmae, 1986). Further, the free flow of information makes the exchange of goods and services across national boundaries very easy (Ohmae, 2000). For example, the Internet acts as a continually updated full color catalog of things, ideas, opportunities, and attitudes reaching everywhere in the world (Ohmae, 2000).

A firm introducing a product that may be classified as a continuous innovation might benefit from a sprinkler approach (Ganesh et al., 1997). Consumers have existing knowledge regarding a continuous innovation because of the common features with previous related products such as a modification to an existing product.

Products that are familiar to consumers and do not require examination or trial are considered low-involvement and fast-learning. In these cases, international markets should be developed quickly utilizing a sprinkler strategy (Wills et al., 1991).

Another group of global products that make strong candidates for utilizing a sprinkler strategy include fashion-oriented, premium-priced branded goods. These products are sold around the world in virtually the same way and appeal to an upper bracket market segment with consistent tastes and preferences (Ohmae, 1989). Examples of these products include Gucci bags or top-of-the-line automobiles such as Rolls Royce or Mercedes-Benz.

#### **CONCLUSION**

In an attempt to grow internationally, companies are constantly adding new countries to their list of target markets (Helsen, 1993). Strategy formulation in global markets is a dynamic process and one of the first steps is initial market entry and expansion (Ganesh and Kumar, 1996). This expansion of a firm's target market creates challenges such as selecting the appropriate strategy for order-of-entry in foreign markets.

While previous emphasis on foreign market selection has been based on market size, growth rate, or similarity to the home market, the order-of-entry decisions should be included as well (Ganesh et al., 1997). International firms can group lag countries on the degree of learning that they consistently exhibit with regard to lead countries (Ganesh et al., 1997; Wills et al., 1991).

The results of research generally suggest that the current state of global competition calls for a multinational firm to follow the sprinkler approach when introducing innovations to the world (Kalish, 1995). However, there are cases in which the waterfall strategy is still appropriate. The slow-learning countries are ideal candidates for the waterfall approach (Wills et al., 1991). Conditions in which the product life cycle is long, the product category is not too innovative, and the competitive pressure is low are appropriate for the waterfall approach as well (Kalish, 1995). In addition, lag markets in which a waterfall strategy is utilized may require less investment in advertising aimed at creating awareness and lowering the perceived risk for consumers (Ganesh et al., 1997).

The following conditions favor utilizing a waterfall strategy for international market expansion:

*Product Characteristics:*

- 1) Very long product life cycle
- 2) Discontinuous innovation

*Foreign Market Conditions:*

- 3) Small foreign market compared to home market

- 4) Slow growth foreign market
- Competition in Foreign Market:*
- 5) Weak competitors in foreign market
  - 6) Firm maintains a monopoly position

Alternatively, the following conditions suggest that a sprinkler strategy may be more appropriate for expansion in international markets:  
*Product Characteristics:*

- 1) Shorter product life cycle
  - 2) Continuous innovation
- Foreign Market Conditions:*
- 3) Large foreign market
  - 4) Strong growth in foreign market
- Competition in Foreign Market:*
- 5) Strong competitors in foreign market
  - 6) Innovative foreign market

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# DEVELOPMENT OF TRANSPORTATION MARKET IN TRANSITIONAL PERIOD (ON THE EXAMPLE OF UKRAINE)

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## ABSTRACT

*The Ukrainian transportation market has characteristics similar to any country in a transitional economy. It also has some unique qualities that give Ukraine a great potential for its integration into the world market. The current task of Ukraine is to benefit from that potential and attract foreign investors.*

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## INTRODUCTION

The world economy is intensively going through the process of globalization and integration, which embraces more and more countries in the world. As for today the Ukraine has developed cooperative ties with 173 countries, primarily with Russia, Germany, USA and Canada. The scientific and technical potential in Ukraine and in the world in general is a very good basis for further development of this cooperation and international economic relations.

## INTERNATIONAL COOPERATION AS A COUNTRY'S PROGRESSIVE FORCE

Recently international cooperation has become an integral part of any country's national economy, and the scientific and technical progress determine and stimulate the economic growth in a great amount. From the point of view of any country's interest, the main question concerning goods turnover is the choice of the right strategy for that country's participation in international economic relations. The focal point of economic growth is the optimization of a national economic structure, and mainly – of the part oriented towards the export of products made inside a country.

The Ukraine's main exports are: metallurgy, chemical, forestry, machinery construction and fuel and energy industry products. The main Ukrainian export and import products are presented in pictures #1, 2 (Kotlyarsky 2002). The geographical location and political situation of Ukraine in Europe, in regards to its industrial and agricultural potential for development of national economy, provide the favorable conditions for the further development of foreign economic relations with countries over the world. Presently Ukrainian

international goods turnover has a great potential for increase. Therefore it is becoming necessary to have the ability of quick, safe, and quality transportation.

Any international trade contract may not be performed without the transportation of the goods. According to statistics, above 75% of all international trade transports are done with the participation of freight forwarders. Presently the market of freight forwarding in the Ukraine is actively developing. There are professional companies which have their own network of agencies in foreign countries. These companies ensure international goods transportation in accordance with the wishes of their customers all over the world. An example of a successful project by "Logistrans Co.", Kiev is the Sea-Rail-Express container shipping line between C.I.S. countries and Turkey, which has been functioning for the last 4 years. That shipping line uses the containers produced by Ukrainian "Ukrzaliznytsa". That project is beneficial for Ukraine in two parts: it provides the transportation of goods on an important route, and it uses the equipment of a national Ukrainian producer.

Association of International Freight Forwarders of Ukraine (AIFFU) - a professional voluntary non-profit organisation in Ukraine is in charge of co-ordinating the work of the freight forwarding companies in Ukraine, and resolving the issues of their professional activities.

Transportation and freight forwarding industry is an integral part of the Ukrainian economy. Current economic reforms frame the new economic relations and international cooperation opportunities. The whole economic system faces cardinal changes, including the forming of new market economy, privatization issues, tariffs liberalization, licensing and certification, which are considerably related to the transportation system and its work in general.



It also needs to be said that the economic and structural reforms in transportation and freight forwarding industry are not consistent enough. In some degree it is due to unsolved administrative problems which are the basis for the choice of technical, economic, and social policy in a transportation area in a transitional period.

The part of transportation expenses in the cost of the goods is a considerable sum – it ranges from 6.2% for chemical industry goods to 20.6% for paper (Cooper 1999 ). These figures show that it is important not to underestimate the significance of the development of transportation and freight forwarding services on a national level. Reorganization of transportation services and its structure reforms require huge capital investments, and the effect will not appear immediately, but through decades. Therefore, the right development policy in the transportation and freight forwarding industry and the right prognosis of the processes in this branch are of the utmost importance. Incomes and expenses in the transportation sector in Ukraine for 2001 are shown in picture #3.

The current development of Ukraine is directed at the broadening of international activities and promoting the increase of foreign economic relations, that are related to a great broadening of trade with other countries, and therefore must lead to increasing import, export and transit transport volumes.

At the same time today in Ukraine the transportation and freight forwarding industry has not been developed well enough. The legislation and provisions regulating this area often are not corresponding to the real requirements of the modern market.

