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INCONSISTENCIES OF PERFORMANCE MEASUREMENTS WITHIN CHANNEL SYSTEMS

Jeffrey R. Foreman, University of North Carolina, Asheville

ABSTRACT

The channels literature has focused on antecedents to developing healthy and functionally coordinated relationships within the channel and how these relationships are essential for optimum channel performance. However, due to inconsistencies of performance measurements within channel systems, there is a need to better assess performance in the channel setting so marketers can more accurately measure the success of marketing strategies. This paper provides a brief overview of prior channels performance research and addresses a gap in the literature. Future research is addressed by providing a starting point for developing new performance metric schemes in the channel setting.

INTRODUCTION

Dating at least as far back as Williamson's (1975) Transaction Cost Analysis framework or Macneil's (1978) Discrete and Relational Exchange typology, the literature that has grown into the channels of distribution body of knowledge has been concerned with performance as an ultimate outcome. However, performance in the channel setting is still a concept that is studied in seemingly myriad ways. Channel members have divergent measures of success and performance due to their differing roles in the partnership which imply inherently dissimilar strategic goals. This paper addresses inconsistencies of performance measurements within channel systems to provide a foundation on which to better assess performance in the channel setting. In this light marketers may better assess successful marketing strategies in channels of distribution.

The current research focuses on providing a foundation toward developing a means through which to measure dyadic as well as overall channel performance. Understanding the ways in which channel performance has been measured to date is an important first step in this challenging endeavor. After providing an overview of some of the previously employed channels performance metrics, suggestions are described to pave the way for future research.

First, an overview of channel performance is discussed and some examples of how channel performance has been assessed based on different constructs and from different points of view are provided. Next, some performance measurement techniques are highlighted followed by a description of channel performance evaluation problems faced by marketers. Finally suggestions for how to attack the task of measuring dyadic and overall channel performance are provided.

REVIEW OF THE LITERATURE

This paper does not include an exhaustive account of the varying measures of performance in the channels literature. Rather, it provides several examples representative of the different ways in which channel performance has been measured. Channel performance can be defined as a "multidimensional outcome measure that can be assessed by considering several dimensions including effectiveness, equity, productivity, efficiency, and profitability (Bennett, 1988)." While this popular definition helps to provide a good idea of what the construct represents, as is evident in the literature, channel performance has been described in a wide variety of ways, and rightly so. Given that performance is an extremely complex and multifaceted construct when considered in terms of the single firm, it is no surprise that performance is exponentially more complex when the entire channel is considered in the assessment.

The concept of channel performance may be somewhat ambiguous. To quantify varying performance levels of channel members, scholars have used a mixed bag of measures in the channels literature. Performance outcomes in the channel have been expressed in terms of qualitative and quantitative factors while examined from differing channel member perspectives. Channels performance measures are often rooted in Transaction Cost Theory and Resource Dependence Theory in terms of efficiency (TCA) and effectiveness (RDT) (Heide, 1994).

DIFFERENCES IN PERSPECTIVE

Most often performance is assessed on the individual channel member level (e.g., seller or reseller performance) and is measured from the perspective of one (focal) channel member on another's performance in terms of qualitative or quantitative evaluations. For example, Achrol and Etzel (2003) account for reseller performance relative to that reseller's goals including channel-based goals where the measure of performance is on sales volume and return on investment (ROI).

Other ways in which channel performance has been recorded are by assessing reseller performance from the perspective of the supplier (Kumar, Stern, & Achrol, 1992), wholesaler performance from the perspective of the retailer (Chatterjee, Hyvönen, & Anderson, 1995), dealer performance from the perspective of dealer (Gaski & Nevin, 1985), supplier performance from perspective of industrial buyers (Noordewier, John, & Nevin, 1990), and supplier performance from the point of view of the manufacturer (Katsikeas, Paparoidamis, & Katsikea, 2004), to name a few. Exceptions to the norm are studies employing measures of dyadic and overall channel performance. For instance, Web and Hogan (2002) focus on measures that are based on perceptions of overall channel performance based on top manufacturing management's perceptions and Achrol, Reve, and Stern (1983) find that relationships in the channel can increase dyadic performance when effectively managed.

QUALITATIVE AND QUANTITATIVE PERFORMANCE MEASURES

Qualitative factors that are pertinent to the relationship such as effective communication, commitment, trust, stability, satisfaction and coordination, dependence, competence, loyalty, compliance, adaptation (e.g., Gaski & Nevin, 1985; Kumar et al., 1992; Buchanan 1992; Mohr and Nevin, 1990). Quantitative assessments of a single channel member role are also employed in the channels literature. These measures including market share, sales, profits, asset and inventory turnover, return on assets and return on investment, etc., (e.g. Gaski & Nevin, 1985; Noordewier et al., 1990) are commonly derived by assessing the point of view of a complimentary single channel member role by surveying informants from numerous organizations. It is notable that these outcomes have been shown to vary according to total and relative dependence.

The performance measures mentioned above are quantified with scales such as Likert-type, including facet, global and composite scales (e.g. Kumar et al., 1992; Noordewier et al., 1990) and multidimensional measures (e.g. Achrol & Etzel, 2003; Bello & Gilliand, 1997). Channel performance has also been measured in terms of inputs as well as output performance. Inputs are described as "marketing effectiveness," for example, in the contexts of market orientation and the marketing audit whereas outputs may be described as "marketing efficiency," (e.g., sales, costs, and profits) (O'Toole & Donaldson, 2000, p. 102)."

One of the more common performance measurement techniques that has been adopted in the literature is that of Kumar et al. (1992). These researchers developed three scales (i.e. facet, global, and composite) that culminate to measure performance of the reseller from the supplier's perspective. These scales are individualized to measure performance in aspects of contribution to profits and sales, competence, loyalty, compliance and adaptability of the reseller, as well as contribution to growth and customer satisfaction.

As shown there are a wide variety of methods used to measure performance of one or more members of the channel. However, as (Kumar et al., 1992, p. 245) point out, "the theoretical rationale for the selection of the criteria is commonly absent or underdeveloped… (which) can lead to inaccurate normative conclusions."

The channels literature has conveyed that channel members must be coordinated in their actions to maximize effectiveness of the channel because if the workings of the channel are not coordinated dissatisfaction will occur as levels of commitment, effort and ultimately channel performance decline (Mohr & Nevin, 1990). The construct of coordination has been examined from an outcome-based and behavior-based perspective (Celly & Frazier, 1996).

Bello et al. (2005) add conflict and contribution to profit to the coordination construct to present a succinct and complete view of channel performance based on overall organizational effectiveness. In this work in progress, coordination is referred to as the "internal process perspective" that describes the importance of "stability and order" as indicators of performance. Conflict involves human relations while the rational goal perspective is that which measures economic outcomes as indicators of performance. The authors also distinguish between determinants of performance and the indicators of performance. Indicators are measures of outcomes such as economic profit while determinates involve coordination and conflict in the channel.

In their working paper, Bello et al., (2005) measure performance in terms of contribution to profit in accordance with Kumar, et al. (1992). That is supplier profit generated by the reseller, relative to effort and time put in to the relationship by the supplier. This study is a step towards development of a performance measure that could become a grounded standard in the literature. The performance measures mentioned above are adequate and necessary for their purpose. That being said there are problems that should be addressed to help fill gaps in the channels performance literature.

PROBLEMS WITH ASSESSING CHANNEL PERFORMANCE

Although end-users may ultimately determine success for all members of the channel, different members within a channel serve different customers. Cespedes and Piercy (1996) have described “hierarchies of attention" in reference to differing information flows, measurement systems, and time horizons of those parties within an organization that are responsible for implementation of strategy. Marketing strategy based on performance is therefore a challenge to formulate without a solid way to measure performance.

Joint profits and efficiency are realizations that channel partners wish to experience as they strive for enhanced performance in much the same way that connectivity and alignment of the goals of the firm are important determinants of performance (Thompson & McEwen, 1958). Carson et al., (1999), theorize that activity sets of a marketing strategy will only be implemented if both firms will maximize profit, rather than if only joint profits are considered. This is contrary to economist Coase’s (1960) view that activity sets will be implemented by managers as long as there is no cost and joint profits will increase even if only one firm makes maximum profit in the venture. However, channel member goals are often incongruent and Ouchi (1979) establishes that high levels of goal incongruence can be endured only if performance is precisely evaluated. Conversely, highly ambiguous performance measurement in the firm can be tolerated only if goals are congruent.

As an illustration, distributors have differing goals from any single supplier they interact with (Celly & Frazier, 1996) and that may inhibit channel coordination, and in turn, performance. For example, brand loyalty may be considered as a most important performance factor for the manufacturer (Morgan & Hunt, 1994) while volume and inventory turnover may exemplify performance constructs of concern to wholesalers. In fact conflict is known to be “inherent” in any channel system (Rosenberg & Stern, 1970). While a retailer may be interested in assortment, a manufacturer may be more interested in brand loyalty or market share.

Time horizons and inventory costs may affect one channel member more than another. Distributors do business in multiple channels involving more than one supplier. These suppliers have different business objectives and may be competitors as suppliers are selected suppliers are selected by distributors on the basis of performance (Katsikeas et al., 2004).

International channel partners may experience further heightened problems. Carson et al. (1999) suggest that institutional arrangements (contracting, ownership, and social elements) that enable shared profits and efficiencies are affected by the surrounding institutional environment that is made up of the customary norms and laws of societies that may have very different forms of government. Global channel partners therefore experience a great deal of disconnect that provides problems for joint profit maximization and performance assessment.

The channels literature has conveyed that channel members must be coordinated in their actions to maximize effectiveness of the channel because if the workings of the channel are not coordinated, dissatisfaction will occur as levels of commitment, effort and ultimately channel performance decline (Mohr & Nevin, 1990). Although coordination is an inherent problem in the channel, unilateral (informational) and bilateral (normative) controls of channel partners on each other help to nullify the negative affects of potential coordination problems. This check on potential coordination problems leads to performance in the form of profit (Bello, 2005). Nonetheless, there still exists the challenge of more properly measuring channel performance.

It makes sense that these same problems of evaluation and control described at the organizational level exist in the channels setting. In modern times the channel has moved away from vertical integration to a less hierarchical structure and the resulting more balanced distribution of power in the channel has led some channel members to become coordinated more horizontally (Macneil,1980; Achrol & Etzel, 2003). With horizontal integration, firms are more independent and are capable of pursuing differing goals.

In summary, goals and hierarchies of attention of channel partners are inherently different and so are definitions of what constitutes performance for members of the same channel. Resulting is an important objective for this and all channels research that is continuing to improve the ways in which to assess performance in channels of distribution.

When researchers mention performance of the distributor or reseller from the point of view of the manufacturer, the term performance inherently implies that of how the reseller is performing to meet the needs of the manufacturer. Alternatively, performance of a reseller is viewed in measurement of financial performance relative to other resellers in the channel system and performance depends on the task environment that affects the development of goals that guide performance (Achrol & Etzel, 2003).

A characteristic of high performing distributors may be that they have selected high performing suppliers in the buying decision area (Katsikeas et al., 2004). However, from the reseller's standpoint, goal integration with suppliers has only a secondary effect on performance

(Achrol & Etzel, 2003). This type of situation that has been explained as goal incongruence is likely to cause bias when informants from either side of the dyad are asked to assess performance.

Performance in the channel has been assessed from different points of view according to which dyad member is assessing performance and whether their assessment is of their partner's performance or their own. There is a possibility of a common method bias resulting from measurement of a single source in data collection (Mishra et al., 1998). For example, in their study conducted in a service context, Ross Jr. et al. (1997) explore perceptions of the other partner's level of commitment and find that respondents assess their own dyadic performance outcomes as being higher if they feel they are the less committed party. On the other hand, respondents assess their own dyadic performance outcomes as being lower if they feel they are the more committed partner in the relationship (Ross Jr. et al., 1997).

As described above, bias and the goal incongruity can cause common assessments of performance to paint a different picture when the same domain of performance evaluation is being described from differing perspectives. Based on this review, a gap in the literature exists. Specifically, as researchers, we have no widely known or accepted way to measure dyadic or overall channel performance. Furthermore research has not successfully attempted to make objective quantitative measures of the channel dyad or overall channel. Although there are obvious limitations to this type of assessment, it would be one that would avoid differing ideas of what constitutes performance and any bias that may occur when channel members are asked to assess their own, their channel partners,' or dyadic and overall channel performance. Hopefully, systematic ways of measuring dyadic and overall channel performance may lie on the horizon of the channels research stream.

DYADIC PERFORMANCE MEASURES

Recall that Achrol, Reve, and Stern (1983) note that relationships in the channel can increase dyadic performance when effectively managed. The organizational behavior literature has suggested that measurement of individual performance may be inappropriate in cases of high interdependence where individuals work in teams and that in these cases group performance should be measured (Delery et al., 1998). Just as individual employees combine in a team effort, organizations combine in a team effort and should be evaluated accordingly. This suggests a need for a standard of dyadic performance measurement.

In previous literature, dyadic performance has been measured from one channel member's perspective on the other's performance. The focal member may not be sure of what is expected of each partner to provide for superior channel performance. Many dyads that are studied from one focal perspective to another differ in terms of function (e.g. manufacturing or service), and scope (e.g. multinational corporations versus small companies with less than 500 employees). However if these differing dyads are grouped with one another according to the aforementioned categorizations, it may be possible to compare their dyadic performance relative to one another.

Traditional channels performance measures outlined in this paper would be useful to examine how one channel dyad may be performing better or worse than other dyads in the same channel category. Partners in a dyad would be able to understand what each needs to do differently in cooperation with one another so as to gain competitive advantage relative to other dyads. In this way stronger bonds may be formed as companies would be better able to see the importance of working in coordination with their channel partners and competing against other dyads rather than strictly competing against similar firms. The same perspective that has been applied to the operations management and organizational behavior literature should be eligible to be applied to the channel dyad. The same principles may also be true for measuring overall channel performance.

OVERALL CHANNEL PERFORMANCE MEASURES

There is little research in the literature examining the performance of the overall channel as most examines individual firm performance. One exception is Web and Hogan (2002) who focus on measures that are based on perceptions of overall channel performance based on top manufacturing firm managements perceptions (Web & Hogan, 2002). These perceptions may be subject to bias as described above. Although solving one bias, (informant bias) will create another problem (inability to see what actually drives performance) there may be a need to measure channel performance in alternative ways.

When we measure the performance of an individual organization as part of some type of financial analysis we usually look at figures that are tangible such as market share, shareholder wealth, profit margin, etc. Therefore since the performance of the channel is often considered in the channels literature, perhaps it would be of use to have some way of measuring performance of the overall channel based an objective measure of each member's stake in the channel.

The value that could be realized by measuring the performance of the channel as a whole is similar to that of measuring the channel from a dyadic perspective. By measuring the effectiveness of the entire channel we will be able to compare the effectiveness of one channel to another that is similar and attempt to see how factors such as coordination provide for competitive advantage relative to other channels.

A logical starting point for development of such a framework for measuring overall performance is the channels of distribution "efficiency template" that has been used to describe the overall production of the channel (Stern et al., 2001). This template employs activity-based cost accounting measures the cost incurred and value-added by each member of a given channel by taking into account the role of each channel member and assessing the "importance weight" of that role to the channel output. In this way an estimate of each channel members deserved share of performance based rewards may be assessed. If costs measures are difficult to obtain, Stern et al.

(2001) suggest using a technique based on the Delphi method (e.g., Forsyth, 1983). For more extensive explanation of Stern's "efficiency template" see Stern et al. (2001).

Although this work moves in the right direction to develop a more universal means through which to measure performance in channels of distribution, more work should be done concerning problems marketers face in this area. In summary this paper has attempted to provoke thoughts on new ways in which we can begin to add to the channels literature through improved performance assessment. Although the techniques will never be perfected, it is important to try new techniques at the risk of failure due to the potential for great rewards in the future.

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MORTGAGE MARKETING PRACTICES AND THE U.S. CREDIT CRISIS

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ABSTRACT

What role did mortgage marketing practices play in the U.S. credit crisis? Was it the result of greedy lenders, deceptive loan originators, creators of mortgage-backed securities, and complacent investors? Or were consumers complicit with lenders in a market bubble fed by easy credit and a laissez-faire government?

Critics claim that many contracts for loans at risk of default were the result of unscrupulous lending practices. Greedy lenders preyed on unsophisticated and vulnerable borrowers. Aggressive lenders steered creditworthy borrowers into profitable but risky subprime loans. Lenders (and borrowers) committed fraud. The U.S. government failed to protect borrowers and encouraged loose lending standards. As a result, loose lending standards destabilized the housing market. Industry apologists argue that market forces led to the mortgage market meltdown. Subprime lending is not the same as predatory lending. A few lenders behaved badly, but borrowers should have been more diligent. The credit crisis was prompted by market forces such as rising home prices and declining incomes. Government encouraged subprime lending as important source of mortgage funds for the poor.

This paper considers marketing practices, as well as market forces, that contributed to the mortgage market crisis. Marketers and market institutions have important roles to play in the proper functioning of the mortgage market, and government has a role to ensure fairness and transparency so that people can make informed decisions and avoid market failures in the future.

INTRODUCTION

What role did mortgage marketing practices play in the U.S. credit crisis? Many people now regret their decisions to borrow money at non-traditional or subprime terms. Many have and will face the unpleasant and financially devastating prospect of losing their homes to foreclosure. What led to such widespread unhappiness among mortgage consumers? Was it the result of greedy lenders, deceptive loan originators, creators of mortgage-backed securities, and complacent investors? Or were consumers complicit with lenders in a market bubble fed by easy credit and a *laissez-faire* government?

This paper first argues that questionable marketing practices and selfish motives led to the mortgage credit crisis. Next, the paper presents arguments that lender practices were rational, conducted with the best intensions, and often beneficial, yet became dysfunctional in the market environment of a real estate bubble that deflated. The arguments are summarized below.

Marketing practices led to the mortgage market meltdown:

- Greedy lenders preyed on unsophisticated and vulnerable borrowers.
- Aggressive lenders steered creditworthy borrowers into profitable but risky subprime loans.
- Lenders (and borrowers) committed fraud.
- The U.S. government failed to protect borrowers and encouraged loose lending standards.
- Loose lending standards destabilized the housing market.

Market forces led to the mortgage market meltdown:

- Subprime lending is not the same as predatory lending.
- A few lenders behaved badly, but borrowers should have been more diligent.
- The credit crisis was prompted by market forces such as rising home prices and declining incomes.
- Government encouraged subprime lending as important source of mortgage funds for the poor.

MARKETING PRACTICES LED TO THE MORTGAGE MARKET MELTDOWN

Greedy lenders preyed on unsophisticated and vulnerable borrowers

According to ACORN, the Association of Community Organizations for Reform Now (ACORN, n.d.a), subprime lenders target low-income people, the elderly, and minorities. Lenders know that these people do not have many options to obtain funds for buying or refinancing a home. Desperate borrowers are vulnerable to the unscrupulous tactics of mortgage lenders.

Subprime borrowers often include people who are financially unsophisticated, and hence are easily misled. Prospective subprime borrowers often underestimate their ability to qualify for the prime market mortgages. And sometimes subprime prospects need cash immediately and accept inferior loan terms. Predatory lenders provide "misinformation, manipulates the borrower through aggressive sales tactics, and/or takes unfair advantage of the borrower's lack of information about the loan terms and their consequences." (HUD, n.d.). Several ways that subprime borrowers are exploited by predatory lenders are discussed next.

Adjustable rates.

Subprime and Alternative-A (with a risk between prime and subprime) loans typically have an adjustable rate. Many borrowers are attracted by the initial low “teaser” rate. Some consider the teaser rate as being "inherently duplicitous" because borrowers are lured in by the low rate, only to see it increase dramatically when the rate adjusts over time (Rothschild, 2007). The lender often fails to explain the implications of other terms such as adjustable rates, negative amortization, and balloon payments. These terms may result in the borrower being unable to afford the payments or to refinance the loan in the future (ACORN, n.d.b).

Lack of income.

The lender may make an adjustable rate loan without considering whether or not the borrower can realistically repay the loan. People borrowed at an initial low rate to buy homes that they could not afford if the financed with a fixed-rate loan. “It now appears that many of them may not have fully understood the risks of these products, and lenders did not adequately evaluate their ability to make higher payments over the life of the loan” (FDIC, 2007).

Mortgage brokers originated loans to borrowers with low incomes and weak credit, while knowing that the lenders would sell the loans and pass on the risk to investors (Atlas & Dreier, 2007). A “stated income” mortgage is a loan in which the lender does not independently verify the borrower’s income; the lender accepts the income as stated by the borrower. This practice is discussed in the section on fraud later in the paper.

Broker incentives.

Lenders offered brokers incentive fees based on the “yield spread premium” at the close of escrow, in order to lock the borrower into an interest rate that was higher than the best rate available. According to ACORN (n.d.b), “yield spread premiums create an obvious incentive for brokers to make loans with the highest interest rates and fees possible, regardless of whether the borrower could qualify for better terms.”

Negative Amortization.

Some subprime loans do not require payment on the principal of the loan, and may even limit payments that reduce the principal. Typically a loan payment consists partly of interest and partly of a payment to reduce the loan balance. When the payment made on a loan is less than the interest, the principal or balance due on the loan increases. This is negative amortization.

Borrowers who are initially attracted to the low payments are surprised when they see their loan balances increasing instead of being paid down. Predatory lenders use a negative amortization loan to attract borrowers, without proper disclosure that the borrower's loan balance will increase over time (ACORN, n.d.b).

Prepayment penalties.

Often borrowers choose a loan with onerous terms (adjustable rate, balloon payment, negative amortization) with the goal of refinancing into a loan with prime terms relatively soon. A prepayment penalty penalizes the borrower for prepaying of the loan, making it very difficult to sell or refinance the home. Large fees levied at the time of loan repayment deprive the homeowner of any equity in the property. According to ACORN (n.d.b), less than two percent of conventional prime loans have prepayment penalties, compared to more than two-thirds of subprime loans. "Lenders generally demand prepayment penalties on sub-prime loans because the risk of refinancing is higher than on prime loans (Guttentag, 2006).

Excessive fees.

A punitive prepayment penalty is one fee that can cause a hardship for an unsophisticated borrower. Other excessive fees can include loan origination fees, transaction fees, brokerage fees, settlement fees, and closing costs. Predatory lenders offer to finance the fees, which increases the loan principal and decreases the borrower's ability to repay the loan. "Borrowers in predatory loans are routinely charged fees of just under eight percent of the loan amount in fees, compared to the average two percent assessed by banks to originate loans" (ACORN, n.d.b).

In summary, mortgage lenders took advantage of the vulnerabilities of their customers: weak credit, lack of financial knowledge, and an unfounded trust in lenders. The subprime prospect has fewer borrowing options, perhaps due to past credit problems, less experience borrowing money, or racial discrimination by lenders. A subprime prospect may speak English as a second language. He or she may have little formal education. A subprime prospect may be an elderly person who is overwhelmed by the details of the credit process (Barefoot, 2000).

Why did borrowers accept inferior loan terms? Schlicke (2007) suggested that consumers held a false belief that a mortgage lender is a "professional" and owes a fiduciary duty to the consumer, to look out for his best interests and certainly not to harm him. Banks or investment banks buy mortgage loans from loan originators or on the secondary market. They argue that they do not owe a duty to the consumer to ensure that the loan was not sold with deceptive or predatory tactics, or that the mortgage originator complied with federal Truth-in-Lending laws (Schlicke, 2007).

Aggressive lenders steered creditworthy borrowers into profitable but risky subprime loans.

Borrowers of subprime mortgages paid higher interest rates, because their poor credit history indicates an increased risk of default on the loan. Borrowers were "steered" to more profitable subprime loans by a mortgage broker, even though they may have been qualified for safer, less expensive prime loan (ACORN, n.d.b).

In 2005, people who would have qualified for conventional prime loans (based on credit scores) got more than half (55%) of all subprime mortgages. By the end of 2006, 61% of subprime loans were taken by borrowers who would have qualified for prime loan terms (Brooks & Simon, 2007).

Borrowers said that they were sold on subprime loans by lenders who offered easier and faster approvals, and who played down higher interest rates, stricter repayment terms, and other risky features. "Thousands of borrowers took out loans, perhaps foolishly, with little or no documentation, or no down payment, or without the income to qualify for a conventional loan of the size they wanted" (Brooks & Simon, 2007).

Lenders (and borrowers) committed fraud

The Fitch Ratings (2007) reported that no money down and stated income mortgages were "vehicles for misrepresentation or fraud by participants throughout the origination process." Fitch Ratings reviewed loans made in the heyday of the subprime era, in which borrowers defaulted early, and found that 70% contained fraud or misrepresentations.

Fraudulent information included:

- Occupancy fraud (property not owner-occupied)
- Property value much lower than the appraised value
- First time homebuyer claim not true
- Questionable stated income or employment
- Social Security number on the credit report not applicant's
- Artificially inflated credit report score
- Identity theft
- Signature fraud

Banks blamed independent brokers who originated the inaccurate and fraudulent documents, but were unable to pass the buck for the mortgage crisis as they became increasingly scrutinized. Companies like Ameriquest Mortgage Company were accused of forging income tax returns, retirement investment information, and employment verifications to fraudulently qualify borrowers for a loan (Grow& Epstein, 2007).

Borrowers also committed fraud to secure a loan. Cowen (2008) wrote “Many of the people now losing their homes committed fraud. And when a mortgage goes into default in its first year, the chance is high that there was fraud in the initial application, especially because unemployment in general has been low during the last two years.”

A “stated income” mortgage is a loan in which the lender does not independently verify the borrower’s income; the lender accepts the income as stated by the borrower. For example, borrowers would claim to plan to rent a room in their home, and the lender would count this amount as income. Stated-income loans are more risky, with commensurate greater interest rates and potential for profit, than traditional loans. The Mortgage Asset Research Institute found that about 60% of stated-income loans were based on borrower’s income that was overestimated by 50% (Grow& Epstein, 2007).

The lending industry faced lawsuits from people who claim that they were deceived into agreeing to loan contracts with hidden and punitive terms. In addition, state officials in Florida, California, and Illinois sued Countrywide Financial for using predatory lending practices to make subprime loans to people who were unable to repay the loans (Loney, 2008).

