Volume 18, Number 1

Print ISSN: 1095-6298
Online ISSN: 1528-2678

ACADEMY OF MARKETING STUDIES JOURNAL

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TABLE OF CONTENTS

EDITORIAL BOARD MEMBERS III

LETTER FROM THE EDITOR VIII

FAST FASHION QUADRANGLE: AN ANALYSIS 1
Michael Angelo Cortez, Ritsumeikan Asia Pacific University
Nguyen Thanh Tu, Ritsumeikan Asia Pacific University
Doan Van Anh, Ritsumeikan Asia Pacific University
Belinda ZagitaNg, Ritsumeikan Asia Pacific University
Elaine Vegafria, Ritsumeikan Asia Pacific University

EXPLORING THE ROLE OF EXTERNAL ENVIRONMENT ON DETERMINING STRATEGIC FOCUS, MARKET ORIENTATION, AND FIRM PERFORMANCE OF SERVICE FIRMS 19
Ayse N. Balas, Longwood University
Omer Gokus, Norfolk State University
Sidika N. Colakoglu, Norfolk State University

FACTORS INFLUENCING ONLINE TRUST 41
Han Suk Lee, Sang Myung University
Hee Jung Lee, Seoul National University

"SAVE MONEY LIVE BETTER': AN ANALYSIS OF WAL-MART'S STORY 51
Martin Meyers, University of Wisconsin – Stevens Point

MILLENNIALS' INTERPRETATIONS OF GREEN TERMINOLOGY 55
Katherine Taken Smith, Murray State University

THE IMPACT OF VARYING SIZE OF ASSORTMENT ON CONSUMER BEHAVIOR: A META-ANALYSIS 69
Antonia Estrella-Ramón, University of Almeria (Spain)

TO COMMIT OR NOT TO COMMIT? THE INFLUENCE OF RELATIONSHIP GOVERNANCE ON BUYER-SELLER COMMITMENT 87
Edward O'Donnell, Columbus State University
Steven C. Brown, Columbus State University
Laurence Marsh, Columbus State University

SALESPERSON PERFORMANCE: EXPLORING THE ROLES OF ROLE AMBIGUITY, AUTONOMY AND SELF-EFFICACY 99
Charles E. Pettijohn, Emeritus, Louisiana Tech University
Allen D. Schaefer, Oklahoma State University
Melissa S. Burnett, Oklahoma State University

SERVICE QUALITY DIMENSIONS AND SATISFACTION DETERMINANTS WITH THE ALASKA OMBUDSMAN'S OFFICE 113
Wayne A. Roberts, Jr., Southern Utah University
Terry M. Chambers, Lander University

RELATIONSHIP MARKETING IN BANK MUTUAL FUND RETAILING: RE-ENGINEERING FROM A SALES TO AN ADVISORY PLATFORM 131
Peggy Choong, Niagara University
Paul Richardson, Niagara University

MEASURING CUSTOMER BEHAVIOR AND PROFITABILITY: USING MARKETING ANALYTICS TO EXAMINE CUSTOMER AND MARKETING BEHAVIORAL PATTERNS IN BUSINESS VENTURES 141
D. Anthony Miles, Texas A&M University-San Antonio

WHEN GENERATION Y BUYS EUROPEAN WINE: A CONSUMER DECISION-MAKING MODEL 167
Susan D. Geringer, California State University, Fresno
Denise M. Patterson, California State University, Fresno
Lynn M. Forsythe, California State University, Fresno

A COMPARISON OF PERCEPTUAL DIFFERENCES BETWEEN FIRST-TIME AND REPEAT VISITORS TRAVELING IN CHINA 187
Jerome C. Kuperman, Minnesota State University Moorhead
Ruth Lumb, Minnesota State University Moorhead

MANIFESTATIONS OF A STRATEGIC BRAND ORIENTATION 203
L. Jean Harrison-Walker, University of Houston-Clear Lake

TRUTH AND CONSEQUENCES IN THE GLOBAL VILLAGE 217
Val Larsen, University of Virginia and Virginia Tech
Sweta Chaturvedi Thota, University of San Francisco

A SOCIAL MEDIA ADVERTISING ADOPTION MODEL
FOR REALLOCATION OF TRADITIONAL ADVERTISING BUDGETS 235
Charles G. Jobs, DeSales University
David M. Gilfoil, DeSales University

PUTTING A FACE ON SMALL BUSINESSES: VISIBILITY, VIABILITY, AND
SUSTAINABILITY THE IMPACT OF SOCIAL MEDIA ON SMALL BUSINESS
MARKETING 249
Sonia Taneja, Texas A&M University – Commerce
Leslie Toombs, Texas A&M University- Commerce

INDEPENDENT VERSUS INCENTIVIZED WORD-OF-MOUTH:
EFFECTS ON LISTENERS 261
William C. Martin, Eastern Washington University

LETTER FROM THE EDITOR

The *Academy of Marketing Studies Journal* is the official journal of the Academy of Marketing Studies, an affiliate of the Allied Academies, Inc., a non profit association of scholars whose purpose is to encourage and support the advancement and exchange of knowledge, understanding and teaching throughout the world. The *AMSJ* is a principal vehicle for achieving the objectives of both organizations. Its editorial mission is to publish empirical and theoretical manuscripts which advance the discipline. We look forward to a long and successful career in publishing articles which will be of value to the many marketing scholars around the world.

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Connie Bateman
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FAST FASHION QUADRANGLE: AN ANALYSIS

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ABSTRACT

During the past decades, fast fashion has emerged significantly in the apparel industry. Originated in the U.S. in the 1980s, fast fashion refers to designs that move swiftly from runway to stores to capture the latest trends. With the emergence of this sector worldwide, an increasing number of researches have emphasized on aspects of management and marketing rather than evaluated the impacts of internal and external factors on general performances. Taking a multidimensional perspective, our research provides an in-depth analysis about performances of major fast fashion retailers. To achieve this goal, we evaluate the Fast Fashion Quadrangle (FFQ), which includes Fast Retailing, Inc. Ltd., GAP Inc., Hennes&Maurtiz (H&M) and Inditex Group (ZARA).

We use quantitative and qualitative analysis of both primary and secondary resources to investigate the interaction of internal and external factors on the performances of FFQ. Consequently, opportunities and risks for the industry are explored. Our expectation is that FFQ players will continue to grow due to the new market potentials and consumers 'dynamism. However, these characteristics are insufficient to secure a sustainable performance due to the particular weaknesses of each player and the increasing threats of competition within fast fashion companies. Therefore, based on Michael Porter's generic strategies, we anticipate that most players within FFQ might experience a shift from their current strategic positions in order to adapt to the changing business environment.

Keyword: fast, fashion, internal, external, performance, threats, opportunities, generic strategies

INTRODUCTION

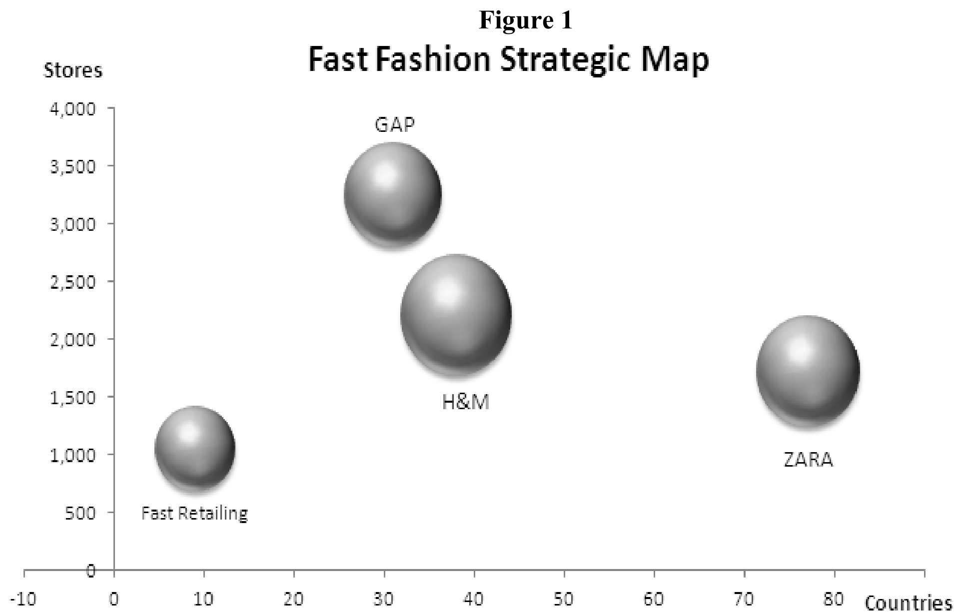
During the past two decades, the role of fast fashion in the apparel industry has enhanced substantially. Fast fashion refers to designs that move swiftly from runway to stores in order to capture the latest trends. Bhardwaj and Fairhurst (2009) stated that the advent of this sector was stimulated by the fading of mass production and an increasing number of fashion seasons, which occurred in the mid-1980s. The rising position of fast fashion has triggered intense competition

among different companies, in which Abercrombie & Fitch, Fast Retailing, Inc. Ltd., Forever 21, GAP Inc., H&M and ZARA are major players. In today's dynamic market, these companies have to cope with various opportunities and risks.

Therefore, we are going to evaluate the effects of internal and external factors on the performances of four companies purposely chosen for this research, which are Fast Retailing, Inc. Ltd., GAP Inc., H&M and ZARA. In fashion capitals such as New York, London, Tokyo or Paris, the shops of the four companies are usually located in close proximity to each other. Altogether, Fast Retailing, Inc. Ltd., GAP Inc., H&M and ZARA have created an emerging and unique competitive block, which we refer to in this paper as *fast fashion quadrangle* (FFQ).

The strategic map (figure 1) reveals the scope of operations of FFQ players. In terms of countries, ZARA has taken the lead with a sales network in 77 countries (Inditex Annual Report, 2010). However, GAP Inc. has run the biggest number of stores worldwide with 3,246 stores (GAP Annual Report 2010). Regarding sales, H&M has obtained the largest figure with sales exceeding 18.8 billion USD (H&M Annual Report, 2010). On the other hand, Fast Retailing, Inc. Ltd., has the smallest sales revenues and has been operating in the least number of stores and countries. In recent years, Fast Retailing, Inc. Ltd., has begun to expand their business to some Western countries, including U.S, France and UK (Fast Retailing, Inc. Ltd., Annual Report, 2010).

Figure 1



RESEARCH OBJECTIVES AND METHODOLOGY

In this industry case study, we aim to: (1) describe the fast fashion industry, (2) explain external and internal factors relating to each company's performances; (3) explore the

opportunities and risks for major fast fashion players based on both internal and external analysis.

We use both quantitative and qualitative analysis of primary and secondary sources by evaluating the annual reports of FFQ players in the past ten years. Simultaneously, we perform observation analysis of FFQ locations in Tokyo, Seoul and New York City. Our qualitative analyses are validated through casual interviews with sales personnel from Fast Retailing, Inc. Ltd., GAP Inc., H&M, and ZARA.

LITERATURE REVIEW

There is very little relevant academic literature on fast fashion; the significant ones are from Ghemawat and Nueno (2006), Gorranson, Jonsson and Persson (2007), Gallaugher (2008),Cachon and Swinney (2011).

The research conducted by Cachon and Swinney (2011) introduces the essences of fast fashion, which includes two crucial components known as quick response and enhanced design.

Quick response technique is the indication of the short production and distribution lead time (Cachon and Swinney, 2011).They suggest that intense competition in the fashion industry leads to a movement from price and quality towards timing so that new designs can be quickly introduced to markets. The longer lead time may result in a gap between products and consumer's expectations, which causes discounted stocks and reduced profits. Consequently, quick response technique is necessary to facilitate the process of frequent inventory adjustment.

Another important characteristic of fast fashion is enhanced design. This feature explains why companies such as H&M or ZARA can introduce highly fashionable products to meet their customers' needs. The enhanced design is attributable to a thorough examination of consumer's and industry preferences as well as a reduction in design lead time (Cachon&Swinney, 2011). Cachon and Swinney (2011) conclude that fast fashion companies can enjoy an increase in profits when implementing both quick response and enhanced design.

The combination of quick response and enhanced design has put an emphasis on the importance of production and inventory management for fast fashion players. Gorranson et al. (2007) investigate the cases of H&M and ZARA in global outsourcing. While ZARA uses both internal production and global outsourcing, H&M outsourced all of its products to a network of 700 suppliers, mostly located in Asia. Similarly, Fast Retailing, Inc. Ltd., and GAP Inc. have also been totally dependent on external manufacturers.

Both outsourcing and internal production have their own advantages and disadvantages. Some benefits for outsourcing are lower wages, taxes, and risks of capital loss due to the minimal investment in manufacturing facilities (Gorranson et al., 2007). Furthermore, the characteristic of no self-owned factories enables more capital to rise and substantially support market expansion (Gorranson et al., 2007). Nevertheless, companies using outsourcing usually

find it challenging to control their product quality and they are simultaneously more vulnerable to the macroeconomic volatilities in their suppliers 'countries (Gorransson et al., 2007).

On the other hand, there are some obvious advantages for companies like ZARA to have its own production systems. For example, though internal production, ZARA maintains a higher level of control throughout the organization. It is also more flexible to make changes and correct "fashion mistakes". Moreover, by locating its supplier in close proximity to the headquarters, ZARA has a faster and more advanced communication system and workforces. Finally, the most important benefit of internal production is that it helps reduce significantly the production lead time, which grants ZARA the core competency to shorten product life cycle (Goransson, 2007). This competency is further strengthened by the fact that ZARA is operating in some mid-season countries, where inventory turnover is usually higher. The only disadvantage of internal production is that it increases production cost and requires an enormous investment into fixed assets. As a result, recently, ZARA has increased outsourcing to other countries such as Morocco, Turkey, Sri Lanka and China (Inditex Annual Report, 2009). This step is necessary for to reduce costs while it has been proven these countries are now perfectly capable of manufacturing high quality products, which match ZARA's standards.

Besides production, inventory management is also an indispensable factor to reduce production lead time. While there is a gap in the literature review of inventory management for Fast Retailing, Inc. Ltd., GAP Inc. and H&M, a considerable number of studies have investigated the case of ZARA (Ghemawat&Nueon, 2008; Gallaugher, 2008).

Gallaugher (2008) considers ZARA as the pioneer in terms of inventory management. With more than two hundred fresh and young designers and about 11,000 designs created annually, ZARA is able to stock new items in stores within 4 or 5 weeks (Gallaugher, 2008). By using a mixed strategy between releasing various new designs and producing in small batches, ZARA has been successful in creating a sense of scarcity and freshness to their customers. In order to respond quickly to market research and reduce mistakes; 'just in time' manufacturing strategy is implemented. Managers use inventory optimization models to estimate which items with their quantities and sizes should be shifted to points of sales in order to efficiently meet customer demand (Gallaugher, 2008). In addition, instead of acquiring fabrics in various colors like other companies, ZARA buys fabrics in four basic colors, mostly grey and then postpones dyeing and printing until closed to manufacture (Ghemawat&Nueno, 2006). Hence, the company can reduce redundant garments and acquire more flexible resources to match their designs. Simultaneously, by using both outsourcing and internal production, ZARA has become more flexible in managing their product lines. These characteristics show that the company has been effectively adopting "lean production".

Although inventory management plays a significant role within fast fashion industry, there are many other aspects that have a profound effect. Nevertheless, there appears to be a gap in the literature analyzing the relation between FFQ's performance and internal, external factors.

Therefore, we analyze some crucial internal and external factors to determine the opportunities and risks that FFQ players contend with.

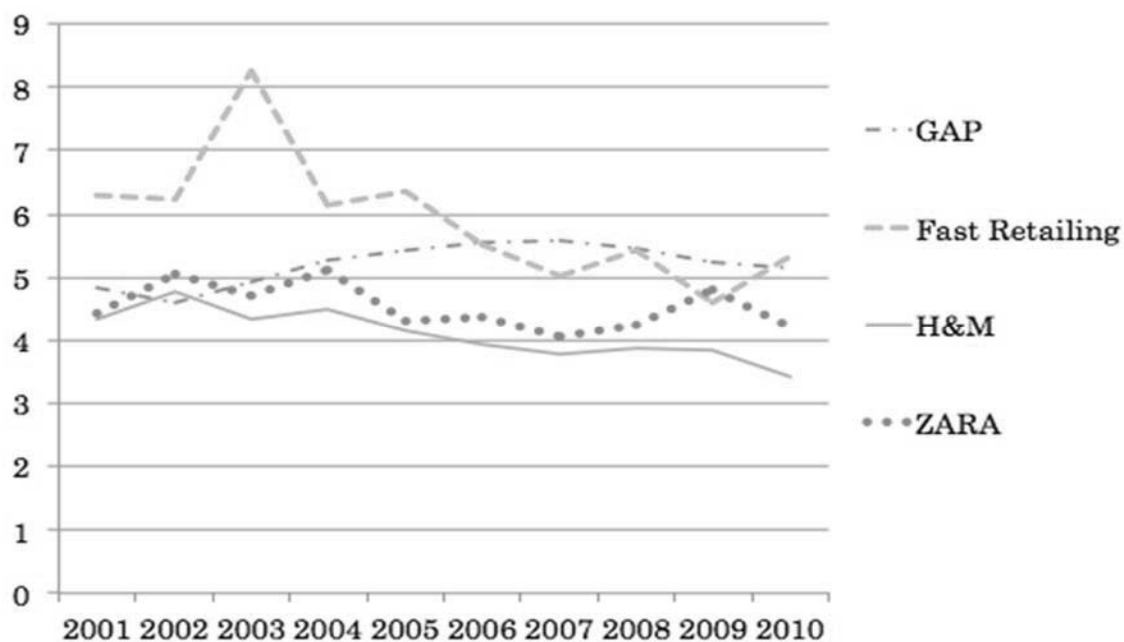
RESULTS AND DISCUSSIONS

Internal Analysis

Inventory management

Figure 2 demonstrates the inventory turnover of FFQ players between 2001 and 2010. Five to six times inventory turnover suggests the presence of more than four seasons a year. The performance of the FFQ players is observably along the 5.5 inventory turnover range in the last five years of the decade. Fast Retailing, Inc. Ltd., has led the group in the first five years but its performance declined until it was overtaken by ZARA.

Figure 2: FFQ's Inventory Turnover



ZARA's performance could be attributed to its effective inventory management strategy (Goransson et al., 2007). ZARA's inventory management contrasts well with H&M. The low inventory turnover of H&M is attributable to the fact that the company outsources all of their products to Asian manufacturers and buys cheap garments in large quantities (H&M Annual Report, 2009). In recent years, to improve the purchasing process and reduce lead times, H&M's

decision on choosing suppliers is made based on cost-efficiency, transportation time, import quota and quality. As a result, H&M has reduced average lead times by 15 to 20 percent and allowed stores to restock quickly (H&M Annual Report, 2009). The improvement in inventory turnover of H&M can be observed in the graph from 2007 onwards. Nevertheless, between 2009 and 2010, there was a decline in the figure due to unusually high stock-in-trade (H&M Annual Report, 2010).

Among four FFQ competitors, Fast Retailing, Inc. Ltd., has seen the most drastic changes in inventory turnover over the last decade. The figures abruptly reached the peak of 8.27 in 2003 before plummeting to 6.14 the following year. The extraordinary high inventory turnover in 2003 was the result of a reduction in inventory owing to increased price discount and the disposal of end-of-season surplus inventory. After the peak in 2003, the ratio started to decrease because of the higher in-store inventory owing to market expansion and a greater amount of merchandises purchased (Fast Retailing, Inc. Ltd., Annual Report, 2010). Unlike ZARA and H&M, who have ordered new lines many times, Fast Retailing, Inc. Ltd., keeps the items on the shelves longer in order to strike lower prices and higher volume deals with suppliers. However, the limitations in styles have dwarfed the number of customers coming to stores. Consequently, the company decides to sell the same item in various colors to appeal to a wider range of consumers.

GAP Inc. has the most stable inventory turnover amongst the group: 5 times per year. The company reviews inventory regularly in order to recognize slow moving merchandise and broken assortment (GAP Inc. Annual Report, 2009). Additionally, due to the fact that GAP Inc. does not carry much replenishment inventory in their stores, a big portion of inventory is stored in distribution centers located throughout the world, which substantially allows goods to restock quickly. Finally, another important factor leading to a high inventory turnover is the company's usual sales and discount campaigns, specifically in holiday time.

Our findings show that although ZARA is widely considered as the benchmark of fast fashion in terms of inventory management, the company's turnover ratio is not as competitive as Fast Retailing, Inc. Ltd., and GAP Inc. One important reason is that ZARA uses a centralized distribution center, which is located in Galica, northwestern Spain (Ghemawat and Nueno, 2006). Furthermore, as Fast Retailing, Inc. Ltd., and GAP Inc. usually offer sales and discounts, they can stimulate sales substantially and reduce inventory.

The use of design staff

In fashion industry, the role of designers is indispensable. Within FFQ, during the past few years, each player has implemented different approaches to recruit their design staff. The Swedish H&M is well-known for bringing high fashion to high street. The company has sought out partnerships with distinguished designers and artists such as Stella McCartney (2005), Roberto Cavalli (2007), Sonia Rykiel (2009), Alber Elbaz (2010) and Donatella Versace (2011) (H&M Annual Reports). These collaborations have attracted enormous attention from the media

and customers while indicated how global H&M brands have become (H&M Annual Report, 2007). Simultaneously, this practice has allowed H&M's consumers to purchase clothes from famous designers with affordable prices, increasing the competencies of the company in the market.

American-based GAP Inc. has recently undergone substantial changes in their creative team with the departure of chief designer, Patrick Robinson. Back in 2007, Robinson was believed to be the remedy for GAP's declining sales with his profound experience and creativity (Morley, 2011). During his four years at GAP, Robinson obtained some huge successes. For examples, the range of Perfect Black Trousers, which were launched in 2010, quickly became the uniform of fashion editors who attended the fashion shows. Moreover, Robinson also developed partnerships with Stella McCartney and shoe designer Pierre Hardy, which diversified GAP's product lines (Morley, 2011). Nevertheless, these positive changes were insufficient to materialize and GAP's same-store sales continued to decline. Furthermore, by getting stuck with a 'muted', 'faded-pastel' palette which could not compete with ZARA's 'juicy bright', Robinson further alleviated the tension from GAP's leaders and stockholders, which consequently led to his departure in mid-2011. Currently, GAP has announced its new approach to manage design staff by depending on a team rather than another famous designer (Morley, 2011).

Similar to GAP, in 2011, Fast Retailing, Inc. Ltd., witnessed the end of the partnership with their German designer, Jil Sander, who invented Uniqlo's popular "J+" chain with impressive, well-designed coats, T-shirts and jeans. In July 2011, Jun Takahashi was assigned as the company's chief designer (Laneri, 2011). During the past ten years, Takahashi has been considered as one of the most innovative designers. Before joining Fast Retailing, Inc. Ltd., he worked with Nike and later established his own fashion labels, which were quite successful. Recently, Takahashi has developed new textiles, using NASA's techniques and fabrics to create lightweight garments that keep the body warm in extreme cold weather. This invention is believed to revolutionize Fast Retailing, Inc. Ltd. 'heat-tech' chain, which is one of the most famous products of Fast Retailing, Inc. Ltd., during the past five years (Laneri, 2011).

Different from Fast Retailing, Inc. Ltd., GAP Inc. and H&M, who always try to establish a relationship with renowned designers, ZARA maintains a very distinct approach to recruit its designers. Almost all of ZARA's 200 designers come from design schools and they are very young and self-motivated. These individuals are chosen not because of their experience but owing to their enthusiasm and talent (Ferdows et al., 2005). In ZARA, young designers sit right in the midst of the production process. They work closely with the market specialists and procurements and production planners (Ferdows et al, 2005). In this way, ZARA can accumulate a huge and diverse range of ideas and create nearly 40,000 designs each year, which enhances the company's core competency of having a short-life cycle of four to five weeks.

Those findings indicate that each company has different ways to cooperate with design staff so that they can follow different directions. While H&M puts an emphasis on the sense of

high fashion, Fast Retailing, Inc. Ltd., is more concerned about introducing innovative products. On the other hand, ZARA's young, enthusiastic designers have strengthened the company's core competency of having short lifecycle products while GAP Inc. is experiencing team design staff so that they can create more appealing products and reclaim their success.

Marketing

Being in a dynamic business realm, Fast Retailing, Inc. Ltd., GAP Inc., H&M and ZARA have implemented different strategies to capture the attention of the consumers.

Possessing a great number of trendy and sophisticated designs, ZARA does not capitalize on advertising (Ghemawat&Nueno, 2006). While most of fast fashion retailers spend an average of 3.5% of their revenue on promoting their products, ZARA spends only around 0.3% (Ghemawat&Nueno, 2006). The principal marketing tool of ZARA is their consistent, strong store images. ZARA stores are known for their wide open spaces and good interiors which provide enjoyment for customers. ZARA also has good interaction with their customers by frequently gathering feedbacks. Hence, store managers can monitor the tastes of the customers and tailor their stocks accordingly (Ghemawat&Nueno, 2006).

Unlike ZARA, H&M has always emphasized on the importance of marketing. Big billboards, posters, magazines with models against plain white backdrop became a signature of their campaign poster which can be seen everywhere in the world (H&M Annual Report, 2010). Moreover, the company also starts mobile campaigns where customers can receive notifications about their latest collections. H&M uses celebrities such as Roberto Cavalli and Jimmy Choo as their spokesmen to increase sales and attract more customers (H&M Annual Reports, 2010). Store location, which is mainly in big cities, is also a good marketing strategy as it eases customers' access.

Similar to H&M, GAP Inc. has also increased its investments on marketing. Between 2009 and 2010, the company has launched some captivating marketing events such as "Let's Gap Together" in China (GAP Annual Report, 2010). However, despite this strategy, feedback on customers reveals that GAP's stores remain unattractive due to boring store designs and uncreative, plain merchandises.

As for Fast Retailing, Inc. Ltd., one of the marketing strengths is the emphasis on core products. The company's innovative products such as 'Heat Technology' are widely promoted through TV commercials, posters, newspapers and billboards every season (Fast Retailing, Inc. Ltd., Annual Report, 2009). Discounts and other promotions are released monthly through different advertising means to increase sales. The company also uses ordinary people as their models, creating a sense of familiarity towards different clothing selections that they offer to customers (Fast Retailing, Inc. Ltd., Annual Report, 2001).