While analyzing the market of transportation and freight forwarding services, it is reasonable to consider not simply the system of transportation, but the whole system of goods distribution where transportation is only one of the elements in the process. Such distribution process includes all elements in the product development and delivery, except production and consuming, and the transportation itself takes only about 50% of all expenses (Cooper 1999).

In the world market the most successful companies in logistic services focus on the maximal satisfaction of their clients' needs. In order to research the transportation and freight forwarding services market it is necessary to consider the complex of logistic issues including planning,

organization, control of transportation, warehousing, handling of the goods, and other operations in the process of bringing the raw materials to the plant, and then products to the consumer in accordance with the latter's needs and demands. An issue such as a transmission and processing of the information concerning the product and its transportation should also be considered.

In the former Soviet Union and Eastern European countries the organization of the economy had been functioning in a different way. Everything was governed by "a planned economy", i.e. it was not the consumer but the government who was determining which goods and services to produce. The disintegration of the Soviet Union broke its economy, and all the systems collapsed. Now the Ukraine's main task is to form the new system which will correspond to today's market situation. Before the disintegration, the Ukraine (then the part of the USSR) had been developing the only system of terminal road transports with the information subsystem of planning and control of transportation. The container road-sea transports were organized on the base of that system.

#### **A NEW ERA IN UKRAINE'S MARKET DEVELOPMENT**

The "steep changes" in the country led to the situation where the systems which had been functioning before, not only were not under further development, but rather ceased to exist. Today those systems are in a big demand. They need to be redeveloped, but this time in the situation of the new environment. It is also worthy to note the positive moments of these changes in a country. One of them is the creation of conditions for the development of a competitive environment in the market of transportation and freight forwarding in Ukraine and other socialist countries.

The Ukraine in 1998 cancelled the government licensing of freight forwarding activities, and now there are practically no official standard requirements for the evaluation of reliability and professionalism of existing freight forwarding companies. As a result of this, in recent years in Ukraine over 1000 freight forwarding companies have been formed, and regrettably, a number of them are not capable to render the services on a sufficiently high professional level corresponding to the modern international requirements. This creates a disadvantageous impression about Ukrainian freight forwarders to foreign partners, and worsens the image of the Ukrainian freight forwarding industry as a whole. Presently the introduction in Ukraine of

some instrument for limiting the access to the freight forwarding market on the grounds of criteria of professionalism of companies is to be considered.

The transition into a free market economy in the former Soviet Union caused the creation of the new monopolies in the transportation area in place of the old ones (for example, such as Black Sea Shipping Company). Among the new monopolies are transportation and freight forwarding companies, private ship-owners, as well as freight, surveying, crewing, broker, and insurance companies.

Besides, the transportation companies' strategies towards the reaching of short-term goals negatively influence the market. Such short-term vision holds back the introduction of the advanced transportation technologies (for example, the development in Ukraine of the new inter-modal transportation infrastructure). One of the problems in this situation is that transport companies' sole objective is their personal interest, and they neglect the interests of the industry and the community.

The independence of the Ukraine brought changes in the nature of its transportation connections - primarily the transportation changed from national to international. Export, import, and transit volumes have increased. 86% of the air transportation, 40% of railway connection, and practically all sea and inland water transportation in Ukraine is international. Firstly, this stimulates the necessity for the Ukraine's harmonization and unification of their legislation with the legislations of neighboring countries, such as regulating the crossing of border points by vehicles. Secondly, the introduction of the standard documents, customs procedures, relevant technologies, what will lead to a common direction of the development of national transportation and freight forwarding industry (Kanischenko 2000).

It is also necessary to consider another serious problem - forming of an integrated international communication network in which Ukraine is going to enter in the near future. A very urgent issue is the adoption of European Union and United Nations standards for international communication on goods transportation. In this connection the Ukrainian administrations of railway, sea, road, and air transportations are taking the measures in bringing the Ukrainian legislation to the world standards.

#### **OPPORTUNITIES FOR FURTHER DEVELOPMENT**

At present, the most important task in the transportation industry in Ukraine is the change from

paper documentation to electronic formats, as well as eliminating existing obsolete paper work. The new information systems will provide the transportation companies and other participants of the industry (such as transportation and freight forwarding companies, ports, terminals, and cross border points) with the current information about the cargo, its location, destination, etc. This system will also give the client the correct information about the location of the item, the delivery of the cargo, allows to lower the amount of goods in the warehouses, and uses the delivery principle "just in time".

In regards to the current stage of development, the mentioned changes will lead to:

- Increasing effectiveness of the transportation due to optimal administration, new technologies usage, and information processing.
- Strengthened competitiveness of national transportation and freight forwarding companies.
- Eliminating of punitive sanctions by international partners and countries for failing to follow the international standard documentation keeping.
- More effective use of Ukrainian transit capabilities, including the development of intermodal transportation, and international transportation corridors.

As a result of these changes there is an increasing demand on transportation services and additional transport volumes. Today the situation in the national transportation and freight forwarding market is as follows:

- Only a limited number of transportation and freight forwarding companies are able to render the whole set of services on the delivery of goods. Generally the companies only render one or two services.
- The education level of specialists in transportation and freight forwarding do not fully correspond to the international norms, standards and requirements of a free market. The existence in the market of non-professional specialists shakes international partners' faith in the Ukrainian market.
- Legislation in transportation and freight forwarding industry does not always coincide with the economic idea of the new market policy.

- Conditions for the crossing of border points by transport vehicles are extremely unsatisfactory.

- The defence of the Ukrainian carriers and freight forwarders from dishonest national and international consignors, competitors, and criminals are ineffective.

- There are non-favorable conditions in the investment process. Centralized national capital investments are limited due to the deficit of the state budget. Companies self-financing is difficult due to the current economic situation, and inflation. Foreign capital investment is difficult due to the absence of guaranties for foreign investors.

- There is no single juridical basis for relations between renderers of transportation and freight forwarding services, and their clients, as well as relations inside the transportation infrastructure itself.

- There is an absence of the proper insurance systems for the transportation of goods and liability of carriers and freight forwarders, as well as the absence of the necessary control for the whole process of goods transportation.

Ukrainian international goods transport by different modes of transportation is shown in picture #4 (Kotlyarsky 2000). The international nature of transportation requires the Ukraine to go through structural and organizational reforms in its administration of export services in transportation and freight forwarding for all modes of transportation. It requires high-level vocational training, proper juridical norms, and the forming of a single database in the framework of international community.

A decrease in national goods product volume lowers the demand on transportation and freight forwarding services. As a result of this, it lowers the resources for financing all modes of transportation. It is therefore necessary to find and implement every measure of an effective investment policy.

Great attention should be paid to the effective scientifically substantiated program for the development of transportation and freight forwarding services. This includes the attraction of foreign investors who will help Ukraine in stabilizing its economy and becoming a worthy partner in international economic relations.