Lenders faced pressure from “state and federal regulators, who have accused banks of lowering underwriting standards and forcing some borrowers, through fraud, into costly adjustable loans that the banks later bundled and sold as high-interest investment vehicles” (Keating, 2008). Judges sided with borrowers based on protections afforded under a federal law designed to protect consumers against lending fraud, the 1968 Truth in Lending Act. The Truth in Lending Act requires that lenders clearly disclose loan costs and terms. Also, consumers can get out of a loan agreement (rescission) and get a refund of interest and fees when a lender breaks the law.

Government failed to protect borrowers and encouraged loose lending standards.

In 1994, Congress enacted a law intended to stop lenders from deceptively issuing home equity loans with excessively high fees and interest rates. By 1998, the Department of Housing and Urban Development (HUD) and the Federal Reserve Board had warned congress that the law had “failed to stem a tide of deceptive lending” (Henriques, 2000). “In the sub-prime affair, unregulated mortgage lenders threw away underwriting rules and made teaser loans to people with sketchy credit histories. In more than half the cases, they didn't even ask for the borrower's income” (Kuttner, 2007).

Federal authorities believed that critical information was withheld from investors, and hence they were misled into purchasing mortgage-backed securities. Bond rating firms such as Moody’s gave mortgage-backed investments the highest AAA ratings. Their excuse is that they were given incomplete or inaccurate data (Anderson & Bajaj, 2008).

Financial industry lobbying efforts discouraged stronger oversight of consumer lending practices. Citigroup, Wells Fargo, Countrywide Financial, Ameriquest Mortgage, and the Mortgage Bankers Association lobbied state government officials to relax pending mortgage lending regulation. Lobbying efforts successfully discouraged closer regulation of the lending industry (Simpson, 2007).

Loose lending standards destabilized the housing market

Some argue that subprime borrowers were caught in the external forces of a temporary decline in the housing market. Alternatively, the practices of subprime borrowers contributed or even caused the housing market drop. The deluge of easy credit from sub-prime mortgages drove home prices up to unsustainable levels (Laperriere, 2007). To paraphrase the cause of demand-pull inflation: too many dollars chasing too few houses.

The number of "liar loans" with little or no documentation of a borrower's ability to pay increased from 18% of purchase loans in 2001 to 49% in 2006, according to Credit Suisse. Borrowers put up less than a 5% down payment in 46% of all home purchases in 2006. Nontraditional mortgages grew to a third of all mortgages in 2006, according to Inside Mortgage Finance (Laperriere, 2007).

With default rates on the rise, lenders tightened loan underwriting standards. As a consequence, borrowers were unable to refinance their adjustable rate loans as the monthly payment amounts started to jump. Additionally, fewer potential homebuyers were able to qualify for a loan to buy, so that borrowers were unable to sell their homes to avoid foreclosure. Borrowers were stranded with home prices dropping, and with homes that were "under water," worth less on the market than the value of the loans that they secured (Laperriere, 2007).

MARKET FORCES LED TO THE MORTGAGE MARKET MELTDOWN

Subprime lending is not the same as predatory lending.

Predatory lending practices are a relatively small proportion of the mortgage market. Most subprime business practices offered individuals with weak credit scores the opportunity to buy a home with an affordable adjustable rate loan (and convert to a fixed rate later), finance home improvements, and rebuild credit scores. Loan terms that appeared to be predatory in a real estate downturn were a godsend in the housing boom years.

Borrowers, who could not afford the payment on a fixed rate loan, could make the payments at the initial low interest rate of an adjustable rate loan. When home prices are rising 10 to 20 percent per year in some markets, the time spent waiting, saving, and improving ones credit score is time spent wasting money on rent and watching real estate prices climb steadily out of reach. The smart decision was to buy a home now and improve the financing later after the home rose in value. A loan with negative amortization, no equity, high fees, and a variable interest rate is not risky if home values are guaranteed to climb year after year. Then again, nothing is guaranteed.

Because home values fluctuate, and borrowers sometimes default on loans, adjustable rate mortgages can be risky for borrowers and lenders. Borrowers are willing to accept inferior loan terms because not borrowing, and hence not owning a home in a rapidly rising market, is also risky. Lenders are willing to offer loans to higher-risk borrowers because the loans are profitable.

Even negative amortization can be a useful loan term. Negative amortization is when the payment made on a loan is less than the interest, so the principal or balance due on the loan increases. A borrower may choose a negative amortization loan to get lower monthly payments than a conventional payment schedule, which allows the borrower to buy a home that he could not otherwise afford.

Negative amortization is not a problem if home prices rise rapidly. “When home prices are appreciating rapidly, negative amortization is less of a possibility than when prices are stable or dropping, particularly for the borrower who made a small cash down payment to begin with” (Inman News Features, 2000). If home values fail to appreciate, or worse, depreciate, the balance of equity with a negatively amortized loan decreases each month. The choices, and the consequences, accrue to the borrower.

If a mortgage calls for monthly payments at the rate of a traditional 30-year fixed rate loan, but on a date in five years the entire remaining balance is due, it is said to have a balloon payment. A balloon payment makes sense if the borrower intends to refinance the (more valuable) home in five years, pay off the balloon payment with the new loan, and enjoy the improved terms (e.g. lower interest rate) of the new loan. During the housing boom, many investors bought a house, perhaps with a loan with a balloon payment, sold the house in a relatively short time for more than the purchase price, paid the balloon payment and pocketed some cash profit.

Minorities, particularly African-Americans and Hispanics, have benefited from niche lending (Sichelman, 2008). Banks are charged under the Community Reinvestment Act to make credit available to minority borrowers. If lenders fail to provide credit to buyers in minority neighborhoods, then people are unfairly excluded from achieving the American Dream of homeownership. Lenders responded with nontraditional lending products like subprime mortgages to increase the availability of credit.

A few lenders behaved badly, but borrowers should have been more diligent.

John Robbins, chairman of the Mortgage Bankers Association, said he was "mad as hell" at "a few unethical actors" that have sullied his profession's reputation. "Who made this mess?" Robbins asked. "The short-term folks. People who get a commission when the deal happens. For them, it's the number of loans that counts. Good loan? Bad loan? Who cares? For them it's all about their commission" (AP, 2007).

A borrower whose home is foreclosed upon suffers, but the borrower freely chose to enter into a loan contract, so he is ultimately responsible for the foreclosure and the suffering caused by the loss of his home (Frank, 2008). From the lender's perspective, he must charge fees and interest rates to compensate for the risk of default, which is higher for borrowers with subpar credit.

Borrowers must beware, so that they are not vulnerable to predatory lending practices. The Department of Housing and Urban Development (HUD) provides information on how to avoid predatory lender practices, such as excessive fees and loan flipping. The borrower should agree to loan payments only if he can realistically make the payments based on his income (Romig, 2008). "With freedom of choice comes freedom of consequences, not all of which is positive" (Streeter, 2007).

The credit crisis was prompted by market forces such as rising home prices and declining incomes.

The growth of subprime mortgage lending was caused by the faltering finances of households in the United States, according to The Center for Responsible Lending. Incomes have not kept pace with household costs: "after-tax income for the bottom 60 percent of families climbed only 5 to 15 percent while housing, child care, and health care costs rose 53 to 75 percent" (Schloemer, et al., 2006). "American families with uncertain incomes, fewer savings, higher debt, and less home equity" are candidates for risky subprime mortgages (Schloemer, et al., 2006).

Incomes in the United States have stagnated. "According to the U.S. Census Bureau, median incomes were $42,228 in 2001 and $48,201 in 2006 or less than a three percent increase per year. In inflation adjusted terms, median incomes in 2006 were actually lower than they were in 2000" (Vogel, 2007).

Housing prices grew dramatically during the real estate bubble. "From 2000-2005 housing prices across the United States grew at double digit rates each year in most major metropolitan areas," as much as 19% in 2004 and 16% in 2005 (Vogel, 2007).

Faced with soaring housing prices and stagnating incomes, may buyers chose buy a home with whatever credit was available, which in many cases was a mortgage with subprime terms. Borrowers gambled that rising home prices would outpace the stress on their incomes and the increases in monthly payments. The combination of increasing monthly payments, stagnating incomes, and decreasing home prices eventually derailed the plans of borrowers.

Greater access to credit meant more home buyers bidding up home prices, "increasing the demand for mortgage products with affordability features, attracting more brokers and lenders to the market, who competed for more borrowers, who bid on more homes, causing prices to rise: a self-reinforcing cycle, but not one that could last forever" (Vigdor, 2007).

When prices started dropping in the U.S. housing market, subprime borrowers started defaulting on their mortgages. "Structured" investment products sold to investors on Wall Street were exposed, in complex ways, to those housing loans. (Economist, 2008)

The subprime market had several layers of middlemen between investors and homeowners. Many of the participants had incentives to overstate house prices and to understate the risk of the borrower failing to pay his loan. Mortgage-backed securities were all exposed to the same systemic risk: lax lending practices (Economist, 2008).

Government encouraged subprime lending as an important source of mortgage funds for the poor.

Subprime lenders were merely following government direction when they made loans to people with marginal quality creditworthiness. The 1977 Community Reinvestment Act (CRA) created incentives (and punishments) for banks to make loans in low- and moderate-income neighborhoods (Engel & McCoy, 2002). Individuals with FICO credit scores of 620 or less are considered high-risk borrowers, and prospects for subprime loans (Gramlich, 2004).

Subprime mortgages have enabled borrowers purchase homes, and for homeowners to buy things by borrowing against the equity in their homes. Subprime mortgages have led to an increase in homeownership among African-American, Hispanic, and other minority groups (Gramlich, 2004).

CONCLUSION

Was the mortgage credit crisis the result of greedy lenders, deceptive loan originators, creators of mortgage-backed securities, and complacent investors? Or were consumers complicit with lenders in a market bubble fed by easy credit and a laissez-faire government? One must conclude that it was some of both.

The economy, encouraged by federal policy, provided once-in-a-lifetime conditions of easy credit and lax loan underwriting standards. A trend of deregulation and financial innovation had decoupled the lender from the borrower and obscured the risks of default.

Lenders responded by making credit available to borrows with a wider range of creditworthiness. The supply of credit drove up the prices of residential real estate, which attracted speculators who drove up prices even more. Lenders were eager to make money and borrowers were eager to jump on the homeowner bandwagon before homes became impossibly unaffordable. Unusual times call for unusual measures, and both borrowers and lenders stretched the definitions of acceptable business practices in order to participate in the home buying frenzy.

When the real estate bubble burst, brokers, lenders, investment bankers, investors, and borrowers were faced with the outcomes. One lesson may be that when market conditions, such as the run-up in home prices, seem to be good to last, they probably are. Another may be that the role of government, while not to control market cycles, should be to ensure fairness and transparency so that people can make informed decisions and avoid market failures in the future. Government can also recognize abuses and step in to provide a set of guidelines that encourage market players to behave ethically.

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CONSUMER RECEPTIVITY TO SOCIAL MARKETING INFORMATION: THE ROLE OF SELF-RATED KNOWLEDGE AND KNOWLEDGE ACCURACY

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ABSTRACT

Prior knowledge has been shown to impact information search and processing in traditional product and service contexts. We examine the impact of two types of prior knowledge, subjective knowledge and self-rated knowledge, on information receptivity in a critical social marketing realm—AIDS. We find that subjective knowledge accuracy is positively related to topic receptivity, and self-rated knowledge is inversely related to message receptivity. The two types of knowledge exhibit a low correlation, indicating that some subjects may think they know more than they actually do regarding HIV transmission. Involvement with the AIDS issue was positively related to both types of information receptivity. Social marketers and policy makers must consider the factors that influence message receptivity if they hope to create messages that will ultimately influence and de-market high-risk behaviors. A two-tiered approach, first improving public receptivity to the AIDS topic, then communicating specific HIV prevention information, may be necessary to reduce negative outcomes associated with public misinformation about HIV/AIDS.

INTRODUCTION

Knowledge has been established as an important area of study in marketing because of its demonstrated relationship to product judgments, information processing and decision-making (e.g., Alba & Hutchinson, 1987, 2000; Bettman & Sujan, 1987; Maheswaran & Sternthal, 1990; Walker, Celsi & Olson, 1987; Wood & Lynch, 2002; Yi, 1993). However, the attention directed toward this topic has tended to focus around traditional product or brand situations. In a product situation, assessments of knowledge often do not have a strong right or wrong component -- they are, rather, based on subjective perceptions of criteria for product evaluation.

By contrast, in many public health realms, the quality or *accuracy* of consumer knowledge is important to the outcomes of behavior. In these situations, it is often possible to assess an individual's knowledge vis-à-vis the current state of more "objective" scientific knowledge. Examples are: effects of exposure to the sun, health effects of a high-fat diet, health effects of alcohol during pregnancy, the potential results of engaging in "unsafe sex," and many others. Scientific knowledge, however, is often in a state of flux as new information is revealed. Consumer knowledge often needs to be updated to protect individual health and the health of society in general. And, the evolving nature of scientific knowledge makes it critical to look at the relationship between prior knowledge and information receptivity, lest the public be operating with archaic and potentially harmful knowledge structures.

This paper expands marketing perspectives on prior knowledge to dimensions relevant to social marketing issues by investigating the relationship between information receptivity and prior knowledge for a relevant social marketing example -- AIDS. The paper provides perspectives on how different types of knowledge can function differently with respect to information receptivity.

Research Perspectives on Prior Knowledge

The literature reveals mixed results regarding the effects of prior knowledge on information search and processing. Some researchers have found that knowledge begets knowledge: higher levels of prior knowledge facilitate or encourage information acquisition and/or search (e.g., Alba & Hutchinson, 1987; Cowley & Mitchell, 2003; Sujan, 1985). Other studies, however, have found that prior knowledge retards or limits external search (e.g., Moore & Lehmann, 1980; Moorman et al., 2004; Newman & Staelin, 1971; Wood & Lynch, 2002). Prior knowledge can facilitate processing by increasing the benefits of information via an ability to use it.

On the other hand, prior knowledge can retard processing because knowledgeable consumers already possess the information internally, and thus have no need to engage in external search (low motivation). We suggest that low prior knowledge people were not receptive to the topic or messages that would have made them knowledgeable in the first place (with ability to process a possible effect of lack of motivation).

Most prior research has viewed cognitive structure as having to do with the factual knowledge (i.e., beliefs) that consumers have about products and the way that knowledge is organized (Alba & Hutchinson, 1987, 2000). These beliefs about factual knowledge have been termed "objective knowledge" in the marketing literature, while "subjective knowledge" is defined as self-ratings of one's level of knowledge (Brucks, 1985). Self-rated knowledge is thought to affect information processing activities differently than factual knowledge (Brucks, 1985; Moorman et al., 2004). Rudell found that objective/factual knowledge facilitated deliberation and use of new information, while self-ratings of knowledge levels increased reliance on previously stored information (1979).

Indeed, self-perceptions of knowledge may be related to one's confidence in his/her decision-making ability (Alba & Hutchinson, 2000; Brucks, 1985; Park & Lessig, 1981), such that people who rate themselves as knowledgeable in a given area may be less likely to rely on external information. People who rate *themselves* as knowledgeable in a given area may be less likely to be interested in additional information because of their decision-making confidence based on internal information. However, high *factual knowledge* individuals may be more receptive to additional information because their knowledge facilitates its use.

Measurement of the amount, type or organization of knowledge stored in memory (“objective knowledge”) is often accomplished by some scoring method (Alba & Hutchinson, 1987). These tests typically focus on knowledge of product attributes, which is unlikely to have the dramatic effect on behavior and health as it might in a social marketing context. And, *external* authorities on knowledge have been given very little attention in discussions of knowledge dimensions. The comparison of consumer beliefs to information from external authorities (termed “knowledge calibration” by Alba and Hutchinson, 2000) has long been known to be critical for many topic areas relating to issues of public policy (Staelin, 1978).

An Expanded Perspective on Knowledge Categories

The previously described marketing terminology results in some conceptual confusion because "objective knowledge" is not objective -- it is what the individual subjectively believes to be true (Brucks, 1985). In contrast, classic economic psychology literature defines *objective knowledge* as pertaining to findings included in official statistics, and *subjective knowledge* as pertaining to what individuals *believe* to be objectively true (Frey & Foppa, 1986). Subjective knowledge may or may not be consistent with objective, factual knowledge.

We avoid the misnomer of labeling subjective beliefs as objective by adopting the economic psychology terminology from this point on: *Objective knowledge* is "factual," representing official statistics; *subjective knowledge* represents subjective beliefs about factual knowledge, and *self-rated knowledge* is the term we use for the individual's perception of his/her own knowledge *level*.

This perspective can be particularly useful when accuracy is an issue because it explicitly includes a category for external information. In situations where accuracy of knowledge can result in life or death, and/or when scientific knowledge is rapidly evolving, explicit assessment of the target market's knowledge accuracy is essential for marketers to be able to plan appropriate educational campaigns.

AIDS-- A Modern Social Marketing Issue

An estimated 40 million people worldwide are currently infected with HIV, the virus that causes AIDS (Monasch & Mahy, 2006). The disease is prevalent in the third world, with Sub-Saharan Africa accounting for 10% of the world population, but containing 64% of the population of people living with HIV (CDC, 2006). Even in developed nations, the disproportionate prevalence of the disease among certain groups such as African Americans and Hispanics (69% of reported HIV cases in the United States) highlights the need to educate the public on risky behaviors (MMWR, 2006). Despite attempts to educate the public on HIV transmission, individuals (especially among traditionally “low risk” groups) often perceive that they are not susceptible to the disease despite behavior that would suggest otherwise (Maes & Louis, 2003).

Alarmingly, there is now widespread belief that AIDS is no longer a problem or a severe disease in the United States (MMWR, 2006). In poor countries in particular, knowledge about HIV/AIDS and how to avoid infection is severely lacking, with the United Nations reporting that 65% of females respondents and 80% of male respondents surveyed believe they are at low or no risk for contracting AIDS despite the fact that all respondents were from countries where nearly 1/5 of the population is already infected with HIV (Crossette, 2002). HIV/AIDS is a particularly relevant realm for the study of information receptivity, wherein if health educators hope to persuade the public to follow preventive practices, the public’s receptivity to such messages becomes critical.

HYPOTHESES

People who are knowledgeable are so because they have considered AIDS information relevant and processed it in the past. High subjective knowledge people may be motivated to be receptive to information because their knowledge allows them to know what they don't know. Thus, for our context we see motivation as a driver that does not dissipate when knowledge is high (contrary to traditional product settings). We expect knowledge to beget knowledge and continued information receptivity: High subjective knowledge people will be most receptive and low subjective knowledge people will be least receptive to information. In this case we focus on *accurate* subjective knowledge, as measured against the body of objective knowledge.

H1: Subjective knowledge accuracy will be positively related to information receptivity.

We also expect a significant association between self-rated knowledge and information receptivity. Consistent with the perspectives of Brucks (1985) and Park and Lessig (1981), self-rated knowledge may reflect decision-making confidence and lessened reliance on external information. Hence, people having more confidence in their own decision-making ability may be less receptive to information.

H2: Self-rated knowledge will be inversely related to information receptivity.

Finally, motivation to process information is related to involvement. Petty, Cacioppo and Schumann state “…people are more motivated to devote the cognitive effort required to evaluate the true merits of an issue or product when involvement is high rather than low” (1983, p 137). This motivation to process may be measured by interest in additional information and attitude toward hearing about a topic which should both then be related to measures of involvement.

H3: Involvement will be positively related to information receptivity.

METHOD

An extensive literature search and series of expert interviews were conducted to identify relevant knowledge domains for the AIDS topic. The survey instrument was developed in conjunction with educators in the sexually transmitted disease unit of the county health department. Questions developed to assess subjective knowledge of HIV transmission covered nine potential disease transmission vehicles, and respondents indicated whether they thought each behavior was safe or unsafe. Their subjective knowledge was then graded for accuracy against current objective knowledge.

Self-ratings of knowledge were assessed via the question: "I probably know as much about AIDS as most people who don't work in health care." This wording was patterned after Brucks (1985) who also used a layperson frame of reference. Separate questions were developed to measure involvement: I worry more about AIDS now than I did six months ago; The problem of AIDS is not as serious as the media suggests it is; AIDS is a major problem for our whole society, not just for some groups. These represent perceived seriousness, perceived breadth of the problem, and personal concern, respectively.

Information receptivity was measured from two perspectives: topic receptivity and message receptivity. Respondents were queried about topic receptivity by indicating agreement or disagreement with: "I am tired of hearing so much about AIDS." Message receptivity was asked, “Would you like more information about AIDS?" Demographic information was obtained at the end of the survey.

Data were collected by professionally-trained interviewers over varied times across a four-day and weekend period in a medium-sized city in the southwestern United States. Examples of interview locations were: two malls, the bus depot, twenty-four hour supermarkets, and the airport. The interviewing process culminated in 452 completed interviews. The sample was: 51.5 percent male, 62.1 percent married, 84.9 percent under forty years old, 57.3 percent with less than a college graduate education, 75.1 percent white (11.4 percent Hispanic, 7.2 percent black, 6.3 percent Asian and other), and 73.5 percent Protestant or Catholic.

RESULTS

The data were submitted to linear discriminant analyses for the two information receptivity models. The first model used the knowledge and involvement variables to discriminate between topic receptivity groups, and the second examined message receptivity groups. Topic and Message Receptivity were positively and significantly correlated (canonical correlation = .37, $p < .01$). The classification results showed 66.37 percent of grouped cases being correctly classified. If a marketer knows that a person is "tired of hearing about AIDS" the odds are that this person will not want additional information.

However, there is a group of people (roughly one-third of the sample) who are receptive to the topic, but not to additional AIDS-related messages. These people may think they already have the information they need. It is interesting to note that the two types of knowledge are positively correlated but not strongly so (r = .16). Across the sample, a higher self-rating does tend to reflect a higher subjective knowledge level. However, as described below, the two types of knowledge assessments operate differently for the two measures of information receptivity.

Results for Topic Receptivity

Table 1 describes the results of the discriminant analysis for <u>topic receptivity</u>. Subjective knowledge accuracy and all three involvement variables contributed significantly to the linear discriminant function (p < .01). The level of self-rated knowledge and cure optimism were not statistically significant. Hypothesis One, which posited a statistically significant and positive relationship between subjective knowledge and information receptivity, was supported (p = .03). Hypothesis Two, which speculated that self-rated knowledge would be inversely associated with information receptivity, was not supported in the case of topic receptivity (p = .67). Hypothesis Three was supported for all three involvement variables: People who were receptive to the topic were more likely to perceive AIDS as a problem concerning the entire society (p =.01), saw the problem as more serious (p = .01), and perceived themselves as worrying more about AIDS now than six months ago (p = .02).

Table 1. Results of Discriminant Analysis Investigating the Differentiation between "Tired of Hearing about AIDS" Groups by Knowledge and Involvement [a]

	Group Means [c]				
Knowledge & Involvement Variables [b]	Tired	Not Tired	Wilks Lambda	F	p
Subjective Knowledge	16.01	16.24	.99	4.48	.03
Self-rated Knowledge	3.00	3.03	1.00	.18	.67
Cure Optimism	2.41	2.46	1.00	.19	.66
Societal Problem	3.59	3.81	.97	14.62	.01
Problem Seriousness	3.06	3.59	.92	40.34	.01
Change in Worry	2.78	3.03	.99	5.68	.02

[a] Canonical Discriminant Function: Eigenvalue = .21; Wilks Lambda = .83; Chi-squared = 82.05; d.f. = 6; p < .01; 71.2 percent correctly classified.

[b] A higher number corresponds to more of a given variable (e.g., more subjective knowledge, more perceived seriousness of the problem, etc.).

[c] "Tired of Hearing" n = 163; "Not Tired of Hearing" n = 278.

Results for Message Receptivity

Table 2 displays the discriminant analysis results for message receptivity. The linear discriminant functions included in the model significantly differentiated the two groups ($p < .01$). Message-receptive subjects had lower self-rated knowledge ($p = .01$), saw AIDS as a problem for the entire society ($p = .01$), saw AIDS as a more serious problem ($p = .01$), and were more worried about AIDS now than they were six months ago ($p = .01$). However, subjective knowledge was not statistically associated with message receptivity ($p = .46$), so Hypothesis One was not supported. Hypothesis Two was supported as respondents with higher levels of self-rated knowledge expressed least message receptivity. And as was true for topic receptivity, Hypothesis Three was supported for the three involvement measures.

Additionally, there were no statistically significant ($p > .05$) differences in topic or message receptivity based on the respondents' sex, marital status, age, education, occupation, ethnic group, or religious preference for either model.

Table 2. Results of Discriminant Analysis Investigating the Differentiation Between "Desire for More Information" Groups by Knowledge and Involvement [a]

	Group Means [c]				
Knowledge & Involvement Variables [b]	Want Info	No Info	Wilks Lambda	F	p
Subjective Knowledge	16.12	16.20	1.00	.54	.46
Self-rated Knowledge	2.92	3.16	.98	9.09	.01
Cure Optimism	2.39	2.51	1.00	1.97	.16
Societal Problem	3.79	3.65	.99	6.31	.01
Problem Seriousness	3.50	3.24	.98	9.42	.01
Change in Worry	3.08	2.75	.98	10.82	.01

[a] Canonical Discriminant Function: Eigenvalue = .07; Wilks Lambda = .93; Chi-squared = 31.34; d.f. = 6; $p < .01$; 62 percent correctly classified.
[b] A higher number corresponds to more of a given variable (e.g., more subjective knowledge, more perceived seriousness of the problem, etc.).
[c] "Want More Information" n = 252; "Do Not Want More Information" n = 189.

SOCIAL MARKETING IMPLICATIONS

As was previously discussed, topic receptivity can be viewed as a prerequisite for message receptivity. Our results reflect this notion. Lower subjective knowledge individuals tended to express low topic receptivity, which is potentially both the cause and the effect of low levels of subjective knowledge. Also, a low level of topic receptivity could be representative of a low motivation to process information, leading to low levels of knowledge and few existing knowledge structures for processing. This, according to Bettman and Park (1980), would constitute a low ability to process, discourage processing attempts, and also lead to lower levels of subjective knowledge. The combination of low motivation and low ability provides a circular effect ultimately resulting in low subjective knowledge.