External Analyses

The growing concern over sweatshops

Among FFQ players, except for Fast Retailing, Inc. Ltd., cases of sweatshops have been discovered for GAP Inc., H&M and ZARA, which have severely tarnished their reputations.

To prevent the violation of workers' right in their factories, Gap Inc. has developed a Code of Vendor Conduct. However, in 2006, Gap Inc. stopped dealing with 23 factories, due to the violation of the code. In 2007, Gap Inc.'s sweatshop in India was exposed by an undercover investigator. In this sweatshop, children work 16 hours a day. As the discovery of sweatshop had the potential to cause a major embarrassment, one of Gap's spokesmen said that "rather than risk selling garments made by children it vowed it would withdraw tens of thousands of items identified by The Observer" (McDougall, 2007).

Swedish-based H&M also had serious problems with sweatshops in many Asian countries such as Indonesia, Thailand, Bangladesh, etc. In Indonesia, 500 workers walked off from their job and demanded an increase in salary that was below the Indonesia's minimum wages policy. A strike finally occurred and the factory locked them out and hired thugs to harass the workers, which detrimentally affects the company's image (Osborn, 2007).

In 2011, ZARA's sweatshop in Sao Paolo, Brazil was discovered by the local government. The factory which was operated by local contractor, AHA, was responsible for 90 percentage of ZARA's product in Brazil. Inditex, the parent company of ZARA received 52 charges from the Brazilian government after the rescue of 15 workers. Inditex released a statement that it could not be held responsible for 'unauthorized outsourcing' but would compensate the workers because AHA had violated the Inditex Code of Conduct for External Manufacturers and Workshops (Burgens& Phillips, 2011).

There is no doubt that the issues over sweatshops have tarnished the reputation and brand images of fast fashion players. Moreover, the shut-down of factories due to strikes and other sweatshop-related problems would result in abrupt changes in the manufacturing process, which negatively affect operations and sales.

Increasing manufacturing costs

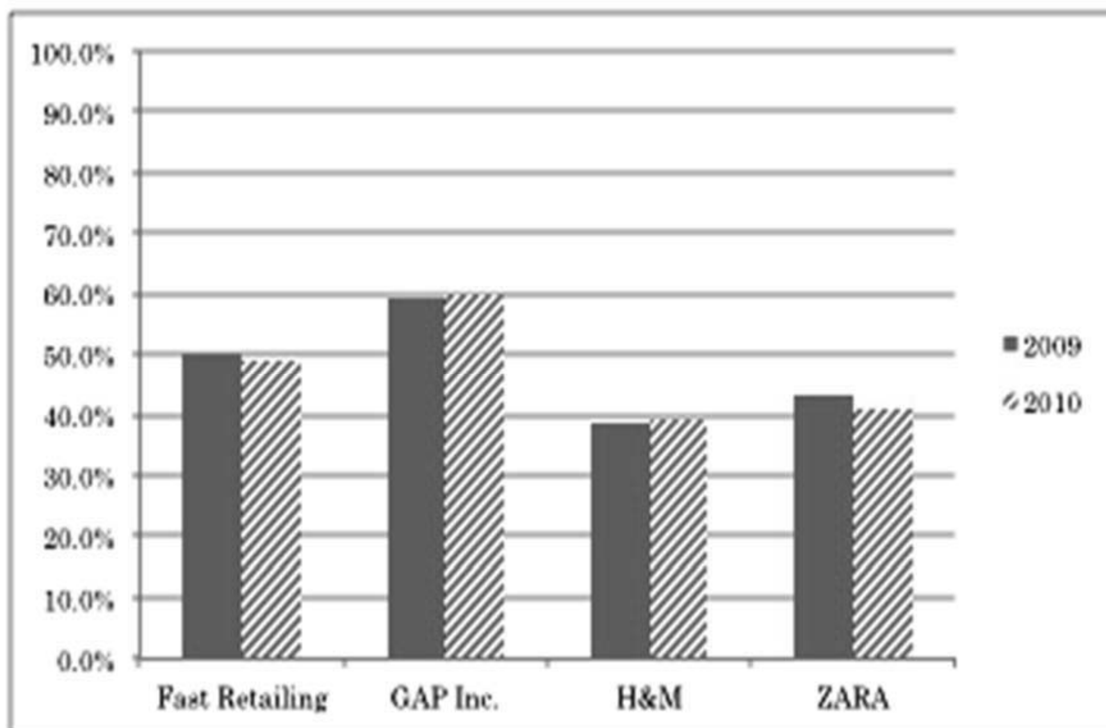
Labor and production cost in many developing countries have been increasing during the past few years. China can be regarded as a typical example. The appreciating Chinese Yuan has been a significant factor leading to the rising cost of production. Furthermore, with so many jobs available, Chinese workers have become pickier about their employment, which means that wages are gradually getting higher (Eichler, 2011). According to China's Ministry of Human Resources and Social Securities, the minimum wage has risen by 22 percentages despite a slowdown in the broader economy (Rabinovitch, 2011). The increasing wage would shift the

production facilities from China to other developing countries such as Indonesia, Vietnam, and Bangladesh etc.

Simultaneously, the cost of raw materials, such as cotton and wool, has substantially increased since the beginning of 2010 due to soaring demands from emerging markets and unfavorable weather conditions in many planting areas (Thompson, 2011). The doubling cotton price in 2010 is considered to be one of the reasons for the fall in profits of H&M and GAP (GAP Inc. and H&M Annual Reports, 2010). Obviously, the increase in production costs puts a strain on the average unit costs of each company and negatively influences the gross profits. Hence, each company has to become more adaptive and flexible in order to cut costs and sustain a stable performance.

The following graph illustrates the cost of sales as of percentage of sales for FFQ players in 2009 and 2010. The data is taken from annual reports in 2009 and 2010.

Figure 3: FFQ's cost of goods sold as a percentage of sales



As the graph indicates, GAP Inc. and H&M have experienced a slight increase in the cost of goods sold as a percentage of sales. On the other hand, a reverse trend is observed for both Fast Retailing, Inc. Ltd., and ZARA. The reason why GAP Inc. and H&M have suffered from an increasing manufacturing cost is that H&M has been outsourcing and buying raw materials in large quantity from Asian suppliers while GAP Inc. has outsourced mainly to China and regions

with a rising production costs. Therefore, these two companies are more vulnerable to any changes in labor and materials costs than the remaining two competitors.

Weather conditions

The changing weather conditions have been recognized by all four companies within FFQ as an important risk factor. The reason is that most clothing products are displayed on stores on the basis of normal weather patterns (H&M Annual Report, 2010). Therefore, any deviations from normal weather conditions negatively affect sales, specifically if these changes occur at the beginning of the seasons. For example, in December 2011, H&M recorded a third straight monthly fall of roughly one percent in sales due to the unusually warm weather, which dented consumer appetite for new winter coats and knitwear, resulting in more markdowns and hurting profits margin in the subsequent periods (Veronica, 2011).

However, we see the risks of deviations from normal weather can be partly minimized if fast fashion players expand their markets to countries with two seasons such as the Philippines, Indonesia, and Singapore etc. In this way, fast fashion players can take advantages of the stable weather and move over stocked merchandise from countries with four seasons to mid-season regions. Possessing markets with different climates helps each player become more flexible in managing their products and enhance their inventory turnover.

Real estate

Store location plays an important role in the business of fast fashion players. A significant concern that has emerged in recent years is store cannibalization. It happens when a retailer opens a new store location in close proximity to an existing store and the existing store location loses customers to the new store. Although ZARA has an efficient business model with competitive advantages over its competitors, the issue over store cannibalization has threatened to harm its sustainable growth. According to Craig, Jones and Nieto (2004), ZARA has been implementing an excessive location strategy with many stores selling the same merchandise located in the same areas. The authors stated that 225 stores can cannibalize sales from each other specifically if they are located in the same city (2004). Furthermore, the 544 Inditex stores located in Spain can cannibalize ZARA's sales as the entire Inditex chain shares the same target markets. Similarly, there have been serious concerns over the possibility of Old Navy cannibalizing GAP's sales due to its effective promotional campaigns, inventory management and lower prices (Craig et al., 2004).

SWOT Analyses of FFQ

Based on the analyses of internal competencies and external occurrences, the opportunities and risks of FFQ players are illustrated as followed.

Figure 4: Fast fashion quadrangle SWOT analyses

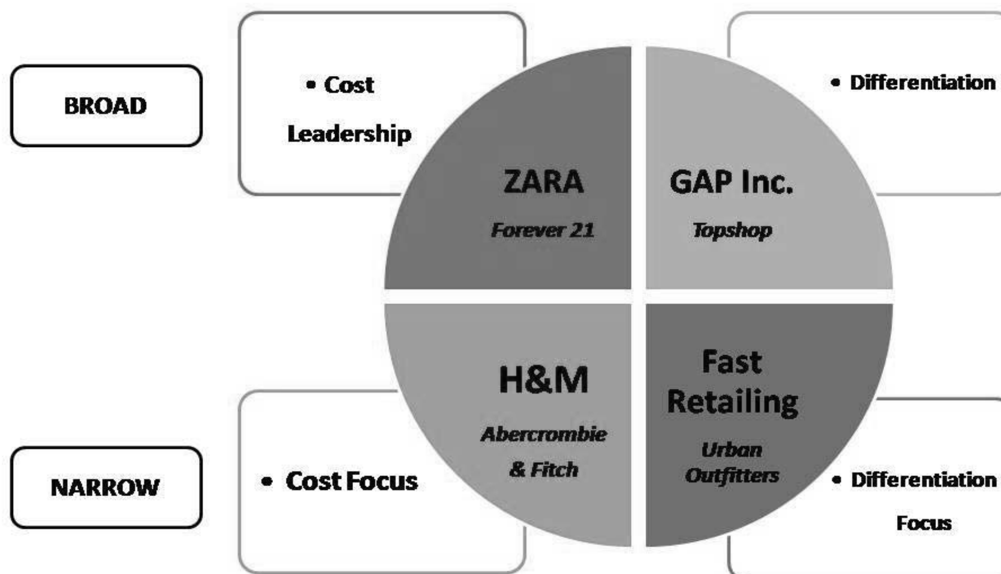
STRENGTH	OPPORTUNITIES
1. Strong brand image 2. Strong market position 3. Affordable product prices 4. Diverse targeted consumers 5. High inventory turnover	1. Online markets 2. Consumer's dynamism 3. Reducing costs due to outsourcing
WEAKNESS	**THREATS**
1. Cannibalization due to store location 2. Quality control 3. Product innovation and design	1. Increasing production costs 2. New market entries 3. Macroeconomic volatilities 4. Sweatshop issues

Current Strategic Positions of FFQ

According to Porter's generic strategies, firms position itself by assessing and leveraging its own strengths. They are categorized into one of the two groups known as cost advantage and differentiation. Moreover, these strengths are applied to either narrow or broader scope. As a result, four generic strategies can be formulated, which are cost leadership, cost focus differentiation and differentiation focus.

In this research, we have been studying the four giants, namely Fast Retailing, Inc. Ltd., GAP Inc., H&M, and ZARA as the dominating competitive block within fast fashion industry. To enhance the significance of the study, four more brands, which are Abercrombie & Fitch, Forever 21, Urban Outfitters and Topshop, are added when examining the generic strategies of fast fashion companies.

Figure 5: Fast fashion companies' current strategic positions



Based on the previous discussions, GAP Inc is categorized as the leader of the differentiation strategy takers. According to figure 1, the company has the largest number of stores and has simultaneously targeted a wide range of customers, from children, young individuals to elderly and maternal people. Furthermore, GAP Inc has been conveying the classic American look and fashion sense, which allows them to differentiate from other competitors.

Also in the same group with GAP Inc is Topshop. This UK fashion brand is now operating in a broad market with 31 countries and roughly 2,400 outlet stores (Betts, 2009). The brand is also offering customers with a wide variety of products such as women's and men's wear, footwear, accessories, which helps classify Topshop as an adopter of differentiation strategy.

On the other hand, ZARA uses cost leadership strategy as evidenced by its cost ratio. The company has a broad market with a sales network in 77 countries (Inditex Annual Report, 2010). Moreover, their prices are actually higher than the remaining three companies, which make ZARA's cost ratio relatively low. Additionally, in recent years, ZARA has considerably reduced production costs by outsourcing to some Asian countries.

In this research, we identify Forever21 as an adopter of cost leadership strategy. The brand is currently operating in 25 countries with 625 stores. Throughout the years, Forever21 has been focusing on reducing the production cost with the use of low-cost labor, garments and even

designs. Hicken (2012) found that many of the chain's in-store employees are minimum-wage-high-school workers and Forever21 has been involved in a lawsuit for systematically fail to pay their staff for hours worked. Forever21 has simultaneously facing more than 50 copyright lawsuits for stealing the work of other designers (Hicken, 2012). The vice president for merchandising stated that the company does not employ designers, "just very savvy designers" to lower the cost of their operation (Ferla, 2007).

As for H&M, focused cost strategy is observed. The company has the lowest cost ratio among FFQ players (as illustrated in figure 4) and they have focused on developed markets such as North America and Europe. Moreover, most of H&M stores are located in urban areas, which strengthen their position as a cost focus competitor.

Similar to H&M, the American-based Abercrombie & Fitch has maintained a relatively low cost ratio of 36.2% in 2010 (Abercrombie & Fitch Annual Report, 2010). Most of the chain's stores are located in U.S (with 946 stores) compared to 99 abroad (Abercrombie & Fitch Annual Report, 2012). This characteristic is similar to H&M's practices of focusing their outlet stores in North America and Europe, which helps explain why Abercrombie & Fitch is a cost focus player.

Finally, Fast Retailing, Inc. Ltd., implements a focused differentiation strategy. The company primarily concentrates on their biggest market share, which are Japan and Eastern Asia. Similar to GAP Inc., the products of Fast Retailing, Inc. Ltd., are very casual and suitable for a wide range of consumers. Additionally, the unique 'Heat-Tech' line has played an important role in differentiating Fast Retailing, Inc. Ltd., with other players and turning the company into a differentiation focus competitor.

We identify the American brand, Urban Outfitters as a differentiation focus player. As of December 2010, the brand has been operating in a fairly limited number of countries, with 197 stores in 8 nations (Urban Outfitters 10-K Report, 2010). Most of the stores are located in large metropolitan areas, selected university communities and enclosed malls. Additionally, the company has been concentrating on the young, sophisticated adult group, aged from 19 to 28 through its unique merchandise mix and appealing store environment. Within this specified group, Urban Outfitters has been offering a wide variety of products, including women's and men's fashion apparels, footwear, accessories, which is an indication of the differentiation focus strategy (Urban Outfitters 10-K Report, 2010).

CONCLUSION AND RECOMMENDATION

Conclusion

In conclusion, we coined the term FFQ from the observation of intense competition among major players, namely Fast Retailing, Inc. Ltd., GAP Inc., H&M and ZARA. Based on the SWOT analysis, internal and external factors and its profound effects on FFQ are closely

investigated. FFQ have an enormous advantage from their global brand images, strong market positions as well as their characteristics of being trendy, adaptive and affordable. On the other hand, quality control has become a major challenge, specifically when most FFQ members are totally dependent on global outsourcing. Moreover, product innovation has become the weaknesses of Fast Retailing, Inc. Ltd., and GAP Inc. due to the plain, boring designs.

In the future, enormous threats and opportunities confront the FFQ. The consumer's dynamism and online markets make it imperative for FFQ players to innovate and introduce new products. Furthermore, the emergence of some countries such as Myanmar, Bangladesh as new manufacturers can help fast fashion companies reduce costs through outsourcing. However, besides opportunities, FFQ will have to overcome some threats from increasing production costs, macroeconomic volatilities and sweatshop issues. Furthermore, the opening of new markets will lead to a more intense competition within FFQ players and with the broader fashion industry, which requires each player to adapt appropriate strategies to maintain a sustainable growth.

In this paper, the analyses of fast fashion companies' generic strategies have been conducted. Our findings show that all four FFQ players have been dominating a specific strategic position within the generic strategies framework. Additionally, to expand the significance of the research, the strategies of other active players, namely Abercrombie & Fitch, Forever 21, Urban Outfitters and Topshop are studied, in which each player has maintained their own strategic position. Nonetheless, the prevalence is still belonging to the four FFQ giants.

Recommendation

With dynamic changes in the business environment, we foresee the transitions in the strategic positions of FFQ. To be specific, GAP Inc. may shift from differentiation to cost focus. In recent years, they have been closing unprofitable stores in the U.S, which heralds a transition from a broad to a narrower, more focused segment. Additionally, as GAP Inc. has an extremely high cost ratio and they usually implement sales discounts to attract consumers, the company needs to restrict production costs to increase gross margin and maintain a sustainable growth.

We forecast a shift from cost leadership to differentiation for ZARA. Since the company has a pool of many young, enthusiastic designers, they have an enormous advantage to expand product lines to serve a wider range of customers rather than merely young individuals. Simultaneously, ZARA can continue to reduce production costs by outsourcing to developing countries.

A transition from cost focus to cost leadership is feasible for H&M. Recently, the company has started to open stores in some Asian countries such as the Philippines. Expanding the market boundaries, specifically to mid-season countries will open opportunities to increase sales and become more flexible, reducing the risks of redundant inventory. Moreover, H&M can continue to outsource to Asian countries and buy cheap garments, which guarantee their position as a cost leader.

Finally, we predict that in short-term, Fast Retailing, Inc. Ltd., will remain in its current position: the reason being Japanese company that conservatively makes changes. Entering a new market may be too risky and could lead to losses if market research is not carried out thoroughly. In 2003, the company used to incur a sharp decline in U.S sales due to their plain and boring clothes and store designs (Fast Retailing, Inc. Ltd., Annual Report, 2003). Therefore, even if Fast Retailing, Inc. Ltd., is expanding to Western countries, in the near future, the process will happen slowly to diminish the possibilities of sales losses.

Figure 6: Fast Fashion Quadrangle's new strategic positions

Limitations and future research

There exist some limitations in our research. First, the relationship between FFQ's data and external factors are not demonstrated in details due to the shortage of information in annual reports. Secondly, the lack of data has prevented us from analyzing other fast fashion brands (such as Peacocks, MUJI, C&A and so on) for the Michael Porter's generic strategies. Thirdly, the transitions suggested based on Michael Porter's generic strategies are at the general level and FFQ companies may apply more operational level strategies in specific markets. We are not able to investigate the transitions of FFQ companies in different countries, which indicate a need for further study to obtain a deeper dimensionality.

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EXPLORING THE ROLE OF EXTERNAL ENVIRONMENT ON DETERMINING STRATEGIC FOCUS, MARKET ORIENTATION, AND FIRM PERFORMANCE OF SERVICE FIRMS

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ABSTRACT

Building on the environment–strategy–performance theoretical framework and the configuration theory the present study develops and tests a model in which the environmental market conditions of competitive intensity and market turbulence impact firm performance through their impact on strategic focus and market orientation of service sector companies. The findings of the study indicate that external environmental factors (i.e., market turbulence and competitive intensity) impact the strategic focus (i.e., defender versus prospector) of the service companies. The results of the study provide empirical support for the positive relationship between prospector focus and customer orientation. It is also found that customer orientation and interfunctional coordination enhance the performance of service sector companies.

INTRODUCTION

Due to increased globalization and rapid technological advancements today's markets are becoming increasingly competitive and turbulent. In order to achieve superior performance and remain competitive companies are required to align their strategic focus and internal resources (i.e., market-oriented culture) with their external environments (Venkatraman & Prescott, 1990). According to the environment-strategy-performance theoretical framework and the contingency theory environmental factors are important determinants of a strategy choice (Child, 1972; Luo & Park, 2001; Cui, Griffith, & Cavusgil, 2005), and organizational structure and processes of the firm (Farjoun, 2002; Miles & Snow, 1978; Miller & Friesen, 1978). In other words, these frameworks suggest that the successful alignment of a firm's strategic focus (i.e., defender versus prospector) and internal structures and processes (i.e., market-oriented culture) with its turbulent and competitive external environment results in enhanced firm performance (Farjoun, 2002).

The traditional environment–strategy–performance framework suggests that for the purpose of defending their market position and business performance companies deliberately

select strategies in response to their external environments (Child, 1972; Matsuno & Mentzer, 2000). According to the strategic co-alignment literature, the fit between the strategic choice and environmental conditions maximize the effectiveness of operations (Child 1972; Venkatraman & Prescott, 1990), which in turn enhances business performance of the firms.

Empirical evidence indicates that companies modify their strategies to fit their external environments (e.g., Hofer, 1975; Miller & Friesen, 1983). In their more recent empirical study with multinational corporations (MNC) Luo and Park (2001) found that MNC subsidiaries' choice of strategies is based on subsidiaries' response to local market environmental conditions and that the adoption of specific generic strategies in alignment with the market environment enhances subsidiary performance. Although, there is a strong theoretical and empirical support for the environment-strategy relationship the review of the literature indicates that there is a need for more recent studies that examine this relationship for today's service companies that operate under highly turbulent and competitive market conditions. Considering the fact that the service sector is an increasingly important source of job creation and economic wealth, and accounts for more than two thirds of the activity in many developed economies, including the U.S. (Gray & Hooley, 2002; Johnson, 2011), the need for such a study becomes more evident.

Recently, the traditional environment-strategy-performance framework is expanded to include the internal capabilities and characteristics in explaining the relationship between strategic focus and firm performance (O'Cass & Ngo, 2007). This inclusion is supported by the configuration theory that posits that an appropriate fit between a firm's strategic focus and internal organizational characteristics leads to superior performance. Largely based on Walker and Ruekert's seminal work (1987), previous research argued about the importance of achieving a match between business strategy and marketing organization characteristics for improved firm performance (Slater, Olson, & Finnegan, 2010) and established that different business strategic types were more effective when supported by suitable marketing organization characteristics and activities (see Slater *et a*l., 2010 for detailed references) such as sales force management practices (Slater & Olsen, 2000).

In this literature, an area that requires further exploration is the role of market orientation in explaining the relationship between a firm's strategic focus and its business performance. Because of its prominent role in the creation of customer value and sustainable competitive advantage (Narver & Slater, 1990) it is critically important to understand how a firm's strategic focus influences its market orientation and then its business performance. Only a limited number of studies have examined the strategic type-market orientation-performance relationship in the literature (e.g., O'Cass & Ngo, 2007; Pelham, 1999; Pelham & Wilson, 1996). For the strategic type-market orientation relationship, several of these studies found a significant and positive association between differentiation strategy and market orientation (Narver & Slater, 1990; Pelham & Wilson, 1996). More recently, consistent with Lukas (1999)'s findings, O'Cass and Ngo (2007) found empirical support for a significant relationship between strategic types and market orientation. More specifically, they found that the degree of market orientation is highest

for prospectors, followed by analyzers, defenders, and reactors. For the market orientation-performance direct relationship the literature provided mixed results. While some studies could not report a significant relationship between market orientation and firm performance (e.g., Bhuian, 1997; Greenley, 1995; Harris, 2001), others reported a positive relationship between these two variables (e.g., Baker & Sinkula, 1999; Kumar, Subramanian, & Yauger, 1998; Kumar, Jones, Venkatesan, & Leone, 2011; Matsuno & Mentzer, 2000).

The careful review of the literature reveals that although environment and strategic types; strategic types and market orientation; and, market orientation-performance relationships have been studied separately in several studies, with only a few exceptions (e.g., O'Cass & Ngo, 2007), a single study that examines the relationships among these important constructs is missing from the literature. Therefore, the present study aims to contribute to the existing literature by developing and testing a comprehensive model in which the two environmental variables—market turbulence and competitive intensity—affect firm performance through their impact on strategic focus and market orientation. Additionally, in studying strategy type-market orientation-performance relationships the previous literature has studied market orientation as a single-dimensional construct ignoring its multi-dimensional nature. It is important to study market orientation as a multi-dimensional construct as each dimension (i.e., customer orientation, competitor orientation, and interfunctional coordination) may have a different and unique relationship with the study variables (Balas, Colakoglu, & Gokus, Forthcoming; Gatignon & Xuereb, 1997; Han, Kim, & Srivastava, 1998). The current study is one of the rare attempts in which strategic focus-market orientation-performance relationships are examined by using market orientation as a multi-dimensional construct. Finally, previous researchers have used samples with multiple sectors including manufacturing and services. Considering the increasing importance of service sector for both developed and developing countries it is critically important to study the environment-strategy-market orientation-performance relationships for service sector companies.

In summary, by combining the environment–strategy-performance framework and the configuration theory, the present study examines the determinants of firm performance (i.e., environmental factors, strategic focus, and market orientation) for service sector companies. The remainder of the paper is organized as follows. We first introduce our conceptual model and hypotheses followed by our empirical analyses and results. We then conclude with a discussion of the results, implications of our research for researchers and managers, a review of the limitations of the study, and directions for future research.

CONCEPTUAL BACKGROUND AND RESEARCH HYPOTHESES

Industrial organization literature supports the notion that external environment plays an important role in establishing and constraining business strategies (O'Cass & Ngo, 2007) and

companies deliberately select their strategies in response to their environments (Matsuno & Mentzer, 2000). Thus, in our conceptual model we contend that the two environmental factors—competitive intensity and market turbulence—determine firms' level of strategic orientations (Pelham & Wilson, 1996; Zhou & Li, 2007), which in turn impact their market orientation and performance. Our conceptual model is illustrated in Figure 1.

In the present research study, competitive intensity is defined as the level of competition that a firm faces within its industry (Jaworski & Kohli, 1993; Grewal & Tansuhaj, 2001). Severe price wars, heavy advertising, and diverse product alternatives are some of the indicators of competitive intensity (Zhou, Yim, & Tse, 2005). Market turbulence, on the other hand, refers to instability of the composition of customers and their preferences (Jaworski & Kohli, 1993, Zhou *et al*., 2005). In highly turbulent markets customers' preferences and expectations shift rapidly (Subramanian & Gopalakrisha, 2001; Subramanian *et al*., 2009; Zhou *et al*., 2005).