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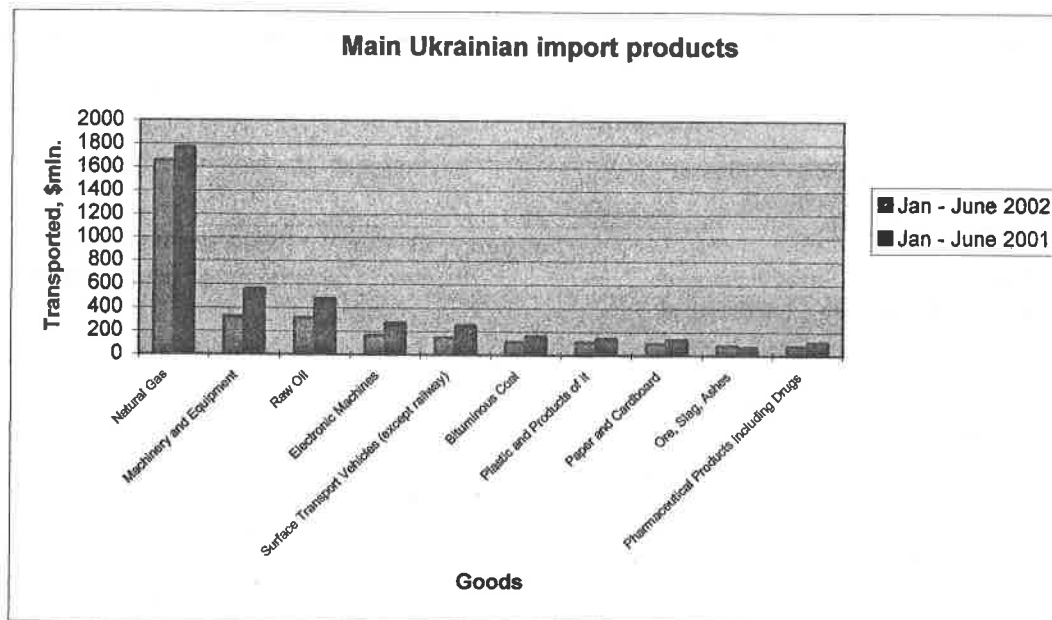
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## EXHIBITS

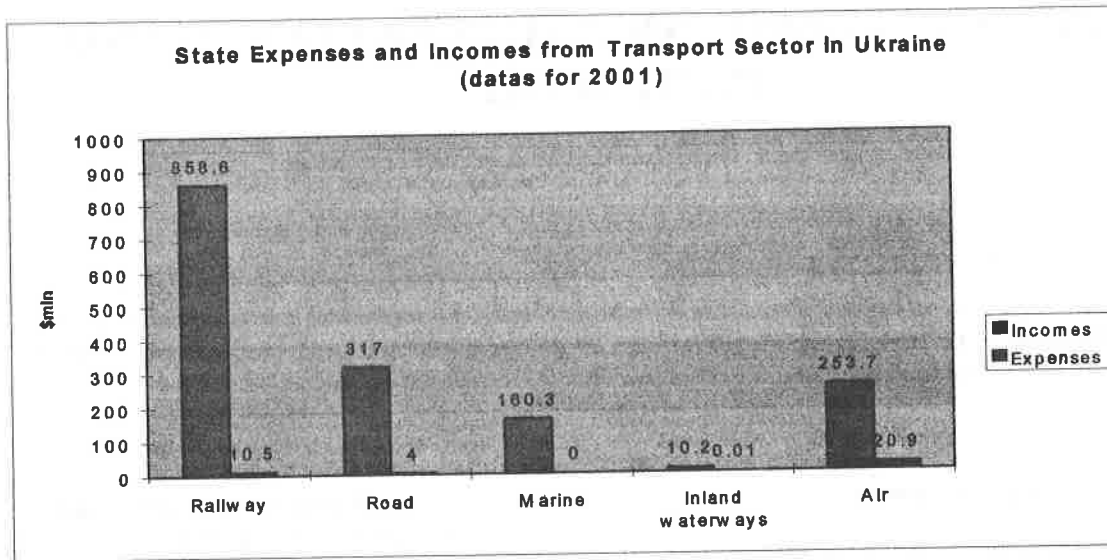
Picture 1



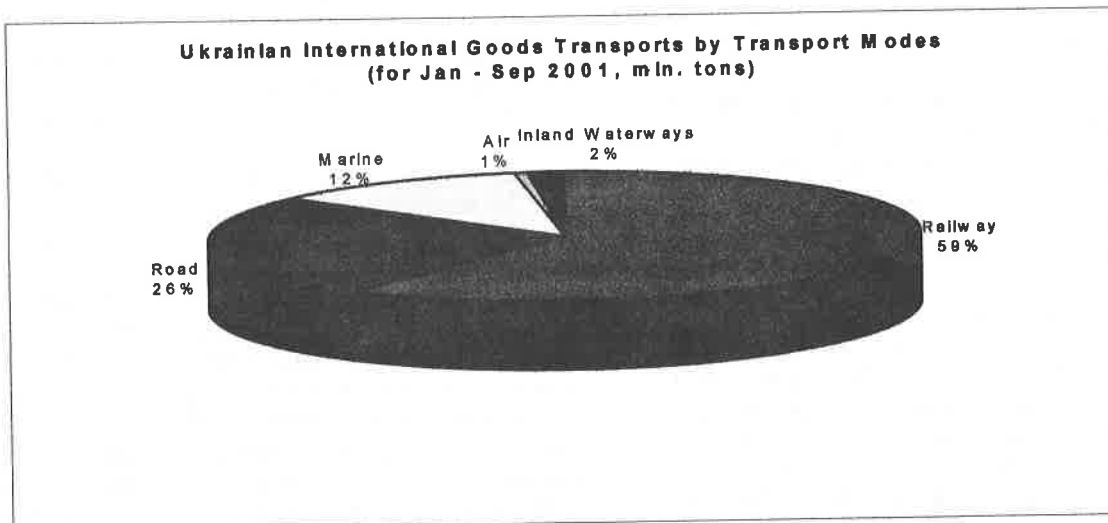
Picture 2



Picture 3



Picture 4



# SMALL, BUSINESS SERVICE FIRMS: BUSINESS INITIATION COMMUNICATION PATTERNS AND PROTOCOL

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## ABSTRACT

*Business services, especially those developed by small firms, have played a substantial role in the recent economic expansion. The thesis of this paper is that the very process by which business service firms get business is one that tends to support their success, i.e., they tend to develop as market-driven firms.*

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## INTRODUCTION

The fascination with services, service marketing and service management is an understandable one - industrialized countries are in the process of developing into "service economies." Diagrams that reflect a change from an agricultural/industrial mix to one that is dominated by services are a common way to start service texts (see, for instance, Lovelock, 2001, 6; or Zeithaml & Bitner, 2000, 6). In the U.S., for instance, nearly 80 percent of GDP can be accounted for by service employment and distribution. Of these services, business services are important both in terms of sector size and growth rate. Simply put, they are both the largest and fastest growing segment of the service sector. In fact, a significant portion of job growth and firm formation in the 1990's was in the business service sector (SBA, 2001).

The marketing definition of "business services" is associated with their customer base. That is, they are those services provided for organizational customers regardless of type, although they are frequently of a business nature. The Department of Commerce compilation, which of course is production based, lists eight industries at the four-digit level that account for 80 percent of revenues in this sector. To these eight, the business-to-business portions of three other service segments are usually added to produce the "business service sector." To some degree, it has been convenient to subdivide these segments into a "professional," "non-professional," and "equipment" rental components (Wilson and Smith, 1996). The following general listing has been used to describe and discuss business services:

- Professional services – accounting, auditing, and bookkeeping services; advertising; computer and data processing; engineering and architectural services; legal services; management, consulting and public relations; R&D and testing laboratories.
- Non-professional services – detective agencies and protection; personnel supply services; services to buildings and grounds,
- Equipment rental and leasing.