It is important to emphasize that self-rated knowledge does not necessarily reflect subjective knowledge, and the two measurements have different effects in terms of receptivity. People with higher self-rated knowledge were not message-receptive. This group may or may not be receptive to the AIDS topic. This can be explained in that people who already perceive themselves to be knowledgeable (whether they actually are or not) will not feel a desire or need for additional information. Level of self-rated knowledge does not necessarily indicate a presence or lack of ability, but it does appear to influence motivation to process, leading to low message receptivity.

All prior knowledge groups will need to be receptive to new scientific information in order to control the spread of the AIDS. Vulnerable groups in particular will need to become more receptive to HIV educational efforts. In the United States, for example, the Centers for Disease Control's National Prevention Information Network reports that women, young people, and people of color are at *increasing risk* for HIV infection (CDC, 2006). Specifically, half of all new HIV infections occur in the under 25 age group (with over 50% of those resulting from heterosexual contact), and African Americans comprise less than 10% of the United States population but more than half of new HIV infections (CDC, 2006). Clearly information will be critical to influence these emerging vulnerable segments. Social marketers must consider the factors that influence message receptivity (prior knowledge, receptivity toward the topic, and involvement) if they hope to create messages that will ultimately influence and demarket high-risk behavior. A two-tiered approach, first improving public receptivity to the AIDS topic, *then* communicating specific HIV prevention information, may be necessary.

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HUMAN DIMENSION IN MARKETING RESEARCH: A SENSE-MAKING APPROACH

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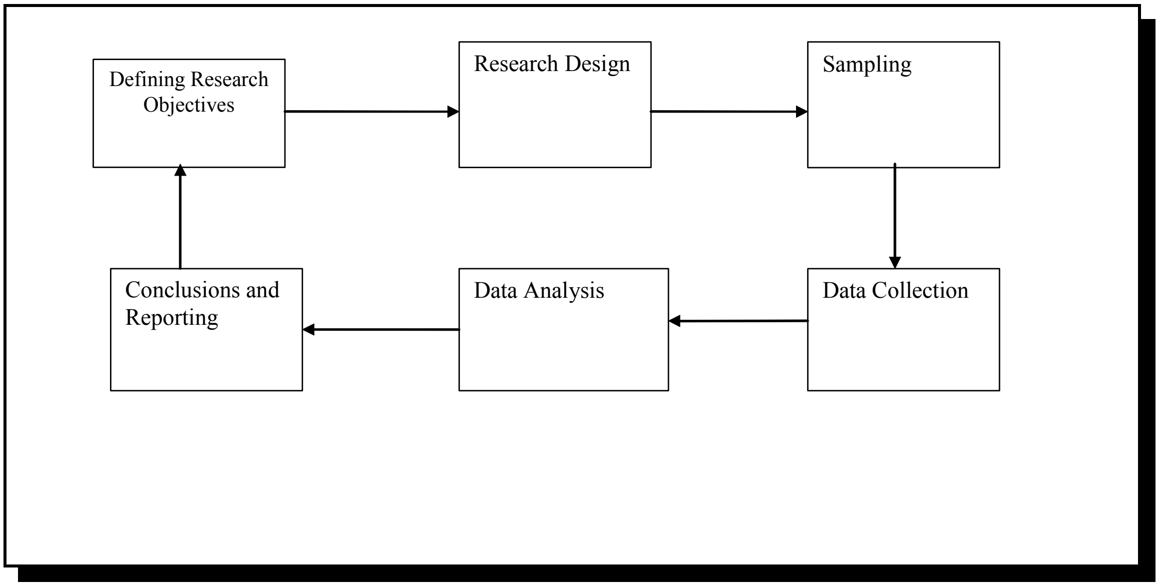
ABSTRACT

Marketing research is an important element of the marketing process. Typical models of research explain research as an objective process. However, like any other process, marketing research has human elements. Hence, there are subjective elements that are inherent to the research process. We employ the sense making approach to delineate these subjective processes. Sense-making perspective as applied to the marketing research process is discussed.
Key Words: Marketing research, sense-making

INTRODUCTION

Marketing Research is an important element of the marketing process. Conventional marketing research models have not paid adequate attention to the human element in the research process. The premise of this paper is that human element affects the research process significantly. That element is a tacitly understood aspect of the marketing research process. To better understand the human element as it appears among those providing marketing research is essential for successful decisions. It enables us to better understand, for example, why do we decide to segment marketing in particular ways, how do we decide what research to initiate, and why do we tend to accept some findings and not notice others? To shed light on the human element as it relates to marketing research, it is helpful to return to the concept of sense-making. This paper uses the lens from the sense-making theory to flesh out the human elements affecting marketing research.

Figure 1 The Marketing Research Process



(Source: Zikmund and Babin 2007)

SENSE-MAKING: A CATALYST FOR MARKETING RESEARCH

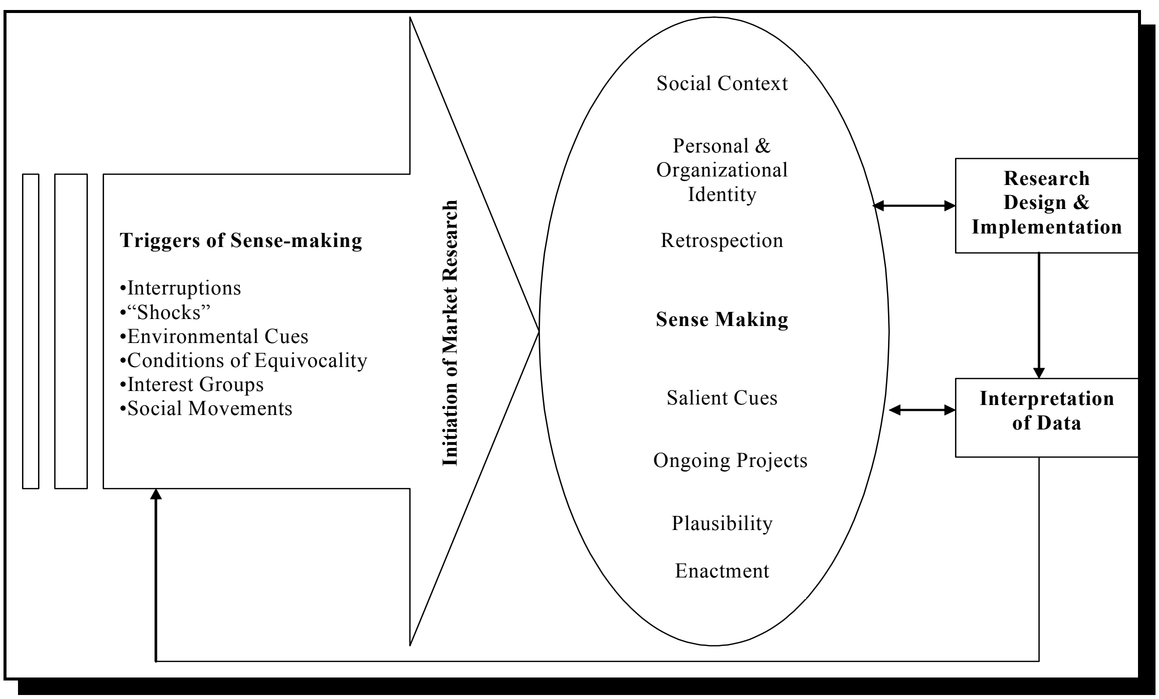
The common models of marketing research do not suggest *how* we arrive at the definitions and interpretations we do. Nor, do they shed light on *why* we make the decisions we do. They do not explain, for example, the behavioral factors drawing researchers to particular target markets, sample determination, and particular interpretation of data? In this section we return to the concept of organizational sense-making (Feldman, 1989) to explain what triggers such decisions as they are made in the day-to-day marketing research deliberations. The concept of sense-making helps us to answer these and related question

Sense-making, in our view, is a source of insight into how marketing research is undertaken. Sense-making might be conceived of as an interpretive process (Feldman, 1989). Through sense-making, individuals give structure to the unknown (Waterman, 1990) and make sense of circumstances as they occur (Huber & Daft, 1987) using retrospective accounts to explain occurrences (Louis, 1980). To understand sense-making, think of the proverbial blind men who collectively examined an elephant with each reporting his impression of the animal as touched. The result was a "…set of ideas with explanatory possibilities, rather than a body of knowledge, per se." (Weick, 1995, p. xi) They collectively derived a view of the elephant by making sense of what was presented them. This process, in our view, is an integral part of the marketing research process as it unfolds among those participating. Our collective view of what is happening "out there" determines the research design, interpretation of the data collected, and the conclusions drawn from the data.

According to Weick (1995), sense making involves placing items in frameworks, comprehending, constructing meanings, and patterning to address these interruptions. Furthermore, sense-making framework will also address the interactions and frustrations associated with these interruptions. The sense-making process involves understanding, interpreting, and attributing the antecedents of sense-making.

In the following section we reflect on what triggers organizational sense-making and lift out properties of sense-making to apply it to the marketing research process. This portion of our discussion is important because the decision made by marketing research teams is not made in a vacuum. Marketing decisions arise from the interactions among team members and subjective judgmental issues from those discussions. Sense-making takes place in the imagination of those involved and the interpretation of events takes form among them as a result.

Figure 2: Sense making as Applied to Marketing Research



Triggers of Sense-making

There is much speculation about what might trigger sense-making. (Weick, 1995) Organizations question and reconstruct existing perspectives, frameworks, or premises on a daily basis through a continuous process of knowledge creation. "(Nonaka, Toyama, & Byoière, 2003, p. 492). Among the triggers are: (1) interruptions, (2) "shocks", (3) environmental cues, (4) conditions of equivocally, (5) interest groups and (6) social movements. Each of these affect the direction that marketing research takes as designed and implemented.

First, *interruptions* trigger sense-making when theories of action (Argyris & Schön, 1978, 1996) and shared mental models (Senge, 1990) do not fit emergent circumstances. In other words, interruption occurs when things are not going according to plan and people just can't determine the meaning of what is taking place about them. Cognitive dissonance (Festinger, 1957) can accompany the situation. Certainly "vocabularies of coping" (Weick, 1995 p. 121) are inadequate for the advancing situation. Interruptions spark sense-making when an unexpected event occurs and can be prompted when an expected event does not occur. (Mandler, 1984)

Organizational learning can be stimulated by *"shocks"* (Cyert & March, 1963) or disturbance which makes adaptation necessary. (Pawlowsky, 2003) Shocks coming from inside or outside the organization cause individuals to rethink what they are doing. Innovation results from these shocks. (Schroeder, Van de Ven, Scudder & Polley, 1989) In short, "…the ongoing cognitive activity is interrupted. At this point, coping, problem solving, and 'learning' activities take place. It is apparently at this point that the focus of consciousness is on the interruption." (Mandler, 1984, p. 188) The "...severity of an incident does not guarantee that it can be used to bring about organizational learning." (Kädtler, 2003, p. 224) In time even disasters become the victim of topicality.

Environmental cues can trigger sense-making. "These are properties of an ongoing flow that increase the probability that people, regardless of where they sit in organizations or who they are, will take note of what is happening and pursue it." (Weick, 1995, p. 86) For example, as information load "…increases, people take increasingly strong steps to manage it. They begin with omission, and then move to greater tolerance of error, queuing, filtering, abstracting, using multiple channels, escape, and end with chunking." (Weick, 1995, p. 87) Similarly, complexity of circumstances affects what people notice and ignore. As complexity increases, the reliance on habitual routine cues increase as well which can be counter productive. (Weick, 1980)

Under *conditions of equivocally,* where data are unclear and multiple interpretations are available, sense-making may appear (Daft & Macintosh, 1981; Weick, 1979). Sense-making is stimulated when events are so incongruous that they violate common perceptual frameworks (Starbuck & Milliken, 1988). "Equivocality is reduced through shared observations and discussion until a common grammar and course of action can be agreed upon." (Daft & Weick, 2001, p. 252) Equivocality is reduced through sense-making.

Interest groups represent private activity while *social movements* are public. Their influences on sense-making and organizational learning are the same. Here organizational knowledge seeking "...takes place because the organization is confronted with problems it has not chosen to deal with and, in order to cope, must develop competences it would not have developed without being forced to." (Kädtler, 2003, p. 221) Technical or legal "autism" (p. 226) can prevent organizations from recognizing important aspects of reality. Certainly, when firms come under intense media scrutiny, marketing research groups are called into action.

Sense-making and Marketing research

Weick (1995; 2001) has suggested seven characteristics of sense-making including: (1) social context; (2) personal and organizational identity; (3) retrospection; (4) salient cues; (5) ongoing projects; (6) plausibility; and (7) enactment. We explain about these seven characteristics as they apply to the marketing research process.

Sense-making issues from a *social context*. (Weick, 2001) "Even monologues and one-way communications presume an audience." (Weick, 1995, p. 40) Sense-making is social when people coordinate their actions as try to gather meaning from different views of ambiguous events (Eisenberg, 1984). "To change meaning is to change the social context." (Weick, 2001, p. 461). Social context evolves out of the conversations among the members of the marketing research team. As researchers talk among themselves, the emergent social context influences the direction, quantum, and the significance of the research effort.

Weick (1995) suggests that *personal identity* and *organizational identity* are formed from the process of interaction associated with sense-making. "When identity is threatened or diffused, as when one loses a job without warning, one's grasp of what is happening begins to loosen." (Weick, 2001, p. 461) "By projecting itself onto its environment, an organization develops a self-referential appreciation of its own identity, which in turn permits the organization to act in relation to its environment." (Ring & Van de Ven, 1989, p. 180). Personal identity and sense-making are, therefore, closely aligned. The research group forms a group identity. That identity will influence the research process.

It is an assumption of sense-making that individuals can only interpret circumstances through *retrospection*. Weick (1995; 2001) reminds us that people only realize what they have done after they have done it. We are, then, historians and no lived experience will have a single interpretation. (Schutz, 1967) "The important point is that retrospective sense-making is an activity in which many possible meanings may need to be synthesized….The problem is that there are too many meanings, not too few. The problem faced by the sensemaker is one of equivocally, not one of uncertainty." (Weick, 1995, p. 26-28) "Retrospection wrongly implies that errors should have been anticipated and that good perceptions, good analyses, and good discussion will yield good results" (Starbuck & Milliken, 1988, p. 40) When this "…feeling is achieved, further retrospective processing stops."

(Weick, 1995, p. 29). The framing, evaluation, and interpretation of the research project are rooted in and dependent upon the past experience and learning of the research team.

Individual's divine *salient cues* emanating from the environment and make sense of those linking them together to approximate what is taking place. Sense-making is about people weaving tiny "extracted cues" (Weick, 1995, p. 450) into "…full-blown stories, typically in ways that selectively shore up an initial hunch. Tacitly held, non-stories become stories through the telling until collective imagery appears and has staying power. The prototype here is a self-fulfilling prophecy or an application of the documentary method." (Weick, 2001, p. 462) The knowledge they have acquired and the state of that knowledge is reflected in the stories they tell. Conceptually, the collective group understanding provides a frame (Goffman, 1974) or structural context (Weick, 1995) for understanding. The gathering of such cues is related to concepts such as search (Cyert & March, 1963), noticing (Starbuck & Milliken, 1988), and scanning (Daft & Weick, 1984). Through sense-making a context for understanding and action is supplied without which "…objects and events have equivocal or multiple meanings." (Leiter, 1980, p. 107). The research group will look at cues and try to divine a meaning. The result will be a pattern fitting rather than pattern recognition which as the goal. In other words, we will allow data to drive the theory as opposed to theory driving data. Sense-making suggests that we cannot know the pattern and we make sense of the pattern using cues and past knowledge.

Sense-making takes place in real-time, amid unfolding events, and during *ongoing projects*. It is, perhaps, unpleasant to recognize, but reflection confirms that individuals cannot avoid acting as life unfolds. Sense-making takes place in such an environment. Sense-making assumes that planning alone is not useful though it provides the *illusion* that we can control the future. (Weick, 1995; 2001) This point is significant for our position here. The organizational priorities will determine the research agenda.

The reasoning of sense-making is that it need not be necessarily accurate (Weick, 1995) or "…correct, but it fits the facts, albeit imperfectly at times." (Isenberg, 1986, p. 242) Interpretations, however, must have *plausibility*. Plausibility is effected by the stories created by participants to make sense of situations so that they are collectively seen as believable, credible and possible. A "…plausible sense is constrained by agreements with others, consistency with one's own stake in events, the recent past, visible cues, projects that are demonstrably under way, scenarios that are familiar, and actions that have tangible effects." (Weick, 2001, p. 462) As a marketing research team chooses between competing theories and explanations, they will be inclined to choose the most plausible one in accordance with their beliefs.

There is an element of *satisficing* (March & Simon, 1958) behavior, loosely defined, here where individuals take the first explanations for circumstances which seem plausible. They seem to fit the situation and problem being faced. There is also an element of self-fulfilling prophecy (Jones, 1977) active as well "…in the sense that quick responses shape events before they have become crystallized into a single meaning….Accuracy, in other words, is project specific and pragmatic. Judgments of accuracy lie in the path of the action." (Weick, 1995, p. 58-59) In this sense, we are concerned with whether the stories we create to make sense of situations are collectively seen as believable, credible and possible. Are they coherent? Do they hang together?

Finally, e*nactment* is the label applied by Weick (1995) to the tendency of people in organizations to produce a portion of the environment they face much in the way that legislators do. Indeed, the "…things designers *expect* will happen may predict the designs they achieve better than will their statements about what they plan to have happen. " (Weick, 2001, p. 68) This is a form of self fulfilling prophesy. Market researchers tend to approach their research from pre-conceived notions. In part, this will guide them to seek and obtain the results that they want.

CONCLUSION

There are many points at which marketing researchers can intervene in the sense-making process. Given the recognition that marketing research helps us to better understand the firm's external environment and markets; we have suggested that the concept of sense-making helps temper the concept of marketing research and account for the human factor. This is necessary because human nature and behavior ultimately influence the direction that marketing research takes. The sense making perspective provides a useful lens to delineate the different types of subjective interpretations affecting the marketing research process.

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THE IMPACT OF MARKET ORIENTATION TOWARD STUDENTS AND STUDENT/FACULTY RATIOS ON PERFORMANCE EXCELLENCE IN THE CASE OF AACSB – INTERNATIONAL MEMBER SCHOOLS

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ABSTRACT

This manuscript reports the results of a national survey examining levels of market orientation toward students and student/faculty ratios exhibited in AACSB member schools. We reword Narver and Slater's (1990) "market orientation" scale and Jaworski and Kohli's (1993) "overall performance" scale for use within the higher education context. We group respondents based on overall performance and report mean level of market orientation and mean student/faculty ratio for each of four levels of performance. Additionally, we employ univariate analysis of variance, then t-tests to identify significant differences between the four performance groups for each of the market orientation components and student/faculty ratio.

We outline the objectives of the study in terms of research questions, complete the analysis that addresses the questions, and present findings. Study limitations and future research directions are provided.

INTRODUCTION

The marketing literature (Barksdale and Darden 1971; Houston 1986; Jaworski and Kohli 1993; Kohli and Jaworski 1990; Narver and Slater 1990; Siguaw, Brown, and Widing 1994) provides considerable theoretical and empirical evidence indicating that greater levels of market orientation (the extent that an organization uses the marketing concept) result in a greater ability of the organization to achieve its objectives. Kohli and Jaworski describe the processes required to engender a market orientation as a "distinct form of sustainable competitive advantage" (1990, p. 17). They state that market orientation consists of "the organizationwide generation, dissemination, and responsiveness to market intelligence" (1990, p. 3). Narver and Slater agreed with Kohli and Jaworski, proposing three behavioral components that "comprehend the activities of marketing information acquisition and dissemination and the coordinated creation of customer value" (1990,

p. 21). Narver and Slater describe market orientation as consisting of customer orientation, competitor orientation, and interfunctional coordination.

The theory has applications within higher education; Kotler and Levy (1969a, 1969b) argued successfully for broadening the scope of marketing (and the marketing concept) to include higher education as well as other nonbusiness organizations. Practitioners agree, as exemplified by the use of the term "customer" by AACSB-International standards to refer to students. Practitioner acceptance of the application of marketing and the marketing concept within higher education is further exemplified by the recent development of the Baldrige Education Criteria for Performance Excellence (2005) by the Baldrige National Quality Program.

This study is an extension of previous research (Hammond, Webster, and Harmon 2006), which provided a comparison of the market orientation components to criteria for performance excellence described in the Baldrige Education Criteria for Performance Excellence (2005). As noted in the earlier research, though the term market orientation is not used, the components of market orientation as described above and in the literature (Jaworski and Kohli 1993; Kohli and Jaworski 1990; Narver and Slater 1990; Slater and Narver 1994) are included in the *Baldrige Education Criteria for Performance Excellence* (2005). Specifically, the criteria require that an educational organization maintain an awareness of and act on the current and future needs of its customers and other stakeholders. They also require the organization to know its strengths, weaknesses, and performance levels relative to competitors, and to support a coordination of effort throughout the organization (toward creating, delivering, and "balancing" customer-stakeholder value and toward achieving high levels of customer-stakeholder satisfaction). The criteria further require an organization-wide effort to gather, disseminate, and act on information regarding the requirements, expectations, and preferences of students and other stakeholders. These behaviors and actions which signify high levels of market orientation are indicated by the *Baldrige Education Criteria for Performance Excellence* (2005) to be important components of the criteria leading to performance excellence in higher education. The *Baldrige Education Criteria for Performance Excellence* (2005) suggests that students are the key customers of higher education, and that parents and employers of graduates can also be considered "customers" or "stakeholders" of universities and that, accordingly, the behaviors and actions indicative of a higher level of market orientation toward these customers should enhance the performance of universities.

This manuscript reports the results of an empirical study examining the possible impact of market orientation toward students on performance excellence in the case of AACSB-International member schools. We also examine the possible impact of classroom faculty/student ratios on business school performance. We reword Narver and Slater's (1990) "market orientation" scale and Jaworski and Kohli's (1993) "overall performance" scale for use within the higher education context. Part of a larger effort, this study is an extension of previous research by the authors (Hammond, Webster, and Harmon 2006) which indicated, in part, statistically significant positive correlations between overall performance of the business school and the three market orientation components in the case of students.

RESEARCH DESIGN

Though part of a larger effort, the focus of this study is limited; we address market orientation toward students only, at AACSB member business schools. Other results, some of which focus on other customers or stakeholders of higher education (such as parents or employers of graduates), have been reported previously or are under review elsewhere. We address a limited number of research objectives, expressed below in terms of four research questions, some with multiple parts.

> *Does level of AACSB member business school market orientation (customer orientation, competitor orientation, coordination) toward students impact overall performance of the business school?*
>
> *(a.) Do AACSB member business schools exhibit statistically significantly different levels of market orientation (customer orientation, competitor orientation, coordination) toward students, based on performance level of the business school?*
> *(b.) Which performance levels demonstrate significantly different levels of market orientation?*
> *(c.) What is the level of business school market orientation toward students exhibited by the best performers?*
>
> *Does the AACSB member business school classroom faculty/student ratio impact overall performance of the business school, given the impact of market orientation toward students on overall performance?*
>
> *(a.) Do AACSB member business schools exhibit statistically significantly different faculty/student ratios, based on performance level of the business school?*
> *(b.) Which performance levels demonstrate significantly different faculty/student ratios?*
> *(c.) What is the mean faculty/student ratio exhibited by the best performers?*

Previous researchers agree that higher levels of market orientation lead generally to higher levels of performance; they also call for further research to help identify the "ideal" levels of market orientation, which may not be (in every situation) the absolute highest levels. The results of this study address these issues empirically for AACSB member business schools by answering the first two research questions. We address the first research question through application of ANOVA, examining the causal effect of level of market orientation (toward students) on overall performance within business schools. An affirmative answer to the question of causality posed by this first research question brings relevance to the second research question. Addressing that question, we calculate mean levels of each component of market orientation for each of four levels of performance, then employ a series of t-tests to identify significant differences for the market orientation components at different performance levels. Mean market orientation scores associated with the highest performance level, when significantly different from scores at the lower levels, should provide us with guidance as to the "ideal" levels for those components of market orientation. We use the same methodology to further extend the analysis, including also the possible impact of classroom faculty/student ratio on overall performance within AACSB member business schools. The ratio has been suggested by college guides as a quality indicator (with lower ratios indicating higher quality due to the greater possibility of contact between students and faculty) which would demonstrate an inverse causal effect on performance. Lower ratios, in other words, are suggested to cause or at least correlate with higher levels of performance. We apply ANOVA, examining the causal effect of faculty/student ratio along with level of market orientation (customer orientation, competitor orientation, coordination) toward students on overall performance. With an affirmative answer to the question of causality posed by the third research question, we address the fourth research question by calculating mean levels of faculty/student ratio for each level of performance, then employing t-tests to identify significant differences between performance levels for the faculty/student ratios. The mean ratio associated with the highest performance level, if significantly different from ratios at the lower levels, could provide guidance as to possible better, or even "ideal" levels that impact performance excellence.

Data for the study were collected by way of a mailed survey. Survey instruments along with a cover letter were mailed to Deans of 604 schools of business located in the United States. Schools were selected for the survey based upon membership in AACSB-International. As key informants (Campbell 1995; Phillips 1981), the Deans were asked to complete the surveys and return them in business reply envelopes that were provided. Of the total survey instruments mailed, 141 were completed and returned. The response rate was 23%. Respondents provided the average faculty/student ratio for business classes at their business school. Data for market orientation toward students and for overall performance of the business schools were gathered from the respondents through the use of scales. Anticipating that some respondents may have difficulty with the concept of students as customers, at no point in the survey or cover letter did we refer to students as the customers, or market, or even stakeholders of higher education. We simply referred to students as students. Accordingly, we also avoided the terms marketing, marketing concept, and market orientation in the survey and the cover letter.