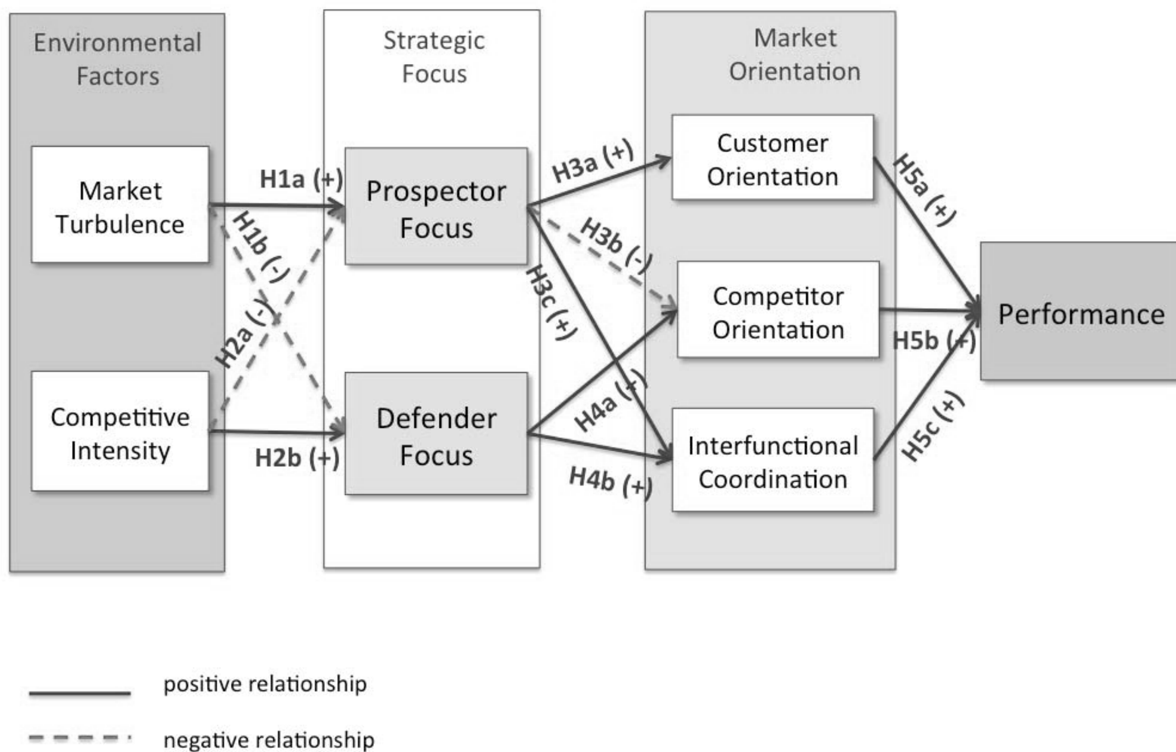
Strategic orientation or focus refers to decisions businesses make to achieve superior performance (Gatignon & Xuereb, 1997; Slater, Olson, & Hult, 2006a, 2010a). Miles and Snow's (1978) widely used typology divides companies into four archetypes according to their strategic responses to their environments—prospectors, defenders, analyzers, and reactors. Prospectors are characterized by continually searching for market opportunities. In order to exploit these opportunities they experiment to come up with new products and market innovations. While they are the creators of change and uncertainty in their markets prospectors are not mainly concerned with efficiency of their operations (Miles & Snow, 1978). On the other hand, defenders are characterized by their narrow focus on the efficiency of their operations while neglecting innovativeness (Miles & Snow, 1978). Conceptually, analyzers do not represent a distinct strategic type (DeSarbo, Di Beneditto, Song, & Sinha, 2005). Instead, they demonstrate both prospector and defender strategy characteristics (Matsuno & Mentzer, 2000; Slater & Olson, 2000; Slater *et al.,* 2010a; Walker & Ruekert, 1987; Zhou & Li, 2007). Similarly, reactors do not represent a strategic option as they simply react to threats of their external environments without a well-planned strategy or a systematic behavioral approach (Matsuno & Mentzer, 2000). Thus, in this study we focus only on two clearly distinct and contrasting strategic types—prospectors and defenders—because of the ambiguous natures of the other two strategic types.

There have been two different perspectives for conceptualizing market orientation: behavioral and cultural (Homburg & Pflesser, 2000; Kirca Jayachandran, & Bearden, 2005). According to behavioral perspective market orientation deals with behaviors related to organization-wide generation and dissemination of customer related market information and responding to this information (Kohli & Jaworski 1990; Langerak, 2003; Matsuno, Mentzer, & Rentz, 2000; Siguaw, Simpson, & Baker*,* 1998). The cultural perspective, on the other hand, depicts market orientation as an organizational culture that focuses on delivering superior value to its customers (Deshpandé, Farley, & Webster, 1993; Narver & Slater, 1990). The current study falls into to the group of studies that accept cultural perspective due to the assertions that "market orientation rests fundamentally on cultural values" (Gebhardt, Carpenter, & Sherry,

2006, p. 38) and manifests itself on firm culture overtime through the use of stories, organizational processes and behavioral reinforcements (Hurley & Hult, 1998).

Consistent with previous literature (e.g., Narver & Slater, 1990; Hurley & Hult, 1998) the current study conceptualizes market orientation as a multidimensional construct with three dimensions—customer orientation, competitor orientation and interfunctional coordination. Customer orientation refers to "the sufficient understanding" of customers in order to create value for them (Narver & Slater, 1990, p. 21). Competitor orientation is defined as developing a deep level of understanding of current and potential competitors (Narver & Slater, 1990). Interfunctional coordination refers to enhanced communication and exchange between all organizational departments in order to serve customers better (Narver & Slater, 1990). Oxenfeldt and Moore (1978) contrast customer and competitor orientation dimensions of market orientation. They argue that the goal of customer orientation is to win customers by appealing directly to them, while the goal of competitor orientation is to win customers through battling with rivals in order to win prizes such as preferential treatment from suppliers, special credit accommodations, and sound distribution. The following sections introduce the study's hypotheses and elaborate more specifically about the connections among the study's constructs.

Figure 1 – Conceptual Model



Environment Factors and Strategic Focus

In turbulent markets consumer preferences and expectations are unpredictable (Jaworski & Kohli, 1993; Zhou *et al*., 2005) and change rapidly. Due to difficulty in determining consumer preferences and expectations, in highly turbulent markets, experimentation and product-and market-based innovations are emphasized for success (Zhou *et al.*, 2005). These environments also require firms to be highly flexible and adaptive to changing customer tastes and preferences. By its very nature a prospector strategy is flexible and designed to easily adapt to new market information (Slater, Olson, & Hult, 2006b). Focusing also on continuously locating and exploiting new product and market opportunities (Olson, Slater, & Hult, 2005) firms with a prospector strategy embodies a desirable set of features to successfully respond to highly turbulent market conditions. On the other hand, in stable markets consumer preferences and expectations remain relatively unchanged. A prospector strategy with its focus on market breakthroughs and radical innovation can be considered as a risky strategy and as a result, cannot be seen as a favorable strategic choice by firms (Sorescu, Chandy & Prabhu, 2003; Zhou *et al*., 2005).

Defenders' motivation, on the other hand, is to "seal off a portion of the total market to create a stable set of products and customers" (Olson *et al*., 2005, p. 51). They focus on cost efficiency by continuously enhancing manufacturing capabilities and in-depth market coverage (Matsuno & Mentzer, 2000). With its rapidly and constantly changing customer needs and preferences, a turbulent market makes it difficult for companies to create a market segment and successfully achieve stability within this segment for sustainable competitive advantage. Thus, while stable markets with relatively stable customer preferences favor defender focus, turbulent markets deter companies from adapting a defender focus. Therefore, we hypothesize:

H1a Market turbulence has a positive impact on prospector focus.

H1b Market turbulence has a negative impact on defender focus.

In industries that are characterized by competitive intensity, competition is fierce and there are limited prospects for growth (Auh & Menguc, 2005). Such intensely competitive environments discourage companies from adopting aggressive marketing strategies primarily used by prospectors such as heavy use of marketing research and advertising and the employment of a unique distributor strategy to provide high levels of customer service and price premiums (Slater, Olson, & Hult, 2010b). As competition intensifies companies adopt a reactive stance to counter the actions and contingencies undertaken by their competitors, rather than determining their own strategies (Auh & Menguc, 2005). In other words, highly competitive

industries promote reactive strategies rather than deterministic strategies that are the hallmark of prospector firms.

On the other hand, under intense competitive rivalry, firms need to focus on controlling costs and achieving efficiency (Zhou *et al.*, 2005) to remain competitive. As stated earlier, defenders' focus is internal and their goal is to reduce costs by focusing on the efficiency of the firm's processes (Rust, Moorman, & Dickson, 2002). In order to counter their rivals, they imitate their competitors' promotions and products, and cut prices accordingly (Auh & Menguc, 2005). Thus, we hypothesize that:

H2a Competitive intensity has a negative impact on prospector focus.

H2b Competitive intensity has a positive impact on defender focus.

Strategic Focus and Market Orientation

Firms with prospector foci relentlessly explore market opportunities and compete by offering new products through market and technology based innovations (DeSarbo *et al*., 2005; McDaniel & Kolari, 1987). In order to exploit market opportunities, prospectors emphasize attaining superior market intelligence through market research (Hambrick, 1983; Shortell & Zajac, 1990). They develop close relationships with distribution channels to ensure that new products meet customer needs (DeSarbo *et al.*, 2005). Thus, it becomes critically important for prospector companies to focus on understanding and meeting customer needs so that they can continuously offer new products and create new markets to stay competitive (Lukas, 1999).

Moreover, firms with prospector foci are not primarily interested in keeping abreast with their competitors as they often face little or no competition (Walker & Ruekert, 1987). As mentioned earlier, prospectors strive to pioneer in product and market developments (Hambrick, 1983). They value being first movers and move fast to seize opportunities in the marketplace (Di Benedetto & Song, 2003; Laforet, 2008; Slater *et al.*, 2010a; Song, Di Benedetto & Nason, 2007). As their foci relates to creating new markets rather than coming up with me-too products based on imitating competitors, prospector companies are expected to be less competitor oriented.

Furthermore, for market success prospectors need to share the information that they gathered on customers throughout the organization. They emphasize interactions between different departments or functions (Citrin, Lee, & McCullough, 2007) as enhanced coordination among these units regarding customer preferences allows prospectors to meet customer needs quickly and sufficiently as the entire organization focuses on the same issues. A study conducted by Lukas (1999) indicates that prospectors score high on interfunctional coordination dimension of market orientation. Thus we hypothesize that,

H3a Prospector focus has a positive impact on customer orientation.

H3b Prospector focus has a negative impact on competitor orientation.

H3c Prospector focus has a positive impact on interfunctional coordination

Firms with defender foci sustain their competitive advantage by aggressively defending their niche markets against their competitors. This strategic emphasis requires defenders to develop a competitor-centered perspective (Day & Wensley, 1988; Matsuno & Mentzer, 2000; Olson *et al*., 2005; Rust *et al*., 2002) in which they constantly collect information on their competitors and compare themselves against these competitors in order to evaluate their relative cost and pricing position in the marketplace (Frambach, Prabhu & Verhallen, 2003; Langerak, 2003; Miles *et al*., 1978).

In order to succeed against their competitors, defenders also need to focus on achieving efficiencies and developing cost cutting strategies (DeSarbo *et al*., 2005; Rust *et al*., 2002). In order to achieve these goals, firms with defender foci need tight coordination among different functional units (Langerak, 2003) because such coordination decreases costs by significantly reducing redundancies and inefficiencies associated with non-coordinated activities and programs. Therefore, we hypothesize that:

H4a Defender focus has a positive impact on competitor orientation.

H4b Defender focus has a positive impact on interfunctional coordination.

Market Orientation and Firm Performance

Market orientation provides the basis for sustainable competitive advantage and superior firm performance (Day, 1994; Deshpandé, Farley, & Webster, 1993; Han *et al*., 1998). The impetus behind the positive relationship between market orientation and performance lies in its role in creating superior customer value (Han *et al*., 1998; Slater & Narver, 1994b, 1995) which, in turn, leads to superior performance by increasing cash flow, firm value and firm profits (Tsiotsou, 2010). The following paragraphs provide more in depth justifications regarding the three market orientation dimensions and the firm performance.

As stated earlier customer orientation requires companies to develop a sufficient understanding of their customers so that they can offer greater value for them (Narver & Slater, 1990). When firms become customer-oriented they consistently identify the desires and preferences of the customers and offer products and services that satisfy these desires and preferences. This responsiveness enhances firm performance (i.e., growing sales and larger market share) through increased customer satisfaction and loyalty (Day, 1994; Kohli & Jaworski,

1990; Narver & Slater, 1990). More specifically, customers reward companies that understand and respond to their needs and desires better than other companies in the marketplace.

Competitor orientation refers to the development of a deep level of understanding of companies' current and potential competitors (Narver & Slater, 1990). In order to develop this understanding competitor oriented companies constantly monitor and collect up-to-date information about their competitors (Narver & Slater, 1990). This keen focus on competitors can lead to higher firm performance because companies with competitor orientation do not only respond to competitors' moves quickly but also develop strategies to differentiate themselves from their competitors by offering different product features, lower prices, enhanced customer service, and/or better quality products or services (Day & Wensley, 1988; Narver & Slater, 1990). Previous studies provide support for the positive association between customer and competitor orientations and firm performance (Balakrishnan, 1996). More specifically, competitor orientation is argued to be the strongest determinant of business performance by some researchers (Dawes, 2000; Noble, Sinha, & Kumar, 2002).

Interfunctional coordination refers to the integration of and collaboration among different functional areas within a firm in order to serve customers better (Auh & Menguc, 2005; Narver & Slater, 1990). Interfunctionally coordinated firms are characterized by enhanced communication, coordination, and exchange between all organizational departments (Narver & Slater, 1990). Such characteristics enhance business performance of the firms because when different business functions effectively communicate and collaborate with each other it becomes easier for the whole organization to work together to define customer needs and develop products and/or services to meet these needs in a timely manner (Auh & Menguc, 2005; Narver & Slater, 1990). In other words, similar to customer and competitor orientations, interfunctional coordination positively affect business performance by creating greater customer value through quicker market response and customer satisfaction.

In sum, only firms that are dedicated to acquisition and organization wide coordination of information on customers and competitors create superior customer value (Slater & Narver, 1994a,b) and consequent firm performance. Therefore, we hypothesize:

H5a *Customer orientation has a positive relationship with business performance of service firms.*

H5b *Competitor orientation has a positive relationship with business performance of service firms.*

H5c *Interfunctional coordination has a positive relationship with business performance of service firms.*

MEASURES

Multiple-item measures are used for most of the constructs under investigation. The measures for competitive intensity and environmental turbulence are adopted from Jaworski and Kohli's (1993)'s study. The scales for consumer orientation, competitor orientation and interfunctional coordination are taken from Narver and Slater's (1990) study, but modified for service industry. Similarly, we adopted Narver and Slater's (1990) business performance scale to service firms. Competitive intensity, environmental turbulence, customer and competitor orientations, interfunctional coordination and business performance items are measured with a 7-point Likert type scale. The scale anchors ranged from 1 "strongly disagree" to 7 "strongly agree." Conant, Mokwa, and Varadarajan's (1990) scale was utilized to measure strategic focus. Conant *et al.*, (1990)'s scale consists of 11 items with four nominal choices, each representing a different strategy type. For the purposes of this study we used the two nominal choices for prospector and defender strategies. For each question if a response corresponded with a given strategy type we recoded that respond as "1" and other responses as "0". Then, we added values of 1 for each strategy type. The resultant number ranging from 0-11 indicated the degree of a firm's prospector or defender focus. The use of this interval scale is one of the important contributions of this study because previous research has relied heavily on the use of categorical scales in which firms were simply placed in strategy type categories based on arbitrary selection criteria. Categorical scales might produce biased and inaccurate results as they tend to lump companies with differing degrees of strategic focus together. Thus, for more accurate results our use of the interval scale indicating the extent of a firm's strategic focus is more appropriate.

METHODOLOGY

Sample and Data Collection

The sample for this study is taken from the Corporate Affiliations database. This database allows us to focus on firms in service sector in order to reduce industry specific biases (Olson, Walker, & Ruekert, 1995). Service sector companies are the focus of this study for two reasons. First, service sector plays an important role in the US as it accounts for two thirds of the economy (Johnson, 2011). Second, the characteristics of the service sector, such as intangibility, heterogeneity, and inseparability, make market orientation an essential construct to investigate. We have focused on four sets of service industries in the service sector: finance and insurance (NAICS 52), accommodation and food services (NAICS 72), transportation (NAICS 48), real estate and rental and leasing (NAICS 53). These business lines are characteristically similar to each other in terms of high level of customer interaction and high level of labor of intensity (Tinnila & Vepsalainen, 1995; Schmenner, 1993). The use of industries with similar

characteristics is advantageous as they reduce industry effects while they enhance the generalization of our findings.

We have identified 1,980 companies in these 4 industry groups. Approximately 800 marketing managers in these firms were contacted by telephone, and we were able to reach only 448 managers. Out of these 448 only 217 agreed to participate in the study and 158 answered the questionnaire. Seven questionnaires with excessive missing data are excluded from the study. Overall, we have 151 usable responses with a response rate of 33%.

RESULTS

We have analyzed the data in multiple stages. First, we check the data for malicious response and outliers by using visual inspection and checking Mahalanobis distance values. Based on Mahalanobis distance value two outliers have been identified and excluded from the dataset. To test our hypotheses, we use partial least squares based structural equation modeling (PLS-SEM). PLS-SEM is a causal modeling approach that maximizes explained variance of endogenous latent variables in estimating the theoretical model instead of using covariance matrix (Hair, Ringle, & Sarstedt, 2011; Hair, Sarstedt, Ringle, & Mena, 2012). We have used PLS-SEM in estimating our conceptual model as it accommodates small sample sizes (Hair *et al.*, 2012; Reinartz, Haenlein, & Henseler, 2009), while covariance based SEM (CB-SEM) using LISREL, MPLUS, and AMOS is inadequate to handle small sample sizes with complex models (Hulland, 1999). Moreover, while CB-SEM deals with theory confirmation, PLS-SEM emphasizes causal explanation (Wiedmann, Hennigs, Schmidt, & Wuestefeld, 2011). As our focus will be on causal explanations we will be using PLS-SEM instead of CB-SEM.

We have used Warp-PLS 2.0 software for our analysis, which provides us with *t*-statistics to determine the significance levels. A two-stage approach is used to analyze the data and test the hypotheses (Anderson & Gerbing, 1988; Eggert & Serdaroglu, 2011; Hulland, 1999; Tenenhausa, Vinzia, Chatelinc, & Laurob, 2005). According to the two-stage approach, the measurement model is developed and evaluated first, and then the full structural equation model is assessed. This two-step approach ensures that reliable and valid measures are used when drawing conclusions about the nature of the relationships among constructs (Hulland, 1999).

Measurement Model

The measurement model (outer model) assesses the association between the manifest variables (indicators) and their latent variables by evaluation of their reliability and validity (Wiedmann *et al.*, 2011). In order to assess the reliability and validity of the scales, we have checked individual item reliabilities, convergent and discriminant validity of individual constructs (Hulland, 1999).

First, we have checked the reliability and discriminant validity of the constructs in our model. We have assessed the reliability of the scales by calculating Cronbach Alpha and composite reliability values. Values for both are larger than the suggested value of .7 (Fornell & Larcker, 1981). Second, to evaluate the convergent validity we have looked at indicator loadings and cross loadings. Kock (2011) provides two criteria to assess convergent validity when using Warp-PLS for the analysis: 1) indicator item loadings should be at least .5 (Hair, Black, Babin, & Anderson, 2010), and 2) the indicator item loadings should be statistically significant ($p \leq .05$). Table 1 illustrates the factor loadings, composite reliability and Cronbach's Alpha values. Third, we have tested the discriminant validity of the constructs by comparing square root of average variance extracted (AVE) with any of the correlations involving the construct under inspection (Fornell & Larcker, 1981). For all measures, the square root of AVE is greater than the correlations between the construct and other constructs. The correlations between constructs and the square root of AVE values are shown in Table 2.

Table 1 - Factor Loadings, Composite Reliability and Cronbach's Alpha

	Market Turbulence (MT)	Competitive Intensity (CI)	Prospector Focus (PRO)	Defender Focus (DEF)	Customer Orientation (CO)	Competitor Orientation (CMO)	Interfunctional Coordination (IFC)	Performance (PERF)
MT1	.85*							
MT2	.88*							
MT3	.87*							
MT4	.74*							
CI1		.84*						
CI2		.87*						
CI3		.85*						
CI4		.84*						
CI5		.74*						
PRO1			1*					
DEF1				1*				
CO1					.90*			
CO2					.89*			
CO3					.89*			
CO4					.83*			
CO5					.82*			
CO6					.82*			
CMO1						.80*		
CMO2						.83*		
CMO						.87*		
IFC1							.88*	
IFC2							.90*	
IFC3							.72*	
PERF1								.94*
PERF2								.93*
PERF3								.96*
Composite reliability	.92	.91	1	1	.94	.87	.87	.96
Cronbach's α	.89	.86	1	1	.93	.77	.78	.93

* $p < .001$

Table 2 - Correlations Between Latent Variables										
	Mean[a]	Standard Deviation[a]	CI	MT	PRO	DEF	CO	CMO	IFC	PERF
Competitive Intensity	4.92	1.47	(.83)[b]							
Market Turbulence	4.66	1.42	.16	(.84)[b]						
Prospector Focus	3.96	3.64	-.29	.42*	(1)[b]					
Defender Focus	3.24	3.13	.30	-.47*	-.75*	(1)[b]				
Customer Orientation	5.22	1.52	.20	.58*	.34*	-.33*	(.86)[b]			
Competitor Orientation	5.34	1.53	.55*	.32*	.14	.07	.42*	(.83)[b]		
Interfunctional Coordination	5.06	1.64	..39*	.15	.01	.07	.46*	.58	(.84)[b]	
Performance	4.47	1.74	.18	.14	-.10	-.02	.29	.22	.23	(.94)[b]

[a] The means and standard deviations are based on simple composites of the constructs
[b] Square roots of average variance extracted (AVE) are shown on diagonal
* $p < .001$

Structural Model

After ensuring the validity of the measurement model, we have proceeded to test the structural model. The structural model (inner model) tests the relationships between the latent variables by evaluating the path coefficients (Wiedmann *et al.*, 2011). Hypothesized model have compared with reasonable alternative models to demonstrate that hypothesized model offered the best representation of the data (Seibert, Kramer & Liden, 2001). WarpPLS 2.0 allows for comparison of different models by providing three model fit indices: average path coefficient (APC), average R-squared (ARS) and average variance inflation factor (AVIF). Their *p*-values are also provided in the output. Kock (2011) suggests criteria for evaluating the model fit using these indices. First, p values for APC and ARS should be significant. Second, AVIF value should be less than 5. He also adds that APC and ARS values will only increase together when the predictive and explanatory quality of the model is enhanced. Our hypothesized model has an APC value of .265 ($p \leq .001$), ARS value of .198 ($p \leq .001$), and AVIF value of 1.179. The first alternative model has all hypothesized paths as well as direct paths from environmental factors to the components of market orientation. The first comparison have indicated that the alternative model does not provide better fit than the hypothesized model [APC =.253 ($p \leq .001$), ARS = .198 ($p \leq .001$), AVIF=1.215]. The second alternative model has all hypothesized paths in addition to direct paths from strategic focus variables to performance. This alternative model also

do not provide better fit than the hypothesized model [APC =.250 ($p \leq .001$), ARS = .211 ($p \leq .001$), AVIF=1.164]. The third alternative model has all hypothesized paths as well as direct paths from environmental factors to performance. The results indicate that the third alternative model do not have a better fit than the hypothesized model [APC =.233 ($p \leq .001$), ARS = .199 ($p \leq .001$), AVIF=1.287]. Consequently we retain our hypothesized model as the best fitting model. Table 3 shows the model fit indexes for the nested model comparisons.

Table 3 - Nested Model Comparisons

Model	APC	ARS	AVIF	Model comparisons
Hypothesized model	.265[a]	.198[a]	1.179[b]	
Alternative model 1	.253[a]	.198[a]	1.215[b]	Hypothesized model
Alternative model 2	.250[a]	.211[a]	1.164[b]	Hypothesized model
Alternative model 3	.233[a]	.199[a]	1.287[b]	Hypothesized model

[a] $p \leq .001$
[b] AVIF needs to be less than 5

Table 4 illustrates the structural path coefficients for the retained, hypothesized model. According to the results, market turbulence has a positive effect on prospector focus (β =.51, $p < .01$) and negative effect on defender focus (β =.53, $p < .01$), supporting hypotheses H1a and H1b. Competitive intensity is negatively related to prospector focus (β =.29, $p < .01$) and positively related to defender focus (β =.32, $p < .01$) in support of hypotheses H2a and H2b. Prospector focus is positively related to customer orientation (β =.39, $p < .01$) supporting hypothesis H3a. Contrary to what we have hypothesized, prospector focus is neither related to competitor orientation (β =.13, $p = .27$), nor to interfunctional coordination (β =.10, $p = .50$) thus hypotheses H3b and H3c are not supported. Similarly, hypotheses H4a and H4b are not supported as defender focus is neither related to competitor orientation (β =.20, $p = .18$) nor to interfunctional coordination (β =.22, $p = .21$). As expected, customer orientation (β =.23, $p < .01$) and interfunctional coordination (β =.22, $p = .04$) have positive effects on firm performance, providing support for hypotheses H5a and H5c. However, in contrast to expectations competitor orientation is not related to firm performance (β =.20, $p = .18$) which indicates that H5b is not supported.