It has been suggested that the business service sector has represented opportunity for potential entrepreneurs (Wilson, 1997; Wilson and Anell, 1999). Average firm sizes within this sector at the time these papers were written were under \$1 million and 20 employees, a comfortable size for a sole proprietorship. Further, because of the very "small business" nature of the sector, firms structured around the capabilities of a single, talented person could be immediately competitive. Additionally, the continual tendency of large firms to downsize and outsource provided a ready market for firms with supply capabilities (Ozanne, 1997). In fact, the practice of large firms using ex-employees as consultants made downsizing, firm formation, and outsourcing virtually a single step during the late 1990s (Clark, 1997).

Despite the opportunity, firms need to develop their business bases. Levitt (1983, 5-6), undoubtedly reflecting Drucker's earlier thoughts, outlined five simple statements concerning the requisites of competitive success:

1. The purpose of a business is to create and keep a customer.

2. To do that (it) must produce goods and services that people want and value at prices and under conditions that are reasonably attractive relative to those offered by others to a proportion of customers large enough to make those prices and conditions possible.
3. ...
4. ...
5. In all cases there must be an appropriate system of rewards, audits, and controls to assure that what's intended gets properly done and, when not, that it gets quickly rectified.

To be sure, small business firms in this sector appeared to do this rather well. The official interpretation of the slippage of the proportion of the sector dominated by small firms was that not only were these firms successful, but they grew to be large firms (SBA, 2001; Popkins et al., 2001). An exploratory study (Wilson and Seidle, 2000) had suggested that results could be discussed in terms of pre-project interactions. In their reflections, the development of a typical business service project appeared dependent upon pre-project meetings and communications between the supply firm and its potential client. In these meetings potential providers tended to develop an understanding of the problem or opportunity at hand and then offered a proposal to implement a solution. It was suggested that industry cultures evolved that determine acceptable protocols for these supplier-client interactions. In effect, successful small firms were continuously sensing and acting on events and trends in their markets as market directed firms tend to do (Day, 1994).

The communication in these situations were interpreted in terms of *context* and *message form* as is done in transnational situations (see, for instance, Usumier, 1993, 98-117). *Context* concerns the age, social stature, etc. of the communicators as well as the context of the conversation itself (work, show, social negotiations, etc.). *Messages* can be either explicit on the one extreme or implicit at the other. In transnational situations, the Swiss, Germans and Scandinavians are pictured as being low context, explicit message cultures; middle-easterners and Japanese, on the other hand, are viewed as being high context, explicit cultures. The purpose of this paper is to report on the industry patterns that appeared to evolve for a cross-section of small businesses in this service sector. The basic intent in conducting this research was to provide basic understanding of its conduct and success.

## METHODOLOGY

An ongoing study on the marketing of business services has been sustained in an effort to understand the processes employed in new business development across service provider segments. These studies depend upon structured interviews to elicit detailed information on specific, but typical, business situations. Projects, for instance, were found to be important in providing these services. That is, in most instances projects were developed for, or with, customer firms. To produce an understanding of how these projects were developed, a field study was initiated that spanned the segments within the business service sector. Comparability was maintained among firms and across sectors by using a written script to guide the interviews in these studies. All firms referred to in the study qualified as "small businesses" under the usual criteria used to define small businesses. That is, the firms had fewer than 100 employees and most of them had 20 or less. Further, each of them was a "business service" firm as defined by both census and practical considerations. In other words, they produced services of a business nature and their customers were primarily other organizations (and in most cases other industrial firms).

The instrument used in these studies consisted primarily of open-ended questions and was comprised of three major parts plus two minor ones. The first part led the respondent to select a successful, first-time sale with which they were personally involved and which represented a typical portion of their business. The exploratory nature of the research was explained as well as the desire not to be intrusive into confidential aspects of their operations. The situation that had been voluntarily selected by the respondent was then described by him or her in some detail. The second portion of the interview then asked specific questions about details leading up to the close of business -- who was involved, number of meetings, where these meetings were held, and subsequent meetings after the close of sale. The third portion of the interview got into even greater detail about the situation leading up to the close of sale -- whether a written proposal was required, the nature of presentation if necessary, where in the sequence of meetings the proposal was made, whether a contract was signed, and who signed it if one was. In a fourth portion, the general nature of pricing was also determined for the specific project. In each case, it was asked if this sale was typical of the respondent's business, a question meant to reflect on the reliability of the response. Finally,



general demographic information was obtained on the respondent and his/her firm.

The field questionnaire was tested by the author in selected field situations and modified to develop clarity among respondents. Subsequently, other interviews were conducted by students in service marketing courses who had been trained in the use of the instrument. Field responses were subsequently summarized and coded. The initial exploratory study (Wilson and Seidle, 2000) had been conducted among eight firms across eight segments. This study was extended to include results from sixty-eight (68) responses that fit within the 11 categories normally considered as core business services.

Results were quantified in a manner qualitatively consistent with Usunier's (1993, 102) analysis. *Context* was defined as the number of meetings + proposal (1) + written (1); *form* was defined as number of participants + variable (1) + follow-up calls (1). In explanation, context scores were quantified by determining the number of meetings required to close the sale and adding 1 if a proposal was required and another 1 if the proposal was

At first glance, it is perhaps difficult to see what attorneys and maintenance people have in common. Interview results indicated the dialogs in this grouping tended to be advice oriented and thus this grouping has been labeled "advice oriented interactions." Essentially, much of the pre-sale interaction for suppliers in these segments consisted of giving initial information. Part of this information consisted of an approach, the rest with required fees and schedules in a simple manner. For example, an independent strip miner might come to ask an attorney what must be done to comply with present environmental regulations in his locale. The attorney might say, "You need to this, this and that." The miner in return would logically ask, "Could you do this for me? How much would it cost? How long would it take? etc." Similarly, if a firm were looking for someone to for instance wash windows or scrub carpets, it might have the potential supplier come to the establishment to walk around and determine how the situation that needed treated might be handled. Again, after getting an assessment of need, there would also be a set of questions similar in many respects to those above. Given answers to those questions, the transactions would likely be consummated - frequently, the selection process had pretty much been done before the interview started.

The one difference among these segments dealt with mode and location of communication. In the

written. Likewise, form was determined by the number of participants in the meetings, adding 1 if they varied among the meetings and adding another 1 if follow-up calls were involved. The approach was admittedly arbitrary, but in the absence of prior work it was thought to capture the nature of available information.

## RESULTS

A comprehensive summary of results is shown in Figure 1. Results suggest that there is greater variation in context than in form in pre-project discussions. Put another way, there appears to be a greater variation in number of meetings, etc. across industries than number of individuals, etc. involved in the meetings. The simplest interactions seemed to occur in the legal, rental & miscellaneous brokerage, and maintenance services segments. These segments appeared to utilize the most basic aspects of communication in establishing the basis for future work. On the other hand, engineering and architectural services, computer system consultation, and perhaps management consulting and PR were at the other extreme.

rentals and miscellaneous brokerage discussions there tended to be perhaps a greater reliance upon telephone communications. In the extreme, there would not even be a face-to-face meeting. Attorneys, in most cases, held their meetings at the attorney's office and tended to be fairly strict with their duration - a half hour was a common allotment. Maintenance managers, on the other hand, tended to go to the potential customer's site and not only discuss the situation but participated in a walk-around to clearly understand it.