To measure market orientation, we chose Narver and Slater's (1990) construct (MKTOR), which consists of several questions addressing specific behaviors and activities which, together, measure the extent that the university, in this case, applies the marketing concept to students. The scale addresses concerns raised by Barksdale and Darden (1971) that market orientation is properly measured in terms of behaviors and activities instead of "philosophical notions." A seven point response scale is used ranging from one (1) "not at all" to seven (7) "to an extreme extent." Scores above the midpoint (4.0) indicate application by the respondent of the marketing concept, in this case, to students; scores below the midpoint indicate a lack of application by the respondent. Questions from the original scale were modified somewhat to conform to the vocabulary prevalent in academic institutions and, as noted above, to refer to students as "students" rather than "customers." We combine the questions to form three subscales that measure the three market orientation components (customer orientation, competitor orientation, coordination), matching Narver and Slater's methodology. The subscales combine to form an overall measure of market orientation, also matching Narver and Slater's methodology.

"Overall performance" is measured using the subjective Jaworski and Kohli (1993) two-item measure that is based on executive opinion of performance. No particular performance goals are assumed for the respondents. Each respondent is requested to answer the two questions about actual recent overall performance relative to the expectations and performance goals of that particular business school. Possible responses on the seven point response scale range from poor to excellent. Slater and Narver (1994) defend the use of subjective performance measures, noting that the measures "are used commonly in research on private companies or business units of large corporations" (p. 51). They also note the "strong correlation between subjective assessments and their objective counterparts" (p. 51) that have been indicated in previous research.

We separate the responses for overall performance into four levels of performance. The highest performance group, labeled Group 1, consists of twelve respondents with a performance rating ranging from 6.5 to 7.0 (on the seven point scale). The lowest performance group (Group 4) includes 18 respondents with performance levels less than or equal to 4.0, the scale midpoint.

The component scales were subjected to reliability analysis, exploratory factor analysis, and confirmatory factor analysis prior to further analysis (Churchill 1979; Peter 1979; Bagozzi and Yi 1988; Anderson and Gerbing 1988; Gerbing and Anderson1988). The scales were indicated to be reliable (with alphas ranging from .75 to .84 and item-to-total correlations from .43 to .73). Exploratory factor loadings ranged from .5 to .8. The confirmatory analysis results were favorable (CMIN/DF 1.944, TLI .866, CFI .903, RMSEA .082). Additionally, the Pearson correlation coefficient for the two overall performance items was .708 (sign. .000), indicating reliability for this two-item scale.

The possibility of nonresponse bias was investigated by comparing early and late respondents (Armstrong and Overton 1977). The tests indicated no significant differences between early and late respondents (at the .10 level of significance). Also, Berdie (1989) found that, even in the event of nonresponse bias in mail surveys, typically the bias did not alter the survey findings. We proceeded on the basis that significant nonresponse bias did not exist.

RESULTS AND CONCLUSIONS

The results of this study accomplished the objectives by providing answers for the research questions. Addressing the first research question, an analysis of variance was performed with overall performance as the dependent variable and the three components of market orientation toward students as independent variables. Results (Table 1) indicate a statistically significant (.000) model. Specifically, the customer orientation component was indicated to be particularly significant (Table 1) in affecting overall performance. The ANOVA results suggest important implications for marketing academics and for marketing practitioners within higher education. The results do provide empirical support for contentions by Narver and Slater (1990), Kohli and Jaworski (1990), Slater and Narver (1994), Jaworski and Kohli (1993), the Baldrige Education Criteria for Performance Excellence (2005), and others suggesting that the behaviors and actions indicative of higher levels of market orientation lead in turn to higher levels of performance.

Table 1: Univariate Analysis of Variance - AACSB Member Schools
Effects of Market Orientation toward Students
On Overall Performance of the Business School

Source	F	*Sign.*
Corrected Model	14.261	*.000*
Intercept	114.978	*.000*
Competitor Orientation Component of Mkt. Orientation toward Students	1.551	*.215*
Coordination Component of Mkt. Orientation toward Students	1.269	*.262*
Customer Orientation Component of Mkt. Orientation toward Students	15.395	*.000*
R Squared = .252 (Adjusted R Squared = .234)		

Mean market orientation responses (Table 2) are used to address the second research question, and help to further explain the ANOVA results. Table 2 presents the results of the t-tests used to identify significant differences in mean scores when compared to scores at each of the other performance levels. As expected from theory, the responses indicate that the highest performers do indeed have the highest mean levels of market orientation, and the lowest performers have the lowest mean levels for each of the three market orientation components. In addition to mean scores, minimum and maximum scores and standard deviations are calculated and presented for each component of market orientation at each performance level and in total. Note also that the table provides the number of responses for each performance level.

A careful review of Table 2 reveals specific insights that can be gained from the results of the study. As noted above, schools with higher levels of performance demonstrate higher levels of market orientation. In fact, each higher level of performance reveals progressively higher levels of market orientation for each of the three market orientation components, in this study of market orientation toward students. However, the differences in market orientation scores from performance level to performance level are not always statistically significant. The table reveals which performance groups of the respondent AACSB business schools do exhibit significantly different levels of market orientation toward students for each of the three market orientation components. Note that, applying the Bonferroni inequality, we calculate that a required .10 significance level becomes .0055, given the 18 tests performed in addressing this research question.

From Table 2, observe that the top performing group (Group 1) has a mean score on customer orientation toward students of 5.33, which is statistically significantly higher (applying the .0055 significance level as discussed above) than the mean scores exhibited by the two lowest performance groups. This top performing group also scored the highest mean measure (4.64) on the coordination component, which is statistically significantly different from the mean score of the bottom performance group (Group 4). Additionally, the competitor orientation score for Group 1 is statistically significantly higher than that for Group 4. Table 2 further reveals that, for all three market orientation components, the bottom performing group scored statistically significantly lower mean market orientation scores than the scores exhibited by all other performance groups.

As discussed above, we extend the analysis to include the possible effects of mean classroom student/faculty ratio on overall performance of the business school. In this extension of the first analysis of variance, customer orientation is again indicated (as in the first analysis) to have a particularly significant impact on business school overall performance. The results of this second analysis of variance, presented in Table 3, also indicate a statistically significant causal effect of student/faculty ratio when considered along with levels of the market orientation components. The unexpected result here is that higher (not lower) classroom student/faculty ratios positively impact the overall performance of the business school (as perceived by the deans). Interestingly, this causal effect of the student/faculty ratio runs counter to suggestions by college guides that lower student/faculty ratios (as indicators of higher quality, signifying better contact of faculty with students) positively impact levels of performance excellence. These results (Table 3), however, do raise an interesting question regarding the direction of any causality that might exist. Could lower levels of overall performance actually create lower enrollment and lower class sizes, thus creating lower student/faculty ratios?

Table 2: AACSB Member School Market Orientation toward Students
Mean Responses and Statistically Significant Differences by Performance Level

	Competitor Orientation		Coordination		Customer Orientation	
Perf. Group (Score)	Min. **Mean** Max. (S.D.)	T (*stat. sign.*)	Min. **Mean** Max. (S.D.)	T (*stat. sign.*)	Min. **Mean** Max. (S.D.)	T (*stat. sign.*)
	1.25	n = 135	1.60	n = 134	1.67	n = 139
Total	**3.71**		**4.13**		**4.55**	
	7.00		6.80		6.83	
	(1.130)		(1.072)		(1.056)	
1	2.25	n = 14	2.80	n = 14	3.83	n = 14
(6.5 -7.0)	**3.95**		**4.64**		**5.33**	
	5.25		6.60		6.83	
	(.867)		(1.002)		(1.050)	
T-Tests						
Grp. 2		.169		1.081		2.019 (*.047*)
		(*.866*)		(*.283*)		2.854 (*.006*)
Grp. 3		.443		1.684		5.043 (*.000*)
		(*.660*)		(*.099*)		
Grp. 4		3.433 (*.002*)		4.169 (*.000*)		
2	1.50	n = 62	2.40	n = 62	3.00	n = 64
(5.5 - 6.0)	**3.90**		**4.32**		**4.80**	
	7.00		6.80		6.50	
	(1.056)		(1.026)		(.855)	
T-Tests						
Grp. 3		.464 (*.643*)		.830		1.874 (*.064*)
		3.913 (*.000*)		(*.409*)		5.575 (*.000*)
Grp. 4				4.390 (*.000*)		
3	1.25	n = 39	1.80	n = 38	2.50	n = 39
(4.5 - 5.0)	**3.79**		**4.15**		**4.46**	
	6.00		5.80		6.17	
	(1.225)		(.919)		(.955)	
T-Tests						
Grp. 4		2.986 (*.004*)		3.783 (*.000*)		3.552 (*.001*)
4	1.25	n = 18	1.60	n = 18	1.67	n = 18
(<=4.0)	**2.81**		**3.10**		**3.47**	
	4.75		5.20		5.17	
	(.980)		(1.066)		(1.025)	

Table 3: Univariate Analysis of Variance - AACSB Member Schools Effects of Market Orientation toward Students and Faculty/Student Ratio On Overall Performance of the Business School		
Source	F	*Sign.*
Corrected Model	12.243	*.000*
Intercept	27.943	*.000*
Competitor Orientation Component of Mkt. Orientation toward Students	.850	*.359*
Coordination Component of Mkt. Orientation toward Students	1.654	*.201*
Customer Orientation Component of Mkt. Orientation toward Students	11.857	*.001*
Faculty/Student Ratio	12.811	*.001*
R Squared = .310 (Adjusted R Squared = .285)		

Finally, addressing the fourth research question, student/faculty ratios are calculated at each performance level and differences in the ratios are examined using t-tests. Results of the t-tests are presented in Table 4. Mean ratios are presented for each performance level, along with minimums, maximums, standard deviations, and number of respondents. Student/faculty ratios are indeed higher (not lower) for each progressively higher performance level. Note that, applying the Bonferroni inequality for the six t-tests that address this research question, .10 significance level becomes .0167. Significance of all of the tests falls below this threshold. Though differences are identified, none are indicated by these t-test results to be statistically significant. These t-test results (which do not take into account market orientation toward students) fail to identify the statistical significance of specific differences in student/faculty ratios per performance level, as indicated by the ANOVA results.

The obvious conclusion from the results above is that AACSB member schools should place a greater emphasis on market orientation toward students. This conclusion is emphasized by previous results (Hammond, Webster, and Files 2008), which indicated significantly lower levels of overall market orientation in higher education compared to results within studies of business. Narver and Slater (1990) reported a score of 4.77 in the case of specialty businesses. The mean score for overall market orientation toward students in the present study is 4.12. Mean scores for each of the performance groups are 4.64 for Group 1, 4.32 for Group 2, 4.12 for Group 3, and 3.13 for Group 4.

Table 4: AACSB Member School Faculty/Student Ratios Mean Responses and Statistically Significant Differences by Performance Level					
	Faculty/Student Ratios			Faculty/Student Ratios	
Perf. Group (Score)	Min. **Mean** Max. (S.D.)	T (*stat. sign.*)	**Perf. Group** (Score)	Min. **Mean** Max. (S.D.)	T (*stat. sign.*)
Total	7.00 **23.07** 45.00 (6.431)	n = 123			
1 (6.5 -7.0) T-Tests Grp. 2 Grp. 3 Grp. 4	14.00 **25.17** 35.00 (6.436)	n = 12 .725 *(.471)* 1.453 *(.153)* 2.465 *(.021)*	**3** (4.5 - 5.0) T-Tests Grp. 4	15.00 **22.53** 35.00 (5.017)	n = 34 1.807 *(.077)*
2 (5.5 - 6.0) T-Tests Grp. 3 Grp. 4	7.00 **23.55** 45.00 (7.133)	n = 55 .726 *(.470)* 2.348 *(.025)*	**4** (<=4.0)	12.00 **19.75** 30.00 (5.196)	n = 16

Numerous possible positive consequences of higher levels of market orientation are detailed by Kohli and Jaworski (1990), Narver and Slater (1990), and the Baldrige Education Criteria for Performance Excellence (2005). The Baldrige Education Criteria for Performance Excellence suggests that schools employing certain criteria could monitor organizational performance results and should expect improvements in several key areas, relative to performance levels of competitors and comparable organizations. Six key areas of organizational performance specifically include (1) student learning; (2) student and stakeholder satisfaction, perceived value, student persistence, and positive referral; (3) budget, resources, and financial expenditures (in instruction as well as administration and other areas), cost containment efforts, and trends in market share and new market development; (4) collaboration, teamwork, and information sharing across work functions and units, and faculty and staff satisfaction and retention; (5) effectiveness and efficiency of processes for improvement of student performance, for responsiveness to student and stakeholder needs, and for mission-specific research and outreach; and (6) senior leadership (accomplishment of strategy and action plans, ethical behavior and stakeholder trust, fiscal accountability, legal compliance, and organizational citizenship). As noted earlier, the behaviors and actions indicative of high levels of market orientation are embedded into the Baldrige criteria, which are purported to lead to performance excellence in the areas described above. Note that these dimensions of performance may or may not have been considered by the survey respondents when providing their assessment of overall business school performance.

Conclusions surrounding the effect of classroom student/faculty ratio on overall business are less clear. Results unexpectedly indicate a positive impact of higher student/faculty ratios on performance. One possible conclusion is that higher class sizes (up to a certain level, perhaps) truly improve performance of the business school. Another possibility explaining the results could be that the causality actually goes the other way; better performance of the business school causes higher enrollment and higher class sizes, thus increasing mean classroom student/faculty ratio. A third explanation could be that, in the minds of the respondent deans, achieving relatively high class sizes and student/faculty ratios are desirable performance goals and thus are a part of the subjective overall performance measure.

In addition to the specific results and conclusions applicable to AACSB schools of business within the higher education context, the study provides empirical support for a positive causal relationship between market orientation and overall performance. This and other findings of the study may be generalized to others within higher education and to other organizations more generally (Kohli and Jaworski 1990; Kotler and Levy 1969a, 1969b; Lovelock 1983; Narver and Slater 1990).

Finally, the study adds to the research stream of the authors (Hammond, Webster, and Harmon 2006; Hammond and Webster 2008) which successfully applies Narver and Slater's (1990) reworded market orientation scale. Obviously, this result is not necessarily limited to university schools of business; the reworded market orientation scale can be applied to other units within higher education. Also, the result further validates the Narver and Slater (1990) scale, supporting its application to a variety of contexts.

STUDY LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

We argue above that the findings of this study of AACSB schools of business in the United States can be generalized to others within higher education and beyond higher education. We urge caution, however, in applying the findings due to the limitations of the sampling frame (AACSB member schools, located in the United States). Future applications in other contexts would help to clarify and strengthen these findings.

Another limitation of the study is the use of one subjective performance measure. Future research investigating the impact of market orientation on performance within higher education would be strengthened by the use of multiple performance measures, to include objective measures. One recent study of the hospitality industry (Haugland, Myrtveit, and Nygaard 2007) notes different results in measuring the impact of market orientation on performance when the performance measures are objective rather than subjective. Future researchers should investigate whether or not these differences exist for market orientation within higher education.

We surveyed business school deans only. Employees at other levels of the organization (vice presidents or vice chancellors for academics, department chairs, faculty) may have different perceptions that, if surveyed, would result in different business school market orientation scores and different business school overall performance scores. Accordingly, results of the study might be different if examined from one of these other levels of the organization. This limitation of the present study presents an opportunity for further research; the study could be repeated at the other levels of the organization, and findings could be compared. Findings of the present study could be strengthened or moderated by repeated studies at other levels of higher education.

We considered student/faculty ratio in this study as a quality measure that is purported to impact performance. We raise questions, discussed above, regarding the direction of the causality or the possibility that student/faculty ratio might be incorporated by respondents into their perception of overall performance. These questions, which could be addressed in future research, could also be applied to other measures which were not included in this study due to the limited scope of the study. Examples include admission standards, alumni giving rate, percentage of applicants who attend, retention rate, graduation rate, percentage of class time spent lecturing versus other teaching techniques, variety of teaching techniques, and level of faculty effort in teaching, research, service, and consulting. Are these measures antecedents to higher levels of performance, to be considered along with market orientation, or are they consequences of better performance? Could they be both? Should some or all of these measures actually be considered indicators of performance, a part of overall performance? Do they behave as expected, in terms of their relationship with overall performance? Does higher quality (according to the college guides) positively impact performance in higher education?

We did not consider organizational characteristics such as size of the business school, public/private classification, or highest degree offered within the business school. These characteristics might impact the variables or the relationships between the variables that we examined.

As noted above, several opportunities exist for future research. Additionally, university customers or stakeholders other than students could be addressed. Also, as noted in the Baldrige Education Criteria for Performance Excellence (2005), segments of students and other stakeholders could be considered individually. Studies surrounding the actions, behaviors, and performance results within higher education for specific segments of students could provide findings and insights that might otherwise be missed.

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BRAND NAME AND PRICE CUE EFFECTS WITHIN A BRAND EXTENSION CONTEXT

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ABSTRACT

This research considers brand name and price cue interaction effects on perceived quality judgments within a brand extension context. A lab experiment was conducted within the context of a new grocery product and brand name quality was manipulated at two levels, high and moderate. Price information was manipulated at two levels, high and low. Results suggest that high price information may enhance perceived quality evaluations of new offerings extended from moderate quality parent brands, and that there may be a limit to the enhancing effect of high price on perceived quality evaluations of a new offering extended from a high quality parent brand. Further, results showed that low price information was interpreted as an indicator of strong value as opposed to low quality for extensions introduced by both high and moderate quality brands. The findings have important implications for manufacturers of moderate quality brands in particular, and brands that are pursuing growth opportunities by a brand leveraging strategy. The findings, along with theoretical and managerial implications, are discussed.

INTRODUCTION

Consumers often base new product quality judgments on extrinsic quality cues such as brand name or price when intrinsic information about new product quality is not available (Kirmani & Rao, 2000). The present research examines the joint use of extrinsic quality cues and considers their subsequent impact on perceived quality and value judgments (cf. Rao & Monroe, 1989; Dodds, Monroe & Grewal, 1991; Purohit & Srivastava, 2001; Miyazaki, Grewal & Goodstein, 2005). The research is conducted within a brand extension context because many consumer product firms leverage brand equity by extending brands into new product categories (Keller, 2008). Finally, the research focuses on high and moderate quality brand name cues. Extant research on quality cue effects generally considers low and high brand name quality cues, but not moderate quality brand cues.

Similar to information economic models of search behavior (Stigler, 1961; Salop & Stiglitz, 1977), this research assumes that consumers approach new product judgments with beliefs regarding the distribution of brands on a quality continuum ranging from low to moderate to high quality (Urbany, 1986; Moorthy, Ratchford & Talukdar, 1997). Consumers conceptually place each brand along this continuum. In this conceptualization, a brand's quality, or strength, is derived from consumer familiarity with the brand as well as the specific associations consumers hold about each brand. The highest quality, or strongest, brands are those that are well-known to consumers and that possess favorable and unique associations that are strongly held by consumers (Keller, 1993). Consequently, high quality brand are familiar brands that enjoy strong, favorable, and unique brand associations. Moderate quality brands are also familiar brands, but these brands generate only moderately favorable brand associations and these associations may be held with less strength. Finally, low quality brands are less familiar to consumers and may even generate unfavorable brand associations.

Results from this research suggest that new grocery products extended from moderate quality brands may receive a significant increase in perceived quality evaluations when paired with a high price, and that there may be a limit to the enhancing effect of high price on the product evaluations of a new grocery product extended from a high quality brand. The findings from this research have implications for manufacturers of moderate quality brands in particular, and brands that are pursuing growth opportunities by a brand extension strategy. Manufacturers following an exploit brand equity strategy by introducing extensions farther away from the parent brand often have concerns that less similar extensions may be received unfavorably, especially when introduced by parent brands perceived as moderate quality (Völckner & Sattler, 2006; Keller & Aaker, 1992). The present research suggests that firms leveraging moderate quality brands may enhance perceived quality evaluations by following an initial higher price strategy.

THE PRICE-PERCEIVED QUALITY RELATIONSHIP

The price - perceived quality research originally tested consumer price - quality inferences in the absence of other informational cues, and was heavily criticized because of that limitation (Olson, 1977). In response, the research shifted to examine how the presence or absence of other cues may moderate the price - perceived quality effect (cf. Rao & Monroe, 1989; Monroe & Krishnan, 1985; Dodds et al., 1991). Within that literature, two opposing predictions exist. One line of thinking predicts that price becomes a stronger signal of quality when other quality cues, such as brand name, are present (Monroe & Krishnan, 1985). Rao & Monroe's (1989) meta-analysis results support this prediction as the price - perceived quality main effect from multiple-cue studies (e.g., brand name available) was larger than the price - perceived quality main effect from single-cue studies. Other results support the conflicting prediction, that price becomes a weaker signal of quality when other, perhaps more diagnostic, cues are present (Dodds et al., 1991; Dickson & Sawyer, 1984; Della Bitta & Monroe, 1980; Olson, 1977).

Recent research attempts to explain these contradictory findings focus on cue utilization theory (cf. Feldman & Lynch, 1988, Purohit & Srivastava, 2001), and on quality cue consistency (Miyazaki et al., 2005, Voss, Parasuraman & Grewal 1998; Gupta & Cooper, 1992). These perspectives generally propose that extrinsic quality cues will be more diagnostic in a quality judgment when multiple quality cues are consistent (e.g., a high quality brand paired with high price) as the cue information is reinforcing. (Diagnosticity has been defined as the degree to which a first judgment is perceived to correctly answer a second related judgment (Feldman & Lynch, 1988). An input is used in a judgment to the degree that its relative diagnosticity and accessibility in memory are high.) The enhanced cue diagnosticity leads the cues to be jointly used in a subsequent quality judgment, boosting the evaluation in the direction of the valence of the consistent cues. When quality cues provide inconsistent information, the cue consistency framework suggests that the information contained in the negative cue is perceived to be more useful, and thus becomes more salient in the evaluation (cf. Anderson, 1996).

The Cue Scope Framework

The cue scope theoretical framework (Purohit & Srivastava, 2001), based on cue diagnosticity and cue utilization theory, adds a significant conceptual element to the cue consistency predictions. A central idea of the cue scope framework is that it is critical to differentiate between cue types in understanding how multiple cues interact to affect quality perceptions. By distinguishing between what are termed high and low scope quality cues, the framework predicts that the diagnosticity of low scope cues depends on the presence and valence of high scope cues. High scope cues are developed over the long- term, such as brand name and reputation. The distinguishing characteristic of a high scope cue is that valence is developed over time, and is therefore relatively difficult to change. Because of their long development period and difficulty to change, the framework predicts that high scope cues are good quality predictors and consequently are perceived as diagnostic quality cues. Low scope cues however, such as price or warranty, are easier to change quickly and are somewhat transient. Therefore, low scope cues may not predict quality as accurately has high scope cues. Because the valence of a low scope cue can be expediently changed, compared to a high scope cue, the cue scope framework predicts that when high and low scope cues are presented together, the low scope cues will generally be perceived as less diagnostic than the high scope cue. Further, the framework predicts that the diagnosticity of the low scope cue will depend on the valence of the high scope cue.

The predictions derived from both the cue consistency (Miyazaki et al., 2005) and cue scope frameworks (Purohit & Srivastava, 2001) are consistent with respect to cue enhancement effects. Both frameworks predict an enhancing effect on product evaluations when high price is paired with a high quality brand. However, when a high quality brand is paired with a low price, the cue consistency framework predicts an attenuating impact of low price on quality evaluations, while the cue scope framework considers the scope of the cues.

Brand Name and Price Interaction Effects

Considering joint processing of brand name and price cues, the cue scope framework (Purohit & Srivastava, 2001) suggests that the high scope cue, brand name, should be the anchor cue and be more diagnostic than the low scope price cue. Further, the high scope brand name cue should even influence the interpretation of the low scope price cue. The interpretation of the low price information is important because, unlike other quality cues, price information is subject to alternative interpretations (Dodds et al., 1991). One interpretation of price is suggestive of quality (i.e., high price suggests high quality and/or low price suggest low quality), while the other interpretation of price is suggestive of value (i.e., low price suggests high value, not necessarily low quality). Predictions derived from the cue scope model, where the diagnosticity and interpretation of price information depends on brand name information are presented next.

High Quality Brand and Price Cue Information

The cue scope model predicts that when quality cues are consistent, as in the case of a new product introduced from a high quality parent brand with a high price, consumers should find the high price cue credible in light of the high quality brand cue, resulting in an augmented favorable quality judgment.

H1: When a new brand extension is introduced from a high quality parent brand, quality evaluations will be more favorable when the extension is paired with a high price compared to a high quality control.

Similarly, the strong and favorable associations from the high quality brand name cue should also impact the interpretation of a low price cue. That is, strong, positive quality associations from the high quality parent brand should mitigate the effect of low price information that otherwise might suggest lower quality based on low price – low quality inferences. Because the high quality brand name conveys much information in the form of positive quality and corporate associations (Brown & Dacin, 1997), a low price cue may be interpreted as providing high value as opposed to suggesting low quality. Therefore, quality evaluations remain favorable and are not heavily influenced by a low introductory price strategy. The rationale being that consumers suspend their price – perceived quality inferences (cf. Lichtenstein & Burton, 1988), and make attributions that the manufacturer's objective is to generate initial trial of the product via the low introductory price or to provide strong value via the low price. This prediction is consistent with past theorizing suggesting that favorable associations for high quality brands keep quality perceptions for those brands from being attenuated by the perceptual impact of low price (Gupta & Cooper, 1992).

H2a: When a new brand extension is introduced from a high quality parent brand, quality evaluations will not be significantly different when the extension is paired with a low price compared to a high quality control.

H2b: When a new brand extension is introduced from a high quality parent brand, perceptions of value will be significantly more favorable when the extension is paired with a low compared to a high price.

Moderate Quality Brand and Price Cue Information

Neither the cue scope nor the cue consistency frameworks consider the case of a quality cue containing moderate valence. A high scope brand name cue of moderate valence suggests a brand that generates moderate quality associations not held as strongly as those of high quality brands. Such a judgment occurs when consumers cannot clearly identify a familiar brand cue as either low or high quality, but rather believe its quality lies somewhere in between. Research involving brand name cues generally considers the polar cases of high and low quality, and has not considered how a moderate quality brand cue may function. While understandable from a methodological perspective, moderate quality brands are a marketplace reality, as described next.