Table 4 – Parameter Estimates for Hypothesized Relationships

Sign/Hypothesized Relationship	Hypothesis	Parameter Estimate	*p*-value
(+) Market Turbulence □ Prospector Focus	H1a ✓	.51	$p < .01$
(-) Market Turbulence □ Defender Focus	H1b ✓	-.53	$p < .01$
(-) Competitive Intensity □ Prospector Focus	H2a ✓	-.29	$p < .01$
(+) Competitive Intensity □ Defender Focus	H2b ✓	.32	$p < .01$
(+) Prospector Focus □ Customer Orientation	H3a ✓	.39	$p < .01$
(-) Prospector Focus □ Competitor Orientation	H3b ×	.13	$p = .27$
(+) Prospector Focus □ Interfunctional Coordination	H3c ×	.10	$p = .50$

Table 4 – Parameter Estimates for Hypothesized Relationships			
Sign/Hypothesized Relationship	Hypothesis	Parameter Estimate	*p*-value
(+) Defender Focus → Competitor Orientation	H4a ×	.20	$p = .18$
(+) Defender Focus → Interfunctional Coordination	H4b ×	.22	$p = .21$
(+) Customer Orientation → Performance	H5a ✓	.23	$p < .01$
(+) Competitor Orientation → Performance	H5b ×	.03	$p = .33$
(+) Interfunctional Coordination → Performance	H5c ✓	.22	$p = .04$

✓ Hypothesis supported
× Hypothesis not supported

DISCUSSION

This study makes a valuable contribution to the literature by exploring the facilitating roles of strategic focus and marketing orientation on external environment - performance relationship. It empirically validates these relationships and extends our current knowledge on them in three ways (1) it examines the impact of the two external environmental factors—market turbulence and competitive intensity—on firms' strategic focus, (2) it investigates the role of different levels of strategic focus on the creation of superior customer value through customer and competitor orientations, and interfunctional coordination, (3) it studies the influence of each of these three components of market orientation on overall business performance of the service sector companies.

First, when we examine the impact of external environmental factors on strategic focus we find that both market turbulence and competitive intensity influence the firms' level of strategic focus. More specifically, the results indicate that when firms are faced with an influx of change in customer composition and preferences (i.e., high market turbulence) they tend to increase their prospector focus and decrease their defender focus; however, when they are faced with stable customer composition and preferences (i.e., low market turbulence) they tend to increase their defender focus and decrease their prospector focus. This finding is consistent with prior research that under intense market turbulence firms are more likely to focus on exploiting new opportunities (Morgan, Strong, & McGuinness, 2003) and under the conditions of low market turbulence they are more likely to focus on cost cutting through efficiency. Similarly, we find that firms facing an intense competition in their markets are focusing more on the defender strategy while firms facing with less intense competition are focusing more on the prospector strategy.

Second, the results of our analysis provide a strong support for the impact of prospector focus on customer orientation. This result is supported by previous studies that contend that the most successful prospector companies are those that are focused on customers that constantly monitor their current and future needs and are able create products and services that fulfill these needs successfully (Lukas, 1999; Slater *et al.*, 2010b). Our results indicate that neither prospector

nor defender focus impacts competitor orientation or interfunctional coordination. In other words, scanning the environment in order to identify the weaknesses and strengths of competitors (i.e., competitor orientation) does not depend on the level of a firm's strategic focus. Similarly, having a culture that values coordination among different departments (i.e., interfunctional coordination) is not contingent upon the firm's strategy. These results are contrary to the conceptualizations of the contingency theory that argues the importance of achieving a match between a firm's strategic focus and marketing characteristics (i.e., competitor orientation and interfunctional coordination) for superior performance. Lack of significant effects of prospector and defender foci on competitor orientation and interfunctional coordination could be explained by the fact that our sample companies are relatively small in size – almost 68 % of our sample consists of firms with less than 100 employees. It is possible that smaller companies may not need to develop formal mechanisms to focus on competitors as much as their larger competitors do. It is mainly because small firms may not have the resources to continuously monitor their competitors and gather information about them. Similarly, their need to provide coordination among different functional areas can be negligible, as they may not have clearly separated functional areas due to their small size. Future research should examine these relationships for larger firms to understand whether the firm size is a possible explanation for the lack of significant relationship between strategic focus and these two dimensions of market orientation.

Finally, our results reveal that customer orientation and interfunctional coordination are the two components of market orientation that result in high firm performance. This finding is consistent with previous research (Deshpandé *et al*., 1993; Lukas & Ferrell, 2000; Tsioutsu, 2010). However, the relationship between competitor orientation and firm performance is not significant. This result runs counter to the notion that identifying the strengths and weaknesses of the competitors is essential for creating superior performance and sustainable competitive advantage (Dawes, 2000). One possible explanation for lack of relationship between competitor orientation and firm performance may be that the impact of competitor orientation on performance is not direct but mediated through other market orientation dimensions such as customer orientation (Tsiotsou, 2010). In the future, researchers should focus more on investigating the relationships among the dimensions of market orientation and their direct and indirect impacts on firm performance.

In conclusion, the present study makes a valuable contribution to the literature by developing and testing a comprehensive model in which competitive intensity and market turbulence impact firm performance through their impact on strategic focus and market orientation. Our overall results provide empirical support for the traditional environment-strategy-performance framework by showing that service sector companies change their strategic focus according to the levels of turbulence and competitive intensity of their markets. Our results also provide partial support for the contingency theory in that a successful alignment between a prospector strategy and customer orientation leads to enhanced performance for the service

companies. Finally, our study highlights the importance of separating the market orientation construct into its three dimensions with the hopes of providing more accurate information on its performance implications than treating it as an aggregate construct (Dawes, 2000; Lukas & Ferrell, 2000; Noble *et al.*, 2002; Sin, Tse, Heung, & Yim, 2005; Tsiotsou, 2010). As our results indicate only two dimensions of market orientation (i.e., customer orientation and interfunctional coordination) are significantly related to the firm perfomance while the third one (i.e., competitor orientation) is not. These results obviously provide a richer explanation of a relationship between market orientation and firm performance.

LIMITATIONS

There are several limitations of the current study. First, the cross-sectional nature of the study's data prevents us making causal inferences that are implied in Figure 1. Additionally, all of the variables are measured at the same time. Therefore, we cannot measure the long-term impact of environmental factors on the strategic posture; strategic posture on dimensions of market orientation; and market orientations impact on business performance. Future studies with longitudinal data could complement this study (Rindfleish, Malter, Ganesan, & Moorman, 2008). Second, our use of a single category for defender strategists can be problematic as previous studies suggested a hybrid typology for defenders that separates these archetypes into two more specific groups: Low cost defenders and differentiated defenders (Walker & Ruekert, 1987; Slater & Olson, 2000; 2001; Slater *et al*., 2006a). Walker and Ruekert (1987) argue that Miles and Snow's definition of defenders is broadly delineated in the sense that it includes both companies that defend their markets by offering low cost products and companies that defend their markets by focusing on high product quality. Future studies, thus, can utilize Walker & Ruekert's typology and examine the defender strategy in two categories. Finally, there is a possibility of common method variance due to the self-reported nature of our data. We used Harman's one-factor test to understand whether our data has this bias or not. In this test all of the variables are entered into a factor analysis and the unrotated factor solution is investigated for the emergence of a single factor using SPSS 19.0 (Podsakoff & Organ, 1986). The factor analysis reveals 16 components with eigenvalues greater than 1.0. The sixteen components accounts for 93.83% of the variance and the first factor accounted for 31.54% of variance. These findings suggest that common method bias is not a major issue in the study.

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FACTORS INFLUENCING ONLINE TRUST

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ABSTRACT

Based on two general theories (social impact theory and trust–commitment theory), this study investigates which communication components influence trust levels of target people in the online environment. Social impact theory has been applied to researches based on off line communication situation. But we enlarged its definition and meanings and tried new approach using influential factors in the on-line communication. As a result we applied factors of social impact theory to on-line trust-commitment formation. We classified it into three factors: personal (similarity), technical (immediate responsiveness), and network (numbers online), which were tested. Personal factor means perceived similarity of users in on-line communication situation. Technical factor is the speed of response between sender and receiver in the on-line communication. Network is defined to number of users who visit a specific site. More than three hundred sample has surveyed and we use the structural model for this research. The results of the test are presented. The personal and network factors were important elements, and the personal factor was the most influential in building online trust. If a firm wants to have strong relationships with its customers, it is recommended to find out exactly the target customers need and taste. We show that online social activity can diffuse more rapidly and lively with building online trust.

INTRODUCTION

There is a great deal of communication occurring online today. Online interactive relationships are essential social experiences (McCallum and Harrison 1985). Online we can contact lots of people in many ways. In Korea, more and more users are chatting with unknown people. We can have a relationship with an unknown person by chatting or visiting his/her blog (like Cyworld.com or Naver Blog). Twitter (social network media) even contributed to President Barack Obama's election. However, on the Internet there are few social presence cues that can help people discern each others' intentions. If you believe in someone who you met online, what makes you feel that way even though you have never seen each other face to face?

Close cyber relationships have become of considerable interest to marketing researchers. Consumer-to-consumer interactions are very important sources of information on the Internet.

Consumer–consumer interaction is not just a dyad relationship; it is an influential network-based relationship (e.g., you can see lots of comments from various people about a product on someone's blog). Social impact theory provides a framework through which factors can be examined between sources and targets of online influence.

Gonsalves (2008) has come up with the term "Generation V" (for virtual). Unlike Generation X, Generation V is not defined by age, gender or geography. It is part of a virtual reality. Cyber relationships based on this virtual reality are increasingly important. The purpose of this study is to identify the antecedents and experiential outcomes of computer-mediated communication (CMC) relationships. This present research contributes to our understanding of appropriate ways to communicate, build trust, and motivate consumer–consumer interactions in the online setting.

Traditional communication theories cannot explain these cyber phenomena perfectly. To address this issue, we mainly refer to two general theories. The first one was developed by Latane (1981), who explained the social impact theory as any of the "changes in physiological position and personal feelings, motives, thoughts, or behavior that happen to a person as a result of the actions or presence of another person." The other was conceived by Morgan and Hunt (1994), who came up with the 'trust–commitment' model.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

CMC

CMC means computer-mediated communication. It is the exchange of information in cyber space via computer (Sproull and Kiesler 1986). Many obstacles to communication in the real world (offline) are overcome by CMC because people act more freely in cyber space (McGuire, Kiesler and Siegel 1987) and are willing to disclose information that they wouldn't disclose in an offline communication situation (Sproull and Sara 1986). The communication in a CMC situation may be different from that in face-to-face communication situations. The impact of CMC on people's communication can be considered in terms of social impact theory, which examines factors like strength, immediacy (responsiveness in online situations), and number of sources (network effect) differently in offline and online situations.

Similarity–Attraction Hypothesis

Early research and theorizing on the role of similarity in attraction has focused mainly on actual similarity in values (Byrne 1971; Hoyle 1993). However, it is not easy to determine if similarities are real, especially online. Another line of research hypothesizes that perceived

similarity increases attraction (similarity–attraction hypothesis). Individuals make an estimate of similarity on first encountering each other (Sunnafrank and Ramirez 2004). When a person perceives a high degree of similarity with another person, he or she can be expected to seek out future interactions with that person. This behavior can be explained by the reinforcement–affect theory: perceived similarity in personality can create a feeling of recognition, self-confirmation, and self-reassurance, which could then lead to more enjoyable interactions, which increases attraction (Berg and Clark 1986). Consistent with this, Sunnafrank and Ramirez (2004) examined perceived similarity in various attitudes among previously unacquainted undergraduates over a period of 9 weeks, finding that it could predict higher proximity, attraction, communication, and friendship intensity. We propose that attraction can influence trust between individuals who meet in CMC situations, and we put forward this hypothesis:

> *H1: The more similarity a person perceives between himself/herself and another person, the more he/she trusts that person.*

Social Impact Theory

People affect each other in many different ways. We are influenced by the behavior, performances, opinions, attitudes, and feelings of other people. These influences may be positive or negative for us, and are collectively called 'social impact'. Social impact is the procedure by which one collaborator affects the thoughts, beliefs, or cognitions of another collaborator or party (Huston 1983).

Social impact theory has generated a considerable amount of research (Latane 1981; Latane and Nida 1981; Jackson and Latane 1981a; Jackson and Latane 1981b). This theory suggests that the social impact (e.g., changes in performances or beliefs) that people experience is a function of strength (i.e., social position or capability), immediacy (i.e., closeness of physical or psychological cognition), and number of sources.

Strength means the capability, salience, or authority of a given informant in relation to the target. Strength is indicated by the source's economic status, former relationship with the other party, job, or anticipated power, all of which are normally communicated in person in social impact theory (Latane 1981). However, in the area of CMC, the usual operating factors, i.e. age, gender, race, personality, conversational gesture and speech rate, cannot be perceived in person, and thus have little impact on communication (Miller and Johnson 2004). So the original notion of strength in social impact theory may be meaningless in CMC situations. Although CMC situations reduce social cues, they offer alternative solutions, and allow equal participation (Curseu 2006). We will therefore examine the relevance of social impact theory in terms of all trust–commitment factors except the strength factor.

Immediacy means distance in time or space and absence of interrupting obstacles or filters.[3] Briefly, if the source's power increases(Jackson and Latane 1981b; Hass 1981), the degree of immediacy to the target person also increases (Basset and Latane 1976; Knowles 1980). Social impact theory in the empirical research focuses on the impact of the existence of others on personal reactions and behaviors (Miller and Johnson 2004). Personal behavior and social presence have been well researched; the effects of immediacy can also be investigated in computer-mediated relationships. However, prior research about immediacy differs from computer-mediated relationship circumstances in the method used to measure physical closeness (Asch 1956; Basset and Latane 1976; Berger and Burgoon 1995; Miller, Maruyama, Beaber and Valone 1976; O'Connel, Kowall, Bartels, Mundt and Van de Water 1989). Immediacy in this research is therefore a slightly different concept from that used in other studies, but they are similar in function.

In social impact theory, number as a variable means number of sources having an effect regarding the target person's impact on others. As the number of sources increases (Gerard, Wilhelmy and Conolley 1968; Milgiam, Bickman and Berkowitz 1969), the impact on the target person becomes more experiential.

In this research, existing social impact theory will be expanded to shed light on the social effect that happens in CMC situations. We will thus examine these hypotheses:

H2 The more online immediacy a person feels, the greater the trust in the receiver.
H3 The more connections someone perceives online, the more he or she will trust other people.

Relationship Marketing Management

Relationship Marketing (RM) means "all marketing actions purposed to establish, develop, and maintain profitable relational exchanges (Morgan and Hunt 1994)." In the most recent research, RM efforts examine the development of stronger consumer relationships to improve seller achievement outcomes (e.g., sales growth rate, profit ratio) (Crosby, Evans and Deborah 1990; Morgan and Hunt 1994). Furthermore, trust and commitment are key factors in predicting exchange success (Morgan and Hunt 1994).

Trust is defined as willingness of exchange partners to rely on and assure each other (Moorman, Deshpande and Zaltman 1993). Morgan and Hunt (1994) suggested that trust exists when one partner feels assured of the reliability and honesty of his or her exchange partner. In communications, source trustworthiness is an important construct, and is defined as a listener's rust regarding the speaker (Hovland, Janis and Kelley 1953). Relationships built on trust can be highly valued; exchange partners want to commit themselves to such relationships (Hrebiniak

1974). Therefore partners who trust each other demonstrate high levels of loyalty (i.e., commitment) when they deal with each other (Morgan and Hunt 1994).

Relationship commitment means that "an exchange partner believes a relationship in progress with another is so important that they make maximum effort to maintain it (Morgan and Hunt 1994)." In their services relationship marketing research, Berry and Parasuraman (1991) suggest that "relationships are made on the basis of mutual commitment." Palmatier et al. (2006) outline a relational mediator meta-analytic framework. They review the relationship literature and suggest the idea of customer-focused relational mediators. They identify relationship satisfaction as a mediator of customer-focused outcomes (customer loyalty, word of mouth, or expectation of continuity). However, they see no correlation between relationship commitment and relationship satisfaction, although an hierarchy can exist between the two.

The following hypotheses were therefore formulated and tested:

H4 *Trust is an antecedent to relationship commitment.*
H5 *Relationship commitment influences relationship satisfaction.*

METHODS

Three hundred eleven samples were collected from universities throughout South Korea. University students were the most appropriate sample group because we needed to target people who were acquainted and comfortable with CMC interactions. The survey was pre-tested by 30 masters students for content validity. We use structural equation modeling, which is a multivariate statistical technique for structural theory.

When possible, we adopted measurement scales from previous research. Table 1 lists the reliability measurements and significant results. On the basis of confirmatory factor analysis, the composite reliabilities and AVE indicate construct reliability and validity. They exceed the commonly used indices of 0.6 and 0.5 (Bagozzi and Yi 1988).

Table 1: Mean, standard deviation, Cronbach's α, AVE, and CR of the constructs

Construct Name	Reference	Mean	SD	Cronbach's α	AVE	CR
Perceived similarity	Lee at al. (2009)	4.18	1.24	0.8068	0.678	0.808
Online immediacy	Latane (1981)	4.46	1.10	0.7695	0.633	0.774
Connected numbers	Latane (1981)	4.08	1.34	0.8144	0.638	0.837
Trust	Morgan and Hunt (1994)	4.40	1.26	0.9021	0.822	0.902
Relationship commitment	Morgan and Hunt (1994)	4.88	1.47	0.9352	0.877	0.936
Relationship satisfaction	Palmatier et al. (2006)	4.77	1.06	0.7548	0.561	0.710
AVE: average variance extracted, CR : Composite reliability						

RESULTS

Many goodness-of-fit criteria can be formulated to assess an acceptable model fit. Bentler (1992) suggested that the comparative fit index (CFI) and normed fit index (NFI) are the preferred measures.

Amos 17.0 was used to analyze the hypothesized model. A two-step model-building approach was used, in which the confirmatory factor models were tested prior to testing the structural model. The maximum likelihood (ML) estimation method, which has desirable asymptotic properties, was used.

Table 2: φ matrix of the constructs

	Perceived similarity	Online immediacy	Connected numbers	Trust	Relationship commitment	Relationship satisfaction
Perceived similarity	1					
Online immediacy	0.351 (0.087)	1				
Connected numbers	0.358 (0.087)	0.351 (0.072)	1			
Trust	0.495 (0.108)	0.287 (0.081)	0.338 (0.084)	1		
Relationship commitment	0.275 (0.117)	0.287 (0.097)	0.137 (0.090)	0.479 (0.123)	1	
Relationship satisfaction	0.401 (0.086)	0.489 (0.075)	0.256 (0.066)	0.678 (0.094)	0.685 (0.111)	1

** The correlation coefficient is significant at a level of 0.01. (parentheses: standard error)

Table 3: Confirmatory factor analysis fitness

Model	Chi-square α	df	GFI	TLI	NFI	PNFI	CFI	IFI	RMSEA
	91.183	50	0.959	0.969	0.957	0.614	0.980	0.980	0.052

We assessed discriminant validity on the basis of the procedure that Anderson and Gerging (1988) propose. We found that the φ +- 2 SE did not include 1, and we tested it by performing a series of chi-square difference tests between a model in which the factor correlation is fixed at 1 and the unrestricted model. Every restricted model shows a more significant fit than the unrestricted model. Convergent validity was also found, as all the indicator loadings were above 0.65 and significant at α=0.001 (Bagozzi and Yi 1988).

Demographic Analysis

In the final sample of 311 respondents, 55.3% were female, and 88.7% were between 19 and 25 years old. About 57.8% of the sample indicated blog media as their most influential online interaction tool, while 19.3% selected an online community, and 11.9% online chatting.

Analysis of Factors and Validity

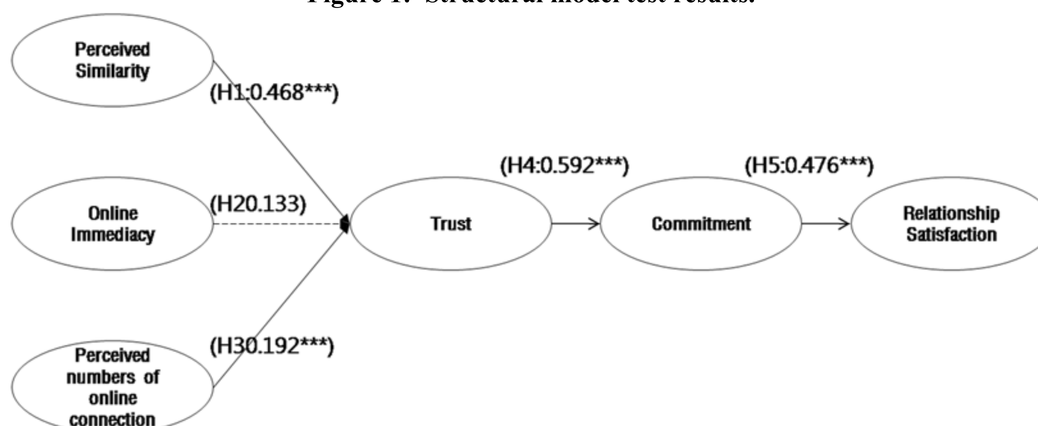
In this study, confirmatory factor analysis was used to find validity using SPSS 14.0. As indicated earlier, Table 1 shows that the measurements meet the reliability criteria.

Structural Model Results

We employed Amos 17.0 to perform the structural model test. We used CFI, IFI, and TLI as an adequate fit index. CFI shows little standard error with regard to sample size, IFI does not consider the sample size, and TLI considers degrees of freedom, so it fits well for any sample size. If the index shows more than 0.9, then the model shows significant fit. After this model test ($p<0.001$), CFI = 0.953, IFI = 0.953, and TLI = 0.935. Figure 1 shows the result. Numbers that are connected indicate significant antecedents of online trust,

After the hypothesis test, we see that H1, H3, H4, and H5 are supported, but H2 is not supported.

Figure 1: Structural model test results.



Note: *** $p<0.001$.

Table 4. Structural model test results									
Model	Chi-square	df	GFI	TLI	NFI	PNFI	CFI	IFI	RMSEA
	154.288	57	0.935	0.935	0.927	0.678	0.953	0.953	0.074

DISCUSSION

Based on social impact theory and the similarity–attraction hypothesis, this study investigates which factor is more influential to online trust and online relationship assessment. In the past there have only been a few studies discussing the influence of trust within the online environment. To our knowledge there is no research on the antecedents of trust classifying personal, technical, and network factors. In our efforts to determine which factor has more effect on online trust, we found that the network factor is most influential.

This study has some theoretical implications. First, we analyzed online relationships using a traditional communication theory: social impact theory. We examined the effects of three factors (perceived similarity, online immediacy, perceived number of online connections) on online trust. The results indicated that perceived similarity is the most influential factor in building online trust. Perceived number of online connections, the variable based on one of the social impact theory factors, also significantly influences online trust. However, online immediacy, which is also based on social impact theory, has no influence in generating online trust.

As mentioned earlier, people trust those who are similar to themselves. For marketing purposes, we can conclude that in order to build a close relationship in cyber space, you should make your image similar to that of your target customer. The factor involving perceived numbers of online connections is influential, meaning that people trust a popular person. This result explains why a power blogger's new product reviews impact many people. Many blog users trust power bloggers' writings because of the number of visitors to that blog. By contrast, the more technical factor, online immediacy, is not influential in building trust. This result indicates that quality of reaction is more important than speed of reaction: no matter how fast you react, you try to react sincerely to your customer.

Among the three factors of social impact theory, the most influential have to do with network links. In our next study, we discuss results for two different types of network-based CMC (chatting and blog visiting) as well as the extent to which communication acts as a mechanism behind the social impact on CMC satisfaction.

This research suggests relationship satisfaction as a final outcome. More direct outcomes, like customer loyalty and word of mouth, will be analyzed in our next study.

Disclosure Statement

The authors have no conflict of interest.

AUTHORS' NOTE

This research was supported by a 2013 research grant from Sang Myung University.

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“SAVE MONEY LIVE BETTER‘: AN ANALYSIS OF WAL-MART’S STORY

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ABSTRACT

This paper discusses the corporate storytelling that Wal-Mart uses. Wal-Mart’s story is that people save money and live better by shopping at Wal-Mart. The focus of this paper is an analysis of the accuracy of this story with a focus on grocery item purchases.

INTRODUCTION

Wal-Mart began selling food in 1988 and in 2002 became the largest grocery store chain in the United States. In 2004, U.S. grocery sales from Wal-Mart totaled $80 billion (Agnese, 2005). Wal-Mart accounts for 24% of Del Monte food sales (Bianco & Zellner, 2003). Wal-Mart hires 2.2 million associates worldwide and reports annual sales of approximately $444 billion. Wal-Mart is the largest retailer in the world (Wal-Mart, 2012).

The author selected this topic due to an interest in corporate storytelling of large corporations. Corporate storytelling is the practice of using narration from within the organization relating to its people, practices, policies, and visions to effectively engage (Gill, 2011). Storytelling can be effective in business settings because in meetings managers often prefer stories instead of abstract arguments or statistical measures (Jameson, 2001). Storytelling is becoming more widely used in advertising to build customer loyalty. This will likely continue to be a marketing trend because many consumers have a need to be entertained. Stories are illustrative, easily memorable and allow any firm to create stronger emotional bonds with the customers (Lury, 2004).

Wal-Mart uses newspaper advertising to promote their low prices. For example, a full page advertisement appeared in the Chicago Tribune on July 1, 2012, where prices on identical shopping lists were compared between a Wal-Mart and a Dominick’s in a suburban location. There were 34 items on the shopping lists. The advertisement refers to it as Julie’s List, which promotes a personal story. There is a savings of 24% at the Wal-Mart store.

METHODOLOGY

The author developed a shopping list with a variety of different items such as cereal, yogurt, orange juice, chocolate, olive oil, and potato chips. The author developed his own list to

determine if there was selection bias in the Wal-Mart advertisement. Prices for these items were gathered at the local Wal-Mart and Copps grocery store for comparison. (Copps is the name of a grocery store chain in the state of Wisconsin. It was founded by the Copps family and has since been sold to one of the chains**).**

RESULTS, ANALYSIS, AND CONCLUSIONS

There were eighteen items on the list. Thirteen of the items were cheaper at Wal-Mart. The five items that were cheaper at Copps were only by a few cents. For example Chobani yogurt was three cents cheaper at Copps. A bottle of Hidden Ranch Salad dressing was five cents cheaper at Copps. Many of the items were significantly cheaper at Wal-Mart. For example a bag of Ruffles potato chips and a box of Honey Nut Cheerios cereal were both $1.31 cheaper at Wal-Mart The total bill for the eighteen items was $52.31 at Wal-Mart and $61.21 at Copps. Table 1 gives an itemized accounting of the shopping lists with their prices.

The advertisement in the Chicago Tribune reveals a savings of 24%. The author of this paper came up with a 15% savings on his list.