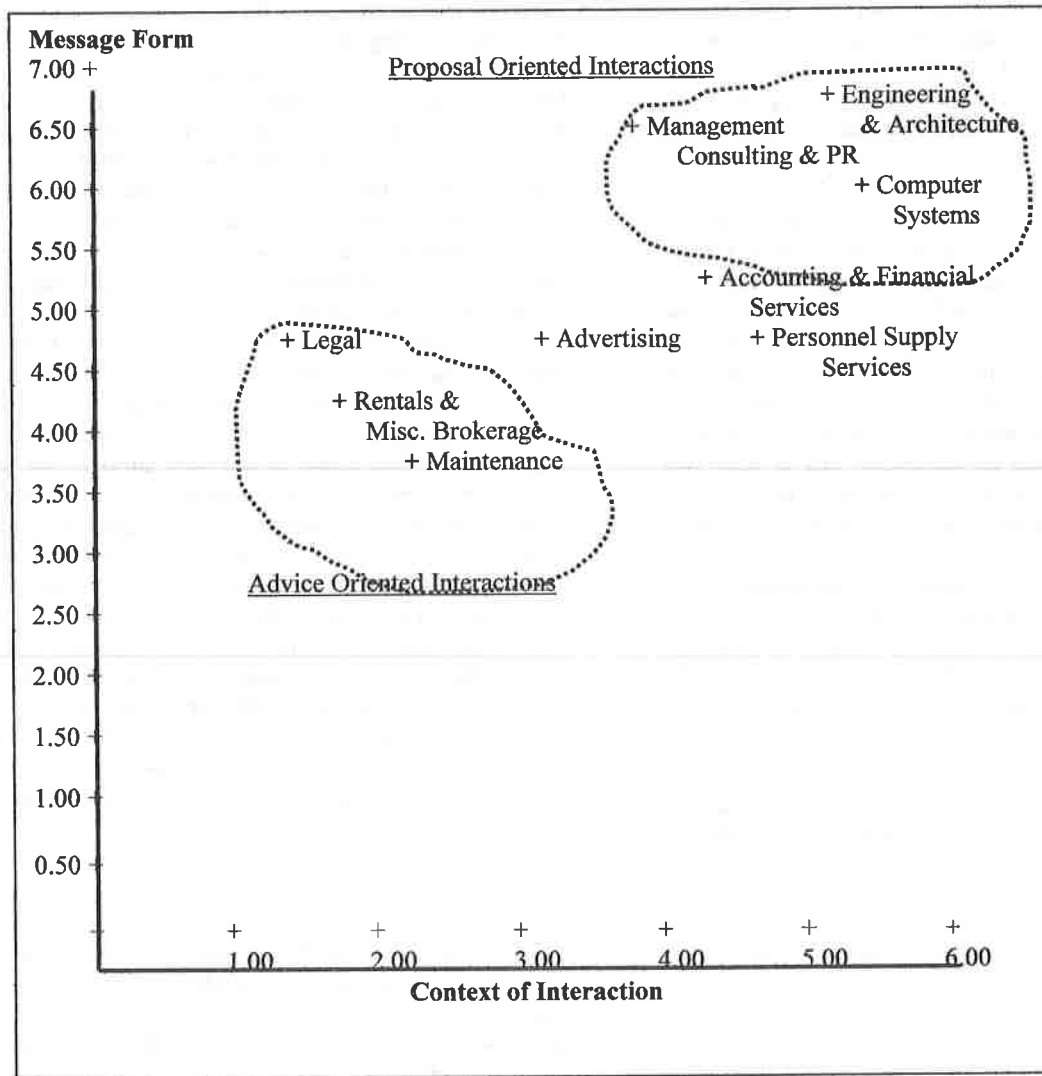
At the other end of the message form/context continuum were the providers that generally required in-depth, intensive meetings. Formal, written proposals were required at some point in these meetings, and frequently there was some variation among participants as the process continued. Although providers were generally relied upon to suggest approaches, written documentation was required, which frequently was accompanied by oral presentations. In all cases studied, the expense of this process was borne by the provider. In this study, engineering and architectural services, computer system consultation, and management consulting and PR were in this grouping. Of course, there were segments that "were in the middle." Advertising results provided an example of these observations. Some cases came from newspapers and radios that provided ad services. These interactions were quite



simple - quite similar to the legal and maintenance examples described previously. Other cases, however, dealt with cable advertising. In these

instances, 10 or 12 meetings might be required to provide the service that eventually was utilized.

Figure 1 - Nature of Pre-project Negotiations in Business Services



**DISCUSSION**

The recent record for small businesses in the U.S. has been rather remarkable. The Small Business Administration estimates that there were over 600,000 (612,400 with 5.8 million employees) new firms in 2000, the year of most recent information (SBA, 2001). Business terminations, on the other hand, were estimated to be at about 550,000. Few of the closures resulted in bankruptcy, which numbered only about 35,000 (35,200) - an all time low. Business services played a substantial role in this growth. Although primary self-employment was

declining in all sectors, employment in business service segments increased by over one and a half (1.58) million.

The SBA (2001) discusses this process as an evolutionary one with natural selection weeding out struggling firms and opening up opportunities for new ones. The thesis of this paper is that the very process by which business service firms get business is one that tends to support their success. In other words, by going out and making proposals, firms tend to develop processes that not only lead to successful business development but firm

development as well. Day (1994) would lead us to interpret these results in terms of continuous learning. That is, these firms tend to go through processes that involve scanning, interpretation, action and reflection on a continual basis. Simply put, they tend to either become market-driven or die. Statistics that indicate the share of business allocated to small businesses in this sector have been interpreted not as a failure of small businesses, but rather as a thriving of these businesses - they become big ones (SBA, 2001; Popkins et al., 2001).

There are undoubtedly common steps in the processes that lead to these successes. Day's (1994) work on becoming market-driven has already been mentioned. Further, virtually all service theory now incorporates appreciation of a satisfaction gap, i.e., actual service must equal expected service (see, for instance, Grönroos, 1990, 41; Zeithaml and Bitner, 2000, 26). Nevertheless, the data determined here has been interpreted as suggesting that at least two different types of interactions occur - those largely dependent upon advice compared to those that were proposal oriented. In addition, it has been suggested that behavior is industry related (Wilson and Seidle, 2000). These results tend to affirm that suggestion. In effect, an aspect of industry culture, or protocol, has evolved that guides the processes of proposal. Meeting these protocols gives credibility to the proposals themselves. This observation is important. Not only must firms have good technical proposals. It seems as if there is a requirement for an acceptable style in making the proposal -- one approach for law firms, another for engineering and architectural firms.

So how typical are the results? The research was exploratory and thus characterization of segments is naturally suspect. Further, the measures used to quantify the parameters were arbitrary, and thus one has those questions with which to deal. It seems reasonable, however, to appreciate that an interaction model associated with segments would be a realistic one. Although the segments at the "simple" end might end up being the same with more extensive research, it is not clear that the segments at the other end would maintain their positions. Advertising presentations and negotiations, for instance, are known to be quite complex and so further research might indicate that segment as involving the most

complex situations. Certainly one would expect wide variations in industry behavior.