In many product categories, private-label brands are perceived as lower quality brands, and high market share national brands are considered as higher quality brands (Richardson, Dick & Jain, 1994). Yet, in many instances, there appears to be a moderate quality tier made up of lower market share national or regional brands that are clearly not store brands, and clearly not high quality national brands. For example, consider Consumer Report's objective ratings of ice-cream quality. National brands Edy's, Haagen-Dazs, Ben & Jerry's, and Breyers rate as either excellent or very good. Approximately ten additional brands are rated, in order of declining quality ending with Wal-Mart's store brand Sam's Choice. Non- store brands Mayfield, Mayfair, Blue Bell, Turkey Hill, and Blue Bunny all rate below the high quality national brands but above many of the lower quality store brands, suggesting moderate quality. Quality ratings in other consumer product categories reveal similar quality tiers, indicating a distribution of brand quality rather two well-defined groups of high and low quality. This notion is further supported by research showing geographic variation in market shares, perceived quality, and local dominance of national brands (Bronnenberg, Dhar & Dubé, 2007).

In contrast to high and low quality brand names, moderate quality brands are unlikely to elicit either strong high or low quality inferences. In effect, the lack of clearly being able to categorize a moderate quality brand as either high or low quality likely reduces the diagnostic value of the high scope brand cue. The reduced diagnosticity of the brand name cue should in turn increase the diagnosticity of the low scope price cue, resulting in stronger effects of price. Consequently, a moderate quality brand introducing a high (low) priced extension may be enhanced (attenuated) if consumers use the price information to interpret the moderate valence of the brand name information. Similar to the high quality brand, value perceptions of the moderate quality extension should be stronger for the low compared to high price. The following hypotheses summarize these ideas:

H3: When a new brand extension is introduced from a moderate quality parent brand, quality evaluations will be more favorable when the extension is paired with a high price compared to a moderate quality control.

H4a: When a new brand extension is introduced from a moderate quality parent brand, quality evaluations will be less favorable when the extension is paired with a low price compared to a moderate quality control.

H4b: When a new brand extension is introduced from a moderate quality parent brand, perceived value will be more favorable when the extension is paired with a low compared to a high price.

The previous discussion regarding how price information will impact quality evaluations of high and moderate quality brands, leads to the following summarizing hypothesis:

H5: Price and brand name information will interact such that the price cue will have a greater impact on brand extension evaluations when paired with an extension from a moderate quality parent brand than from a higher quality parent brand.

METHOD

Overview and Design

The hypotheses were tested in a 2 (brand quality) x 2 (price) between subjects design laboratory experiment. To improve the generalization of the results, the experiment also included two product replicates. In addition to the experimental cells, four brand name only control conditions were included; price information was absent in these conditions. Parent brand quality was manipulated at two levels, high and moderate, using non-fictitious brand names. Price level was manipulated between subjects at two levels, low and high price. The experiment was conducted in the context of commonly purchased consumer grocery products introduced as brand extensions.

Pretests

Three pretests were conducted with the objective of identifying brands, prices and product categories that could be used in the experiment. Constraints for the brand names and product categories used were that each be relevant to student subjects, that subjects perceive substantial variation in price and quality across available brands in the product categories chosen, and that the high and moderate quality brand names be of approximately equal familiarity to subjects. On the basis of the multiple pretests involving 155 subjects, pretzels and frozen pizza were chosen for the two product replicate categories. Brand names Lays (high quality) and Wise (moderate quality) were used as the non-fictitious brands. Both brand names had high levels of subject familiarity. Table 1 summarizes the product category stimuli set, including the price manipulations used in the experiment.

Table 1: Experimental Stimuli Summary, Perceived Quality Evaluation Cell Means & Standard Deviations

	Moderate Quality Parent Brand:			High Quality Parent Brand:		
	Wise			Lays		
Extension	Low Price: $.93	High Price: $2.19	No Price	Low Price: $1.45	High Price: $3.69	No Price
Replicate One: Frozen Pizza	4.82 (1.22)	5.52 (1.39)	4.80 (1.36)	5.85 (1.41)	5.52 (1.55)	5.60 (1.24)
Replicate Two: Pretzels	5.74 (1.16)	6.11 (1.30)	5.80 (1.11)	6.41 (1.49)	6.40 (1.22)	6.84 (1.17)

[a] Stimuli manipulations appear in italics.

Measures

The key dependent variable, perceived brand extension product quality was assessed as the average of three 9-point bipolar scales anchored by: low quality / high quality; inferior / superior; worse than most brands / better than most brands (cf. Taylor & Bearden 2002). A perceived value measure was also included in the experimental conditions, and was assessed as the average of two 9-point Likert-type scales that considered whether the new product was a good value for the money, and whether the new product looked like a good buy. A manipulation check measure of the perceived quality of the parent brand was assessed as the average of the same items used to measure perceived new product quality. A manipulation check measure of perceived price included a 9-point scale anchored very high price to very low price. Finally, a control measure assessed the perceived similarity of the brand extension to the parent brand because research suggests that price-quality inferences are more likely for brand extensions that are perceived to leverage brand equity by extending further away from the parent brand (Taylor & Bearden, 2002). Perceived similarity was measured by a 9-point bipolar scale asking subjects to rate the overall similarity of the brand extension to the parent brand product anchored by dissimilar / similar (cf. Boush & Loken, 1991; Broniarczyk & Alba, 1994).

Procedure

To increase the experimental realism of the study, a ruse stemming from Keller & Aaker's (1992) procedure was followed. Subjects were told that the objective of the study was to aid in the development of a new product testing service to eventually be used in commercial market research. Subjects first responded to a set of warm up questions relating to their usage in each product category. Next, subjects were told that because of time constraints, they would evaluate only one new product, but that their responses would be merged with responses from other consumers who evaluated different new products. The target new product was then presented to subjects in a short descriptive paragraph discussing the product. The order of the mention of price and brand information was counterbalanced across subjects. Finally, subjects responded to the dependent and manipulation check measures. Subjects were then thanked, debriefed and excused. The debriefing results revealed no evidence that subjects questioned the research ruse.

RESULTS

Preliminary Analyses

A total of 383 undergraduate students at a large public university participated in the experiment. Cell sizes ranged from 31 to 35. Examination of the intercorrelations of the three perceived quality items revealed that the items were intercorrelated, with an average item intercorrelation of approximately .71. The quality evaluation construct had three indicators, a mean of 5.79, standard deviation of 1.42, and a coefficient alpha estimate of internal consistency reliability of .88.

Analyses of the means of the manipulation check measures indicated that the manipulations of the independent variables were perceived as intended. First, the moderate quality parent brand (i.e., Wise) and the higher quality parent brand (i.e., Lays) differed as intended (Parent Brand Name Evaluation: M(MQ) = 5.85 vs. M(HQ) = 7.45; $t(381) = 10.04$, $p<.01$). The prices of the extensions were also perceived as expected (Price: M(LP) = 3.78 vs. M(HP) = 5.98; $t(255) = 9.19$, $p<.01$). Lastly, both product replicate brand extensions (i.e., frozen pizza and pretzels) were perceived as relatively dissimilar to the parent brand as the similarity judgment means on the 9-point scale were well below the scale midpoint (M-Replicate 1 = 2.70 and M-Replicate 2 = 3.44).

Tests of Hypotheses

The summary hypothesis predicts that price information will have a stronger impact on quality evaluations of moderate compared to high quality brands. A full three factor ANOVA was performed to assess H5. Results indicated a significant main effect for product replicate ($F(1,249) = 19.05$, $p<.01$), a significant main effect for brand quality ($F(1,249)= 8.57$, $p<.05$), and a significant price by brand name interaction ($F(1,249) = 4.37$, $p<.05$) on the quality evaluation measure, as predicted by H5. Mean quality evaluation scores are reported in the Table, and results of the planned contrasts testing the other hypotheses are presented next.

Tests of H1 – H2

Planned contrasts comparing the experimental conditions to related control conditions were conducted to test H1 and H2. H1 considered the impact of high price information on perceived quality in the presence of a high quality brand name cue. Consistency between the high quality parent brand name cue and the high price cue should provide diagnostic information about the quality of the extension, resulting in significantly more favorable new product evaluations when the high quality parent brand is paired with a high price versus a no-price control. The enhancing effect of high price information on perceived quality evaluations, however, was not supported by results from either product replicate (EVAL –Replicate 1: M(HQ-HP) = 5.52 vs. M(HQ-Control) = 5.60, $t(61) = .25$, $p > .05$; EVAL –Replicate 2: M(HQ-HP) = 6.40 vs. M(HQ-Control) = 6.84, $t(61) = 1.48$, $p > .05$), and H1 was not supported.

H2 predicted that the high quality associations from the brand name cue would prevent an attenuating impact of low price on perceived quality (i.e., H2a), and lead to more favorable perceptions of value (i.e., H2b). H2a was supported as planned contrasts comparing the high brand quality – low price condition to the high quality control showed no significant difference in evaluations in either product replicate (EVAL –Replicate 1: M(HQ-LP) = 5.85 vs. M(HQ-Control) = 5.60, $t(61) = .73$, $p > .05$; EVAL-Replicate 2: M(HQ-LP) = 6.41 vs. M(HQ-Control) = 6.84, $t(62) = 1.31$, $p > .05$). Contrasts assessing the perceived value between the high quality – high price and high quality – low price conditions were conducted to test H2b. In both product replicates, results indicated that low price was perceived to provide significantly more value than high price (VALUE-Replicate1: M(HQ-LP) = 6.26 vs. M(HQ-HP) = 5.31, $t(60) = 1.82$, $p < .05$ two-tail; VALUE-Replicate 2: M(HQ-LP) = 6.80 vs. M(HQ-HP) = 5.39, $t(61) = 3.00$, $p < .001$). Consequently, it appears that when paired with a high quality brand cue, the low price information was interpreted to mean strong value as opposed to low quality.

Tests of H3 – H4

H3 considered the impact of high price information on perceived quality in the presence of a moderate quality brand name cue. The modest favorable evaluation of the moderate quality brand cue, established by the brand quality manipulation check results, was expected to boost the diagnostic value of price information, resulting in an enhanced quality evaluation when the moderate quality brand was paired with a high price cue versus a moderate quality control. Replicate one results showed a significant price effect when the moderate quality brand cue – high price group was compared to the moderate quality control (EVAL-Replicate1: M(MQ-HP= 5.52 vs. M(MQ-Control) = 4.80, $t(64) = 2.15$, $p < .01$). Replicate two results provided directional support, yet did not achieve statistical significance (EVAL-Replicate 2: M(MQ-HP) = 6.11 vs. M(MQ-Control) = 5.80, $t(63) = 1.04$, $p > .05$). Therefore, H3 was partially supported.

H4a predicted less favorable quality evaluations when low price information is combined with a moderate quality brand cue compared to the moderate quality control. However, contrasts showed no significant difference in evaluations when the moderate quality brand – low price group was compared to the moderate quality cue control (EVAL-Replicate1: M(MQ-LP) = 4.82 vs. M(MQ-Control) = 4.80, $t(61) = .08$, $p > .05$; EVAL-Replicate 2: M(MQ-LP) = 5.74 vs. M(MQ-Control) = 5.80, $t(60) = .19$, $p > .05$), and H4a was therefore not supported. H4b was assessed by comparing the perceived value between the moderate quality – high price and moderate quality – low price conditions. Similar to results from the high quality brand cue, the replicate one moderate quality – low price offering was perceived as a better value than the moderate quality- high price offering (VALUE –Replicate 1: M(MQ-LP) = 5.69 vs. M(MQ-HP) = 4.66, $t(65) = 2.19$, $p < .05$). The replicate two results provide directional support, but did not achieve significance (VALUE-Replicate 2: M(MQ-LP) = 6.33 vs. M(MQ-HP) = 5.83, $t(63) = 1.19$, $p > .10$). Therefore, H4 was partially supported. Table 2 provides a summary of the hypotheses and indicates whether each is supported.

Table 2: Hypotheses & Results Summary

	Hypothesis	Replicate One	Replicate Two
H1:	When a new brand extension is introduced from a high quality parent brand, quality evaluations will be more favorable when the extension is paired with a high price compared to a high quality control.	Not Supported	Not Supported
H2a:	When a new brand extension is introduced from a high quality parent brand, quality evaluations will not be significantly different when the extension is paired with a low price compared to a high quality control.	Supported	Supported

Table 2: Hypotheses & Results Summary		
Hypothesis	Replicate One	Replicate Two
H2b: When a new brand extension is introduced from a high quality parent brand, perceptions of value will be significantly more favorable when the extension is paired with a low compared to a high price.	Supported	Supported
H3: When a new brand extension is introduced from a moderate quality parent brand, quality evaluations will be more favorable when the extension is paired with a high price compared to a moderate quality control.	Supported	Directional Support
H4a: When a new brand extension is introduced from a moderate quality parent brand, quality evaluations will be less favorable when the extension is paired with a low price compared to a moderate quality control.	Not Supported	Not Supported
H4b: When a new brand extension is introduced from a moderate quality parent brand, perceived value will be more favorable when the extension is paired with a low compared to a high price.	Supported	Directional Support
H5: Price and brand name information will interact such that the price cue will have a greater impact on brand extension evaluations when paired with an extension from a moderate quality parent brand than from a higher quality parent brand.	Supported	

DISCUSSION

Research Overview

This research considered cue utilization effects, using brand name and price cues, within a brand extension context. The manner in which price and brand name cues are jointly used in the formation of quality evaluations is an issue of managerial importance and is timely as many retailers are reacting to increasing consumer price sensitivity by making price-centered appeals focal points in their merchandising efforts. Further, price and brand name effects are pertinent to brand manufacturers as many firms are experiencing intense competition from private label products (Keller, 2008; Shocker, Srivastava & Ruekert, 1994; Quelch & Harding, 1996; Kahn & McAlister, 1997) and many are responding with either deep price cuts or with value pricing strategies.

Apart from prior academic research which generally considers low and high quality brands, the present research considered both high and moderate quality brands. In this conceptualization, high quality brands enjoy strong, favorable brand associations whereas moderate quality brands generate less favorable brand associations that are held less strongly. While consumers are likely familiar with both, consumers' associations regarding moderate quality are markedly less favorable than those for high quality brands. Considering quality cue effects when a moderate quality brands is present is an important practical consideration given the marketplace existence of moderate quality brands in many consumer product categories. Results of this research showed a significant brand name by price interaction on the brand extension quality evaluation measure indicating a difference in the perceptual impact of price information between the high versus moderate quality brand. Results showed that high price information produced enhanced quality evaluations for an extension from a moderate but not a high quality parent brand.

High Quality Brand Cue Results

High price information did not enhance perceived quality evaluations for an extension from a high quality brand. Rather, considering a new brand extension within a grocery product category, the high quality brand cue results suggest that there may be a limit to the enhancing effect of high price information on the subsequent product evaluations of a new offering extended from a high quality parent brand.

A robust finding in the brand extension literature shows that new products extended from higher quality parent brands receive more favorable evaluations than those extended from less well regarded parent brands (Völckner & Sattler, 2006; Keller, 2008; Keller & Aaker 1992; Boush & Loken 1991), as the high quality brand name cue reduces uncertainty about the quality of the new extension product. That is, because the new product extends a brand already known to be high quality, and in so doing risks the high quality brand's reputation with the introduction of the new extension, the brand name cue is perceived as highly diagnostic of quality, and evaluations of new product are heavily influenced by the parent brand quality associations (Keller & Aaker, 1992). Similarly, in processing the low risk grocery product extension, as opposed to a higher risk durable product, subjects likely found the high quality brand name information to be sufficiently diagnostic of quality such that evaluative processing stopped once the high quality brand information was identified.

As predicted by the cue scope framework, there was no attenuating perceptual impact of low price on perceived quality evaluations for the high quality brand name cue. The favorable associations from the high scope parent brand seemed to mitigate the effect of low price that otherwise might suggest lower quality based on low price – low quality inferences. Because the brand name conveys information in the form of positive quality associations, a low price cue may be interpreted as providing strong value as opposed to suggesting low quality. Therefore, quality evaluations may remain favorable even when a low introductory price strategy to generate initial trial is followed. Results supporting this explanation showed that the brand name cue was diagnostic of quality and inoculated the new brand extension offering against 'low price-low quality' inferences, as the low price information was associated with stronger perceptions of value, but not low quality.

Moderate Quality Cue Results

Moderate quality brands generate modest quality associations held with less strength than the associations regarding high quality brands. The attenuated strength of the associations that do exist for moderate quality brands reduces the diagnostic value of the high scope brand cue. The reduced diagnosticity of the brand name cue should in turn increase the diagnosticity of the low scope price cue, resulting in stronger effects of price. Consequently, a moderate quality brand introducing a high priced extension may be enhanced if consumers use the price information to interpret the moderate valence of the brand name information. Results from replicate one in particular, suggest that price information affected interpretation of the brand name information. The pairing of the moderate quality brand cue with high price information resulted in significantly more favorable quality evaluations compared to the moderate quality control. Results from replicate two provided directional support, but were not statistically significant.

Prior theorizing regarding brand extension pricing may help to explain the inconsistency between the two product replicates when the moderate quality parent brand was paired with high price. Price perceived quality effects are thought to be more likely to the degree that extensions are perceived as less similar to the parent brand (Taylor & Bearden, 2002). Quality evaluations of the less similar extension, replicate one, from a moderate quality parent brand were enhanced when paired with high price information. Quality evaluations of the more similar extension, replicate two, from a moderate quality parent brand were not significantly enhanced when paired with high price information. These results support prior theorizing suggesting that price effects are more likely for less similar extensions as price information is perceived to be more diagnostic because the extension is dissimilar to the parent brand.

An alternative explanation for the stronger price effect in replicate one is the possibility that the price manipulation used in replicate one, frozen pizza, was perceived to be larger than the price manipulation used in replicate two, pretzels. This possibility was investigated by subjecting the price manipulation check measure to a three factor ANOVA. Results of this analysis indicated an expected significant main effect for price ($F(1,249) = 86.06$, $p<.01$), an expected a significant main effect for product replicate ($F(1,249) = 6.76$, $p<.01$), but no interactions. Interpretation of the price manipulation check means indicated that the strength of the price manipulation between the replicates was approximately equal. Therefore, the suggestion that the results observed in this research were due to a stronger perceived price manipulation for replicate one than replicate two, which would have produced price by product replicate interaction, seems unlikely.

Finally, the perceptual impact of low price on an extension from a moderate quality brand was predicted to reduce perceived quality. However, results from neither product replicate showed this attenuating impact of low price. Rather, the moderate quality brand seemed to transfer quality associations significant enough to counteract the low price effect on perceived quality. Like the high quality brand cue, the pairing of the moderate quality brand cue with low price information resulted in more favorable value perceptions.

Limitations

The results of the study reported here should be generalized with caution as results are based on the experimental study of two consumer product categories. Hence, the findings may not generalize to other product categories, brand names and price levels. In addition, the caveats associated with experiments are appropriate. Moreover, subjects were asked to evaluate new products on the basis of new product concept information that was provided in paragraph form. Future research should replicate these results with other moderate quality brands in different consumer product categories, as well as moderate quality brands of consumer durable products. Future research might also explore cue consistency effects for moderate quality brands when additional quality cues other than price, such as warranty, advertising intensity, or store name, are provided. Lastly, future research might reinvestigate these effects by incorporating additional brand quality and price levels.

CONCLUSION

The findings of this research are most relevant to manufacturers of well-known moderate quality products. Results suggest that a high introductory price strategy may be effective in enhancing perceived quality evaluations for brand extensions introduced from brands perceived to be of moderate quality. This finding is strategically important if a brand manager's objective is to improve perceived quality over time and to grow brand equity. Research has shown that numerous managerial advantages result from developing strong brands. Higher quality brands enjoy greater customer loyalty, stronger margins, greater support from trade partners, enhanced effectiveness of marketing communications spending, and offer more opportunities for licensing and further extension of the brand (Hoeffler & Keller, 2003).

In practice, managers attempting to improve brand equity and perceived quality should not rely on high price alone to communicate high quality. An introductory high price strategy should be part of an overarching brand strategy aimed at enhancing consumer quality evaluations by communicating a high quality position. This effort may require reminding consumers of existing quality associations and may even offer new quality associations. Alternatively, a moderate quality brand may need to enhance the relevance of the brand if consumers perceive it to be dated. This repositioning may involve updating the user profile and brand elements (e.g., product packaging, logos, characters) to convey the brand's new relevance (Keller 2008, p 568). In conclusion, a high introductory price strategy for a new brand extension introduced by a parent brand of moderate quality may successful in communicating higher quality. However, managers should also invest in advertising that communicates a high quality position or otherwise educates consumers about the brand's value added attributes.

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ATTITUDES TOWARD AND STEREOTYPES OF PERSONS WITH BODY ART: IMPLICATIONS FOR MARKETING MANAGEMENT

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ABSTRACT

Although adorning the body by means of tattoos and body piercings is an ancient practice, it has become increasing popular as of late in Western cultures including the United States. The increasing popularity of body art has been most apparent among young adults and has given rise to a growth industry catering to these consumers. Little attention has been paid to the increasing popularity of body art from the marketing perspective. Since individuals engaged in a variety of marketing-related activities must interact with consumers on a face-to-face basis, it is important to understand the manner in which individuals with body art are perceived. The general purpose of this study was to investigate attitudes toward persons with body art. Data were collected by means of a survey of college students that included 496 respondents at 14 geographically diverse colleges and universities in the U.S. The results indicated that over 40 % of those responding reported that they possessed some form of body art. An analysis of three derived factors revealed that there are both positive as well as negative attitudes associated with persons who possess body art. The implications for the field of marketing management are discussed.

INTRODUCTION

A critical concern for many organizations is the image projected by their personnel to customers or other interest groups. Many organizations have dress codes designed to project a specific image (Wich, 2007). An issue which appears to be of increasing concern within the context of dress codes in the U.S.A. is the apparent increase in the prevalence of tattoos and body piercing among employees, adornments commonly referred to as *body art*. The concern results from the fact that body art has historically been associated with negative behavior and connotations. Though historically considered to be somewhat deviant behavior in Western society, social scientists argued that the use of body art is becoming increasingly diffused and embraced by the middle class (Carroll, Riffenburgh, Roberts & Myhre, 2002; DeMello, 2000; Rock, 2008).

Although the display of body art by employees is may be of particular concern to retailers in the U.S.A., the issue is actually more widespread: law firms, hospitals, non-profit organizations, and even government agencies such as state parks "wrestle" with the issue of how employees should dress (e.g., Body Art and Tattoos, 2006; Business Legal Reports, 2006; Dale, Bevill, Roach, Glasgow & Bracy, 2008; Felton-O'Brien, 2007; Mlodzik, 2007). The issue for managers is that both tattoos and body piercings with adornment have in the past often been associated with risky and deviant behavior in our culture. Uncertainty abounds from a management perspective as to how accepting of body art customers may be, and what stereotypes might come into play. What size tattoo is acceptable? How many are acceptable and on what parts of one's body? Are they more acceptable on women, or by women? The concern is not only about the existence, number, size and location of the tattoos, but what the tattoo might express (i.e. symbolism).

The issue is complicated by the fact that dress codes can quickly become legal "minefields" (Barron, 2007). Legal ramifications associated with the restriction of body art can include issues of sex discrimination, freedom of religion and freedom of speech. In fact, numerous lawsuits have resulted from the establishment mandatory dress codes for employees that included proscriptions against body art. One case in 2006 involved Red Robin Gourmet Burgers which was sued in a Washington state federal court as a result of terminating a member of the wait staff who had refused to cover tattoos on his wrists. The server who brought suit claimed in court that the tattoos were of religious significance and symbolized his devotion to Ra, the Egyptian sun god. The company countered that forbidding visible tattoos was essential to maintaining its "family-friendly" image (Barron, 2007).

LITERATURE REVIEW

Although there is a growing body of literature concerned with body art from the perspectives of the social sciences and the medical field, relatively little attention has been devoted to the topic from the marketing perspective. Much of the medical literature on tattooing and body piercing has focused on the risks and complications associated with of the procedures themselves (Armstrong, Koch, Saunders, Roberts & Owen, 2007; Carroll et al., 2002; Food and Drug Administration, 2007). Studies published in the sociology literature have primarily focused on the display of body art as a form of "deviant" behavior, as well as descriptions of marginal and sub-cultural groups associated with tattooing and body art (Forbes, 2001) while studies published in the psychology literature have tended to focus on psychopathology and intrapersonal motivational factors in the display of body art (Vail, 1999). A group of academicians from several disciplines at Texas Tech University has been conducting body art research since the 1990s.

Recent surveys of adults have found the existence of body art to range from 4% to 24% in the general population (Gardyn & Whelan, 2001; Laumann & Derick, 2006; "Tattooed Emotions," 2004). Evidence suggests that the prevalence of body art has grown most quickly among young adults. Even mothers are taking daughters to get body art; apparently the greatest numbers of people getting tattoos are girls between the ages of 17 and 25 (Hein, 2006). The use of body art may be even higher among college students, with studies reporting rates of 20% to 60% (Anderson, 2003; Dale, Bevill, Roach & Glasgow, 2007; Forbes, 2001; Mayers, Judelson, Moriarty & Rundell, 2002; "University Survey," 2003). A 2006 study published in the Journal of the American Academy of Dermatology found that 48% of "20-somethings and 30 percent of all adults have a tattoo or body piercing" and "23 percent of those with body art hold at least a bachelor's degree" (Fiorentino, 2006, p. D1). Another recent study reported that 40.5% of 496 college business students reported having some form of body art, with 26.3% of male students and 56.8% of female students reporting either tattoos or body piercings (Lipscomb, Jones & Totten, 2008).

There is an emerging literature from the consumer behavior perspective, in which researchers have begun to explore the "consumption" of body art and the decision making process that underlies it (e.g., Armstrong, Owen, Roberts & Koch, 2002; Hawkins, Mothersbaugh & Best, 2007; Hoerr, Concklin, Marusich & Griffin, 1994; Lipscomb, et al., 2008; Solomon, 2004; Velliquette, Murray & Creyer, 1998).

As is apparent from the preceding literature review, little attention has been paid to the increasing popularity of body art from the marketing perspective. Since individuals engaged in a variety of marketing-related activities in diverse industries (retail, legal, medical, etc.) must interact with consumers on a face-to-face basis, it is important to understand the manner in which individuals with body art are perceived by consumers and the general public. The purpose of this study was to investigate attitudes toward persons with body art. The sample, business majors at several universities, was selected in part based on convenience and in part based on the fact that they may be representative of future managers and leaders in business communities.