A further analysis does reveal that there are some advantages to shopping at Copps. For example, there has been a promotion where consumer purchases are recorded with a scanning card and there is a savings of five cents a gallon of gas for every fifty dollars of purchases. The gasoline discount is available at a number of participating local gasoline stations. Further, Copps generally offers customers the opportunity to participate in store wide promotions. For example, there is now a monopoly game where the grand prize is a $250,000 new home. Other prizes include a new Harley Davidson motorcycle and cash.

It is true that consumers with a typical shopping list do save money if they shop at Wal-Mart. Therefore, Wal-Mart is dispensing accurate information when they promote this message to their target audiences. The author of this paper feels comfortable in writing that Wal-Mart is telling the truth when they advertise that shoppers do save money by shopping in their stores. The question can be raised if Wal-Mart's list is typical because their study reports a greater amount of savings compared to the list used by the author of this paper.

FUTURE RESEARCH

A future paper will be an analysis of the accuracy of Wal-Mart's claim concerning living better. This paper would address how Wal-Mart impacts the communities where they have built stores.

The paper would consider how Wal-Mart has impacted the local businesses in the communities where they have built stores. Extensive research has been done on this topic. For example, studies in Iowa have shown that some small towns lose up to 47% of their retail trade

after ten years of a nearby Wal-Mart store. In fact, research claims go as far as to say that the impact of Wal-Mart can be the disappearance of small, locally-owned businesses (Stone, 1997).

The issue of buying locally will be explored. Wal-Mart is increasing their efforts to buy local. It is difficult to determine how much is motivated by costs savings associated with saving on fuel and reducing product spoilage or responding to changes in consumer preferences. Wal-Mart says that it spotlights fruits and vegetables as locally grown only if they come from the state in which it sells them. In the larger states it can mean that the produce is grown over 300 miles from where it is sold. Some critics say that Wal-Mart is often relabeling items as local when they would have been bought instate anyway. For examples, potatoes sold in Wisconsin would most likely have been grown in Wisconsin anyway (Bustillo and Kesmodel, 2011)

Another issue to be addressed will be social capital, which deals with community civic capacity. More specifically, this deals with businesses giving back to the community where they operate. There is research that indicates the presence of Wal-Mart results in social capital stocks declining in local communities (Goetz and Rapasingha, 2006). On the other hand, Wal-Mart's Volunteerism Always Pays Program (VAP) awards nonprofit organizations with financial contributions when Wal-Mart Associates volunteer. During the fiscal year ending January 31, 2012 associates volunteered over 1 million hours that resulted in $13 million in grants to local nonprofits. In 2010, Wal-Mart and the Wal-Mart Foundation made a $2 billion commitment to end hunger in the United States. Wal-Mart does not limit their giving back to communities in the United States. Wal-Mart is contributing and raising $3 million for the Breakfast Clubs of Canada, a national non-profit organization with the mission of feeding children and youth in low-income communities throughout Canada. (Wal-Mart,2012).

Table 1: Prices at Wal-Mart Compared to Copps Grocery Store

Item	Wal-Mart's Price	Copps' Price
Advil 200 mg. 100 coated tablets	$7.97	$9.79
Honey Nut Cheerios 21.6 oz.	$3.98	$5.29
Bertolli Olive Oil 17 oz.	$6.34	$6.89
Pepsi 2 liter plastic bottle	$1.38	$1.89
Minute Maid Orange juice 59 oz.	$2.98	$3.59
Chobani Yogurt 6 oz.	$1.26	$1.23
Banquet Turkey Pot Pie 7oz.	$0.88	$0.99
Ore Ida frozen French fries 26 oz.	$2.96	$2.50
Kemp's Frozen Yogurt 1.5 Quarts	$3.75	$4.49
Ruffles Original Potato Chips 9.5 oz.	$2.98	$4.29
McCormick's Cinnamon 2.37 oz.	$2.48	$2.55
Hershey Kisses 12 oz.	$2.88	$3.99
Chef Boyardee Beeferoni 40 oz.	$2.50	$2.84
Starkist Abacore Tuna 5 oz.	$1.62	$1.55

Table 1: Prices at Wal-Mart Compared to Copps Grocery Store		
Item	Wal-Mart's Price	Copps' Price
Campbells Vegetable Beef	$1.44	$1.58
Hidden Valley Ranch Dressing 24 oz.	$3.32	$3.27
Del Monte Bananas per pound	$0.54	$0.49
Del Monte Pineapple	$2.99	$3.99
TOTAL	$52.31	$61.21

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MILLENNIALS' INTERPRETATIONS OF GREEN TERMINOLOGY

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ABSTRACT

While there have been a variety of studies on green marketing and environmental labels, there has been little academic research on Millennials' interpretation of environmental terminology, also referred to as green terminology. There is confusion on the part of consumers and manufacturers regarding the use of green terminology. Although environmentally preferable products carry a positive image with most Millennials, only some retailers have been able to effectively send 'green' messages. The purpose of this paper is to examine the meanings that Millennials attach to terms currently being used to promote environmentally preferable products. Marketers can create more effective messages if they understand how consumers are interpreting the terminology used in the messages.

Key Words: Green terminology, Environmentally preferable products, Green marketing, Environmental labels, Millennials

INTRODUCTION

The green movement has gained momentum over the years and made an impact on one generation in particular: the Millennial generation. Businesses have responded by creating and marketing products that are environmentally preferable. The proliferation of 'green' products and marketing suggests there are firms that believe the environmentally conscious consumer is a profitable market segment (Bjornera, Hansena, & Russell, 2004). While there have been a variety of studies on green marketing and environmental labels, there has been little academic research on Millennials' interpretation of environmental terminology. The Millennial Generation is poised to be the largest generation ever, over 80 million in the U.S. alone. According to Gunelius (2008), Millennials are seeking brands that are regarded as making a positive effect on the environment.

While environmentally preferable products carry a positive image with most Millennials, only some retailers have been able to effectively send 'green' messages (California Green Solutions, 2007). One study suggests that, when trying to communicate to Millennials the fact that a product is environmentally preferable, the most effective words to use are: eco-friendly, recycled, and green (Smith, 2010). This leads to the question, "How does the consumer define

terms such as eco-friendly and green?" For example, are 'organic' and 'green' synonymous to the consumer? The purpose of this paper is to examine the meanings that Millennials attach to terms currently being used to promote environmentally preferable products. Marketers can create more effective messages if they understand how consumers are interpreting the terminology used in the messages.

LITERATURE REVIEW

Concern for the environment is prevalent among people throughout the world. Many products today have an environmentally friendly counterpart and with a plethora of these products available, many people, including Millennials, are likely to choose the product that advocates a worthy cause. Due to the massive number of Millennials and their pervasive use of new technology, Millennials are changing the way businesses and marketers do business. Empowered by their marketing power and influence, this group is highly aware of the options they have as consumers and takes full advantage of their freedom of choice. Millennials are one of the most highly educated demographics when it comes to understanding the importance of ecological and environmental conditions (Gaudelli, 2009).

According to a Bentley College study of Millennials, a perception of being environmentally friendly is a key factor in attracting interest of the Millennials (Henrichs, 2008). Younger members of this generation understand the importance of being environmentally conscious, but may not know how to alter their lifestyle or consumer behaviors accordingly. However, older Millennials generally choose brands that are socially responsible and environmentally conscious (Gaudelli, 2009).

Significance of Sending a 'Green' Message

Some researchers have called business opportunities in green markets as 'the next big thing' for small business (Murphy, 2003). Environmentally friendly products, have been identified in several studies as desirable to consumers, even to the point of consumers being willing to pay more for these products (Laroche, Bergeron, & Barbaro-Forleo, 2001; Oliver, 2007). Research shows that 47 percent of Millennials would pay more for environmentally friendly products (California Green Solutions, 2007). The majority of top management believes that a visible commitment to sustainability can build consumer trust and strengthen brand reputation. Consumers are a driving force behind company initiatives aimed at sustainability. Slightly over half of CEOs consider consumers to be their most important stakeholder in influencing how the company handles social and environmental issues (Lacy, Cooper, Hayward, & Neuberger, 2010).

A new bottom line in business, going beyond 'net income' on the income statement, is the triple-bottom line. Besides pursuing a profit, companies are also concerned with helping

society and the environment. Management, employees, investors, and consumers are considering more than profit alone as they evaluate company policy and strategies (Blazovich & Smith, 2011; Cronin et.al, 2010; Makni, Francoeur, & Ballavance, 2009). There is debate as to whether this social responsibility mindset is proving to be beneficial. Some research has found that environmentally conscious companies are associated with better financial performance, increased creativity and innovation, and an improved competitive standing in the marketplace (Kassinis & Vafeas, 2006; King & Lenox, 2002; Porter & Kramer, 2006; Sharmaa, Iyer, Mehrotra, & Krishnana, 2008).

Since a company must first create awareness of its social responsibility initiatives before it can reap subsequent benefits in the marketplace, it is imperative for managers to have a better understanding of message content that leads to successful communication (Du, Bhattacharya, & Sen, 2010). Effective communication depends on using terms that are understood and recognized by the intended audience. In the case of products that are less harmful to the environment, it is important to know how the consumer defines terms that are used in connection with these products. The perception exists that buying behavior may be somewhat influenced by environmental labels. If this is true, then it is vital to use label information and terminology that consumers understand and can base decisions upon (D'Souza, 2004). To be persuasive, research suggests that green claims should be specific and meaningful (Ottman, Stafford, & Hartman, 2006).

Government Regulation

There are over twenty countries that have a government-endorsed label that consumers can use to base their decisions upon. The United States is not one of them. The U.S. does not have a government-sponsored eco-label program (D'Souza et. al, 2007). However, the U.S. does have standards and guidelines for certain products and terms.

The U.S. government has established guidelines for which products can be labeled 'organic.' The United States Department of Agriculture (USDA) offers a certification program that not only sets standards and criteria but also enforces and penalizes those who misuse the USDA Organic label. Products called "100% organic" must contain only organically produced ingredients and processing aids, except for salt and water. For products labeled 'organic', they must be composed of 95% organically produced ingredients and any remaining ingredients must consist of nonagricultural substances approved on the National List (United States Department of Agriculture, 2008).

The Organic Foods Production Act (OFPA) and the National Organic Program (NOP) can guarantee that the organic agricultural products they purchase are "produced, processed, and certified to consistent national organic standards" and that agricultural products that are "sold or

represented as organic must be produced and processed in accordance with the NOP standards" (United States Department of Agriculture, 2008).

The Food and Drug Administration (FDA) has a more indefinite approach towards the marketing of products that it regulates. Some products, such as medication or complex medical devices, must be proven safe and effective before receiving allowance whereas other products such as cosmetics and dietary supplements are made available for consumption without prior approval (Food and Drug Administration, 2012).

Overall, the regulation approaches of marketing approval are as varied as the products themselves. Though it may be difficult to standardize what qualifications or specifications it takes to be called 'green' or 'eco-friendly,' CEOs see the need to improve consumer information regarding environmental issues (Lacy et.al, 2010).

Green Terminology

There are different types of product labels related to environmental issues. There are eco-labels, government-mandated labels, and self-declarations. Government-mandated labels include energy star ratings used on household goods along with environmental hazard warnings required on pesticides and products containing harmful ingredients (D'Souza, 2004). This paper applies to the third type, self-declarations, which are manufacturer claims about environmental issues such as recycling, pollution, and energy conservation.

With many companies and brands competing for their customer share of the environmentally conscious consumer, there are a profusion of terms describing products that claim to be environmentally friendly. Without standardization or comprehensive governing bodies to discern the terminology used to corroborate the 'green-ness' of a product, it has been left up to the consumer to decipher the meanings. Illustrating this point is a survey by eMarketer (2011) in which 41 percent of respondents believed that a product promoted as 'green' or 'environmentally friendly' has a *positive* impact on the environment. Whereas 16 percent of the respondents felt that this same product has a *neutral* impact on the environment. Then there were the 12 percent who think the term 'green' is meaningless.

When asked if it were acceptable for companies to use general environmental claims such as 'green' or 'environmentally friendly' in their marketing, over 70 percent of consumers feel it is acceptable, but two-thirds of that number demand that the company back up their claims with additional details. Twenty-three percent of consumers feel it is unacceptable for companies to use general environmental terms because the claims are vague (eMarketer, 2011).

A diverse assortment of terms is being used to describe environmentally preferable products. Some terms are technical, such as biodegradable and organic. Other terms are colloquial, such as eco-friendly and green, and have evolved as environmental issues took on more prominence. Some words have gained attention as a result of companies restructuring their manufacturing procedures, words such as recycle and sustainable.

Confusion Over Green Terminology

There is confusion on the part of consumers and manufacturers regarding the use of green terminology. Most consumers are unable to identify the differences in many environmental terms and labels (D'Souza, 2004). The word 'green' is liberally applied to a proliferation of companies and products, but what does it mean to be green? According to one study, Millennials consider the term 'green' as encompassing environmental issues, but also social responsibility and the ethical treatment of animals (Henrichs, 2008). This implies that the word 'green' is an ambiguous term in the consumer's mind. Toyota recognizes the ambiguity of the term 'green' and prefers not to use it in promoting its hybrid cars (Ottman, Stafford, & Hartman, 2006).
Research suggests that most consumers cannot easily identify which products are environmentally friendly. Consumers would like to see more 'green' marketing messages that are relevant and engaging. Current marketing strategies aimed toward this segment are not successfully communicating with the target market (Pickett-Baker & Ozaki, 2008). Consumers find product labels hard to understand; they are confused about the green terminology used on product labels. Environmental claims have the propensity to be misinterpreted by consumers or to be misleading (D'Souza et.al, 2006).

Another hurdle for both consumers and marketers is discerning whether or not products claiming to be green, environmentally friendly, eco-friendly and so forth are truly legitimate claims or just puffery. In their article regarding buyer characteristics of green consumers, authors Shrum, McCarty, & Lowrey (1995) illustrate the confusion and skepticism that impede companies' attempts to go green and drive consumption. Their studies postulate that Americans typically do not trust advertising and labeling in regards to the environment and this could be due in part to the confusion surrounding environmental terminology. In a poll conducted by Advertising Age, most respondents stated that advertising messages related to 'green' products were not believable. Another survey, the Nationwide Environmental Survey, stated that more than 80% of respondents indicated that they preferred to purchase environmentally safe products but 85% felt that green claims were not very believable (Shrum, McCarty, & Lowrey, 1995).

Consumers like the green claims made by marketers but the ambiguity over terms and lack of standardization can cause frustration and anger. Consumers want specific, transparent information about the 'green' products they purchase instead of an ambiguous claim or a generic symbol. According to one survey, 75 percent of consumers want companies to teach them more about the terms that are used to distinguish and describe their products. If consumers feel mislead, 71% say they will stop buying the product and 37% would stop buying anything else from that brand (eMarketer, 2011).

Some companies are reluctant to publicize their efforts at helping the environment due to their fear of being accused of 'greenwashing.' CEOs want credit for what they are doing but are

afraid to communicate it in the media because of the potential for backlash (Hopkins, 2009). Over-exaggeration of 'green' benefits can result in negative attitudes toward a product (D'Souza et.al, 2006). Communication and transparency are key factors for classifying products as being 'green.'

An additional consideration in green marketing is that some consumers are purchasing environmentally preferable products for reasons other than the environmental benefit. The marketing of successful 'green' products shows that some consumers are finding value through symbolism and status, safety, convenience, efficiency and cost effectiveness. The market growth of organic foods is largely due to consumers valuing the perceived health and safety for themselves and their families. Energy-efficient appliances promise the value of future money savings (Ottman, Stafford, & Hartman, 2006). These alternative sources of value may be an influencing factor in consumers' interpretations of environmental terminology.

METHODOLOGY AND RESEARCH QUESTIONS

A review of literature shows there is confusion on the part of consumers and manufacturers as to the specific meanings of terminology that are commonly used in the marketplace in regard to environmental issues and products. There is little research regarding definitions that consumers attach to 'green' terms. There is little standardization as to the use of 'green' terms. The current study seeks to add to the research literature by assessing the meaning that Millennials attach to various terms that are used to describe environmentally preferable products. Thus, the following research questions were posed.

RQ1 What meanings do Millennials attach to terms that are used in connection with environmentally preferable products?

To answer this question, Millennials' were asked about the meaning they personally attach to various terms that a product may use in its labeling. Based on a review of advertising and packaging for environmentally preferable products, the following terms were included in this study:

1. Biodegradable
2. Eco-friendly
3. Green
4. Natural
5. Nature friendly
6. Organic
7. Recycled
8. Sustainability

To determine if there are one or more terms that convey an overall stronger image of being less harmful to the environment, the following research question was posed.

RQ2 Which terms most strongly convey the impression of being environmentally preferable to Millennials?

A questionnaire was administered to 222 Millennials in a behavioral lab at a major US university in spring 2011. Survey questions related specifically to the two research questions proposed in this paper. Respondents were students between the ages of 19 and 23. The exact birth years signifying Millennials will vary depending upon the source, but all groupings include the five-year span represented in this survey. Males accounted for 45 percent of respondents, while females accounted for 55 percent of respondents.

FINDINGS

Meanings That Millennials Attach to Environmental Terms

To answer the first research question, each term will be examined according to the meanings that Millennials attach to the term and how their perception compares to a definition from an expert source. For the purpose of this paper, the expert sources are *The A-Z of Corporate Social Responsibility* (Visser et al., 2010), BusinessDictionary.com, and the Merriam-Webster dictionary. The following paragraphs contain a detailed discussion of Table 1, which contains the survey results that relate to the first research question.

Table 1: Percentage of Millennials Attaching Definition Statements to Terms

Statement:	Bio-degradable	Eco-Friendly	Green	Natural	Nature Friendly	Organic	Recycled	Sustain-able
Product will degrade in time.	95%	3%	2%	3%	0	0	0	0
Product does not contain chemical additives	0	3%	4%	69%	3%	27%	0	3%
Recycled materials were used to make product	0	4%	3%	0	2%	1%	91%	3%
Environment not polluted in making of product	0	32%	15%	2%	25%	2%	2%	4%
Product produced from organic farming or composed of organic material	0	0	4%	13%	1%	63%	0	2%
Energy conservation practiced in making of product	0	18%	44%	2%	4%	1%	4%	67%
Product causes little or no harm to environment	3%	32%	26%	3%	18%	2%	0	4%
No unethical treatment of animals in making of product	2%	8%	2%	7%	47%	4%	2%	16%

Biodegradable

Millennials have a strong consensus on the definition of this term. Ninety-three percent agreed that biodegradable means the product would degrade over time. This is in sync with the actual definition that states the entity is capable of being broken down rapidly by the action of microorganisms (BusinessDictionary.com).

Eco-friendly

Millennials attach multiple meanings to this term. In fact, eco-friendly is one of the more ambiguous terms on the list. The two most prominent meanings were that the product did not pollute the environment and the product caused little or no harm to the environment. A smaller percentage of respondents perceived 'eco-friendly' to mean that energy conservation was practiced in the making of the product. It is hard to find a definition for eco-friendly. BusinessDictionary.com does not give a definition, and *The A-Z of Corporate Social Responsibility* simply connects eco-friendly to green marketing (Visser et al., 2010). The Merriam-Webster dictionary defines eco-friendly as "not environmentally harmful." Millennials go a bit beyond this definition in their perception of eco-friendly.

Green

The response is somewhat a surprise, considering that BusinessDictionary.com defines 'green' as having positive environmental attributes. Interestingly, only a fourth of the respondents perceive a green product as causing little or no harm to the environment. Millennials are more prone to associate the term green with energy conservation. Forty-four percent of Millennials believe that energy conservation is practiced in the making of a green product. A small percentage of respondents (15%) think the environment is not polluted in the making of a green product. These multiple interpretations suggest that 'green' is an ambiguous term.

Natural. Almost 70 percent of Millennials define a 'natural' product as not containing chemical additives. This is another term that is hard to find a definition for. Only the Merriam-Webster dictionary provides a definition: being in accordance with or determined by nature. The Millennials interpretation is somewhat more specific.

Nature friendly

Millennials attribute multiple meanings to this term. Almost half of respondents think that 'nature friendly' means there was no unethical treatment of animals in the making of the product. One fourth of respondents believe that the environment was not polluted in the making of the product. Slightly fewer respondents trust that the product caused little or no harm to the

environment. ‘Nature friendly’ is an ambiguous term; a definition cannot be found in any of the expert sources. Since Millennials attach various meanings to the term, it is surprising that almost half did agree on a connection with the ethical treatment of animals.

Organic

The majority of Millennials associate an ‘organic’ product as being produced from organic farming or being composed of organic materials. This is consistent with the most applicable definition from the Merriam-Webster dictionary: relating to food produced with the use of feed or fertilizer from plant or animal origin, without employment of chemicals. The meaning of ‘organic’ seems to be clearly understood.

Recycled

The meaning for this term has a solid consensus among Millennials. Ninety percent believe that recycled materials were used to make a product that uses ‘recycled’ in its labeling. This is in accord with the Merriam-Webster dictionary: to process in order to regain material for human use. ‘Recycled’ along with ‘biodegradable’ are the least ambiguous terms for communicating their specific references to environmental issues

Sustainability

A majority of Millennials believes that energy conservation is practiced in the making of a sustainable product. Experts go into a bit more detail when defining the term. *The A-Z of Corporate Social Responsibility* defines sustainability as development that meets the needs of present generations without compromising the ability of future generations to meet their needs (Visser et al., 2010). BusinessDictionary.com defines sustainability as continued development or growth, without significant deterioration of the environment and depletion of natural resources on which human well-being depends. Interesting, fifteen percent of respondents attached another meaning to ‘sustainability.’ They believe that there is no unethical treatment of animals in the making of a ‘sustainable’ product. This could be viewed as a broad interpretation of the term.

In summary, Millennials are unified in the meanings they attach to the terms ‘biodegradable’ and ‘recycled.’ These terms are easy to understand and have clear meanings, as will be discussed in the section below. The remaining terms have multiple interpretations by Millennials. The most ambiguous terms are eco-friendly, green, and nature friendly. While a majority of respondents agree on one definition for the terms natural, organic, and sustainability, there is also a sizable percentage that possesses another interpretation for these terms. The following section discusses the findings in regard to the second research question.

Terms That Strongly Convey 'Environmentally Preferable'

Since there is little standardization for defining terms related to environmentally preferable products, the interpretation of the consumer may be the term's practical meaning in the marketplace. To decipher those terms that are most meaningful to the Millennial in regard to environmentally preferable products, respondents were asked to select the three terms that most strongly convey the impression of causing the least harm to the environment. As shown in Table 2, responses to the survey resulted in the terms being categorized into three tiers. The most effective terms for conveying an environmentally preferable image are: eco-friendly, green, and recycled. Each of these terms is selected by almost 60 percent of the respondents. As previously discussed, 'recycled' has a very clear meaning to the vast majority of Millennials and shows that Millennials are interested in recycling materials. However, the ironic part of this finding is that the other two terms, eco-friendly and green, have multiple meanings and are rather ambiguous. An assumption could be made that the multiple meanings contribute to the term's appeal since it can apply to numerous issues of interest.

Table 2: Terms That Strongly Convey 'Environmentally Preferable'

	Term	% of Respondents
Most effective	Eco-friendly	59%
	Recycled	58%
	Green	56%
Mildly effective	Biodegradable	45%
	Organic	44%
Not effective	Natural	18%
	Sustainability	15%
	Nature friendly	5%

The second tier of mildly effective environmental terms includes biodegradable and organic. These terms were preferred by 45 percent of respondents. Both of these terms have overt meanings to the majority of Millennials. Biodegradable refers to a product degrading in time. Organic refers to a product containing organic materials as opposed to chemical additives. This survey could imply that these attributes are not as important to Millennials.

Terms that are not effective in communicating environmental issues to Millennials are natural, nature friendly, and sustainability. 'Nature friendly' is an ambiguous term, but unlike terms in the top tier, ambiguity does not create an advantage. This may be because the term is used less frequently and thus, Millennials are not as familiar with it. The majority of Millennials agree upon the meanings of the terms natural and sustainability, but they did not rank high in conveying an environmentally preferable impression.

SUMMARY

The green movement has gained momentum over the years and made an impact on one generation in particular: the Millennial generation. Millennials are one of the most highly educated demographics when it comes to understanding the importance of ecological and environmental conditions. A perception of being environmentally friendly is a key factor in attracting interest of the Millennials. In order to effectively communicate with Millennials, marketers need to understand how they are interpreting the terminology used in environmental messages.

There is much confusion and little standardization in what constitutes environmental terminology. To consumers, information on product labels may seem abstract as well as gratuitous. Without governance to clarify environmental terms, it is often up to the consumer to assign meaning to these messages. With existing ambiguity, consumers may be untrusting and reluctant to buy a product that cannot clearly communicate and support its claims.

The results of this research reveal some of the meanings that Millennials attach to environmental terminology. There are two terms for which Millennials are strongly unified in defining: 'biodegradable' and 'recycled.' 'Biodegradable' implies that the product will degrade over time and 'recycled' implies that recycled materials were used.

While a majority of respondents agree on one definition for the terms natural, organic, and sustainability, there is also a sizeable percentage that attaches other interpretations for these terms. The majority agrees on the following definitions. Natural products do not contain chemical additives. Organic products are composed of organic materials. Sustainability is connected with the concept of energy conservation.

The most ambiguous terms with multiple interpretations are eco-friendly, green, and nature friendly. Eco-friendly implies that the product does not pollute or harm the environment and is also associated with energy conservation for some Millennials. Green can encompass energy conservation, pollution, and not harming the environment. Nature friendly ranges in meaning from the ethical treatment of animals to not polluting the environment.

In a company that wishes to convey an over-all environmentally preferable image, the most effective terms to use with Millennials are eco-friendly, green, and recycled. Mildly effective environmental terms include biodegradable and organic. Future standardization of

environmental terminology and educating the consumer on environmental issues could provide clarity and less ambiguity to help consumers make informed choices.

MANAGERIAL IMPLICATIONS AND APPLICATIONS

Until there is standardization in defining environmental terminology, it may be up to consumers of all generations to decipher terms and create their own working definitions. With the findings from this research, businesses can be more informed concerning the meanings that Millennials attach to environmental terminology. This knowledge can assist in marketing communications for environmentally preferable products.