One might say that what was studied here was but an example of B2B marketing. Indeed this situation has to be true - these situations represent businesses serving other businesses. The distinction that should be made is that the offering here is a service - usually a very intangible one. Services still tend to receive a "products and services" treatment in texts as if their marketing was the same. This practice will probably change. In the introduction to the Grönroos (1990) text on services, Kotler (1990, xiii-xiv) referred to Lynn Shostak's (1977) article on "services are different" as a mind-changing publication. They are different and on the consumer side, at least, good marketers use a marketing approach especially suitable for services. So should it be with B2B services. Second, the point is made that the proposal process probably helps small businesses in this sector to not only survive, but to find their niche. This observation from a market-driven standpoint is very useful in explaining the success of these firms. Clearly, there seems to be consistency with the "what" and a "how" to service provision as Grönroos (1990) has suggested. Gates (1995) has indicated that no sector has benefited from the availability of computer solutions as small business has. The availability of cheap hard- and software has enabled small firms to compete with their larger cousins. That explains part of the "how;" the rest may be associated from the learning that occurs from the proposal process.

## CONCLUSIONS

Exploratory research has been conducted that captures some aspect of the interactions between potential service providers and potential customers in B2B service negotiations. Results have been quantified in a manner qualitatively consistent with communication theory. Observations were interpreted with a model that suggests that industry protocols become established that assist small firms in becoming market-driven. This explanation would seem consistent with observations of the success of small firms in this sector.

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# PRICING OF POLICE SERVICES IN PENNSYLVANIA: SOME PRELIMINARY FINDINGS

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## ABSTRACT

*This paper presents a theoretical approach to the pricing of police services. Based on this model a survey of police departments was conducted. While charges are made for all the services studied, there were no consistent patterns among police departments – most do not appear to follow any particular strategy in price setting.*

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## INTRODUCTION

In general, non-profit community service organizations such as police and fire departments, public school systems, public libraries, county hospitals, museums, community art galleries, and so on, do not charge their services. Yet despite the public nature of these organizations, few deal in an entirely "free" mode. Most of them charge for at least some of the services that they provide, although the prices they charge may not reflect the true cost of providing the service. Despite the fact that some charges are usually made, the issue of pricing in non-profit organizations is often a neglected area.

Given continuing financial pressures on municipalities across Pennsylvania, Police Departments across the Commonwealth have used and are considering implementing various use and user fees for police services. Despite this increase in the imposition of such fees, very little is known about their levels or how they are set. If there are variations among departments as to fee levels, this information may be useful to police Departments as well as to Municipal Financial officers when faced with tight budgets. When applied in a logical and theoretically sound fashion, the imposition of fees can be useful in both helping departments achieve their policy goals as well as reducing the costs of providing services to various individuals and groups of citizens (Talaga and Tucci, 1999). Other authors have presented indirect approaches to increasing the size of police budgets (see, for example, Coe and Wiesel, 2001). While these other strategies may work for some departments and not work for others, a fee-oriented strategy would seem to be applicable to all departments.

## POLICE PRICING STRATEGIES

To know the various costs associated with police service and police demand only partially guides the manager in the setting of prices. Aronson and Schwartz (1984), for example, discuss the potential barriers to the setting of prices in terms of the costs required to administer the program (the cost, for example, of charging for traffic direction would probably far exceed the revenues generated) and in terms of the community acceptance of a user charge system. Zorn (1993) and Withers (1994) also note barriers such as administrative ease and political viability. Smith (1995) in a comprehensive analysis presents some of potential negative ramifications associated with different pricing strategies. In these instances, the imposition of fees is partly a function of the ability of the municipal administration to communicate to the residents the rationale for the fees. Additionally, the price of the police department's offerings should be set to be consistent with the goals of the department as well as with the nature of the offering, in particular the degree of "publicness" of the offering. The discussion that follows presents a framework for setting prices in a manner that benefits both the police and its public.

**A. Pricing Objectives of Police Departments.**  
The price chosen for a police department offering should reflect the overall objective of the governmental unit in addition to the particular task the department needs to fulfill. Several potential organizational objectives exist with regard to police departments and with these objectives are associated pricing policies. These pricing-related objectives include: profit-based objectives; market share-based objectives; and, demand management objectives.

Profit-based objectives in a police context involves charging a price to the person that covers the full cost (including a profit margin) of the provision of

the police service. An example would be the provision of accident scene photographs. These objectives are uncommon in most police departments.

Market share-based objectives have as a goal expanding police services to the largest number of possible citizens. An example of this would be getting non-users to become users (e.g., report suspicious behavior).

Demand management objectives exist where police departments use prices to either encourage or discourage demand for particular services or classes of services. Charging fees for provision of various services -- registration fees, alarm fees, off-duty rates, etc.) would be examples of this.

It is also possible for a department to have multiple pricing policies in order to achieve one single over-arching organizational goal. Pricing here becomes a complicated exercise because changes in the price of one item can have impact on the demand for other police services. For example, raising the price for responding to false burglar alarms may cause individuals and businesses to switch to security firms or drop alarms entirely -- which may compromise the basic security mission of the department.

**B. The Nature of Police Department Offerings.**  
The second major consideration in the setting of police prices is the degree of "publicness" of the police

offerings. A "public good" is one that is characterized by the capacity to be consumed by an individual without diminishing the quantity to be consumed by any other individual. A "private good" is characterized by the capacity to be entirely consumed by an individual without allowing consumption by any other individual. The offerings of police departments have a range of "publicness" about them. At one extreme would be, say, patrolling. In general, one's consumption of patrolling does not diminish its capacity to be consumed by any other individual. It must, of course, be recognized that because a patrol car is in one neighborhood at a given time, it cannot be used elsewhere at the same time. Use of specific police expertise has less of the quality of public good. An example of an item that is close to a private good is the preparation of accident reports (or any investigation for that matter). The use of the service produces benefits that cannot and are not intended to be directly consumed or used by other citizens.

**C. Available Pricing Strategies.** Guidance to the answer to this question can be found in two of the areas discussed above: what is the goal of the department; and, what is the nature of the product under consideration. We recognize that in reality there is a continuum of goals and products. For simplicity, however, we will consider the goals as either subsidy-oriented (e.g., increase security) or to fee-oriented (e.g., cover all costs). Similarly, we will consider the products as either public good or private goods. This is summarized in Figure One.

Figure One  
Pricing of Police Offerings

	Public Offering	Private Offering
Subsidy-Oriented Systems	Free Offerings (I)	Private Subsidies (III)
Fee-Oriented Systems	Public Offerings (II)	Fee Offerings (IV)

Free Offerings consist of public goods in subsidy oriented systems. An example here would be patrolling (here the subsidy is 100 percent -- patrolling is "free"). The pricing policy in this case would be to charge no price or fees for this service. Since it is a public good, use of patrolling by one citizen does not diminish the potential for use by any other citizen, and since it is a subsidy oriented system, the goal would be to

encourage use of the service by citizens. In some instances, it may be reasonable to have police departments reward citizens for participation in such activities as town watch (assuming that these increase security of the community as a whole) with such things as recognition, awards, commendations, and so on. As noted above, police departments offer a range of products that vary in their degree of publicness.