METHODOLOGY

The instrument used in this study was developed by the authors on the basis of three focus groups in which college student participants were asked to discuss their attitudes toward body art in the form of tattoos and body piercing and toward persons possessing body art. These qualitative data were content analyzed by means of the Constant Comparative Method (Strauss & Corbin, 1990). From the unique dimensions identified, items for the quantitative investigation of attitudes toward person with body art were constructed. All items utilized a five-point Likert-type scale that had both verbal and numerical descriptors for each point on the scale (Strongly Disagree, Disagree, Neither, Agree, Strongly Agree). The resulting instrument was designed to provide data concerning various aspects of attitudes toward persons with body art as well as to gather basic demographic information concerning the respondent. Of interest here were the 37 items assessing stereotypical attitudes toward persons with body art.

Students enrolled in principles of marketing classes at 14 colleges and universities geographically dispersed throughout the U.S. were administered questionnaires in their classrooms. The institutions participating in the study were selected by means of purposive sampling for geographic representation in the U.S. A faculty member who taught principles of marketing at each institution was recruited by phone or email to participate. Institutional Review Board (IRB) approval was obtained prior to data collection from the authors' institutions well as sister boards at the other participating universities as required. Copies of the questionnaire were mailed to participating faculty for distribution. Completed questionnaires were returned to the authors by U.S. mail. Questionnaires were also distributed by the authors, themselves, at their own university. The response rate was 65.7%, based on an approximate total of 755 surveys distributed, including the ones handed out by the authors in their classes.

RESPONDENT PROFILE

Completed questionnaires were received from a total of 496 respondents. The respondents ranged in age from 18 to 62 years. The average age of the respondents was 22.33 years, with a median age of 21 years. Among this sample, 47.2% were female while 52.8% were male. Four regions of the U.S. were represented in the study with 33.5% of the sample living in the Pacific region, 31.9% in the Midwest region, 21.8% in the Southern region, and 12.7 % in the East Coast region. The demographic variables used in the analyses reported below included: age, gender, region of residence, and whether or not the respondent reported having body art.

Survey instructions asked that respondents exclude pierced earlobes on women from consideration in their responses. The data revealed that, 40.5% of those responding indicated that they themselves had some form of body art. Of these individuals reporting some form of body art, 48.2 % reported having tattoos and 79.4% indicated having piercings. Of those having tattoos, the majority reported having one (64.1%), 19.8% reported having two. Three individuals (3.3%) reported having six or more tattoos. The overall pattern was similar for piercings with the largest percentage (41.6%) reporting having one piercing and 26.0% reporting having two. Three individuals (1.8%) reported having 10 or more piercings. These results are presented in Table 1.

Table 1: Prevalence of Tattoos and Piercings Among Those With Body Art

Type/Number	n	%
Tattoos	92	48.2
One Tattoo	59	64.1
Two Tattoos	18	19.6
Three Tattoos	8	8.7
Four Tattoos	4	4.3

Table 1: Prevalence of Tattoos and Piercings Among Those With Body Art		
Type/Number	n	%
Five Tattoos	0	0
Six Tattoos	1	1.1
Seven Tattoos	1	1.1
More than Seven	1	1.1
Piercings	154	79.4
One Piercing	64	41.6
Two Piercings	40	26
Three Piercings	27	17.5
Four Piercings	7	4.5
Five Piercings	1	0.6
Six Piercings	2	1.3
Seven Piercings	4	2.6
Eight Piercings	6	3.9
More than Eight	3	1.8

DATA REDUCTION

Exploratory Factor Analysis (Principal Component Analysis extraction with varimax rotation using Kaiser normalization) was performed in order to discover inherent factors in the data. Inspection of the Scree plot that resulted from the initial analysis revealed evidence for three discrete factors. Additional factors appearing in the initial analysis were composed of items that either loaded below .40 or had a single item loading, typically one that loaded negatively with an item that also loaded positively on one of the three primary factors. Accordingly, a three factor solution was applied. The rotation converged in three iterations and accounted for 44.6 % of the variance. Inspection of the factor loadings of the 37 items analyzed revealed that the first two factors subsumed positive and negative characteristics associated with persons with body art respectively. Eighteen items loaded at .40 or greater on Factor 1 which was labeled, “Positive Characteristics Associated with Persons having Body Art”. These 18 items measure the perceived attractiveness of persons with body art. Fifteen items loaded at .40 or greater on Factor 2, labeled as “Negative Characteristics Associated with Persons having Body Art”. This factor is composed of items assessing attributions such as sexual promiscuity, aggressiveness, and other dimensions of negative social connotation. The third factor, “Number and Stereotyping,” was composed of only two items both of which pertained to social views of persons with body art and were specifically concerned with the manner in which the respondent understood society’s views of a person as being affected by the number of tattoos and/or piercings he/she has. Only two of the 37 items did not load above .40 on one or the other of these factors. Items along with their respective factor loadings are presented in Table 2. Response percentages for each of the items are provided in Table 3.

Table 2: Factor Loadings

	Factor		
Item	1	2	3
Tattoos can be attractive	0.755	0.109	0.203
Tattoos on men are attractive	0.701	0.168	0.092
Tattoos on women are attractive	0.712	0.118	0.135
A small, discrete tattoo is “sexy” on a woman	0.651	0.127	0.332
Extensive tattoos are attractive on a man	0.491	0.288	-0.366
A man with a tattoo(s) is sexually promiscuous	0.069	0.584	-0.059
Extensive tattoos are attractive on a woman	0.432	0.236	-0.33
A small, discrete tattoo is “sexy” on a man	0.537	0.113	0.043
A woman with a tattoo(s) is sexually promiscuous	0.069	0.642	0.049
Piercings with body jewelry can be attractive	0.729	-0.007	0.256
Piercing(s) with body jewelry on women is attractive	0.679	0.023	0.265
A small, discrete piercing with body jewelry is “sexy” on a man	0.588	0.174	-0.193
Extensive piercings with body jewelry are attractive on a woman	0.466	0.348	-0.308
A man with piercing(s) and body jewelry is sexually promiscuous	0.089	0.672	-0.008
A woman with piercing(s) and body jewelry is sexually promiscuous	0.066	0.676	-0.008
Piercing(s) with body jewelry on men is attractive	0.618	0.204	-0.188
A small, discrete piercing with body jewelry is “sexy” on a woman	0.653	0.06	0.289
Extensive piercings with body jewelry are attractive on a man	0.445	0.371	-0.467
A person with a tattoo(s) is aggressive	-0.309	0.59	0.082
I consider a person with a tattoo(s) to have a “bad” image	-0.548	0.434	0.037
Tattoos are appropriate for a person of any age	0.518	0.123	-0.198
People tend to stereotype persons with a tattoo(s)*	-0.091	0.082	0.309
The number of tattoos that a person has makes a difference in how he/is perceived by others	-0.051	0.078	0.526
Tattoos are appropriate for a parent	0.708	0.012	-0.028
Tattoos indicate “free spiritedness”*	0.348	0.37	0.354
Tattoos indicate a “partying lifestyle”	-0.258	0.578	0.165
Tattoos indicate that the person abuses alcohol or drugs	-0.455	0.559	-0.097

Table 2: Factor Loadings			
	Factor		
Item	1	2	3
A person with a tattoo(s) is “tough”.	-0.086	0.614	0.082
A person with piercing(s) with body jewelry is “tough”	-0.008	0.598	-0.131
I consider a person with a piercing(s) with body jewelry to have a “bad” image	-0.536	0.495	0.022
Piercing(s) with body jewelry is appropriate for persons of any age	0.494	0.096	-0.281
The number of piercings with body jewelry that a person has makes a difference in how he/is perceived by others	0.028	0.092	0.584
A person with a piercing(s) with body jewelry is aggressive	-0.215	0.703	-0.039
Piercing(s) with body jewelry indicate “free spiritedness”	0.213	0.436	0.397
Piercing(s) with body jewelry indicate that the person abuses alcohol or drugs	-0.446	0.6	-0.053
Piercing(s) with body jewelry is appropriate for a parent	0.659	-0.031	-0.106
Piercing(s) with body jewelry indicate a “partying lifestyle”	-0.324	0.657	0.034
*Did not load on any factor.			

Table 3: Item Results in Percentages*					
Item	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
Tattoos can be attractive	7.3 (36)	13.7 (68)	13.9 (69)	51.9 (257)	13.1 (65)
Tattoos on men are attractive	15.2 (75)	16.1 (79)	31.3 (154)	30.5 (150)	6.9 (34)
Tattoos on women are attractive	13.6 (67)	19.4 (96)	25.1 (124)	34.4 (170)	7.5 (37)
A small, discrete tattoo is “sexy” on a woman	7.1 (35)	12.6 (62)	18.0 (89)	41.5 (205)	20.9 (103)
Extensive tattoos are attractive on a man	44.9	33.4 (165)	16.0 (79)	4.5 (22)	1.2 (6)
	-222				
A man with a tattoo(s) is sexually promiscuous	27.4	31.1 (153)	33.9 (167)	6.1 (30)	1.4 (7)
	-135				
Extensive tattoos are attractive on a woman	62.5 (308)	25.6 (126)	7.3 (36)	3.4 (17)	1.2 (6)
A small, discrete tattoo is “sexy” on a man	23.8 (117)	22.4 (110)	31.3 (154)	20.5 (101)	2.0 (10)
A woman with a tattoo(s) is sexually promiscuous	27.5 (136)	29.4 (145)	30.6 (151)	10.9 (54)	1.6 (8)
Piercings with body jewelry can be attractive	6.9 (34)	10.1 (50)	12.1 (60)	56.5 (280)	14.5 (72)
Piercing(s) with body jewelry on women is attractive	6.9 (34)	10.3 (51)	15.3 (76)	54.2 (269)	13.3 (66)

Table 3: Item Results in Percentages*					
Item	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
A small, discrete piercing with body jewelry is "sexy" on a man	29.1 (143)	29.9 (147)	25.6 (126)	13.2 (65)	2.2 (11)
Extensive piercings with body jewelry are attractive on a woman	41	39.0 (193)	13.7 (68)	5.1 (25)	1.2 (6)
	-203				
A man with piercing(s) and body jewelry is sexually promiscuous	31.0 (152)	28.5 (140)	32.0 (157)	7.9 (39)	.6 (3)
A woman with piercing(s) and body jewelry is sexually promiscuous	26.3 (130)	30.1 (149)	28.7 (142)	12.9 (64)	2.0 (10)
Piercing(s) with body jewelry on men is attractive	28.9 (141)	33.0 (161)	25.8 (126)	11.1 (54)	1.2 (6)
A small, discrete piercing with body jewelry is "sexy" on a woman	8.3 (41)	11.2 (55)	15.2 (75)	53.7 (264)	11.6 (57)
Extensive piercings with body jewelry are attractive on a man	49.5	32.2 (157)	16.2 (79)	1.6 (8)	.4 (2)
	-241				
A person with a tattoo(s) is aggressive	15.2 (75)	40.7 (200)	32.1 (158)	11.6 (57)	.4 (2)
I consider a person with a tattoo(s) to have a "bad" image	21.6 (106)	43.3 (212)	20.4 (100)	12.7 (62)	2.0 (10)
Tattoos are appropriate for a person of any age	23.4 (115)	38.0 (187)	14.2 (70)	20.9 (103)	3.5 (17)
People tend to stereotype persons with a tattoo(s)	.6 (3)	4.3 (21)	6.6 (32)	62.2 (303)	26.3 (128)
The number of tattoos that a person has makes a difference in how he/is perceived by others	1.2 (6)	3.5 (17)	9.2 (45)	61.1 (300)	25.1 (123)
Tattoos are appropriate for a parent	10.6 (52)	17.5 (86)	41.7 (205)	27.6 (136)	2.6 (13)
Tattoos indicate "free spiritedness"	5.5 (27)	18.5 (91)	37.2 (183)	36.2 (178)	2.6 (13)
Tattoos indicate a "partying lifestyle"	9.4 (46)	37.0 (181)	31.7 (155)	20.7 (101)	1.2 (6)
Tattoos indicate that the person abuses alcohol or drugs	37.1 (182)	40.5 (199)	17.9 (88)	4.1 (20)	.4 (2)
A person with a tattoo(s) is "tough".	23.6 (116)	38.3 (188)	28.3 (139)	8.8 (43)	1.0 (5)
A person with piercing(s) with body jewelry is "tough"	25.3 (124)	50.7 (249)	19.8 (97)	4.1 (20)	.2 (1)
I consider a person with a piercing(s) with body jewelry to have a "bad" image	20.1 (99)	49.8 (245)	18.3 (90)	10.2 (50)	1.6 (8)
Piercing(s) with body jewelry is appropriate for persons of any age	21.0 (103)	44.0 (216)	15.9 (78)	16.5 (81)	2.6 (13)
The number of piercings with body jewelry that a person has makes a difference in how he/is perceived by others	2.6 (13)	6.7 (33)	9.0 (44)	63.1 (310)	18.5 (91)

Table 3: Item Results in Percentages*					
Item	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
A person with a piercing(s) with body jewelry is aggressive	16.7 (82)	54.0 (265)	22.6 (111)	6.3 (31)	.4 (2)
Piercing(s) with body jewelry indicate "free spiritedness"	6.9 (34)	29.0 (143)	34.7 (171)	28.8 (142)	.6 (3)
Piercing(s) with body jewelry indicate that the person abuses alcohol or drugs	29.3 (144)	49.8 (245)	17.1 (84)	3.5 (17)	.4 (2)
Piercing(s) with body jewelry is appropriate for a parent	14.6 (72)	27.0 (133)	36.6 (180)	19.5 (96)	2.2 (11)
Piercing(s) with body jewelry indicate a "partying lifestyle"	16.5 (81)	46.5 (229)	22.2 (109)	14.2 (70)	.6 (3)
*Items in parentheses are frequencies					

Further analyses revealed many significant differences by gender (Table 4), region of the country (Table 5), presence of body art (Table 6) and age (Table 7). These differences are discussed on a factor-by-factor basis, looking at tattoo-based items then piercing-based items within each factor.

Table 4: Percentage Agreement and Disagreement for Items Significantly Related to Gender of Respondent [a]				
Item	Disagree		Agree	
	Male	Female	Male	Female
Tattoos on men are attractive	36.3	26.1	24.9	51.3
Tattoos on women are attractive	29.2	37.7	49.4	32.4
Extensive tattoos are attractive on a man	71.9	85.6	6.7	4.8
A small, discrete tattoo is "sexy" on a man	51.8	39.6	11.5	35.2
Piercing(s) with body jewelry on women is attractive	17.5	17.4	72.7	61.3
A small, discrete piercing with body jewelry is "sexy" on a man	63.6	53.0	5.5	26.9
Piercing(s) with body jewelry on men is attractive	64.1	59.2	6.0	19.3
A small, discrete piercing with body jewelry is "sexy" on a woman	17.6	21.9	70.2	58.8
Extensive piercings with body jewelry are attractive on a man	75.3	88.5	2.0	2.2
A man with a tattoo(s) is sexually promiscuous	49.2	69.2	7.1	7.9
A woman with a tattoo(s) is sexually promiscuous	46.5	68.2	17.5	6.1
I consider a person with a tattoo(s) to have a "bad" image	56.9	73.7	17.0	11.8

Table 4: Percentage Agreement and Disagreement for Items Significantly Related to Gender of Respondent [a]				
Item	Disagree		Agree	
	Male	Female	Male	Female
Tattoos indicate that the person abuses alcohol or drugs	71.8	84.1	5.5	3.5
A person with piercing(s) with body jewelry is "tough"	72.1	80.7	5.5	3.1
I consider a person with a piercing(s) with body jewelry to have a "bad" image	62.4	78.0	15.3	8.3

[a] Combined responses of Strongly Disagree and Disagree; Strongly Agree and Agree

Table 5: percentage Agreement and Disagreement for Items Significantly Related to Region of Residence								
Region	Pacific		Mid Western		Southern		East Coast	
Item	Disagree	Agree	Disagree	Agree	Disagree	Agree	Disagree	Agree
Tattoos can be attractive	22.4	64.2	25.3	62.7	19.5	57.4	7.9	87.3
Tattoos on women are attractive	31.6	42.4	36.7	43.7	37.4	29.9	19.1	57.1
Extensive piercings with body jewelry are attractive on a woman	78.3	7.2	86.7	3.8	84.2	4.7	60.3	12.7
Piercing(s) with body jewelry indicate "free spiritedness"	27.9	28.5	23.5	43.9	24.5	39.6	27.7	52.3

[a] Combined responses of Strongly Disagree and Disagree; Strongly Agree and Agree

Table 6: Percentage Agreement and Disagreement for Items Significantly Related to Report of Having and Not Having Body Art [a]				
	Does Not Have Body Art		Has Body Art	
Item	Disagree	Agree	Disagree	Agree
Tattoos can be attractive	26.6	55.5	13.1	78.3
Tattoos on men are attractive	43.0	22.3	14.2	59.9
Tattoos on women are attractive	41.7	34.8	20.3	51.8
A small, discrete tattoo is "sexy" on a woman	25.9	56.3	10.7	70.5

Table 6: Percentage Agreement and Disagreement for Items Significantly Related to Report of Having and Not Having Body Art [a]				
	Does Not Have Body Art		Has Body Art	
Item	Disagree	Agree	Disagree	Agree
Extensive tattoos are attractive on a man	81.5	3.7	74.0	8.7
Extensive tattoos are attractive on a woman	91.3	2.4	82.7	8.2
A small, discrete tattoo is “sexy” on a man	51.9	18.6	38.6	27.4
Piercings with body jewelry can be attractive	23.7	63.2	7.0	82.8
Piercing(s) with body jewelry on women is attractive	23.0	60.5	8.1	78.3
A small, discrete piercing with body jewelry is “sexy” on a man	69.9	6.9	42.6	27.9
Extensive piercings with body jewelry are attractive on a woman	82.8	3.4	76.7	9.1
A man with piercing(s) and body jewelry is sexually promiscuous	56.4	8.3	64.4	8.6
Piercing(s) with body jewelry on men is attractive	72.1	5.6	47.2	22.6
A small, discrete piercing with body jewelry is “sexy” on a woman	25.2	59.9	10.2	73.9
Extensive piercings with body jewelry are attractive on a man	84.5	1.4	77.9	3.1
A person with a tattoo(s) is aggressive	48.8	13.5	66.3	10.2
I consider a person with a tattoo(s) to have a “bad” image	56.6	19.4	76.4	8.2
Tattoos are appropriate for a person of any age	68.5	16.9	50.5	35.2
Tattoos are appropriate for a parent	34.6	22.5	17.8	42.4
Tattoos indicate “free spiritedness	28.0	33.9	18.4	45.9
Tattoos indicate that the person abuses alcohol or drugs	71.5	5.9	87.3	2.6
I consider a person with a piercing(s) with body jewelry to have a “bad” image	61.3	16.6	82.1	5.1
Piercing(s) with body jewelry is appropriate for persons of any age	72.3	12.2	54.1	29.1
A person with a piercing(s) with body jewelry is aggressive	68.5	8.6	75.0	3.6
Piercing(s) with body jewelry indicate that the person abuses alcohol or drugs	73.8	4.8	86.3	2.5
Piercing(s) with body jewelry is appropriate for a parent	46.9	16.9	34.1	29.5
Piercing(s) with body jewelry indicate a “partying lifestyle”	58.6	18.2	70.0	9.6
[a] Combined responses of Strongly Disagree and Disagree; Strongly Agree and Agree				

Table 7: Items Significantly Correlated with Age of Respondent		
Item		
Tattoos can be attractive	r = -.116	p = .011
Tattoos on women are attractive	r = -.093	p = .041
Piercings with body jewelry can be attractive	r = -.225	p = .000
Piercing(s) with body jewelry on women is attractive	r = -.231	p = .000
A small discrete piercing with body jewelry is "sexy" on a woman	r = -.175	p = .000
Tattoos are appropriate for a parent	r = -.118	p = .010
Tattoos indicate that the person abuses alcohol or drugs	r = -.143	p = .002
I consider a person with a piercing(s) with body jewelry to have a "bad" image	r = -.217	p = .000
Piercing(s) with body jewelry indicate that the person abuses alcohol or drugs	r = -.156	p = .001
Piercing(s) with body jewelry indicate a "partying lifestyle"	r = -.101	p = .026

FACTOR 1: POSITIVE CHARACTERISTICS

The majority of respondents (65%) indicated that tattoos can be attractive (combined percentages for responses of 4, Agree, and 5, Strongly Agree; see Table 3). This was a fairly robust finding and did not vary significantly as a function of gender of the respondent. Analysis using Pearson Chi Square for Independence indicated, however, that there was a relationship between this item and the area of the country in which the respondent resided. A higher percentage of the respondents residing in the East Coast region of the U.S. agreed (combined percentages for responses of 4, Agree and 5, Strongly Agree; see Table 5) that tattoos are attractive (87.3 %) as compared to those in the Pacific, Midwestern, and Southern regions (m = 61.4 %) , χ^2 (12) = 28.84, p = .004. There was also a relatively small but statistically significant negative correlation of this item with age of the respondent, r = -.116, p = .011 (see Table 7). An interesting pattern emerged in response to items concerning the attractiveness of tattoos for persons of each sex (see Table 4). Further, analysis using Pearson Chi Square for Independence indicated that these attitudes were tempered by the gender of the respondent to a statistically significant extent. Considering the attractiveness of tattoos on men, a total of 51.3 % of the female respondents indicated that they agreed that tattoos on men are attractive. On the other hand, a total of 24.9 % of the men indicated agreement, χ^2 (4) = 44.397, p = .001. Concerning the attractiveness of tattoos on women, the pattern was essentially the converse. Whereas 49.4% of the men agreed that tattoos on women are attractive, only 32.4 % of women agreed. Again, this relationship was found to be statistically significant, χ^2 (4) = 15.23, p = .004 (see Table 4). There was also a significant regional variation for the attitude that tattoos on women are attractive, χ^2 (12) = 37.25, p = .001 (see Table 5). A smaller percentage of respondents residing in the Southern region ascribed to this view (29.9 %) as compared to those in the Pacific, Mid Western, and East Coast regions (m = 61.86 %). In addition, there was also a relatively small but statistically significant negative correlation of this item with age of the respondent, r = -.093, p = .041 (see Table 7).

The results also indicated that the extent of the presence of tattoos on both men and women is related to attributions of attractiveness by the respondents. Specifically, 78.1 % and 87.5 % of respondents *disagreed* that extensive tattoos are attractive on men and women respectively (see Table 3). In the case of tattoos on men, however, there was a significant relationship with gender, χ^2 (4) = 18.59, p = .001 (see Table 4). More women *disagreed* that extensive tattoos on men are attractive (85.6 %) as compared to male respondents (71.6 %). There was no significant relationship of gender to the item concerning the attractiveness of extensive tattoos on women.

A specific sub-dimension of attractiveness that was examined is that of sexual attraction. This dimension was referred to in various items by the adjective, "sexy". Interestingly, whereas the great majority of respondents disagreed that extensive tattoos on both men and women are attractive, the majority, 62.1 %, agreed that a small discrete tattoo on a woman is "sexy" while only 22.4 % agreed that this was so for a man (see Table 3). Consistent with the cross-gender pattern discussed above, there was a statistically significant relationship between the gender of the respondent and his/her attributions of sexual attractiveness for a small discrete tattoo on women, χ^2 (4) = 33.81, p = .001 (Table 4). In this comparison, 71.6 % of men agreed that a small discrete tattoo on women is "sexy" as opposed to 51.4 % of female respondents. A similar cross-gender effect was in evidence for the companion item concerning the "sexiness" of a small discrete tattoo on a man, χ^2 (4) = 55.65, p = .001 (Table 4). Significantly more women (35.2 %) agreed that a small discrete tattoo on a man is "sexy" as compared to men (11.5%), χ^2 (4) = 55.62, p= .001 (Table 4).

In response to the item, "Tattoos are appropriate for a person of any age", 24.2 % of the sample expressed agreement while 60.9% expressed disagreement (see Table 3). For the item, "Tattoos are appropriate for a parent," 30 % agreed, 41.3% were neutral and 27.8% disagreed (see Table 3). For the sample as a whole, 38.5 % agreed that tattoos are indicative of "free spiritedness" while 23.7 % disagreed and 36.9 % were neutral (see Table 3). There was fairly uniform agreement for these three items as there were no significant relationships to the demographic variables considered with the exception of whether or not the respondent him/herself reported having body art (discussed below).

As was the case with tattoos, the majority of respondents (71 %) indicated that piercings with body jewelry can be attractive (combined percentages for responses of 4, Agree and 5, Strongly Agree; see Table 3). With the exception of whether or not the respondent him/herself reported having body art (see Table 6), there was fairly uniform agreement as there were no significant relationships of this item to gender or region of residence. There was, however, a statistically significant negative correlation with age of the respondent, r = -.225, p = .001 (Table 7). Also as was the case for tattoos, a considerably higher percentage of respondents viewed piercings with body jewelry on women to be attractive (67.5 %) as compared to men (12.1 %) (see Table 3). Again, statistically significant patterns were evident as functions of the gender of the respondents. Thus, a statistically significantly greater percentage of men reported piercings with body jewelry on women to be attractive (72.7 %) as compared to women respondents (61.3 %), χ^2 (4) = 17.03, p = .002 (Table 4). This item was significantly negatively correlated with the age of the respondent, r = -.231, p = .001 (Table 7). Likewise, a statistically significantly greater percentage of women reported piercings with body jewelry on men to be attractive (19.3 %) as compared to men respondents (6.0 %), χ^2 (4) = 41.59, p = .0001 (Table 4).

Also as was the case for tattoos, the extent of the presence of piercings with body jewelry on both men and women was found to be related to attributions of attractiveness. Specifically, the majority of respondents *disagreed* that extensive piercings are attractive on men (80.3 %) and women respectively (79.8 %) (see Table 3). There was a significant relationship between gender and agreement that extensive piercings on men are attractive, χ^2 (4) = 27.16, p = .001 (Table 4). A greater percentage of women (88.5 %) *disagreed* that extensive piercings on men are attractive as compared to men (75.3 %). There was no such relationship between gender and the attribution that extensive piercings on women are attractive. There was, however, a significant regional variation for this item, χ^2 (12) = 26.09, p = .010 (Table 5), wherein a smaller percentage of those in the Eastern region *disagreed* that extensive piercings on women are attractive (60.3 %) than was the case for any of the other three regions of the U.S. (m = 83.06 %). Likewise, there was a significant relationship between region and the attribution that extensive piercings on men are attractive, χ^2 (12) = 23.21, p = .026 (Table 5), with a smaller percentage of respondents in the eastern region *disagreeing* with the statement (66.1 %) than in the other three geographic regions (m = 84.26 %).