Almost all consumers understand the meanings of two terms: biodegradable and recycled. For a product that degrades over time, it is easy to communicate that feature using 'biodegradable' in the description. If recycled materials were used to make the product, consumers readily recognize that fact with the term 'recycled.'

There are some product attributes for which terminology is not as clear, but will still be understood by the majority of consumers. If a product does not contain chemical additives, the most precise term to use in its description is 'natural.' If the product is produced from organic farming or is composed of organic materials, the best term to use is 'organic.' If energy conservation is practiced in the making of the product, the most precise term to use is 'sustainable.'

If there is no unethical treatment of animals in the making of a product, then the best term to use is 'nature friendly.' Almost half of the respondents made this connection.

There are some product features that are difficult to communicate to the consumer due to ambiguous interpretation of terms. If the environment is not polluted in the making of a product, there is not a term that communicates this fact to a majority of consumers. 'Eco-friendly' is the closest with a third of the respondents associating the term with the topic of pollution.

If a product causes little or no harm to the environment, there is not a clear consensus on an applicable term. A third of the respondents apply the term 'eco-friendly' while a fourth of respondents would use the term 'green.' The remaining respondents use a wide variety of terms for this concept.

If a company simply wishes to convey a strong over-all impression of being environmentally preferable, use the terms eco-friendly, green, and recycled in promotional marketing messages. Standardization of environmental terminology and educating the consumer on environmental issues could provide clarity and less ambiguity to help consumers make informed choices.

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THE IMPACT OF VARYING SIZE OF ASSORTMENT ON CONSUMER BEHAVIOR: A META-ANALYSIS

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ABSTRACT

Purpose: The purpose of this paper is to examine the influence of varying size of the assortment offered by retailers on consumer behavior.

Design/methodology/approach: The empirical study collects the results of twenty studies published from 1974 to 2009 (covering fifty individual cases) to perform a meta-analysis.

Findings: The main results indicate that there is a positive relationship between the size of the assortment and consumer behavior. Additional analysis shows that moderating variables related to the theoretical constructs are those that cause the highest percentage of inter-study variability and type of good is the variable that causes the highest percentage of intra-study variability.

Originality/value: Research on the effect of the size of retail assortments on consumer behavior has produced mixed findings, and no meta-analysis of the existing research has been previously undertaken. The present study addresses this gap in the retail literature.

Keywords: Size of assortment, Consumer behavior, Meta-analysis, Fixed effect model, Random effect model

Article Classification: Research paper

INTRODUCTION

Product assortment optimization has been a strategy of many retailers during last years, which has provoked the interest of researchers and marketers. This issue is not especially novel, but it has been enhanced recently as a consequence of the global crisis and subsequent downturn in retail sales in many countries. Specifically, the issue of assortment size has become a topical subject in retail studies (e.g., Boatwright & Nunes, 2001; Chernev & Hamilton, 2009; Chowdbhury, Ratneshwar & Mohanty 2009; Oppewall & Koelemeijer, 2005).

Many retailers have been forced to lower their prices to retain customers (Nielsen, 2010), it was achieved by limiting the variety of their offerings and focusing on more basic products,

thus imitating the discount retailers who have achieved great success in recent years (Steenkamp, 2009). This task is in accordance with a strategy of so-called 'SKU rationalization'. According to Krum (1994), such a strategy can increase sales volume and revenue while simultaneously reducing inventory costs. Some conventional retailers, such as 'Wal-Mart', have adapted this assortment strategy offering fewer stock-keeping units (SKUs), but selling higher volumes of them. So, 'Wal-Mart' recorded a 6.8% increase in its annual sales in the United States in fiscal year 2008, while reducing its inventory by 1.2% (Banker, 2009). In contrast, some European retailers (such as 'Auchan' and 'Carrefour') have chosen to offer a wider assortment of SKUs with a view to enhancing consumer choice and meeting the needs of all customers.

The fact that different assortment strategies have been adopted indicates that there is an unresolved issue with regard to retailer's offerings: What is the best size of assortment, wide or narrow? As Broniarczyk (2008) has noted, large assortments seduce and attract consumers, but they also present customers with a difficult choice in selecting a product from a wide range of options. White & Hoffrage (2009 p. 281) have referred to this phenomenon as 'the allure of more choice [versus] the tyranny of too much choice'.

The existing research in this area has provided no clear guidance with regard to the impact of assortment size on consumer behavior. Some studies have suggested that large assortments offer definite benefits to customers (e.g., Berger, Draganska & Simonson, 2007; Broniarczyk, Hoyer & McAlister, 1998; Chernev, 2003a; Chowdhury, Ratneshwar & Mohanty, 2009; Dhar, 1997; Haynes, 2009; Kahn & Wansink, 2004; Koelemeijer & Oppewal, 1999; Sagi & Friedland, 2007; Lenton, Fasolo & Todd, 2008), whereas others have reported that the disadvantages outweigh the advantages (e.g., Chernev 2005, 2006; Fasolo, Carmeci & Misuraca, 2009; Jacoby, Speller & Kohn, 1974).

Various factors have been investigated in analyzing consumer behavior in terms of the size of the assortment offered by retailers. Among these factors included in this study were such variables as brand choice (Berger, Draganska & Simonson, 2007), assortment choice (Chernev & Hamilton, 2009), and product/service choice (Dhar, 1997). In addition, some authors have investigated whether various moderating variables influence the relationship between the size of the assortment and consumer behavior (Chernev, 2003b; Chernev & Hamilton, 2009; Gourville & Soman, 2005; Sela, Berger & Liu, 2009).

Despite the widespread use of assortment strategies in marketing practice and the equivocal research findings, there has been no systematic attempt to review the existing research to determine the nature of the relationship between the size of assortment and consumer behavior (DelVecchio, Henard & Freling, 2006). This study addresses the gap in the literature by reviewing twenty studies (published between 1974 and 2009) of the effect of assortment size on consumer behavior and the moderating role of certain variables on this relationship. These twenty studies cover fifty individual cases (see Table 1). The remainder of this study is organized as follows. The paper begins with a review of the relevant literature about the relationship focused. The methodology section details the procedure for selection of the studies included in

this meta-analysis, and shows the variables that were taken into account. Following this, the findings section reports the main results of the study. In the final section, a discussion of the findings is presented, limitations of the study are shown, and suggestions for further research are introduced. Since the findings from this study have important implications for managers of the retail sector, recommendations are also discussed in the closing sections of this paper.

LITERATURE REVIEW: ASSORTMENT SIZE AND CONSUMER BEHAVIOR

The systematic review of the literature revealed two general views on how the size of a retail assortment affects consumer behavior. One view suggests that there is a *positive relationship between the size of the assortment and consumer response*, whereas the opposing view is that there is a *negative relationship between the size of the assortment and consumer response*. In this section, both positions are argued. In addition, there are several variables that influence the main effect (size of assortment on consumer behavior), that is those variables that moderate the main relationship (for a description see section 3.2).

The Positive Relationship

The general rationale for this first view—that there is a *positive relationship between the size of the assortment and consumer response*—is that larger assortments are inherently more attractive to the consumer (Chernev & Hamilton, 2009).

Usually the consumer does not define his or her preferences in a clear and stable way, so it is more difficult to evaluate alternatives individually (Simonson, 1999). Product assortment can play a key role, not only in satisfying wants, but also in influencing buyer wants and preferences, which means that the choice involves a certain charm derived from several options to choose from (Brown, Read & Summers, 2003).

Various (related) reasons have been suggested for this first rationale: (i) a greater number of products gives a *perception of greater variety* (Broniarczyk, Hoyer & McAlister, 1998; Chernev, 2003a, 2003b); (ii) a larger assortment allows the *consumption of products in greater quantities* (Kahn & Wansink, 2004); or (iii) a larger assortment implies a *greater likelihood that the consumer will find exactly what he or she was seeking* (Berger Draganska & Simonson, 2007; Lenton, Fasolo & Todd, 2008; Sela, Berger & Liu, 2009).

A certain number of studies have provided some supporting evidence for this general rationale, that a larger assortment is inherently more attractive. For example, Kahn & Wansink (2004) demonstrated that consumers (both children and adults) ate more sweets from a bowl if they perceived that the variety of the assortment was high; conversely, they ate fewer sweets if they perceived that the variety of the assortment was low. Moreover, Jacoby, Speller & Kohn (1974) demonstrated that larger selections of products in the set were associated with: (i) reduced

consumer desire for more information about new brands; and (ii) greater satisfaction with the choice that was made. Finally, Borle *et al.* (2005), who evaluated the effect of a significant reduction in assortment by an online retailer, found that this fact resulted in: (i) reduced frequency of visits to the online retailer; (ii) reduced individual sales amounts; and (iii) reduced overall sales. Hence,

Proposal 1: A strategy of a wide (reduced) assortment has a positive (negative) effect on consumer behavior.

The Negative Relationship

The general rationale for the second view—that a *negative relationship exists between size of assortment and consumer response*—is that the benefits of offering more variety are offset by an increase in consumer costs associated with choosing among alternatives in large assortments. Making a choice from among a wide range of options requires more cognitive effort to evaluate the alternatives. If the consumer perceives that there is an over-abundance of alternatives, this phenomenon has been described as 'over-choice' (Iyengar & Lepper, 2000; Reutskaja & Hogarth, 2009; Shugan, 1980).

A large number of alternatives can be especially confusing and frustrating for consumers whose preferences are relatively undefined (Dhar, 1997; Haynes, 2009; Huffman & Kahn, 1998). In these circumstances, there is evidence that consumers are *less satisfied* with larger assortments than smaller assortments (Chernev, 2006), and that they are *more likely to regret the choice* they make from a larger assortment than from a smaller one (Sagi & Friedland, 2007).

A certain number of studies have provided some supporting evidence for this second rationale, that a larger assortment is less attractive. For example, Iyengar & Lepper (2000) showed that only 3% of consumers who tested all 24 exotic flavors of marmalade on offer, made a purchase; whereas 30% of those who tested only six of the 24 flavors on offer, made a purchase. In a similar vein, Boatwright & Nunes (2001) showed that a 4% reduction in an assortment of more than 42 product categories produced a sales increase of 11%—presumably because consumers found it easier to find what they were seeking. Hence,

Proposal 2: A strategy of a wide (reduced) assortment has a negative (positive) effect on consumer behavior.

METHODOLOGY

A meta-analysis is a technique to evaluate results from prior literature to determine the relative importance of the relationship studied (Lipsey & Wilson, 2001). Through the statistical

homogeneity of the results collected from previous research, carried out with samples of subjects, a common metric is achieved: *the effect size*.

Steps were taken to first develop a database of studies that analyze effect on consumer behavior because of the variation of the size of assortment. The first task in this process was the delineation of the criteria for including studies in the review. After selection of studies, the following step consist of identifying the measure of association that would permit the greatest number of effects to be included in the meta-analysis, that is, the *standardized mean difference*. This statistic is used most often in the experimental design to report measure of the main relationship. The effect size associates with each case, and other important characteristics of each study, were coded into a database. A process of estimating the reliability of codification was performed. On one hand two researchers have monitored the codification of some problematic cases, as well as after the first coding, after spending enough time and without reference to the first, a second coding was performed which ratified the first (Szymanski & Henard, 2001).

The authors obtained *the mean effect size*, which is overall estimate of effect size of the main relationship. Once calculated the overall estimate, they conducted 'sub-analysis', taking into account various characteristics of the results likely to alter (increase or decrease) the effect size in order to obtain concrete conclusions from all moderators of the main effect.

Selection of Studies and Database Development

The main criteria for inclusion in this meta-review, were empirical studies that (i) specified the main relationship (assortment size and consumer behavior) as a measure in their empirical model, (ii) had been published in a journal belonging to the *Social Science Citation Index*, and (iii) analyzed a consumption situation.

These studies were identified through keyword searches (using the words: 'assortment' and 'consumer behavior') through the following electronic databases: ABI/Info Global, Accounting and Tax, Banking Information Source, Dissertations & Theses, MEDLINE, ProQuest Health and Medical Complete, and ProQuest Psychology Journals. Then, an additional search of the references found in the identified studies was performed.

All articles accepted for this meta-analysis were published in journals with an 'impact index', in accordance with the Social Science Citation Index (SSCI), which guarantee the quality of the studies comprising the meta-analysis (Rosenthal, 1991). The relevant journals in the present analysis were: *Marketing Science, Journal of Consumer Research, Journal of Marketing Research, Journal of Retailing, Marketing Letters, Marketing Science, Psychology & Marketing, Journal of Personality and Social Psychology* and *IEEE Transactions on Professional Communication*.

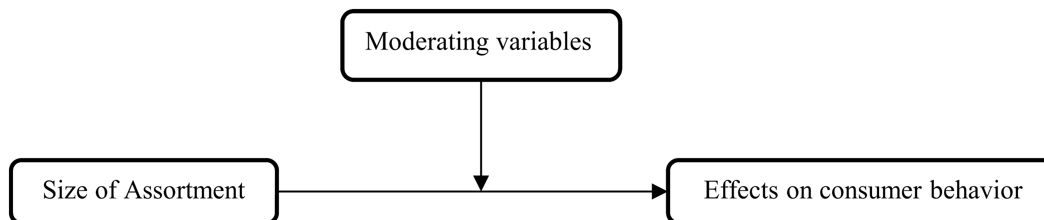
In accordance with the above criteria, twenty studies published between 1974 and 2009 were selected for this review. These twenty studies cover fifty cases. The studies are shown in Table 1.

Table 1. STUDIES AND CASES SELECTED FOR THE META-ANALYSIS			
Author/S	**Year of publication**	**Journal**	**Number of cases in study**
Berger, Draganska & Simonson	2007	*Marketing Science*	7
Broniarczyk, Hoyer & McAlister	1998	*Journal of Marketing Research*	1
Chernev & Hamilton	2009	*Journal of Marketing Research*	2
Chernev	2006	*Journal of Consumer Research*	2
Chernev	2005	*Journal of Consumer Research*	1
Chernev	2003a	*Journal of Personality and Social Psychology*	2
Chernev	2003b	*Journal of Consumer Research*	5
Chowdhury, Ratneshwar & Mohanty	2009	*Marketing Letters*	1
Dhar	1997	*Journal of Consumer Research*	2
Fasolo, Carmeci & Misuraca	2009	*Psychology & Marketing*	1
Gourville & Soman	2005	*Marketing Science*	6
Haynes	2009	*Psychology & Marketing*	1
Iyengar & Leeper	2000	*Journal of Personality and Social Psychology*	2
Jacoby, Speller & Kohn	1974	*Journal of Marketing Research*	1
Kahn & Wansink	2004	*Journal of Consumer Research*	4
Koelemeijer & Oppewal	1999	*Journal of Retailing*	1
Lenton, Fasolo & Todd	2008	*IEEE Transactions on Professional Communication*	1
Sagi & Friedland	2007	*Journal of Personality and Social Psychology*	1
Scheibehenne, Greifeneder & Todd	2009	*Psychology & Marketing*	3
Sela, Berger & Liu	2009	*Journal of Consumer Research*	6

Main Effect and Moderating Variables

As it is shown in Figure 1, this review examined both: (i) the *main effect* of assortment size on consumer behavior (Hunter & Schmidt, 1990); and (ii) the *effect of moderating variables* (Farley, Lehmann & Sawyer, 1995).

Figure 1: Main effect with moderating variables

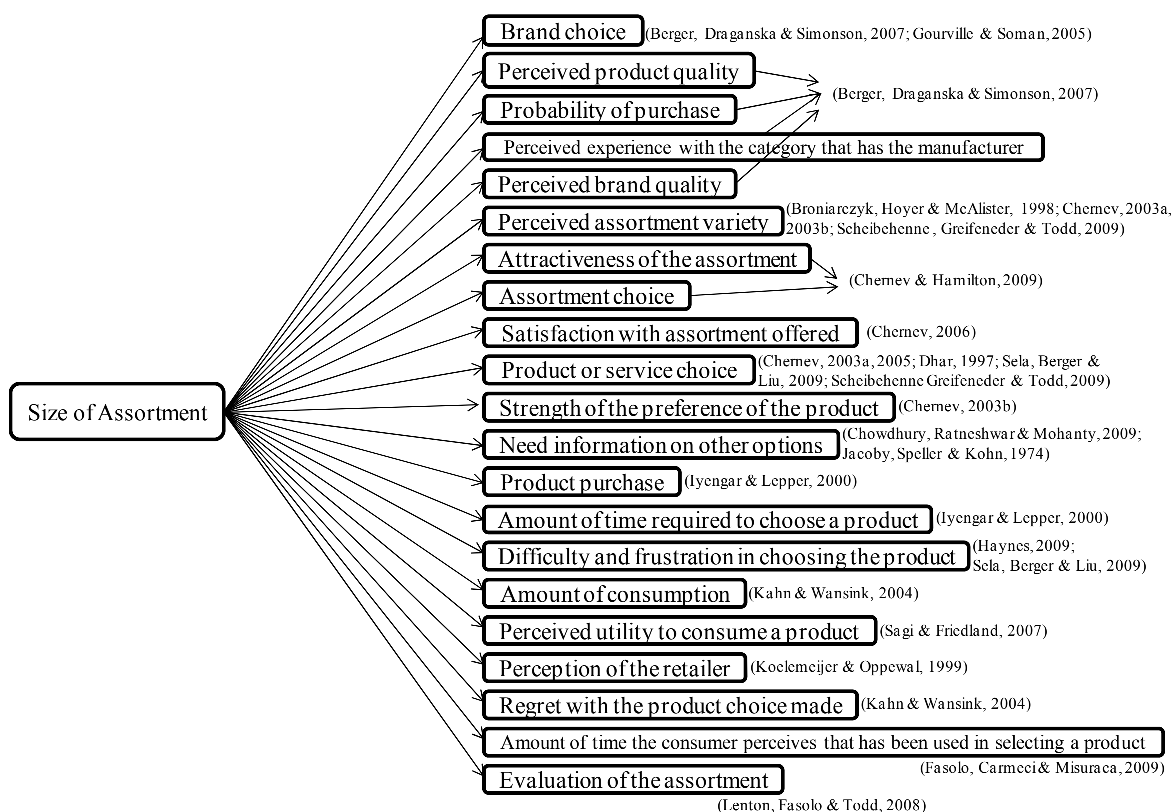


Main effect

Size of the assortment is the antecedent variable in the 'main effect'. It is unique and fixed and, in most of the studies included in this review, this antecedent variable was operationalized as a simple dichotomy—'small assortment' and 'large assortment'—. The exceptions to this dichotomized approach were the studies of Reutskaja & Hogarth (2009), a case in the paper by Scheibehenne, Greifeneder & Todd (2009), and other case in the paper by Lenton, Fasolo & Todd (2008), all of which took into account more than two categories of assortment size. These instances have not been included in subsequent analyses in this meta-analysis because they differed from the overwhelming majority of studies, which considered only two categories ('small' and 'large').

The dependent variable in the 'main effect' is consumer behavior. As it is shown in Figure 2, the precise behaviors considered under this general variable differed from study to study; however, taken together, they provide insight into how consumers make decisions when faced with various sizes of assortments (Broniarczyk, 2008).

Figure 2: Consumer behaviors considered in various studies



Moderating variables

The main effect of the size of the assortment on consumer behavior can be strengthened or weakened under certain conditions that are tested for different cases, providing empirical measures; they are *moderating variables* (Farley, Lehmann & Sawyer, 1995). Table 2 lists the main moderating variables identified in the studies examined in this research, they are called *moderating variables related to the theoretical constructs* (to identify this group of moderating variables we use letter i).

Table 2. MODERATING VARIABLES RELATED TO THE THEORETICAL CONSTRUCTS (i)		
Variable	**Study**	**Description**
Level of effort in choice	Sela et al. (2009)	Difficulty of justifying a choice or effort spent in choosing (categorized as high/low effort in choice)
Level of indulgence in choice	Sela et al. (2009)	Difficulty of justifying a hedonic choice or high/low status of 'indulgence'.
Utilitarian product	Sela et al. (2009)	Product chosen only by necessity, not for pleasure
Level of attractiveness: preference of assortment	Chernev & Hamilton (2009);	Assortment composed of more attractive options for the consumer and more consistent with their preferences
	Scheibehenne et al. (2009)	
Different attractiveness of options	Dhar (1997)	Likelihood of delaying a choice when the assortment consists of equally attractive alternatives
Consumer maximisers	Chowdhury et al. (2009)	Consumer whose motivation is to make the best choice (not just satisfied)
Negative correlation between the attributes of each option	Fasolo et al. (2009)	Negative correlations imply that each element of assortment has different attribute levels, thus making comparisons difficult; positive correlations imply that each element of assortment has similar attribute levels (all high, all medium, or all low), thus making comparisons easier
Differentiation for additional features among the options	Chernev (2005)	Elements in an assortment are distinguished by features that do not add value in the presence of others
Local domain relationship among the options	Chernev (2006)	An option is dominant in an assortment if it offers an important reason to be chosen under uncertain consumer preferences
Immediate temporal distance between the choice of assortment and product	Chernev (2006)	The hierarchical nature of the decision process implies that a consumer will first choose an assortment and then choose a product from this assortment. Moderating variable is the immediate temporal distance between the choice of assortment and the choice of product
Availability of consumer favourite item in the assortment	Broniarczyk et al. (1998)	The presence of the consumer's favourite product among the assortment
Shelf space devoted to category	Broniarczyk et al. (1998)	Consumers do not perceive a reduction in assortment if it has their favorite products, and if space devoted to the category remains constant or unchanged
Presence of an ideal option in mind of consumers	Chernev (2003a, 2003b)	A combination of ideal attributes and attribute levels in mind of consumers

Table 2. MODERATING VARIABLES RELATED TO THE THEORETICAL CONSTRUCTS (i)		
Variable	**Study**	**Description**
Alignment of assortment	Gourville & Soman (2005)	An aligned array has a set of brand variants that differ in one dimension or attribute, such that each brand variant has a specific amount of each attribute
Ability to change the choice made	Gourville & Soman (2005)	The possibility of changing the product chosen (as opposed to a final decision that cannot be changed)
Full/simplified information about the characteristics of the attributes of the brands of assortment	Gourville & Soman (2005)	Complete or incomplete information on the characteristics of attributes of brands that form the assortment
Assortment compatible with branding	Berger et al. (2007)	A uniform assortment increases the perception of quality and product specialization
Assortment full/part about brand	Berger et al. (2007)	An assortment in which the breadth and depth of brand is complete (no alternatives) or partial (the choice set consists of a partial or incomplete assortment)
Assortment organized	Kahn & Wansink (2004)	Orderly presentation of assortment

In addition to these specific moderating variables that directly influence the main relationship (as noted above), other characteristics of the general empirical setting can also influence the effect on consumer behavior. A review of the studies included in this paper revealed four general characteristics of the empirical setting that could be considered as moderating variables, they are: (ii) *type of main relationship* (positive or negative); (iii) *statistical methodology employed in the empirical analysis*; (iv) *type of good* considered in the study (durable/non-durable product; or service); and (v) *type of retailer* (offline or online).

META-ANALYTIC FINDINGS: QUANTITATIVE SUMMARY OF BIVARIATE RELATIONSHIPS

To obtain results on the overall effect size, the authors performed an analysis of results in three phases. First, they used an approach based on *fixed effects (FE)*, which assumes that the variability between studies comes primarily from sampling error in each study. Secondly, the authors apply the *Q test of homogeneity*, to see if the variability between studies that have shaped the media ($\overline{ES}$) is only due to sampling error in each study.

Finally, rejected the Q test of homogeneity, the authors analyze the sources of variability between studies. Firstly, to perform this task it was assumed that the excess of variability is derived from random differences between studies by recalculating the results using the *random effects approach (RE)*. Secondly, it was assumed that excess of variability was associated with other variables that describe the studies: the moderating variables and the author applied the *analog to the analysis of variance* (Lipsey & Wilson, 2001).

Fixed Effect Model

The overall goal of the meta-analysis is to provide a statistic of central tendency of the sample of studies, that is *average effect size* ($\overline{ES}$) of all studies admitted to treatment (Glass, McGaw & Smith, 1981). $\overline{ES}$ value for this meta-analysis is:

$$\overline{ES} = \frac{\sum_{i=1}^{k} w_i ES_i}{\sum_{i=1}^{k} w_i} = 0.6207 \quad [1]$$

where ES_i are the values on the effect size statistic used, w_i is the weight for effect size *i*, and *i* is equal to 1 to *k*, with *k* being the number of effect sizes.

The confidence interval indicates the range within which it is more likely to find the mean of the population. It is based on the standard error of the mean and a critical value of z distribution, in our case 1.96 for α = 0.05, indicating a confidence interval at 95% probability. For this research, IC is equal:

$$(\overline{ES} - 1.96 SE_{\overline{ES}}, \overline{ES} + 1.96 SE_{\overline{ES}}) = (0.5670, 0.6744) \quad [2]$$

where the standard error of the mean is computed as the square root of the sum of the inverse variance weights:

$$SE_{\overline{ES}} = \sqrt{\frac{1}{\sum w_i}} = 0.0274 \quad [3]$$

The confidence interval does not include zero, indicating that the mean effect size is statistically significant at $p \leq \alpha$ ($\alpha = 0.05$).

A direct test of the significance of the mean effect size can be obtained by calculating a *z test*, whose result is normally distributed.

$$z = \frac{|\overline{ES}|}{SE_{\overline{ES}}} = 22.6533 \quad [4]$$

If the resulting value exceeds 1.96, as in our case (z = 22.6533), mean effect size for this sample of studies is statistically significant at $p \leq 0.05$.

Q Test of Homogeneity of Effects Sizes

In a homogeneous distribution, the individual effect size differs from the population mean only in the sampling error. If the null hypothesis of homogeneity is rejected, the variability of effect sizes is greater than expected by the influence of sampling error and therefore there are other differences between effect sizes from other sources.

The homogeneity test is based on *statistic Q*: Q ~ χ^2_{k-1}, being *k* the number of effects size.

$$Q = (\sum w_i ES_i^2) - \frac{\sum (w_i ES_i)^2}{\sum w_i} = 295.7598 \quad [5]$$

Q exceeds the critical value of a χ^2_{49}, and the null hypothesis is rejected (Q = 295.7598 > 66.34 = χ^2_{49}). The conclusion here is that the distribution of effect sizes around the mean does not follow a uniform distribution. Therefore, in the next section will be an examination of other possible sources of heterogeneity between studies.