What happens if the police department uses an incorrect pricing strategy? In this instance, if the police should choose to charge (not subsidize) it is reasonable to assume that there will be underinvestment in the security of the community. There are two reasons for this. First, people are not always able to get the full economic benefit from their investments in security (they cannot internalize the benefits). Because individuals cannot internalize the benefits of increased community security, they are likely to underinvest in security. Although there are benefits to investing in personal security devices, it would not pay an individual to explicitly pay for the police to patrol anyone else's house.

There will also be an underinvestment in security because there is uncertainty as to the value of such investments. In some cases, individuals will be well rewarded for investing in security, and in some cases they will not be well rewarded. The risk of failure to provide security is not known. Because of this uncertainty, the citizen is never sure that he or she will be able to recoup the cost of the security investment - the time, travel, effort, direct expense, and so on. Since an individual does not know with certainty beforehand the rewards associated with increased security, one method to reduce the risk is to underinvest in security, even in those cases where the value of security is anticipated to be of great value to the individual.

Private Subsidies are private goods in a subsidy oriented system. The pricing policy here would be to charge no more than the cost of the item. Cost of the item in this case usually referring to the variable cost (time, materials, etc.) of the product or service. An example here would be off-duty police services or copies of reports. While it is possible (and indeed probable) that copies of reports generate some excess revenues, the intent in pricing is usually not to generate profits. Therefore, overhead costs would not be charged.

If the police should choose to over-subsidize (e.g. not charge) there is likely to be "excessive" use of the service. Ineffective rationing will take place. As a result those who would genuinely benefit from the service may be denied services, while those who would not benefit may use them foolishly. An example here would be if off-duty police services were provided free to all citizens. While some of the use of the service may be consistent with the goals of the police (such as crowd control), it is also reasonable to believe that much use of the service may not be consistent with the police's goals. With a limited available resource base, it is easy to imagine circumstances where non-productive use of off-duty police displaces more productive use of the service.

Prices charged here allow the citizen to better decide what is best for his/her private interest.

Public Subsidies are public goods in a fee-oriented system. An example would be various registration fees such as solicitor's permits. This reflects a common practice of charging flat rate membership or entry fees. Although the costs are not necessarily directly tied to use, the membership fees charged would be assessed at a rate that covers the fixed and variable costs of operation that are not recovered in prices set for private goods (discussed below under Fee Offerings)

As in the case of Free Offerings, failure to price correctly will act to distort use of the item. Too high of a price may so discourage demand as to be counter-productive to the goals of the police and may send users to other suppliers of police services. In the case of permits, too high of a price may result in attempts to evade registration. Too low of a price should not be a problem if the particular police offering is a pure public good (although we note that such offerings are exceedingly rare)

Fee Offerings are private goods in a fee-oriented system. The pricing policy here would be to seek full cost recovery - variable costs, fixed costs, plus some profit. An example here would be house checks. Although the police department is acting in support of the overall goals of the government/community, it nevertheless may be required to act as a profit center. Thus, there would be a need to have a full charge-back system.

As in the case of Private Subsidies, it is likely that too low of a price would lead to inefficient use of police services. Since the benefits of the service exceed the perceived costs, it is reasonable to assume that citizens will overburden the system (if house checks were absolutely free to the public, the demand for such checks would rapidly outstrip the ability of the department to comply). As a result, providing the service will not be profitable. In some cases, it is in the interest of the police department to provide these services. If the police absolutely refused to do house checks, and this were known, the security goal of the department may be compromised. Too high of a price will discourage demand and will be counter-productive in terms of achieving the profit or market share goals of the police department.

## METHODOLOGY

While a national study is clearly preferable, practical considerations of list access and funding has

limited this present study to behavior of departments in the Commonwealth of Pennsylvania. Thus, in order to assess the police fee structures that currently exist in Pennsylvania a mail survey was undertaken. A list of Police Chiefs and Public Safety Directors was secured from the Commonwealth of Pennsylvania. Included were the names of Chiefs and Public Safety Directors of 912 Pennsylvania communities. A mail survey was developed to measure the fee structures imposed by the departments in their respective communities. A pre-survey notification, a mailing of the survey and a follow-up reminder were used.

## FINDINGS

A total of 338 usable responses were generated for the study (a response rate of 37%). We did not require the Chiefs to identify themselves, (although 137 did send us their card). Thus, the representativeness of the sample is difficult to assess. Since our concern here is to document the range of behaviors, this inability to judge the representativeness does not appear to us to be a serious problem.

### A. Accident Reports

The question asked of Chiefs was "What price/fee, if any, is charged to an insurance company for **reconstructed accident reports of serious injury or fatal accidents?**" (emphasis in survey) This is private offering in a fee-oriented system (Quadrant IV) - essentially all the benefits of the offering accrue to the insurance company or the person in the accident, with minimal external benefits. We would expect that an optimal pricing program would have full cost plus pricing program. The average department imposes a charge charges \$17.80 for the report. About 10% (31) of departments claim there is no charge for this service. The majority of departments charge the state fee for a regular accident report (\$15.00). A small number of departments (15) charge more than \$15.00, with three departments charging more than \$200.

Some departments have additional fee structures for additional services. Some (21) charge for photos, with the most common charge of \$10.00 per photo. One department charge 49 cents per photo, on charge \$200. Other charges mentioned include additional page fees (usually in the 10-25 cents per page); labor/time charges; drawing fees, administrative fee; seriousness of accident differential; video fee.

Based on these returns, few departments (less than ten percent of respondents) use full cost plus pricing. Those departments that charge nothing for this service would appear to be the furthest from an optimal pricing system. The pricing practices of most departments represent an indirect subsidy to insurance companies and those involved in automobile accidents.

### B. Special Events

The question asked of Chiefs was "What price/fee, if any, is charged to a local community organization for **special event traffic control** (e.g., direct traffic in the morning at the local high school or direct traffic for the town for a 5K run) (emphasis in survey). In this case, we have a public offering in a fee-oriented system (Quadrant II) - while there are significant benefits to the institution receiving the traffic direction, there are also significant benefits to those not associated with the institution (such as motorists who happen to drive past at that time). We would expect that while there are some charges for the service, they should provided at a subsidized rate (due to the externalities involved). The average department charges about \$35.00 for this service. Most departments (174, or about 60%) do not impose charges. A small number (14 or about 5% charge \$50.00 or more). The basis for setting the rate was specified by some departments as the normal hourly rate (10 departments); the overtime rate (32 departments) or the double time rate (1 department).

In addition, a few departments put additional fees and conditions on special events. These include charging for a minimum number of hours (10 charge for two hours, one for three hours, and seven charge a four hour minimum); overhead; bookkeeping charge; differential charge for a patrol car; and, FICA and workman's compensation.

Based on these returns, most departments (60%) charge too little for these services, while a few many be charging too much (those that charge double-time or have a four hour minimum as examples). In the former case, there are likely to be excessive demands for this free police service, with the result that police departments are subsidizing these special events. In the latter case, there is likely to be under-demand for this useful police service. few departments (less than ten percent of respondents) use full cost plus pricing. Here, since the pricing system leads to under-demand for services, there are additional costs borne by citizens who happen to be involved in resulting traffic congestion.