Concerning the specific sub-dimension of the sexual attractiveness of persons with piercings and body jewelry, 15.3 % of the sample agreed that a small discrete piercing on a man is "sexy" while 64.7 % agreed that this was so for a woman, a similar pattern to that found with tattoos (see Table 3). There was a small but significant negative correlation for the item concerning the "sexiness" of a small, discrete tattoo on a woman with age of the respondent, r = -.175, p = .001 (Table 7). Also as was found with tattoos, there were significant cross-gender relationships wherein a higher percentage of women (26.9 %) as compared to men (5.5 %) agreed that a small discrete piercing with body jewelry is "sexy" on men, χ^2 (4) = 58.91, p= .001 (Table 4) while more men (70.2 %) as compared to women (58.8 %) agreed that this was true for women, χ^2 (4) = 10.58, p = .032 (Table 4).

Considering the entire sample, the majority (64.3 %) disagreed that piercings with body art are appropriate for persons of any age (see Table 3). In response to the related item "Piercing(s) with body jewelry is appropriate for a parent", 21.7% of the respondents agreed while 41.3 % disagreed (see Table 3). There was a small but significant negative correlation of this latter item with age of the respondent, r = -.225, p = .000 (Table 7).

Although there are too many significant relationships to list, for every variable having to do with the attractiveness or "sexiness" of tattoos or piercings, chi square analysis revealed a statistically significant relationship between these attitudes and whether or not the respondent him/herself reported having body art (see Table 6). Not surprisingly, those respondents who reported having body art more frequently agreed that tattoos and piercings are attractive and "sexy" than did those who did not report having body art.

FACTOR 2: NEGATIVE CHARACTERISTICS

The majority of the respondents (58%) *disagreed* that a man with a tattoo is sexually promiscuous (see Table 3). Significantly more women (69.2 %) expressed disagreement as compared to men (49.2 %), χ^2 (4) = 39.59, p = .001 (Table 4). Similarly, the majority of the sample (56.6 %) *disagreed* that a woman with a tattoo is sexually promiscuous (see Table 3). Again, significantly more women *disagreed* (68.2 %) with this statement as compared to men (46.5 %), χ^2 (4) = 28.45, p = .001 (Table 4). The majority of the respondents *disagreed* that a person with a tattoo is aggressive (55.4 %) (see Table 3). This opinion was quite uniform across the sample as with the exception of whether the respondent reported having body art (Table 6), there were no statistically significant relationships between this item and the other demographic variables considered. So too, the majority of the sample *disagreed* that a person with a tattoo has a "bad image" (64.1%). In the case of this item, however, there was a significant relationship to gender with more women (73.7 %) *disagreeing* with the statement than men (56.9 %), χ^2 (4) = 17.61, p = .001 (Table 4).

Roughly a fourth of the sample (21.6 %) agreed that tattoos are indicative of a "partying lifestyle" while 45.8% disagreed (see Table 3). This view was relatively uniform as there were no significant relationships of this item to any of the demographic variables considered. A relatively small percentage of respondents ascribed to the view that a person with tattoos engages in substance abuse (4.5 %) with the majority disagreeing with this assertion (see Table 3). A smaller percentage of men (71.8%), however, *disagreed* as compared to women (84.1%), χ^2 (4) = 12.12, p = .017 (Table 4). There was a small but statistically significant positive correlation of this item to the age of the respondent, r = .143, p = .002 (Table 7). Likewise, the majority of respondents (61.3) *disagreed* that a person with a tattoo is "tough." There were no statistically significant relationships for this variable to any of the demographic items considered.

In general, the results for piercing paralleled those for tattoos. The results for the sample as a whole indicated that the majority of respondents *disagreed* that a person with piercings with body art is "tough" (75.2%) or has a "bad image" (69.4%) (Table 3). There was a significant positive correlation of this item with the age of the respondent, r = .217, p = .000 (Table 7). Concerning the notion that person with piercings are "tough" there was a significant relationship of this item to gender, χ^2 (4) = 10.26, p = .036 (Table 4). A greater percentage of the female respondents disagreed (80.7 %) as compared to men (72.1 %). For the item concerning a person with piercings having a "bad image", there was also a significant relationship to gender, χ^2 (4) = 17.66, p = .001 (Table 4).

Once again, more women *disagreed* (78.0 %) as compared to men (62.4 %). There was a significant positive correlation of this item and age of the respondent, r = .217, p = .001 (Table 7).

In a similar fashion the majority of respondents (69.9 %) *disagreed* that a person with piercings with body jewelry is aggressive. So too, the majority of respondents *disagreed* that a person with piercing with body jewelry abuses alcohol or drugs (78.4%) There was, however, a significant relationship to gender for this item, χ^2 (4) = 17.66, p = .001 (Table 4). More women disagreed with the assertion (86.0 %) as compared to men (73.0 %) (Table 3). There was a small but positive correlation of this item with age of the respondent, r = .156, p = .001 (Table 7). Similarly, the majority of the sample *disagreed* that a person with piercings with body jewelry leads a "partying lifestyle" (63.0 %) (see Table 3). There was a small but positive correlation of this item with age of the respondent, r = .101, p = .026 (Table 7).

As was the case for the items comprising Factor 1, for those items comprising factor 2 there were statistically significant relationships to whether the respondent reported having body art (see Table 6). A significantly higher percentage of those respondents reporting having body art *disagreed* with the negative stereotypes of persons with body art.

FACTOR 3: NUMBER AND STEREOTYPING

As mentioned above, this factor was composed of only two items both of which pertained to social views of persons with body art and were specifically concerned with the manner in which the respondent understood society's views of a person as being affected by the number of tattoos and/or piercings he/she has. The majority of respondents agreed that the number of tattoos (85.3%) and piercings (80.8%) a person has makes a difference in how he/she is perceived by others (see Table 3). The sample was relatively consistent in this assessment as there were no statistically significant relationships of either item to the demographic variables considered including whether the respondent reported having body art.

There were two items that were not part of the three factors and, indeed, appear to be conceptually unrelated to one another. The first of these concerned the extent to which society stereotypes persons with tattoos. The majority of respondents (86.9%) agreed that this is so (see Table 3). The sample was relatively uniform in this belief as there was no statistically significant relationship of this item to the demographic variables considered. The second "non-factor" item was concerned with extent to which piercings with body jewelry indicate "free spiritedness." For this item, 29.2% of the sample agreed while 34.5% were neutral and 35.7% disagreed (see Table 3). There was a statistically significant relationship to region of residence, χ^2 (12) = 31.51, p = .002 (Table 5). More respondents residing in the East Coast Region (52.3 %) agreed with this statement than did those in the three other regions (m = 37.33 %). It did not vary significantly as a function of the other demographic items considered including whether the respondent reported having body art.

DISCUSSION

In general, the present results indicate that the majority of the university business majors comprising the sample not only do not harbor negative attitudes or stereotypes toward persons with body art but, in fact, express many positive attributions. The majority of those surveyed, however, believed that society in general does, in fact, stereotype persons with either type of body art. At the most global level, the majority of the sample expressed the attitudes that both tattoos and body piercings are attractive. This tended to be true for both female and male respondents. There was, however, regional variation in the case of tattoos with those respondents attending universities in the East Coast region of the U.S. finding tattoos to be more attractive than those in the other regions of the country. Another interesting and not completely unexpected finding is that the younger persons in the sample tend to find both piercings and tattoos on others to be more attractive than do the older respondents.

Rather interestingly, the sex of the individual about whom an attribution of attractiveness is made was found to make a difference. Specifically, both piercings and tattoos are considered to be more attractive on women than on men. In addition, cross-gender patterns were evident for both forms of body art with men finding tattoos and piercings on women to be more attractive than on men and women finding them to be more attractive on men than women. It is recognized, of course, that this latter finding may well be related to men in the sample simply being more attracted to women in general and women being more attracted to men. If this were true, this last finding would be somewhat artifactual but still interesting and not without implication. There was also a regional variation concerning the attractiveness of tattoos on women with those respondents attending universities in the southern region of the U.S. reporting tattoos on women to be less attractive that those in the other regions of the country.

Another interesting finding had to do with the extensiveness of body art. Apparently, the majority of respondents find body art of both types to be attractive as long as these are not *overdone.* The majority of the sample disagreed that extensive tattoos and extensive piercings on persons of either sex are attractive. Along these same lines, the majority of the sample reported that a small discrete tattoo or piercing is “sexy” on a woman while a minority of the sample found this to be so for men. In addition, for both tattoos and piercings there were tendencies for younger persons to find small, discrete tattoos or piercings “sexy” as opposed to older ones.

In general, the majority of the sample disagreed with various negative stereotypes and attributions concerning persons with tattoos and/or piercings. Thus, the majority of those surveyed disagreed that persons with either tattoos or body piercings are necessarily promiscuous, aggressive, engage in substance abuse, are “tough” or have a “bad image”. Nearly half disagreed that persons with either type of body art have a “partying” lifestyle. There was a tendency for women to disagree more than men and for younger persons to disagree more than older ones. In this way, it can be argued that both women and younger persons are less prone to negative stereotyping of persons with body art than are men and older persons and are, therefore, more accepting of body art on others. Never the less, the majority of the sample disagreed that tattoos and body art are appropriate for a person of any age and were somewhat ambivalent concerning the appropriateness of either tattoos or piercings for parents.

In terms of the issues and questions introduced earlier then and to the extent that the present results may be generalizable to college students in the U.S. more broadly, it would appear that there is relatively little reason for concern for those companies and products that target college students that negative attitudes and stereotypes associated with persons with body art will negatively impact marketing efforts. On the contrary, it would appear that among this important consumer group most find tattoos and body piercing to be attractive and relatively few harbor negative stereotypes of persons with body art. This was true for those individuals attending universities in all regions of the country but particularly so for those in the East Coast region. Also, younger persons in the present study found body art to be more attractive than did their older counter parts. There was also evidence that consumers represented in the present sample find body art to be most attractive on women. These results are mitigated somewhat by the finding that most respondents were apparently of the opinion that body art can be overdone as the majority of the sample disagreed that extensive tattoos and extensive piercings on persons of either sex are attractive.

The present findings may have implication for marketing managers. To the extent that recommendations are appropriate based on the present results and procedures, one such general statement would be that there need be little concern among managers that persons in their employ with body art who are visible to the public will be viewed negatively by customers or detract from potential sales. This would appear to be particularly so if the representative in question is a woman. The exception may be for company representatives who display extensive body art. The present data suggest that these individuals may not be viewed favorably by consumers. (It should be noted that those with body art less frequently ascribed to this more general view; marketing activities directed specifically toward these consumers is the exception.) In addition, the make-up of the target market must be considered. As a general rule, younger persons in the present sample and those residing in the East Coast region of the country find body art to be the most attractive. Marketing managers in the East Coast region and those directing their strategic marketing efforts toward younger consumers in particular need not be overly concerned that persons in their employ display body art.

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RE-BRANDING SOCIAL GOOD: SOCIAL PROFIT AS A NEW CONCEPTUAL FRAMEWORK

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ABSTRACT

The term "non-profit" has been criticized as fiscally inaccurate and negative, when the goal of these organizations is, in fact, positive. The United States Internal Revenue Service (IRS) Code states that earnings gained by "non-profit" organizations may not benefit individuals or stakeholders, which neglects a broader, social-context definition of the term "stakeholder". The concept of "social profit" is a more positive, more accurate descriptor of an orientation toward benefit to all societal stakeholders.

This paper presents a new conceptual framework for social impact, "social profit," which can be a goal shared by for-profit enterprises and non-profit organizations ("pure social profit enterprises"). Applying this universal term connects a diverse array of organizations in their common purpose: benefitting society. The increased importance of ethical behavior, transparency, and accountability demanded in the marketplace presents unique opportunities and challenges for enterprises of all kinds.

We assert that social profit enterprises (SPEs), when managed like their for-profit counterparts, impact social improvement more widely and deeply than any other market entity. A range of social profit enterprises (SPEs), SPE functions, and methods for determining the strategic value of social profit ventures (SPVs) are identified. By rebranding the nomenclature used in discussing social good and utilizing the rigor of for-profit, business-like thought, social profit enterprises can maximize their impact. These practices would include implementing evaluative metrics, standards-based goals, individual stakeholder incentives, conservative operations, enterprise risk and opportunity management (EROM), and effective communications strategy. This paper provides suggestions for so doing.

INTRODUCTION

With increased access to and use of technology in modern society, the world's citizens are more connected to and aware of each other than ever before. Globalization has forged an inextricable relationship among all global stakeholders. Social issues, like climate change, world poverty, famine, disease, inhumanity, over-indebtedness, economic infrastructure crises, child abuse, gender inequity, and modern slavery, are impacting the planet, its people, and its societal organizations. Now, with more information and broader perspective, the importance of social context has been crystallized, for without people or a planet, profit cannot exist. Businesses, organizations, and citizens are responding with momentum, because they realize the survival risk has become too high.

Marketing has a strong role to play in addressing all of these issues and has done so to various degrees at various times (Andreasen 1982, 1993, 1994, 1995, 2006; Fox and Kotler 1980; Kotler and Levy 1969; Kotler and Roberto 1989; Kotler and Zaltman 1971; Maignan and Ferrell 2004; Peattie and Peattie 2009). But, for marketing and other disciplines, we lack a nomenclature and strong metrics to measure our progress and to unify the focus of various ways of thinking about and addressing societal needs, benefits, and issues. A unifying semantic nomenclature and metrics may help better align our intentions with our behaviors and results, since with some social causes we are running out of time.

In this paper we offer a new conceptual framework for discussing the pursuit of social good: "social profit". We discuss how the idea of "social profit" helps to connect different enterprises in their common purpose of pursuing social good, and how it encourages business-like thought and principles in the provision of and communication about social benefit, re-defining the functions and classifications of social profit enterprises (SPEs). We stress the importance of metrics-based evaluation and offer methods to determine the strategic value of social profit ventures (SPVs).

THE SOCIAL PROFIT MARKETPLACE

Ideally, enterprises are formed to fulfill a need in the marketplace and some of those needs form around societal benefit. Perhaps the largest and best-known enterprise whose goals encompass fulfilling social need in the community is the government. But, in the age of technology, convenience, and immediate satisfaction, some are becoming increasingly frustrated with the government's slow pace in addressing social needs, such as environmental regulation and use of foreign oil.

Now, it seems, the competitive business marketplace is becoming a more active driver of social and humanitarian innovation (e.g. T. Boone Pickens' Plan for energy independence, http://www.pickensplan.com 2009). Non-governmental organizations (NGOs) and non-profits, including religious congregations, have long shouldered social demands, but the competitive business sector is now doing more to address social needs. And, now, for-profit enterprises are recognizing that there can be enhancement to their bottom-line by benefiting society through corporate social responsibility, although not always (cf., Fliess et al. 2007).

The characteristics of today's dynamic marketplace result in the feedback loop between businesses and consumers being much shorter, quicker, and direct. If consumers do not approve of an enterprise's practices, a risk is that consumers may not patronize that enterprise, and that enterprise will lose money. In order to remain profitable, an organization must maintain alignment with consumer needs and, most importantly, consumer values. "What consumers know about a company can influence their reactions to the company's products" (Brown and Dacin 1997, p. 79). Corporate social responsibility (CSR) can influence the evaluation of the firm, also impacting how consumers evaluate its product(s) (Brown and Dacin 1997). However, the impact of pro-social influence strategies can affect benefit or backfire, depending on various moderating variables (Osterhus 1997). Maignan and Ferrell (2004) present an excellent discussion of the marketing research around the impact of CSR, and while the research is diverse, successful management of CSR activities can result in benefits to the enterprise, producing a social profit for-profit enterprise win-win.

WHAT IS SOCIAL PROFIT?

Except for one article in radical political economics in 1989, discussing the welfare state (Miller 1989), the academic literature across disciplines does not appear to have discussed the term "social profit". There are organizations that are discussing "social profit" on the Internet that have a social benefit investment management orientation and/or a renaming goal for non-profits and not-for-profits (e.g. http://www.globalhood.org/forsocialprofit.shtml, http://www.powerfulinformation.org/page.cfm?pageid=pi-socialprofit, http://www.socialprofitnetwork.org).

Most likely the term "social profit" was first used widely in lectures by social entrepreneur Philip Berber, who founded SPE "A Glimmer of Hope" with his gains from selling day trading innovation CyberTrader to Schwab (Hempel 2004). On the Glimmer of Hope website, social profit is defined as: "Social Profit (noun) — The amount of social and humanitarian benefit gained as a result of investing in the well-being of others" ("A Glimmer"). With this perspective, all members of the community are stakeholders, and social dividends earned through the accumulation of social profit are shared amongst all stakeholders.

While we agree fully with Philip Berber's definition, and find it useful and concise, we also characterize social profit by a metric:

$$\text{Social Profit } (S\pi) = \text{Social Revenues} - \text{Social Costs} \quad (1)$$

Social revenue would be measured by the social (socio-environmental) benefit achieved. The way in which social revenue would be measured can be different for different ventures. For example, if a firm converts its auto fleet from gasoline to natural-gas-based fuel, as did Super Shuttle (Pickens 2008), then the social revenue could be defined as the difference in energy use and the reduction in greenhouse gas emissions themselves between the two fuel sources (see Wikipedia for measurement metrics, http://en.wikipedia.org/wiki/Greenhouse_gas_emissions).

Social costs can include the energy used to produce and change the form of fuel technology as well as any additional socio-environmental costs of the change (greenhouse gas emissions due to the increase in refueling distance, as there are not many natural gas refueling stations, etc). These measurements would have to be calibrated to a common denominator, like greenhouse gas emissions, for the calculation of social profit. Development of these calibrations is beyond the scope of this paper. But, an SPE's development of social profit quantitative metrics for its various ventures would enhance managerial thinking about the enterprise's social profit orientation.

The Evolving Usage of Social Profit

As mentioned previously, the term "social profit" is emerging on the Internet and often defined by usage or context. Globalhood is an IRS 501(c)3 organization that targets social investors to help them make a "return on their investment" through social profit. Globalhood positions itself and its perspective relative to social profit:

> "…[seeking] to generate social profit through our activities by providing tangible benefits to people around the world. Rather than define ourselves by what we don't do as "not-for-financial- profit," we prefer to define ourselves affirmatively, as being "for-social-profit." The for-social-profit movement is also closely linked to the concept of the "Triple Bottom Line," which has recently emerged and gained significant traction. This concept is about recognizing the Economic, Environmental, and Social profit that all organizations can theoretically produce." ("Globalhood" 2009)

Again, "social profit" is implicitly defined as benefiting people, consistent with the Glimmer of Hope definition ("A Glimmer"). And, social profit is posited as a positive renaming of the negative terminology "non-profit" and "not-for-profit.

Powerful Information, a British charity dedicated to addressing the root causes of poverty, injustice and environmental impact in lower income countries, is also renaming non-profit:

> "'Non-profit' is a negative term that implies little or no value. In reality, non-profit organizations do, and should deliver significant value to society…the concept of a social profit organization demands far greater performance and accountability" ("Social Profit Organisations").

Thus, Powerful Information is also emphasizing the positive with the term "social profit" and calling for accountability, performance, and implicitly greater business rigor from social profits. And, clearly, new and related terminology is emerging in this social profit marketspace, like "Social Investment Exchange" (SASIX in South Africa), "Social Investment," "Social Entrepreneur," "Social Stakeholder," and "Social Investment Portfolio," among others.

The Social Profit Network is "bringing together social and philanthropic entrepreneurs to catalyze positive world change" ("Social Profit Network"). Its mission is:

> "To fuel the creation of a self-proliferating, self-correcting, worldwide network of social entrepreneurs and entrepreneurial philanthropists, who, through their collaborations palpably improve human and environmental conditions," ("Social Profit Network").

Here, "social profit" is used in, essentially, a return on investment context: Making social investment profitable and helping social entrepreneurs to "develop cost-effective production and distribution methods that maximize both social and economic profit," ("Social Profit Network").

Thus, there is a virtual void in the discussion of social profit as a concept in the academic literature. Yet, the term is emerging amongst social profit practitioners and those seeking a more positive connotation for non-profit.

FINANCIAL AND SOCIAL PROFIT CLASSIFICATION OF ENTERPRISES

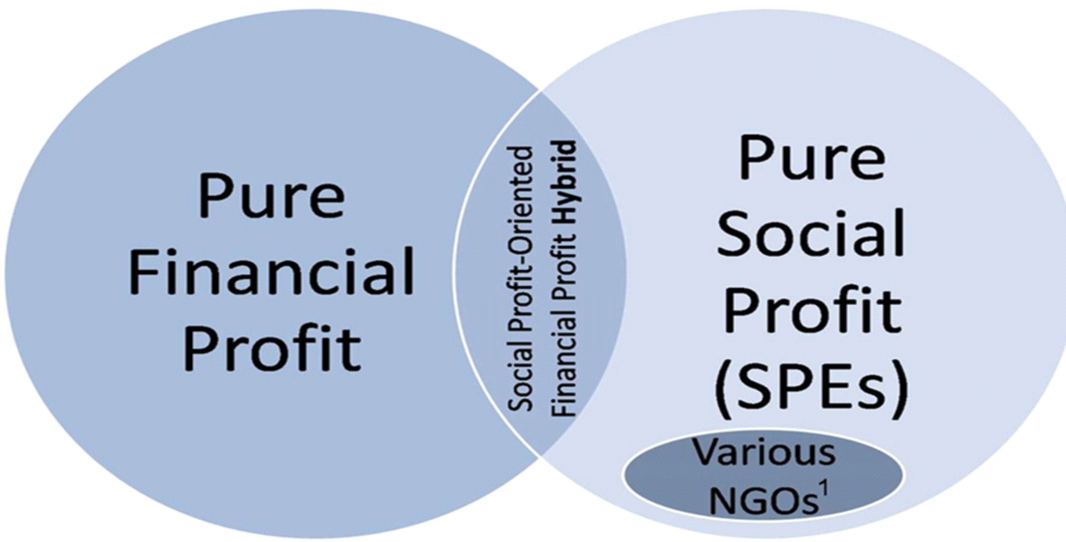
Some types of enterprises operate solely for social profit, while others have other financial goals. The United States Internal Revenue Service (IRS) has clear directives that 501(c)3 tax-exempt organizations cannot earn a profit or may not benefit individuals or stakeholders ("Financial"). However, this system neglects a broader, social context definition of the term "profit" and the term "stakeholder." "Social profit enterprises" (501(c)3 non-profits) *are* in business for "gain": The more revenues they generate, with the most efficiency (e.g. Berber, Brockett, Cooper, and Golden 2009; Brockett, Cooper, and Golden 2009), at the lowest cost, the more their social stakeholders and beneficiaries gain, and the higher the social profit. Further, 501(c)3 enterprises can have excess revenues over costs, but they must be dealt with in an appropriate accounting manner and directed toward enhacement of the organization's cause. Non-profit enterprises are not in business to simply break-even and certainly not to operate with no "profit".

Social profit is not just for charities or traditional non-profits. In fact, the recent influx of traditional pure for-financial profit enterprises into the social marketplace is providing new and innovative thought and action in promoting social good. The intent of social profit as a concept is to unify constructive thought in the systemic approach to improving social good, across business classifications, regardless of IRS tax status.

Figure 1 depicts the confluence of social and financial interest present in the marketplace. Some enterprises exist with the aim of pure financial profit, although most organizations are now recognizing the importance of social context, while other enterprises exist with the goal of pure social profit. Traditional "non-profit" organizations, which would include various NGOs, may be classified as "social profit enterprises (SPEs)".

In addition, new opportunities have emerged for enterprises to exist as social profit-oriented financial profit hybrids. Companies like Patagonia, who pursue social profit, via producing jackets comprised of recycled plastic, offering flex-time human relations policies, and contributing 1% of all financial profits to environmental organizations (Chouinard 2006), but who remain in business as a for-profit enterprise, could be classified as a social profit-oriented financial profit hybrid. Many traditionally pure financial profit enterprises have recognized the competitive advantage in aligning with customer and external stakeholder values and, thus, have begun shifting operations and marketing strategies to become more social profit-oriented (see Thompson and Soper 2007).

Figure 1:
Financial & Social Profit Classification of Enterprises



[1] Non-governmental organization (NGO) is a term that refers to a legally constituted organization created with no participation or representation of any government. In the cases in which NGOs are funded totally or partially by governments, the NGO maintains its non-governmental status insofar as it excludes government representatives from membership in the organization. The number of internationally operating NGOs is estimated at 40,000. National numbers are even higher: Russia has 277,000 NGOs. India is estimated to have between 1 million and 2 million NGOs (http://en.wikipedia.org/wiki/Non-governmental_organization, accessed Feb 19, 2009 11:37 AM).

Graphical Depictions of Financial & Social Profit Enterprises

The next three figures depict the exemplatory costs and revenues of different types of enterprises over their life cycle. Figure 2 focuses on an exemplatory for-financial-profit enterprise. As Milton Friedman famously claimed, the social responsibility of a for-profit business is to increase its profits (1970). This traditional business model focuses on the maximization of financial profit. As shown in Figure 2, most for-financial-profit enterprises begin in the "red," with more financial costs than revenues. As they move through their life cycle, eventually, successful organizations may become more efficient, learn economies of scale, optimize costs, achieve break-even, and continue on to earn financial profit. In the course of doing business, however, this traditional model forsakes acknowledgement of social context. By employing human resources and developing the economy, the enterprise can positively impact society. Meanwhile, the social costs of doing business, such as greenhouse gas emissions from production and transportation, resource depletion, human and environmental stress, are ignored in this traditional model.

Usually, end consumers are not aware of the "full cost" of a good, which may include any price society pays for the production and distribution of a good or service. "Full cost" considers all costs in production and distribution as well as the social cost, which is defined as the socio-environmental harm caused in the course of doing business. Thus, as is shown in Figure 2 by the parallel social revenues and social cost lines, there is never a break-even point in social accounting for this model: Social costs almost always exceed social revenues if an enterprise is focused solely on maximizing financial profit.