Random Effect Model

Recent publications advice researchers to use a RE model (Schmidt, Oh & Haynes, 2009; Carrillat, Jaramillo & Mulki, 2009). The main reason is that the FE approach underestimates the standard error of the mean effect sizes, because the variability between studies is only due to sampling error for each study, and random effects model has into account more sources of variability. The authors proceed conservatively in this respect, because even if they had not rejected the Q test of homogeneity, they used the RE model (as the Q test has low statistical power to reject the homogeneity where there is little effect sizes and are based on small samples, like is this case (Lipsey & Wilson, 2001)).

Applying a RE model, the average random effect size, confidence intervals and test of significance and homogeneity must be recalculated, taking into account the new variance, with two sources of error: the one associated with subject-level sampling error (v_i), as presented earlier in FE model, and a second component associated with the random effects variance (v_θ). The sum of these two variance components: v_i^*, is the total variance associated with the distribution of effect size values and is described by:

$$v_i^* = v_\theta + v_i \quad [6]$$

where v_θ is the estimate of the random or between-studies variance component (see equation [7]).

$$v_\theta = \frac{Q-(k-1)}{\sum w_i - \left(\sum w_i^2 \big/ \sum w_i\right)} \qquad [7]$$

The *average effect size* ($\overline{ES^*}$) of all studies in the analysis is equal to 0.7734, IC = (0.6359, 0.9108), which does not include zero, so that the mean effect size is statistically significant at $p \leq \alpha$ ($\alpha = 0.05$). The z test indicates that the average effect size for this sample of studies is statistically significant at $p \leq 0.05$ ($z = 11.0328 > 1.96$). According to the generalization of Lipsey & Wilson (2001), the results indicate a great effect generated on consumer behavior by the change in size of assortment from the retailer.

Table 3. CODIFICATION SCHEME, GROUPING CASES BY DIFFERENT EFFECTS ON CONSUMER BEHAVIOR

Effects on consumer behavior	**Number of studies**	**Number of cases**	**Effect size range***	**Sample size**	**Positive relationships**		**Negative relationships**	
					Significant	**Not Significant**	**Significant**	**Not Significant**
Product choice regret	1	1	1,1075	72	1	-	-	-
Assortment attractiveness	1	1	0,2848	138	1	-	-	-
Amount of consumption	1	3	0,3485 - 1,0886	291	3	-	-	-
Amount of time consumer uses to choose a product	1	1	1,5189	132	1	-	-	-
Product purchase	1	1	0,7703	249	-	-	1	-
Probability of purchasing product	1	1	0,7249	88	1	-	-	-
Need information about other options	2	2	0,2997 - 0,4574	369	1	-	1	-
Difficulty in product choice	2	2	0,4859 - 0,7781	223	1	-	1	-
Brand choice	2	9	0,2709 - 1,7933	1087	5	1	3	-
Product or Service choice	5	11	0,0479 - 0,9117	1074	6	-	3	2
Assortment choice	1	1	0,4518	85	-	-	1	-
Assortment evaluation	1	1	1,952	85	1	-	-	-
Strength of product preference	1	2	0,6818 - 1,9821	75	-	1	1	-
Brand quality perception	1	1	1,5303	21	1	-	-	-
Product quality perception	1	1	0,8632	48	1	-	-	-

Table 3. CODIFICATION SCHEME, GROUPING CASES BY DIFFERENT EFFECTS ON CONSUMER BEHAVIOR								
Effects on consumer behavior	**Number of studies**	**Number of cases**	**Effect size range***	**Sample size**	**Positive relationships**		**Negative relationships**	
					Significant	**Not Significant**	**Significant**	**Not Significant**
Perceived amount of time consumer uses to choose a product	1	1	0,9709	62	-	-	1	-
Perceived manufacturer experience with product category	1	1	0,9985	74	1	-	-	-
Utility perception	1	1	0,7354	106	1	-	-	-
Perceived variety of assortment	4	6	0,6485 - 3,7909	643	6	-	-	-
Store perception	1	1	0,2372	534	1	-	-	-
Satisfaction with the assortment offered	1	2	0,3447 - 0,4427	268	-	-	2	-
TOTAL	20	50	-	5724	32	2	14	2

Analysis of Moderating Variables: Analog to the ANOVA

Besides the adoption of a RM model, a more detailed analysis should be performed to find out if the variability of each study (intra-study) and the variability between studies (inter-studies) is due to the effect of moderating variables using the technique *analog to the ANOVA* (Lipsey & Wilson, 2001). This analysis divides the total homogeneity statistic Q in two parts: the part explained by the categorical variable between groups (Q_B) and the residual portion within groups (Q_W) (see equations [8] and [9], where index *j* identifies each group).

$$Q_B = \sum w_j \overline{ES}_j^2 - \frac{(w_j \overline{ES}_j)^2}{\sum w_j} \quad [8]$$

$$Q_w = \sum w_i (ES_i - \overline{ES}_j)^2 \quad [9]$$

Analyzing the influence of moderating variables and intra-heterogeneity among studies, the authors first checks the following:

Grouping the cases according to the *moderating variable related to the theoretical constructs* (i), the greater effect occurs with the moderating variable which reflects the presence of an ideal combination of product attributes in consumers' minds: $\overline{ES^*}_{ideal_option} = 1.9821$.

Grouping the cases according to the variable *type of main relationship* (ii), the greater effect is the positive relation between the variables: $\overline{ES^*}_{proposal_1(+)} = 0.7168$. Therefore, the proposal number one is corroborated.

Grouping the cases according to the variable *methodology of data analysis* (v), the greater effect is produced between studies that analyze the data with an F test (1): $\overline{ES^{*}}_{F(1)} = 0.6955$.

Grouping the cases according to the variable *type of good* (iv), the greater effect is on the set of studies examining services: $\overline{ES^{*}}_{services} = 0.7314$.

Grouping the cases according to the variable *type of retailer* (iii), the greater effect occurs when do not specify the type of retailer: $\overline{ES^{*}}_{retailer_not_specified} = 0.6797$.

The largest percentage of inter-study variability is explained by moderating variables related to theoretical constructs, which accounts for 29.53% of the total variability (Q_T equals 295.7598), while the highest percentage of intra-study variability is explained by the variable type of good, that explains 98.14% of the total variability (Q_T). On the other hand, the type of the main relationship and methodology of data analysis used, do not explain the excess of variability among groups due to other reasons than sampling error, because the statistical test reached non-significant levels ($p < 0.05$).

Additionally, the authors provide a table that summarize all Q_W (variability within groups) and Q_B (variability between groups) computed for each of the sets of moderating variables, being $Q_T = 295.7598$.

Table 4. ANALOG TO THE ANOVA RESULTS

Moderating variables	Q_w	Q_B
Moderating variables related to the theoretical constructs (i)	208.4270 (70.47%)*	**87.3328 (29.53%)**
Type of main relationship (ii)	271.5125 (87.12%)*	24.2472 (8.20%)*
Methodology of data analysis (iii)	288.7508 (97,63%)*	7.009 (2.37%)
Type of good (iv)	**290.2439 (98.14%)***	5.5159 (1.87%)
Type of retailer (v)	289.4305 (97.86%)*	6.3293 (2.14%)*

CONCLUSIONS, IMPLICATIONS AND LIMITATIONS

This paper has presented a meta-analysis of studies that have examined the relationship between variation in the size of retail assortments and consumer response. The results suggest that there is a significant positive relationship between the size of an assortment on consumer behavior, which corroborates the first proposal postulated in this study, and is contrary to what some studies have claimed, for example a non-relationship between the variables (Scheibehenne, Greifeneder & Todd, 2009). Among the effects found in consumer behavior, the assessment of the set is the greater effect (Lenton, Fasolo & Todd, 2008), through a positive relationship between the size of the assortment and the effect generated on consumer behavior. The latter conclusion means that increasing (decreasing) the size of the assortment will result in an increased (decreased) effect on consumer behavior (e.g. Berger, Draganska & Simonson, 2007; Broniarczyk, Hoyer & McAlister, 1998; Chernev, 2003a, 2003b; Chernev & Hamilton, 2009).

The analysis of moderating variables produced the following findings. According to *moderating variables related to theoretical constructs*, the greatest effect was observed in studies that featured an ideal combination of product attributes in consumers' minds (Chernev, 2003b); under *methodology of research*, the greatest effect was found in studies that applied the F(1) test to ascertain their results (Iyengar & Lepper, 2000; Kahn & Wansink, 2004; Koelemeijer & Oppewal, 1999); in accordance with *type of good*, the greatest effect was found in studies that examined services (Lenton, Fasolo & Todd, 2008; Sagi & Friedland, 2007; Scheibehenne, Greifeneder & Todd, 2009); and finally depending on *type of retailer*, the greatest effect was found in studies that examined the relationship without specifying the type of retailer (Chernev, 2006; Dhar, 1997; Fasolo, Carmeci & Misuraca, 2009; Jacoby, Speller & Kohn, 1974). Additionally, *moderating variables related to the theoretical constructs* cause the highest percentage of inter-study variability, whereas the variable type of good explains the highest percentage of intra-study variability.

In general terms, retailers follow one of two assortment strategies. The first is to reduce assortment size and variety with a view to cutting their costs, lowering their prices, and thus retaining customers; in many cases this is achieved by eliminating many brands and focusing on supply of the most basic products (Banker, 2009; Krum, 1994; Steenkamp, 2009). Other retailers choose the opposite strategy by attempting to meet all the consumer needs by offering a wider range of options from which customers can choose (Auchan, 2010; Carrefour, 2009). The present meta-analysis has shown that the variation in size of the assortment offered by the retailer has a significant positive effect on consumer behavior at the point of sale, particularly in consumer evaluation of the set. In conclusion, the study shows that an extension of the assortment gets a positive consumer evaluation and that a reduction in the assortment gets a negative customer evaluation.

Retailers should therefore take care when reducing their assortments to cut costs. It is necessary to consider which particular items can be reduced without the consumer forming a negative perception of the reduced assortment—because an adverse consumer's assessment of the range will certainly lead to other negative consumer's attitudes at the point of sale. It is thus relevant for retailers to analyze the moderating variables identified in this study. The largest effects were detected in situations described by the variables existence or presence of a choice in the minds of consumers, when the assortment is complete (when there are no alternatives to buy due to lack of stock) and when it is compatible (offering related products). In contrast, minor effects were detected when the attractiveness of the assortment was low. The study has also shown that the type of retailer (online or offline) has no influence on the effect of the size of the assortment, and type of good, like services, reach a higher effect size.

As with all meta-analyses, the main limitation of this study is so-called 'publication bias' (Rosenthal, 1991), which refers to the fact that studies reporting statistically significant results are more likely to be accepted for publication than studies reporting non-significant results. As a

consequence, the findings of meta-analyses are likely to be biased in favor of overestimating the phenomenon of interest. Although it is impossible to eliminate publication bias entirely, a more thorough search of the major academic journals might reduce the problem (examining each article of every selected journal along all volumes of the same, from a target year), to add the effects of published studies, but for your keyword or title, were not detected in the first searches in the databases.

Most researches of this review applied laboratory testing, which involves limiting the direct applicability of results to assortments of real world (Hoch, Bradlow & Wansink, 1999). Outside the meta-analytical framework, researchers could perform some experimental studies conducted in laboratory, in real settings, to obtain unbiased findings for the artificial conditions of the experiment.

As indicated above, in most of the studies included in this quantitative analysis the size of the assortment was measured simply as a dichotomous variable ('small' and 'large'). This approach involves a loss of potentially significant information about the exact numbers of items in the assortment. In addition, each study had a different definition of what constituted a 'small' and a 'large' range, which means that the results of the present analysis were not based on standard criteria.

Another limitation is that the nature of the assortment is a relative concept that depends on many factors—such as type of product or service, product category, stage of life cycle, and so on. Most of the studies that have examined the effect of variation in the size of the assortment have not focused on these other variables; rather, most studies have chosen a product/service and then merely tested the consumer effect about its numerical size. Thus there is a lack of specific extra information in most studies, which might have enriched the analysis in terms of other potential moderating variables. Readers must thus be cautious in interpreting the results with regard to moderating variables, especially in those instances where some moderating variables have few cases for analysis of their effects.

In view of the wide diversity of primary studies and the fact that there has been no previous meta-analysis of accumulated research on the size of retail assortments, the present study should be viewed as a first attempt to examine this issue. It should therefore be understood as laying the foundations for future research in this area. Like all meta-analyses, the analysis presented here does not claim to resolve all discrepancies in the existing literature; as Tellis (1988) has observed, a single meta-analysis does not provide a final statement of truth. Nonetheless, the present study is a useful starting-point for future research in this area.

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TO COMMIT OR NOT TO COMMIT? THE INFLUENCE OF RELATIONSHIP GOVERNANCE ON BUYER-SELLER COMMITMENT

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ABSTRACT

What role does governance play in the development of commitment in buyer-seller relationships? To address this important yet understudied research question, we developed a transaction cost framework to study the effect that various governance mechanisms have on the development of commitment in buyer-seller relationships. Our proposed framework was empirically tested using a sample of purchasing agents and managers which provided initial support for our proposed model and the effect that mutual investments and goal congruence have on building committed relationships.

INTRODUCTION

What role does governance play in the development of commitment in buyer-seller relationships? Though much research has investigated the effect that various factors such as social norms, trust, and commitment (Anderson & Narus, 1990; Anderson & Weitz, 1989; Doney & Cannon, 1997; Dwyer et al., 1987; Ganesan, 1994; Geyskens et al., 1999; Morgan & Hunt, 1994) have on buyer-seller relationships not much has been done to address how these social factors first develop (Rokkan et al., 2003). The importance of formal (e.g., explicit contracts, monitoring, qualification programs) and informal governance (e.g., social norms) in relationship development has been well recognized by researchers (Buvik & John, 2000; Cannon et al., 2000; Gundlach & Murphy, 1993; Heide & John, 1990; 1992; Heide & Wathne, 2006; Jap & Ganesan, 2000; Lusch & Brown, 1996; Rokkan et al., 2003; Stump & Joshi, 1998); however, what remains currently unexplored involves the effect these different governance mechanisms have on the development of commitment in buyer-seller relationships.

We attempt to address this issue by developing and empirically testing a transaction cost analysis (TCA)-based framework (Williamson, 1975; 1985; 1996) that links relationship governance to commitment. In this paper, we propose that mutual investments play a more important role than has been identified in the current literature by modifying each party's primary motivation from that of optimizing individual outcomes to optimizing relational

outcomes. Our results provide initial support for this assertion which has important implications for both researchers and managers.

From a managerial perspective, this study provides both buying and selling firm managers with insights that will help them develop strategies that encourage the formation of commitment in their relationships. Moreover, we make an important theoretical contribution by examining the impact that governance has in creating a platform for establishing a mutual focus on optimizing relationship outcomes, which increases the parties' willingness to make additional relationship investments, as opposed to the more conventional perspective of primarily reducing opportunism.

BACKGROUND AND HYPOTHESES

Commitment represents the degree to which the buying firm and the selling firm are willing to make investments in the relationship (Sarkar et al., 2001). Since our study involves interorganizational buyer-seller relationships, we follow Sarkar's et al. (2001) lead and use their definition of commitment. In particular, we define commitment as the degree to which the parties are willing to make significant relationship investments and to dedicate whatever people and resources that is required to make the relationship a success.

Prior research suggests that relationships develop over time and in distinct stages (Dwyer et al., 1987; Wilson, 1995). For this reason, Ring and Van de Ven (1994) concluded that relationship governance also changes over time, first relying on formal governance then being replaced and/or supplemented by less formal governance mechanisms (e.g., relational governance). When entering into a relationship, both parties do not know each other and are not sure how long the relationship between them will last (Dwyer et al., 1987; Narayandas & Rangan, 2004; Wilson, 1995). For this reason, they are inclined to implement mechanisms designed to protect themselves while also controlling the behaviors of their partner. Due to the dominant position that buying firms frequently hold in the initial stages of relationship development (Narayandas & Rangan, 2004), they usually have a greater influence on the controls that are initially implemented.

Buyers have been found to rely on a number of formal controls such as contractual incentives (Wathne & Heide, 2000), monitoring (Heide et al., 2007; Stump & Heide, 1996), qualification procedures (Stump & Heide, 1996; Wathne & Heide, 2004), and up-front supplier relationship investments (Ganesan, 1994; Heide, 1994; Stump & Heide, 1996; Wathne & Heide, 2004). We refer to these as unilateral controls because they protect only one of the parties, in this case, the buyer, from the potential opportunism of the other party (e.g., the supplier). This aspect of unilateral mechanisms is expected to increase the willingness of buyers to make investments in the relationship.

Over time, it may become evident to both parties that mutually beneficial outcomes may be realized by working together to take advantage of new market opportunities (Narayandas & Rangan, 2004). To do so, both parties may have to make social and physical investments in the

relationship (Ghosh & John, 1999; 2005) that have substantially lower value when used in other uses or in relationships involving alternative exchange partners (Rindfleisch & Heide, 1997). For this reason, such investments are called Relationship Specific Investments (RSIs) which prior research suggests (Jap & Ganesan, 2000; Rokkan et al., 2003; Wathne & Heide, 2000) has a major impact on the behaviors of the parties in buyer-seller relationships. In particular, when both parties make substantial RSIs, a form of bilateral governance (Heide, 1994) is established by creating organizational interdependencies due to the limited transferability of these investments (Samiee & Walters, 2006). Essentially, mutual RSIs protect both parties since they both may realize substantial investment degradation if either or both attempted to take advantage of its exchange partner (Caniels & Gelderman, 2007). Thus, mutual RSIs encourage the development of a joint focus on protecting relationship investments and as such, discourage opportunism from both parties (Gundlach et al., 1995).

Here we propose that mutual RSIs cause a motivational shift to occur in the parties from protecting "oneself" to protecting the mutual investment that they had both made to the relationship. This has the effect of encouraging cooperation and unity of relationship purpose which not only reduces the potential for opportunism (Gundlach et al., 1995) but also encourages increasing levels of relationship closeness and a willingness to make additional investments in the relationship (Heide & John, 1992).

H_1: Mutual investments in relationship specific assets are positively related to the level of commitment between buying and selling firms.

In addition to encouraging a shift toward a joint focus on protecting relationship investments, mutual investments change the orientation of relationships in another and possibly more profound way by creating the foundation for a more extensive vision to be established between the parties regarding the relationship. In particular, now that the parties are protected from the opportunism of the other, they can focus on a more unified and long-term "vision" of maximizing the outcomes from their relationship investments which has the effect of aligning their activities and creating congruent goals. Consistent with this perspective, the parties are considered to have congruent goals when their individual relationship goals are to continually increase the value that they realize from the relationship (e.g., mutual value).

To the degree that the parties continue to realize increasing levels of mutual value that is equitably split (Buvik and John, 2000), goal congruence is expected to increase resulting in higher levels of information exchange, cooperation, and relational unity (Jap, 1999). Thus, the level of goal congruence is hypothesized to influence the closeness of the relationship which has important governance and motivational implications. From a governance perspective, because the mutual value that both parties expect from the relationship may be lost if either or both were to behave in an opportunistic manner (Heide & Miner, 1992; Liu et al., 2008), goal congruence

acts as a "self-enforcing" agreement (Telser, 1980) in that it mitigates opportunism. From a motivational standpoint, mutual value expectations encourage both parties to work together to realize positive relational outcomes resulting in increased goal congruence, a closer, more collaborative relationship, and a willingness to make additional relationship investments (Jap, 1999; Moller, 2006).

> *H_2: Goal congruence is positively related to the level of commitment between buying and selling firms.*

METHODS AND FINDINGS

In this study, we collected data from purchasing agents and managers who were local chapter members of the National Association of Purchasing Management (NAPM) in five major metropolitan cities located in the northeastern U.S.A. Prior studies suggest that purchasing agents and managers are a good source of valid and reliable data for relationship studies (Cannon et al., 2000; Cannon & Perreault, 1999; Heide & John, 1990; Stump & Heide, 1996) because of their close involvement in their organization's supplier relationships. Even though they are a reliable source of relationship data, as an additional check of their qualification to participate in this study, we asked respondents to rate on a 7-point Likert scale (1 = not very knowledgeable and 7 = very knowledgeable) their ability to provide valid information regarding the specific relationship that they reported on. We eliminated any respondent who rated their knowledge of the relationship that they were reporting on as 5 or less.

Survey Instrument and Sample

To reduce the likelihood that our sample would be composed of a large number of incidental purchases, we asked respondents to report on a relationship between their firm and a supplier of a key product in their firm's primary business. 197 surveys were distributed in the March meeting of our targeted NAPM chapters of which 80 survey responses were received for a response rate of 40.61 percent. Because we had to eliminate four questionnaires for excessive missing data, our final sample size was 76 resulting in a final response rate of 38.56 percent. The relationships used in this study had an average age of 13 years and ranged from 1 to 50 years. 48 percent of the buying firms were small (less than $100 million in annual sales), 26 percent medium (annual sales of $101 million to $1 billion) and 26 percent large (annual sales exceeding $1 billion) and had average annual sales of $75 million ranging from less than $1 million to more than $1 billion. Our sample represented a wide range of industries and product classifications with 26 percent providing consumer products and services, 63 percent industrial products and services, and 11 percent distributors.

The Questionnaire and Variable Measurement

Dependent variable

Commitment was conceptualized as the degree to which the parties were willing to make resource investments in the relationship. Commitment was measured through a three-item scale modified from Sarkar et al. (2001) that evaluated the perceived willingness of the firms to make investments of time and resources to the relationship. This measure used a 7-point Likert scale that was anchored by 1 = "strongly disagree" to 7 = "strongly agree." The scale exhibited excellent internal consistency with a Cronbach's alpha of .87 (Nunnally, 1978; Peterson, 1994).

Since one of the primary goals of this study was to examine the influence of goal congruence on commitment; we considered the possibility that, in more mature relationships, commitment could have a residual effect on the level of goal congruence identified by the respondent (Seppanen et al., 2007). To address this concern, we organized our survey by measuring goal congruence immediately before measuring commitment. By staging the questions in this manner, we emphasized goal congruence's impact on commitment thereby limiting the residual effects (if any) of commitment on goal congruence.

Independent variables

The two independent variables used in this study were mutual investments and goal congruence. Mutual investments involve the degree to which the firms had made investments in relationship specific assets (RSAs) and were measured by a two item scale modified from Rokkan et al. (2003). It was computed as the sum of the individual item responses as measured by a 7-point Likert scale that was anchored by 1 = "strongly disagree" and 7 = "strongly agree." This scale had a split-half reliability value of .85.

Goal congruence was operationalized as the extent to which the parties "perceive the possibility of common goal attainment" (Jap, 1999, p. 465). Goal congruence was measured using a four-item 7-point Likert scale (with 1 = "strongly disagree" and 7 = "strongly agree") modified from Jap (1999) which had a Cronbach's alpha of .89 (Nunnally, 1978; Peterson, 1994).

Control variables

Four governance mechanisms from previous studies (e.g., supplier incentives, qualification, monitoring, and supplier lock-in) (Wathne & Heide, 2000) were included in our model. Because these controls are more concrete (e.g., matter of fact) rather than abstract and to

avoid redundant items in our survey, single item measures were used to assess if these mechanisms were being employed in the focal relationship. For supplier incentives, we asked respondents to rate the degree to which their relationship with the supplier involved performance provisions. We also asked respondents if the supplier was initially required to successful complete an extensive qualification program to evaluate if it had the ability to meet their organization's needs. We also had respondents identify if they monitor the supplier's performance on a regular basis. Finally, respondents were asked to identify the level of relationship specific investments that that supplier had made. We called this supplier lock-in because such investments effectively "lock" the investor into a particular exchange relationship.

Since these governance mechanisms are frequently used by buying firms to protect their interests (e.g., unilateral governance), we included them in this study to make it possible to contrast the effect of unilateral governance and mutual investments and goal congruence (e.g., bilateral governance) on commitment. The specific items used in our scales are specified in the appendix of this paper.

Analysis

To check for multicollinearity, we examined the correlations among the variables in our model (Hair et al., 1998). No unusually large correlations existed between any of the independent variables in our model as shown in Table 1. Moreover, the largest variance inflation factor (VIF) for the independent variables was 1.933 (for *Mutual Investments*), which was less than the maximum limit of 10 identified by Neter, Kutner, Nachtsheim and Wasserman (1996). As a result, we concluded that multicollinearity was not a problem.

Table 1: Means, Standard Deviations, and Correlation Matrix

Variable	Commitment	Supplier Incentives	Supplier Lock-in	Monitoring	Qualification	Mutual Investments	Goal Congruence
Mean	5.05	4.49	4.99	5.34	4.64	5.52	4.90
Standard Deviation	1.08	1.62	1.40	1.34	1.72	1.08	1.16
Avg. Variance Extracted						.75	**.79**
Commitment	1.00						
Supplier Incentives	.45**	1.00					
Supplier Lock-in	.60**	.39**	1.00				
Monitoring	.37**	.28*	.42**	1.00			
Qualification	.27*	.38**	.34**	.37**	1.00		
Mutual Investments	.58**	.52**	.54**	.30*	.44**	1.00	
Goal Congruence	.63**	.32**	.48**	.33**	.28*	.50**	1.00
*p<.05; **p<.01; N=76. All variables have no missing values.							

Hierarchical OLS regression models were used to evaluate the relationship between our independent variables (e.g., mutual investments and goal congruence) and commitment. This enabled us to examine the relationship among mutual investments and goal congruence and commitment while controlling for the unilateral controls identified in prior research and to

evaluate the marginal effects that bilateral governance, in this case, mutual investments and goal congruence, has on commitment.

FINDINGS

The results of the hierarchical regression analysis are shown in Table 2. Model 1 explained about 43 percent (R-squared = .432; adjusted R-squared = .400) of the variance in commitment. Of the four control variables, *Supplier Incentives* (b = .25, p < .05) and *Supplier Lock-in* (b = 46, p < .01) were significantly related to commitment.