### C. False Alarms

The question asked of Chiefs was "What price/fee, if any, is charged to homeowners and commercial establishments for investigating a **false burglar alarm**. (emphasis in survey). In this case, we have a private offering in a subsidy-oriented system (Quadrant III) while most of the benefit accrues to the homeowner, department often do not want to overly discourage the use of alarm systems, since there are potentially some external benefits. Most departments (162) do not charge for investigating false alarms. Those that charge fees charge both different rates and start charges after a varying numbers of false alarms. Some appear to give no grace to homeowners and charge with the first false alarm. Here 34 departments charge an average of \$32.65, with most charging either \$25 or \$50 for the false alarm. Eleven departments charge with a second false alarm an average of 39.10. Five departments charge with a third false alarm an average of \$32.00. Fifty-two departments charge with a fourth false alarm and average of \$60.10. Within this last group, five departments charge 100 and four charge \$300. Finally, a small group of departments charge with a fifth false alarm and average of \$88.75.

Some departments (43) have a graduated fee schedule that increases with the number of false alarms. Twelve departments responded that these false alarms are a violation of state criminal codes and thus defer to local magistrates for setting fines.

We find that the most departments do not charge for this service and are thus providing a subsidy to those in their jurisdiction who have alarms. At the same time we note that it is quite possible that the majority of departments that do not charge are not in jurisdictions where there are significant numbers of homeowners or businesses that have such alarm systems (as in rural areas). Departments that charge very high prices (e.g., \$300), may be unduly discouraging the ownership of such alarms. Departments that have a sliding fee schedule or offer the opportunity for a limited number of false alarms seem to have a pricing policy that reflects the balance between private and public benefit in alarm systems. As an aside, we note that Pennsylvania law has been changed within the past two years regarding fees for false alarms. Despite the change in State law, few departments had changed their policies as of the time of the survey.

### D. Testimony

The question asked of Chiefs was "What price/fee, if any, is charged to law firms for

**depositions or testimony in civil cases that go to trial?** (emphasis in survey) This is private offering in a fee-oriented system (Quadrant IV) - essentially all the benefits of the offering accrue to those involved in the civil suit, with minimal external benefits. Fee setting behavior here is similar, though not identical to setting fees for special events. First, 89 departments (about 30%) do not charge fees. For those that do charge fees, the average fee is 31.08, which is close to overtime rates. Rates charged range from 5.00 per day (62 cents per hour) to \$100.00 per hour. Thirty-nine departments set rates by the day as opposed to the hour. Of those setting rates by the hour, 22 specified the rate is the regular hourly rate and 62 specified that the rate is the officer's overtime rate. A further 11 noted that the rate charged is a function of whether or not the officer is on duty (with at least some cases having a zero charge if the officer is on duty). In 14 departments the rate charged is the result of a negotiation between the officer and the attorney.

In only four departments are there other than labor charges. Two departments have specific charges for "expenses", while one has an administrative staff fee and one charges for mileage.

Based on these returns, few departments (less than ten percent of respondents) use full cost plus pricing. As in the case of accident reports, those departments that charge nothing for this service would appear to be the furthest from an optimal pricing system. The pricing practices of most departments represent an indirect subsidy to those involved in the civil action - including attorneys, plaintiffs and defendants. In addition, based on the average hourly rates, there is a greater subsidy to these private civil actions than there is for traffic direction, which has a larger external benefit.

### Background Checks

The question asked of Chiefs was "What price/fee, if any, is charged to an individual for a **criminal record check?** (emphasis in survey) In this case, we have a private offering in a subsidy-oriented system (Quadrant III) while most of the benefit accrues to the individual, department often do not want to overly discourage the provision of criminal record checks. Not only are there external benefits, but some jobs (e.g., pre-school teacher) require such a check for employment. Most departments do not charge a fee for this (191 - about two-thirds do not charge). Thirty-five departments do not provide this service. Of those providing the service and charging for the service, none charges more than \$25.00, with most charging ten dollars or less.



There are some small variations in the fee structures. One department charges by the page (15 cents per page); one has no charge for residents, and a ten dollar charge for non-residents; two departments will do these only for other police departments/agencies.

Departments that do not charge for this service are subsidizing to an excessive level and can justifiably charge something. No department seems to be discouraging use by charging too high of a fee. However, departments that do not perform the service or place other restrictions may be charging an excessive price (if an individual needs such a check for a job and the department does not provide the service, the individual is forced to pay a high price for the lack of such a service).

### IMPLICATIONS

This study was designed to investigate the pricing practices of police departments across the Commonwealth of Pennsylvania. Based on the results of this study, we are not willing to say that any given department should or should not charge for police services. We can, however, report the following:

1. It is clear that police departments do charge for various kinds of services. The services in the questionnaire were only a sample of the range of services provided by departments. We believe it to be reasonable to think that for virtually any given service, one or more departments have developed fee schedules.
2. It is clear that the range of prices charged vary dramatically among departments. For the services studied, some departments charge for none of the services, some departments charge for some of the services, some charge for all of the services. In addition, for those departments that choose to impose charges, within any given police service offering, the charges can range by a substantial amount – from nominal, “nuisance” type fees, to full, cost plus recovery charges. Some Police departments tend to view price only in the monetary costs to the citizen. From the citizen's perspective there are real

costs associated with using police services beyond the actual out-of-pocket prices charged by police. These costs are almost uniformly ignored in the setting of prices by police departments. As a consequence, we find that it is generally true that police departments “overcharge” for some services while simultaneously undercharge for others.

3. Based on the responses of departments across the Commonwealth, there seems to be no uniform underlying rationale or logic in the pricing systems used by departments. That is, based on this study, it is not possible to predict how much, if anything, a given department would charge for any given service – either those studied here (such as traffic direction) or those not studied, (such as unlocking a motorist's car door). This lack of underlying rationale makes it difficult for departments to either present a compelling case for imposing fees or to make rational choices for the fees that are charged.
4. Those departments that charge fees can act to increase revenues to the municipality. If a department wants the fees to be returned to the department, it must make sure that the ordinances are written or revised to ensure that the fees returned to the department. Numerous departments that charge fees indicated that the fees are not returned to the police budget. From a broader municipal view, there is little incentive for departments to request that fees be imposed or to consistently and accurately assess fees if the fees are not returned to the department.
5. As a practical matter, it is also clear to us that departments cannot unilaterally go forward and start charging or increasing fees. Withers (1994) presented a list of practical considerations that ought to be in the minds of departments should they choose to impose fees for services. In general, departments are well advised to make sure that the fee structures that they impose are consistent with the goals of the department, the local

community and its leadership, and with the appropriate legal authorities.

6. Implications beyond Pennsylvania. As we noted above, list access and funding limited the study to Police Departments in the Commonwealth of Pennsylvania. We have no a priori reason to believe that the behavior of departments in other States is different and have, on the basis of personal contacts and knowledge anecdotal evidence that behaviors are similar across the country. Thus, at this time we feel confident in

8.

generalizing the findings across the country.

7. Implications for other municipal organizations. While not the focus of this paper the principles that are used here to examine the strategies and patterns of police pricing can be readily applied to other municipal organizations. Fire departments, museums, libraries and other social service agencies can use these principles to optimize their work.

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