Figure 2:

Exemplatory For-Financial-Profit Enterprise Life Cycle

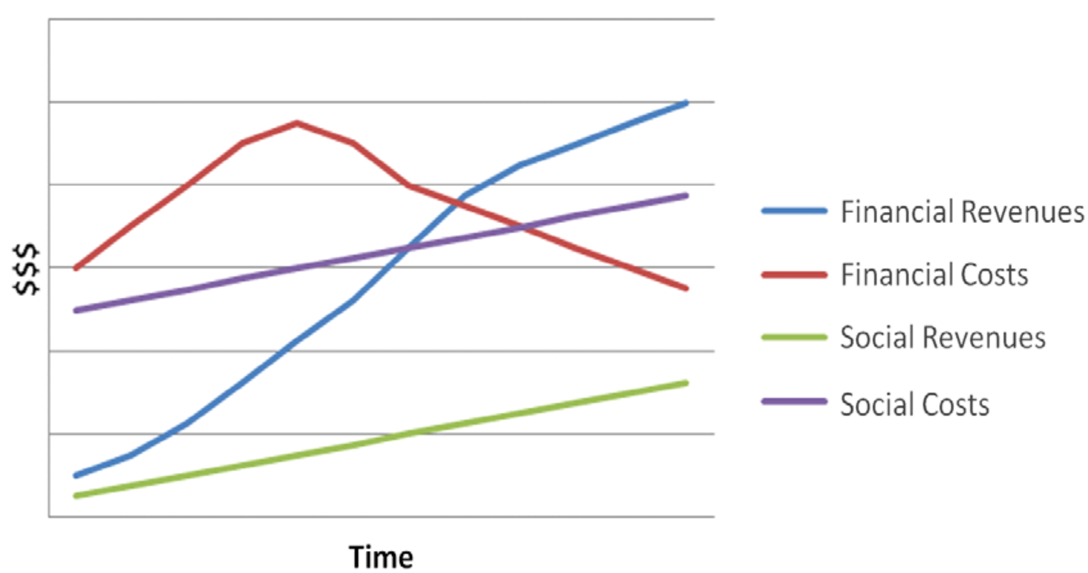
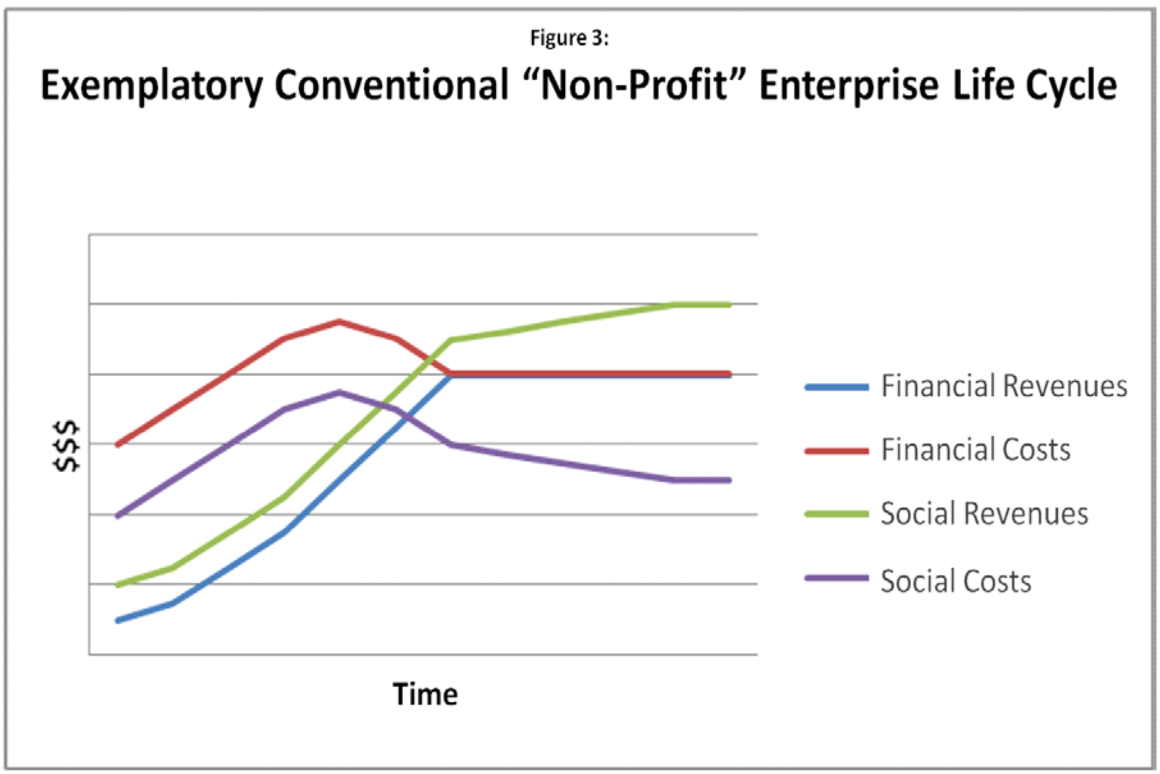


Figure 3 is a graphical depiction of a hypothetical break-even scenario where a non-profit organization truly expends as much money as it earns. These socially-conscious organizations would keep a close eye on social costs and work hard to minimize them while maximizing positive social impact. As their financial revenues increase, their social revenues would increase, as they can serve more people, locales, and address their social cause with more money. For a social profit enterprise, the focus of the work, in the end, is the earning of social revenue, which outpaces financial revenues consistently. Unfortunately, given this hypothetical break-even situation, once an organization reaches the point where their financial revenues and expenses are equal, it cannot grow or further pursue its cause. Thus, the social revenues generated and social costs minimized flatten out, if an organization does not grow their enterprise

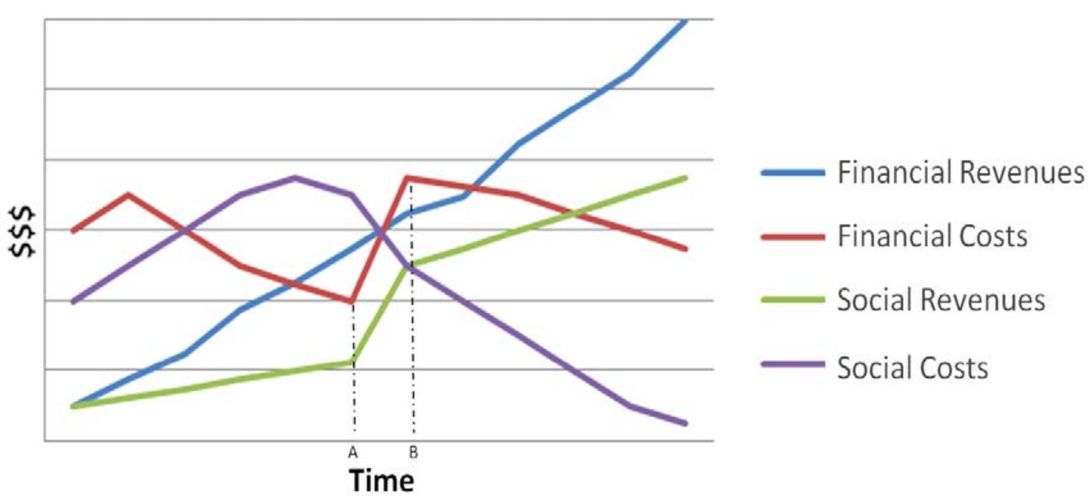


A company that focuses on both financial and social profit has much to gain, as depcited in Figure 4. While its initial growth period mirrors that of a traditional for-profit venture, there are some graphical differences in the evolution of these enterprises.

At Point A on Figure 4, this hybrid enterprise consciously chose to implement socially-responsible practices. While financial expenses do increase for a short period, social revenues also dramatically increase. Eventually, after Point B, the enterprise learns how to optimize these new costs, and the reputational benefit from being socially responsible has increased their financial revenues. All the while, social expenses decrease and social revenues increase noticeably. In the end, everyone wins: The business reaps more financial profit by pursuing social profit, benefitting society and itself. Social profit can be as beneficial for a for-profit enterprise as a pure social profit enterprise is intended to be for society.

Figure 4:

Exemplatory Hybrid Financial & Social Profit Enterprise Life Cycle



CORPORATE SOCIAL RESPONSIBILITY AND SOCIAL PROFIT

Though many enterprises are now exploring the monetary benefits of pursuing social good via corporate social responsibility (CSR), most for-financial-profit businesses struggle to illustrate the return on social responsibility to their investors. Similarly, most corporate investors struggle to justify increasing investments in an enterprise pursuing more socially responsible actions since their investment is singular and social dividends are shared across all of society. The emergence of the social profit sector landscape is no surprise, then, as non-governmental organizations address unsatisfied needs through the competitive marketplace to accurately value social profit and its inherent mutual benefits.

Marketing has contributed a number of research papers to understand the role of CSR in the firm, as have other disciplines (e.g., Abratt and Sacks 1988, Mohr and Webb 2005, Yoon, Günher-Canli, and Schwarz 2006). Maignan and Ferrell (2004) develop an integrated framework for looking at the role CSR plays in the firm and marketing's contribution. They conclude that:

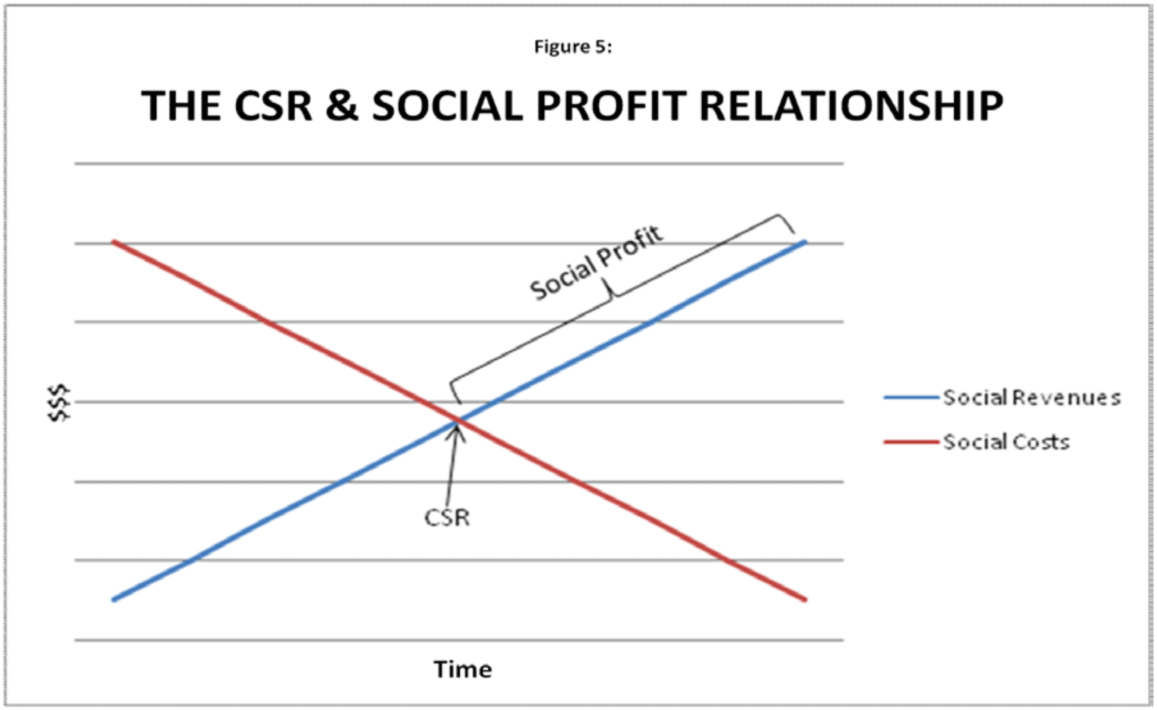
> "…to enact their commitment to CSR, businesses must embrace a solid set of principles and processes that can help to systematically address stakeholder demands and secure stakeholder support" (Maignan and Ferrell 2004, p. 17).

In addition, they call for systematic evaluations of CSR across initiatives, stakeholder communities, and stakeholder issues. This is consistent with the social profit orientation that involves a consideration of social revenues and social costs across stakeholders and societal domains. Thus, CSR is one action foundation for social profit. Hence, Figure 5 presents the perspective on the relationship between CSR and Social Profit.

Figure 5 illustrates the relationship between CSR and social profit, with "social revenues" defined as the socio-environmental benefit generated and "social costs" defined as the socio-environmental harm caused. In this graphical depiction, corporate social responsibility (CSR) is just that: being responsible for the social impact costs incurred in doing business. CSR is a zero-sum game, where social revenues created by business practices equal social costs. In pursuing CSR, an organization works to "cause no unnecessary harm," as Patagonia's mission statement asserts (Chouinard 2006).

Social profit, however, moves beyond the break-even point of CSR, as per Figure 5, to the point where enterprises invest in social causes and increase social revenue beyond social expenses caused by doing business. Social profit is earned by the organization and its stakeholders when that organization has already managed its social and environmental impact well and works toward improving society beyond the harm caused in doing business.

While Porter and Kramer (2002) may call this strategic corporate philanthropy, the term social profit connotes a more measurable and business-like concept, removing the affective-and sometimes disorganized-nature emitted by the term philanthropy and other common jargon for giving. The competitive marketplace is now wide open to socially-responsible investing, social enterprises, and social entrepreneurs, encompassing sustainability and many other social profit goals. Social investors and entrepreneurs like Bill and Melinda Gates are implementing business-like operations and financial management to leverage their social investment. Similarly, utilizing more business-like terminology-like social profit-in this area may help to improve perceptions of an organization's activities and impact.



THE APPLICATION OF BUSINESS RIGOR TO THE PURSUIT OF SOCIAL GOOD WITH THE CONCEPT OF SOCIAL PROFIT

By applying business rigor and thought to social profit enterprises, especially pure SPEs who are not financial-profit oriented, the impact of such pursuits can be maximized through increased efficiency and effectiveness. First, and perhaps most importantly, a social profit enterprise must employ evaluative metrics in appraising its ventures and organization holistically. In the next section, we discuss a range of metrics that enterprises may utilize or adapt for measuring and determining the strategic value of social profit enterprises and ventures.

Social profit enterprises can improve their impact by adopting standards-based goals. By connecting actionable purpose with already-established standards, like the Global Reporting Initiative, social profit enterprises gain more credibility. Like their for-financial-profit counterparts, social profit enterprises can motivate stakeholders more convincingly with individual incentives, like prizes for staff who engage new community players in the venture.

Another important strategy that social profit enterprises can borrow from the traditionally for-profit sector, is conservative operations and enterprise, risk, and opportunity management (EROM) (Baranoff and Golden 2009). By pursuing operational efficiency, social profit enterprises can maximize costs, learn economies of scale, and leverage savings to serve more beneficiaries. By analyzing market trends to foresee and insure against potential risks, preserving brand equity, reputation, and credibility, and/or opportunities, improving brand equity, reputation, and credibility as an innovator or first mover, social profit enterprises can effectively utilize EROM to boost credibility, trust, and potential new investment.

Finally, if social profit enterprises employ effective communications techniques, they can gain more strategic value from the telling of their story. Various experiments have shown that consumers do not trust information about corporate social responsibility from company sources-in fact, consumers may develop a negative view of the company in this case (Yoon 2006). Thus, it is critically important to forge alliances with trusted sources. That way information about the good an enterprise is doing can be distributed effectively. Moreover, companies must spend more on the actual social cause than promotion that features the good work they are doing in order for consumers to positively judge their intentions (Yoon 2006). Consumer to consumer communication about corporate social responsibility is now more streamlined with online social networking and other electronic forms of communication. Online consumer guides and exchanges, like the Greenwashing Index ("EnviroMedia"), rate companies' environmental and social claims. Companies, thus, must not only manage downside risk brought on by negative publicity in the media or via NGOs, but also manage upside risk through consumers via (electronic) word of mouth.

Metrics for Social Profit

Social profit enterprises need effective metrics, sound business-like management systems, and solid marketing practices, as some have urged for years (Andreasen 1982, 1993, 1994, 1995, 2006; Kotler and Roberto 1989, Kotler and Zaltman 1971, Kotler and Levy 1969). Marketing matters and good social profit marketing may matter more than any other business function whether the enterprise is only for social profit or some combination.

There are some metrics that have been developed by social profit practitioners. The Social Profit Network has proposed a series of quotients: the ecological quotient, the social quotient, and the organizational sustainability quotient ("The Social Footprint"). These present metrics to measure ecological and social impact, and the organization's sustainability reflects the combined achievement of ecological and social sustainability. These metrics are useful for measuring some of the domains of social profit.

We see social profit, even as defined as the amount that others are benefited, as being inextricably linked to measurement metrics. Only with defined metrics can we know if and to what extent we have succeeded in our social profit goals and objectives. And, another reason for stronger development of social profit metrics is that it allows the firm to demonstrate their corporate social responsibility, which is a term widely discussed in the academic literature, including marketing (cf., Vaaland, Heide and Gronhaug 2008). Both the general public and academics are well-aware of corporate social responsibility (CSR). There has been a surge of CSR research in marketing (cf., Fliess, et al. 2007) and a call to expand CSR focus in marketing beyond that of consumers (Vaaland, et al. 2008), which is what a social profit perspective does: Social profit explicitly considers multiple stakeholders.

The amount of social profit to which an organization contributes positively and directly correlates to the organization's level of social responsibility. If a company is socially responsible, their activities will certainly benefit and serve to boost social profit. The question remains whether being socially responsible and pursuing social profit is monetarily profitable to the for-financial-profit firm or the social investor/entrepreneur.

In this paper, we offer a few suggestions for possible metrics to measure domains of social profit. These domains work together to define overall social profit, which we have already defined as the metric social revenue minus social cost.

Many pure social profit enterprises are interested in measuring service delivery to the cause or issue being addressed by the SPE. Cost per beneficiary thus becomes an important metric for measuring that domain of social profit.

$$\text{Cost per Direct Beneficiary} = \text{Financial Cost/Number of Direct Beneficiaries Served} \qquad (2)$$

The resulting Cost per Direct Beneficiary (CDB) can be seen as one measurement approach to "Social Productivity Cost". Of course, keeping cost of production low is desirable. Hence, the watchdogs of charity administrative costs that have arisen to help donors select their social purchase/investment (i.e., to whom to donate). For example, Charity Navigator, Ministry Watch, American Institute of Philanthropy, charitychoice.com, and Non-Profit Times all help consumers make donative purchase decisions by providing productivity and administrative cost information.

Another metric of value is the social return on investment (SROI), as defined by the New Economics Foundation ("Measuring" 2008), which is:

$$\text{SROI} = \frac{(\text{social gain from investment - cost of investment})}{\text{cost of investment}} \qquad (3)$$

This formulation of social return on investment reflects a percentage return approach. Consistent with the social profit conceptual framework, the SROI equation would be:

$$\text{SROI} = \frac{\text{social profit}}{\text{financial cost}} = \frac{\text{social revenues - social costs}}{\text{financial costs}} \qquad (4)$$

Essentially, social revenues minus social costs is the same as our metric for social profit. Thus, SROI is really social profit divided by financial costs.

Social dividends are particularly relevant to SROI. Social dividends, in purely monetary terms, are difficult to define, though it is possible through a social fall-out trajectory. For example, by investing money to cover overhead costs for a social profit venture that aims to improve literacy in the community, an investor might expect a more skilled community workforce that can make more money and, thus, contribute more money to the community economy. The social return on investment, then, is not only increased community literacy but also community economic development. Similarly, increased literacy may lead to decreased crime and decreased judicial processing costs. Thus, monetary dividends would be the resulting increased economic development and decreased judicial costs. However, in this example and others, the social investors must share these dividends with all stakeholders, or the entirety of society. Social dividends can easily reflect primary, secondary, and tertiary impacts from a social profit action.

Marketing metrics, such as Return on Marketing, are also relevant to evaluating social profit. Effective communication is vital for a firm with any degree of social profit in its mission, as communicating about social profit ventures will determine its influence on impression-formation of the firm (Brown and Dacin 1997, Drumwright 1996, Osterhus 1997).

Tracking Social Profit Metric Performance

Social profit enterprises can track growth and progress within the venture by tracking changes in the cost of social production and return on social investment, among other social index adapted financial metrics. If the Social Productivity Cost decreases over time, the enterprise can be sure that the venture has either increased revenues or decreased expenses, which may be signs that the venture is concerned about and active in delivering a high return on investment. However, it is important to determine where and why the quotient changed, as a reduction in the number of beneficiaries may be highly socially undesirable.

Similarly, managerial efficiency impacts costs and combining a serious look at the source of costs can be an indicator of that. If costs are stable and "production" (cause beneficiaries declines), the firm may be becoming very inefficient. Likewise, if the venture's cost of social production increases, enterprise leadership should voice concern and investigate what caused the change. An uncontrollable social force may have caused the difference, but poor management of overhead or other organizational issues may be the reason. By minimizing costs and maximizing revenues, purely for social profit ventures (e.g., 501(c)3 enterprises) can drive its cost per direct beneficiary down, increasing investors' social percentage return and encouraging further investment in the social entity. In addition, by being more creative in seeking out quantitative measurements of success, social profit enterprises will improve their marketing efficiency by communicating social impact more effectively, measurably, and transparently.

DETERMINING STRATEGIC VALUE OF SOCIAL PROFIT VENTURES (SPVs)

The use of metrics can be tailored to specific domains or social profit ventures (SPVs) under consideration. Thus, we have developed ten questions, which are more qualitatively-oriented, to supplement the metrics that an organization can utilize to determine the strategic value of a social profit venture (SPV). These questions are presented below.

1. How related is the social investment to the enterprise's core product or service?

   Investments that are high in mission salience, or are more pertinent to an organization or business's mission, will be the most strategic.

2. How related is the social investment to the enterprise's strategic growth plan?

   Positioning investments that might aid in an enterprise's strategic growth will add valueto the organization.

3. How will the social investment affect current resources-human, financial, capital, and intellectual?

   Answers to this question may relate to the opportunity cost of volunteer hours or social investment capital required to start up a social profit venture.

4. How will the social investment affect future resources-human, financial, capital, and intellectual?

   In order to maximize the strategic value of the investment, social investors should target their investments towards the future benefit of their resources. The Cisco Networking Academy is an example of a social profit venture with high strategic value (Porter and Kramer 2002). By applying its strategic expertise, Cisco developed an academy with top curriculum producing thousands of potential new network administrators. Cisco not only earned social educational revenue, the company created a new source of strategic human resources for it to utilize.

5. How will the social investment affect the enterprise's strategic market positioning?

   If an enterprise can change public associations or perceptions to improve their market positioning, in comparison to similar entities, its social investment will be more strategic.

6. How will the social investment be managed, monitored, evaluated, and modified?

   Before setting out on the social profit venture, a well-established, goals-based management and evaluation system must be set up. If this cannot be achieved easily by the enterprise, the strategic value of its social investment may not be as high.

7. How will the social investment affect the enterprise's public perception, associations, and loyalty?

   Social stakeholder perception, associations, and loyalty are paramount in establishing credibility and acceptance for social profit ventures. Considering these elements will certainly affect the strategic value of an enterprise's investment.

8. How does the social investment impact the enterprise's strategic upside (opportunity) risk management?

   If an enterprise has analyzed market trends to foresee future potential opportunities to pro-actively improve brand equity, reputation, and credibility as an innovator or first mover through a social profit venture, that project has much strategic value.

9. How does the social investment impact the enterprise's strategic downside risk management?

   If an enterprise is reactively responding to current risks that may affect brand equity, reputation, or credibility through a social profit venture, it may gain some strategic value through its application of the social profit venture, but the fact that the enterprise is responding reactively may negatively affect the strategic value of the venture.

10. How will the social investment affect stakeholder satisfaction metrics, like employee retention or absenteeism and customer satisfaction?

    Stakeholder engagement is critical in all enterprise pursuits. Gaining input from employees, customers, investors, suppliers, distributors, owners, management, etc. will help determine the worth and strategic value of a social investment. Hopefully, when the social venture matches the values of important stakeholders, metrics like employee retention and customer satisfaction as it related to social responsibility will improve.

CONCLUSIONS

The social profit concept can be very unifying across all degrees of SPEs, from pure SPEs to hybrids. More and more for-financial-profit firms are embracing the advancement of social benefits, thus, becoming a hybrid SPE when pursued earnestly. In addition, the term "non-profit" is fiscally inaccurate and negative, and IRS code neglects broader, social contexts. The alternative concept of "social profit" is a more positive, more accurate descriptor of an orientation toward benefit to all social stakeholders.

Social profit provides a new, more measurable framework for discussing the social impact created by for-profit and non-profit institutions. By utilizing more business-like terminology and concepts, consumers and investors alike will trust company intentions in the social arena. As the future of business is moving toward incorporating these social metrics into everyday business frameworks, those organizations that start now will stand to earn a competitive advantage, for many new opportunities and trends exist in this quickly-growing sector.

Social profit enterprises (SPEs), when managed like their for-profit counterparts--implementing evaluative metrics, standards-based goals, individual stakeholder incentives, conservative operations and enterprise, risk, and opportunity management (EROM), and effective communications, impact social improvement more widely and deeply than any other market entity. To further the discussion on social profit, a range of social profit enterprises (SPEs), social profit metrics, and methods for determining the strategic value of social profit ventures (SPVs) have now been presented.

On the horizon, social profit enterprises (SPEs) have new opportunities to maximize impact. The shift toward collaboration over competition in the marketplace is illustrated through increased consumer concern over consumption and accounting for socio-environmental footprint, in efforts to pursue a more sustainable world. This effort is being mirrored in the social profit organizational marketplace, where enterprises are becoming more comfortable with the thought of "social open sourcing." As in the technology world, open sourcing empowers individual users to modify an existing system to the customization and liking of the modifier. It opens the marketplace to creativity and innovation, as it opens the playing field to more and more people. Social open sourcing is a strategy that many social profit enterprises can take advantage to improve efficiency and effectiveness. By collaborating with other social profit enterprises, organizations can learn from one another and leverage their impact into scalable, market-changing action.

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