Table 2: Hierarchical Regression Models – The Influence of Governance On Commitment

Variables	Commitment			
	Model 1	Model 2	Model 3	Model 4
Supplier Incentives	.25* (2.49)	.15 (1.50)	.20 (1.95)	.14 (1.52)
Supplier Lock-in	.46** (4.44)	.35** (3.21)	.31** (3.19)	.26* (2.53)
Monitoring	.12 (1.14)	.12 (1.26)	.07 (.75)	.08 (.88)
Qualification	-.03 (-.28)	-.09 (-.96)	-.06 (-.63)	-.10 (-1.08)
Mutual Investments		.32** (2.85)	——	.21 (1.97)
Goal Congruence			.41** (4.42)	.36** (3.82)
Change in R-squared		.059	.124	.148
F-value for Change in R-squared		8.10**	19.54**	12.12**
F-value significance		.006	.000	.000
R-squared	.432**	.491**	.556**	.580**
Adjusted R-squared	.400	.455	.525	.543

* p<.05; ** p<.01
N = 76 in all models. For each variable, the reported values are standardized betas with corresponding t-values in parenthesis.

Mutual Investments, our first variable, is included in Model 2. This model explained about 49 percent (R-squared = .491; adjusted R-squared = .455) of the variance in commitment. The R-squared change (.059) over Model 1 (the base model) (F-value = 8.10) was significant at a p < .01 level. Only one of the control variables, *Supplier Lock-in*, was found to be significantly related to commitment (p < .01) which is to be expected since buyers would be inclined to invest in relationships in which the supplier had made substantial investments as would the supplier in order to protect its investment. As hypothesized, mutual investments was positively and significantly related to commitment (b = .32, p < .01). Thus, our results support H_1 that mutual

investments in relationship specific assets are positively related to the level of commitment between buying and selling firms.

In Model 3, *Goal Congruence*, our second variable, was added to Model 1. This model explained about 55 percent (R-squared = .556; adjusted R-squared = .525) of the variance in commitment. Similar to Model 2, the R-squared change (.124) over Model 1 (F-value = 19.54) was significant at a $p < .01$ level. As predicted, the relationship between goal congruence and commitment was positive and significant ($b = .41$, $p < .01$) thereby supporting H_2 that goal congruence is positively related to the level of commitment between buying and selling firms.

In Model 4, both *Mutual Investments* and *Goal Congruence* were added to Model 1. Model 4 explained over 58 percent (R-squared = .580; adjusted R-squared = .543) of the variance in commitment. The R-squared change (.148) over Model 1 (F-value = 12.12) was significant at a $p < .01$ level. *Goal congruence* ($b = .36$, $p < .01$) remained positively related to commitment; moreover, consistent with our proposed framework, the effect size of mutual investments decreases from .32 to .21 and was no longer significant when goal congruence was added to Model 2 suggesting that mutual investments provides a foundation upon which mutual goals may be established.

Overall, our results provide initial empirical support for the relationships we proposed in this study. First, with the exception of supplier lock-in, none of the unilateral governance mechanisms examined in this study had a significant effect on commitment. This is to be expected since buyers should be more inclined to make additional relationship investments with suppliers who are securely locked-in due to previous RSIs that they had already made. Second, based on the magnitudes of the standardized beta coefficients in Model 4, goal congruence had the largest effect on commitment ($b = .36$). In fact, 12 percent of the total variance in commitment was explained by goal congruence. This result suggests that commitment is very likely to exist in buyer-seller relationships involving parties with congruent goals.

Finally, as our framework would predict, the effect size of mutual investments was found to dramatically fall ($b = .32$ to $b = .21$) and was not statistically significant when goal congruence was added to Model 2. This result was consistent with our assertion that mutual investments set the stage for the establishment of goal congruence and for this reason, the effect of mutual investments on commitment should decrease as goal congruence (the more dominant mechanism) increases. Thus, these results appear to support our position regarding the role that mutual investments play in relationship development which represents a major extension to the current literature.

DISCUSSION

We performed this research to better understand the role that governance plays in the development of buyer-seller commitment. Using a TCA-based argument, we proposed that mutual investments fundamentally change the orientation of relationships from the more

conventional perspective of reducing opportunism to that of optimizing relational outcomes which then provides a foundation for a more extensive and long range "vision" to be adopted by both parties of maximizing relationship outcomes. We found initial empirical support for our proposed governance-commitment relationships based on a sample of buyer-seller relationships. Consistent with Ring and Van de Ven (1994), our results also suggest that many of the formal controls initially established in the relationship may be relaxed as mutual investments and goal congruence develop over time thereby representing a way for governance costs to be reduced.

This research has important implications for relationship researchers. First, the TCA-based argument developed in this study furthers our understanding of the impact that mutual investments have on the development of commitment in buyer-seller relationships. In particular, we hypothesized that mutual investments cause a fundamental reorientation to take place by creating interdependencies so that both parties either win or lose together. As a result, both parties' motivation change from that of protecting self to protecting the relationship from external threats while shifting their focus to maximizing mutual value leading to higher levels of goal congruence and ultimately, increased cohesiveness and commitment. Given these insights, this paper provides a potential new direction for future relationship development research.
Second, this is one of a few studies that empirically evaluate the effect that goal congruence has on buyer-seller commitment. Our results suggest that goal congruence plays a major role in the parties' willingness to make ongoing relationship investments because it reduces potential opportunism by acting as a "self-enforcing" agreement (Telser, 1980) while also encouraging joint efforts to improve relational outcomes leading to closer and more collaborative relationships (Jap, 1999).

Limitations

A few limitations should be noted in this study. First, our sample was fairly small (n = 76). Though a large sample is desired, the fact that we had significant results given the small size of our sample suggests that our results are conservative in that they reflect the large effect sizes of our independent variables (e.g., mutual investments and goal congruence) rather than small standard errors associated with large samples. Thus, this study supports our proposed relationship between mutual investments and goal congruence and commitment which are expected to become more statistically significant as the sample size is increased.

Second, the relationship data used in this study was provided by purchasing agents and managers. Despite the fact that this is not atypical for relationship studies (Jap & Ganesan, 2000; Lambe et al., 2002; Sarkar et al., 2001), additional insights may be found by collecting data from both parties including the collection of longitudinal data to better evaluate the governance-commitment relationship over time. Finally, though our model explains 54 percent of the total adjusted variance in commitment, a large amount of the variance remains to be identified and studied by researchers.

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APPENDIX

Commitment (Cronbach's alpha = .87)
(7-point Likert scale anchored by 1= "strongly disagree" to 7 = "strongly agree")

1. Both of us are committed to making this relationship a success
2. Both of us are willing to dedicate whatever people and resources it takes to make this relationship a success
3. Both of us are willing to make a significant investment to this relationship

Mutual Investments (Split-half reliability = .85)
(7-point Likert scale anchored by 1 = "strongly disagree" to 7= "strongly agree")

1. We (both firms) have made significant investments dedicated to this relationship
2. Both of us have made substantial investments of time and resources to develop this relationship

Goal Congruence (Cronbach's alpha = .89)
(7-point Likert scale anchored by 1 = "strongly disagree" to 7= "strongly agree")

1. We have different goals (Reverse coded)
2. We support each other's objectives
3. We have compatible goals
4. We share the same goals in this relationship

Control Variables
(7-point Likert scale anchored by 1 = "strongly disagree" to 7= "strongly agree")

1. **Supplier Incentives**
   The agreement between us includes incentives for this supplier to perform well

2. **Supplier Lock-in**
   This supplier has made large investments dedicated to this relationship

3. **Monitoring**
   My firm regularly monitors this supplier's performance

4. **Qualification**
   This supplier had to undergo an extensive qualification process to verify its ability to meet my firm's needs

SALESPERSON PERFORMANCE: EXPLORING THE ROLES OF ROLE AMBIGUITY, AUTONOMY AND SELF-EFFICACY

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ABSTRACT

Salespeople are often placed in the unenviable position of being responsible for both sales productivity and customer satisfaction. The purpose of this research is to determine whether there are salesperson traits/behaviors which will lead to both sales results and customer satisfaction. The study evaluated salesperson levels of role ambiguity, autonomy and self-efficacy to determine whether these characteristics were positively related to sales performance, customer satisfaction and customer-orientation levels. The results indicate that each of these variables were positively and significantly related to salesperson performance, customer satisfaction and customer-orientation. These findings lead to the development of specific implications and managerial recommendations and suggestions for further research.

Sales managers are charged obtaining positive sales results from their salespeople. However, they are often confronted with the question "what type of sales results are desired?" Customer satisfaction is paramount in many firms, while sales revenue is critical in others. However, it is increasingly common to find firms demanding both satisfaction and output. Thus, many managers are faced with the dilemma of identifying sales strategies which will successfully satisfy customers while simultaneously producing positive sales results. The purpose of this research is to assess salesperson variables which may be related to three results desired by many sales managers: customer satisfaction (CS), customer-oriented behaviors, and sales productivity. Thus, the purpose of this research entailed an evaluation of salesperson perceptions of their role ambiguity (RA), job autonomy, and self-efficacy (SE) to determine the empirical relationships existing between these three variables and three desired salesperson behaviors/outcomes: customer-orientation (CO), CS and sales performance.

VARIABLES OF INTEREST AND HYPOTHESES

Self-Efficacy

One factor seemingly related to the salesperson's performance and behavior is the salesperson's perception of his/her ability to perform. SE refers to the confidence an individual has in his/her ability to perform well in a specific task domain (Bandura, 1997). In a selling context, SE involves a comprehensive summary or judgment of one's perceived capability for performing specific selling tasks. SE has been associated with work-related performance. For example, a meta-analysis involving 114 studies reported a corrected weighted average correlation of 0.38 between SE and work-related performance (Stajkovick and Luthans, 1998). Some SE studies have focused on specifically on salesperson performance. For example, Barling and Beattie (1983) found SE to be associated with the performance of life insurance salespersons. In a study involving real-estate salespersons and cell phone message service salespersons, Krishan, Netemeyer and Boles (2002) found SE to be indirectly related to performance through effort, suggesting salesperson confidence alone is insufficient to guarantee success. Brown, Cron and Slocum (1998) conducted research which indicated SE was related to both self-set goal levels and performance.

In a literature review on customer-oriented selling, Schwepker (2003) called for research exploring the relationship between CO and SE. Schwepker (2003) argued that because SE has been shown to be related to salespersons' perceptions of quota difficulty (Schwepker and Good, 1999), there may be an inverse relationship between salesperson SE and perceived quota difficulty. This would suggest that low SE salespersons would be more likely to resort to a selling orientation, rather than a CO.

Hypothesis 1(a-c) was based on literature and the logical perception that one's confidence in his/her ability to complete assigned tasks would be positively related to that individual's CO, performance, and CS levels. A salesperson's feelings that he/she can adequately perform tasks and assignments (high SE) would provide that person with the impetus to engage in challenging tasks, armed with the belief that they possess the necessary skills to complete these tasks. This belief should translate into, not only performance, but also perceptions of higher levels of CO and CS.

H1a. SE will be positively related to CO.
H1b. SE will be positively related to performance.
H1c. SE will be positively related to CS.

Autonomy

Job autonomy refers to the felt ability to determine the nature of a sales task or problem and to arrive at a course of action (Wang and Netemeyer, 2002). Outside salespersons typically

work while physically separated from their managers, contributing to the salesperson's perception of job autonomy (Behrman and Perreault, 1984). Greater levels of job autonomy would likely be perceived by salespersons as facilitating considerable leeway in their manner of customer interaction. According to Jamieson and Zanna (1989), highly restricted salespeople lack sufficient flexibility to make customer-oriented decisions. Moreover, such restricted salespersons would be less able to offer customer-oriented solutions, as only a range of standard solutions are available, with little or no leeway allowed for extraordinary decision making. Such extraordinary decisions are likely commonplace in the selling profession due to the unpredictable nature of salesperson/customer interactions.

Dubinsky and Skinner (1984) found that retail salespersons performed at a higher level when their perceived autonomy is higher. The research, and intuitive thought, suggests that as a salesperson feels that he/she has more freedom to perform his/her job in personally desired ways, he/she will perform at higher levels, be more customer-oriented, and provide higher levels of CS. On the other hand, if managerial dictates, rules, and procedures constrain the manner in which a salesperson performs his/her sales role, his/her performance will be reduced as he/she may be unable to provide the levels of CO and CS desired. Finally, Stock and Hoyer (2005) found that salesperson's self-reported customer oriented behavior was significantly correlated with restriction in job autonomy as well as CS. Thus, the second hypothesis (a-c) is based on research indicating a relationship between salesperson autonomy and that person's level of CO, performance, and CS.

H2a. Autonomy will be positively related to CO.
H3b. Autonomy will be positively related to performance.
H3c. Autonomy will be positively related to CS.

Role Ambiguity

Behrman and Perreault (1984) defined role ambiguity (RA) as "the degree to which a salesperson is uncertain about expectations with respect to his/her job, the best way to fulfill known expectations and consequences of different role aspect performances." RA is inherent in the salesperson's job due to the boundary spanning nature of the work, and the existence of a large role set and interaction with multiple role partners (e.g., customers, sales peers, management and other company personnel) (Yammarino and Dubinsky, 1990). The boundary spanning nature of sales positions typically involves frequent and extended physical separation from managers and peers. This lessens communication with managers contributing to RA (Behrman and Perreault, 1984).

Studies examining the relationship between RA and CO have yielded mixed results. In a study involving industrial salespersons, Siguaw, Brown and Widing (1994) posited that customer-oriented salespersons have lower RA. They reasoned that to the degree a salesperson

behaves in a customer-oriented manner, he/she will strive to satisfy customer needs and desires, thereby reducing the portion of RA attributed to customer expectations. However, their results did not support this as a significant relationship between RA and CO was not shown (Siguaw, Brown and Widing, 1994). Hoffman and Ingram (1991) also found a non-significant relationship between RA and CO in a study involving home health care representatives, although they suggest that the delivery of customer-oriented service by providers in that industry may be driven by ethical issues lessening the impact of role ambiguity. In a study of bank service providers, Kelley (1990) found a significant and positive relationship between role clarity and CO. Through this heightened communication, customer needs and expectations would likely be communicated. Consistent with this, Smith (1967) found high levels of RA to be associated with hostility towards role partners. This suggests that low RA may enhance salesperson's attitudes towards their customers, contributing to more customer-oriented behavior, at least with those specific customers. Flaherty, Dahlstrom and Skinner (1999) found RA to be negatively related to a CO in selling. In studies involving retail salespersons, Knight, Kim and Crutsinger (2007) found RA negatively affected CO, while Wetzels, de Ruyter and Bloemer (2000) found RA to be negatively related to a commitment to deliver quality service.

Yammarino and Dubinsky (1990) argue that prior research generally suggests that RA is inversely related to salesperson performance. For example, Dubinsky and Skinner (1984) found that retail salesperson's job performance is higher when their perceived RA is lower. The final hypothesis (H3a-c), like the others, was based on a combination of previous research and practical inference which led to the perception that lower levels of ambiguity would be positively associated with higher levels of CO, performance, and CS. It can be argued that as salespeople become more certain regarding the requirements of their jobs, they will become more capable of engaging in strategies that are customer-oriented and more likely to provide CS. Correspondingly, salespeople who are clear about their job requirements (low RA) are also more likely to be 'high performers.'

H3a. *RA will be negatively related to CO.*
H3b. *RA will be negatively related to performance.*
H3c. *RA will be negatively related to CS.*

METHOD

Sample

The sample was selected based upon the desire to have a degree of homogeneity to reduce the possibility of extraneous factors impacting the results. Further, it was determined that the sample should include sales professionals who rely upon their sales skills for their incomes and who also are required to engage in customer-oriented selling. Thus, the sample of

salespeople should be comprised of individuals who are required to close sales in order to earn their commissions, but who were also required to behave in a customer-oriented manner and build CS in an effort to achieve successful careers. Based on these requirements, professional sales representatives engaged in the sale of real estate were selected. The real estate industry has been described as one in which customer-oriented selling applies perfectly (Harris, Mowen and Brown, 2005). Real estate agents (1) offer their customers multiple alternatives, (2) develop co-operative relationships with customers, and (3) obtain referrals for future business (Harris, Mowen and Brown, 2005). Moreover, as argued by Wang and Netemeyer (2002), real-estate agents work as independent contractors and perform a variety of task activities. The possession and acquisition of sales-related skills and knowledge is critical to their sales success. While real estate agents represent a relatively homogeneous sample, they are allowed considerable leeway by management in the manner and timing of their work performance. This potentially enhances the variability of their perceptions of job autonomy, while increasing role ambiguity.

The sample for this study consisted of real estate agents from two of the largest real estate companies in a middle-sized Midwestern U.S. city. Questionnaires were administered during a monthly agents' sales meeting for each of the companies. The survey administrators received introductions by the agency sales managers, who encouraged the completion of the questionnaires by the agents. The questionnaires were collected at the conclusion of the meetings.

The administrator reported that a total of 287 surveys were distributed at the meetings and of these 245 were deemed usable, for a response rate of approximately 85 percent. As indicated in Table 1, the majority of the respondents were female (67%) and over the age of 45 (67%). Additionally, the majority of the respondents had sales volumes in excess of two million dollars per year (54.4%) and over four years of full-time real estate sales experience (52.6%).

Measures

In order to increase the probability of measuring the variables of interest with valid and reliable scales, establish scales were used when possible. Respondents indicated their level of agreement with each of the statements using a five point Likert-type scale (1 = strongly disagree and 5 = strongly agree).

Job autonomy was measured with a four item scale obtained from Wang and Netemeyer (2002), which was developed from items from job autonomy dimension of Hackman and Oldham's (1976) Job Diagnostic Survey and the self-determination subscale of Spreitzer (1995). SE was measured with a four-item scale from Krishan, Netemeyer and Boles (20023), originally adapted from Sujan, Weitz, and Kumar (1994) for use in a personal selling context. Based on this objective, RA was measured using a six-item scale adapted from McFarland (2003) and Bhuian,

Menguc and Borsboom (2005). This scale is described as measuring the inverse of role ambiguity, i.e. role clarity. Thus, high scores on the scale indicate low role ambiguity.

Table 1: Characteristics of the Sample

Characteristic	Number (%)
Sales Volume:	
< 2 million	98 (43.6%)
2-4 million	71 (31.6%)
4-6 million	21 (9.3%)
6-9 million	18 (8.0%)
> 9 million	17 (8.0%)
Full-time Real Estate Sales Experience:	
< 1 year	17 (7.5%)
1 – 3 years	91 (40.0%)
4-10 years	65 (28.5%)
> 10 years	55 (24.1%)
Gender:	
Female	164 (66.9%)
Male	81 (33.1%)
Age:	
18-24	7 (2.9%)
25-34	37 (15.0%)
35-44	38 (15.5%)
45-54	66 (26.8%)
55-64	77 (31.3%)
65+	21 (8.5%)

In recent years, a salesperson's CO has been considered a desirable trait. The concept was first operationalized by Saxe and Weitz (1982) in their development of the SOCO (selling orientation/customer orientation) scale. According to Saxe and Weitz (1982), CO refers to salespersons' practice of the marketing concept by striving to assist customers in making long-term, customer needs-enhancing decisions. Acting in the buyers' self interest, customer-oriented selling involves the low-pressure and non-manipulative communication of accurate product descriptions (Saxe and Weitz, 1982). For this study, CO was measured with a 12-item scale developed by Brown, Mowen, Donavan and Licata (2002). Two dimensions of customer orientation were identified in their study. Six items assessed a "satisfy customer needs" dimension while six items measured an enjoyment dimension.

Based on the fact that the salespeople included in the sample were from two different firms operating in two separate cities, it was determined that performance and customer satisfaction would be measured using comparative scales, similar to those suggested in previous research (Spiro and Weitz, 1990). Thus, the real estate salespeople were asked to first evaluate their sales productivity by using a three-item scale which compares themselves to others in their company. The specific scale items are provided in the Appendix. Similarly, salespeople rated

their ability to satisfy their customers using a two-item scale in which they compare their customer satisfaction levels with others in their firms. This scale is also provided in the appendix.

RESULTS

Table 2 provides the results of the calculations of alpha coefficients, scale means (sd), and an introductory correlation matrix. It is reported that each of the scales has an alpha coefficient which exceeds the .70 level recommended (Nunnally, 1978). An examination of the matrix reveals several significant correlations, many of which are between the independent variables. Based on the obvious presence of significant collinearity between the independent variables, it was determined that univariate regression analysis would be used to examine the validity of the hypotheses established.

Table 2: Scale Means, Alpha-Coefficients and Correlations

Scales used:	Mean (sd.)	alpha	1	2	3	4	5	6
1. performance (3 items)	10.1 (3.1)	.92	1.0					
2. CS (2 items)	7.7 (1.4)	.71	.38 a	1.0				
3. CO (12 items)	51.9 (5.1)	.92	.24 a	.20 b	1.0			
4. SE (4 items)	16.8 (1.9)	.87	.42 a	.30 a	.54 a	1.0		
5. autonomy (4 items)	16.6 (2.3)	.83	.34 a	.17 b	.44 a	.52 a	1.0	
6. ambiguity (4 items)	22.6 (3.3)	.73	.23 a	.17 b	.37 a	.48 a	.28 a	1.0
a: $p < .001$ b: $p < .05$								

The findings show that hypothesis 1 (a-c) is supported as each of the regression equations is significantly related to SE. As indicated, SE is significantly related to customer-orientation and explains 29 percent of the variance in salesperson customer-orientation levels. Similarly, SE is significantly related to both performance and CS. In the case of performance, the coefficient of determination is .17, indicating that SE explains 17 percent of the variance in salesperson performance levels.

The second hypothesis is also supported by the findings, as CO, performance and CS are significantly related to salesperson autonomy. The R2 values for the relationships between autonomy, CO and performance are both relatively high with an R2 of .18 for customer-orientation and .12 for performance. Hypothesis H2c is also supported, as CS is significantly related to autonomy ($p < .05$) with an R2 of .03.

Concerning ambiguity, as shown in Table 3, each of these hypotheses hold true (3a – 3c). The data show that salespeople who have low levels of ambiguity are likely to have significantly higher levels of CO. This relationship seems relatively strong, with an R2 of .13. Salespeople

who are high performers are also likely to exhibit significantly lower levels of job ambiguity (R2 = .05). Ambiguity levels were also significantly related to CS scores (R2 = .03).

Table 3: Tests of the Research Hypotheses			
Dependent Variables:	SE Beta, t-value, (p)	F-Value (p)	R2
CO	1.43, 10.1 (.0001)	101.4 (.0001)	.29
Performance	.66, 6.8 (.0001)	46.4 (.0001)	.18
CS	.22, 3.7 (.0004)	13.4 (.0004)	.09
Dependent Variables:	Autonomy Beta, t-value, (p)	F-Value (p)	R2
CO	.97, 7.7 (.0001)	59.2 (.0001)	.19
Performance	.45, 5.5 (.0001)	29.8 (.0001)	.12
CS	.09, 2.0 (.05)	3.8 (.05)	.03
Dependent Variables:	Ambiguity Beta, t-value, (p)	F-Value (p)	R2
CO	.56, 6.2 (.0001)	37.9 (.0001)	.13
Performance	.21, 3.5 (.0005)	12.4 (.005)	.05
CS	.07, 2.0 (.05)	3.9 (.05)	.03

The present study found that a salesperson's CO is higher when the following conditions exist: perceived RA is lower, SE is higher, and perceived job autonomy is higher. The CO/RA linkage is consistent with some of the prior research in selling occupations (Flaherty, Dahlstrom and Skinner, 1999; Knight, Kim and Crutsinge,r 2007), but is inconsistent with other selling research (Hoffman and Ingram, 1991; Siguaw, Brown and Widing, 1994). Despite the mixed results relative to the other research, the present findings generally support the prevailing view of performance and role stress relationships in the literature (Yammarino and Dubinski, 1990).

DISCUSSION AND IMPLICATIONS

Organizations require profitable performance from their employees, and salespeople are largely responsible for generating that profitable performance. Yet, this profitability must consider not only immediate returns-on-investments, but also long-term returns. Consequently, sales forces are being charged with maintaining CS while simultaneously engaging in profitable activities. This research assesses salesperson performance from both a traditional output perspective and from a CS perspective by evaluating performance, CS, and CO levels of salespeople. In attempting to achieve these outcomes, businesses often seek certain inputs believed to impact these results. The critical question concerns which inputs impact specific desired outcomes? That is, does a different input obtain different results, for example, is CO a function of salesperson autonomy, RA or SE? Is performance affected by autonomy, RA or SE? The present research addresses each of these questions in an empirical fashion.

The findings support the hypotheses which held that higher levels of salesperson SE and autonomy and lower levels of salesperson RA would be significantly related to higher levels of performance, CO and CS. These findings suggest firms should strive to select individuals high in SE. They further suggest firms should engage in activities that enhance salesperson SE and autonomy, and reduce the salesperson's RA.

SE is indicative of the salesperson's perception that he/she has the capacity to perform the sales job effectively. This may be both an innate predisposition and an attitude that is subject to change via sales training and development activities. The findings suggest that SE is strongly related to each of the three criterion variables identified (CO, performance and CS). SE's relationships with both CO and performance might be attributed to high SE salesperson's perceiving they are able to perform their jobs properly, as well as maintain positive customer relationships. This fact might be reflected by the 'strong' relationship that exists between performance and SE. Salespeople who possess higher degrees of SE seem to be justified in their confidence, because they are also significantly higher performers. This high level of performance might free the salesperson to engage in customer-oriented activities and build more CS without concern that these activities could detract from his/her performance.

How might a firm implement the findings of this study as they pertain to SE? First, the firm might use scales such as the one used in this research to identify sales candidates possessing high levels of SE. A sales applicant's SE level could then be used as a predictor of an applicant's sales success likelihood. Moreover, salespersons' SE levels might also be useful in managerial practices. For example, salesperson success would likely be positively linked to SE. In such situations, we would expect success to lead to greater confidence, which in turn would lead to greater success. Thus, sales managers may need to place new recruits in situations conducive to successful conclusions. Correspondingly, while managers often focus on individual's shortcomings in an effort to enhance salesperson performance, the findings suggest performance may also enhanced by positively reinforcing desirable results and behaviors in an effort to enhance SE. Of course, it might be assumed his/her level of SE will be enhanced to the degree the salesperson feels well-trained, well-prepared and knowledgeable of the sales process (product knowledge, customer knowledge, industry knowledge, etc.). Based on this assumption, training, education and salesperson preparation might lead to enhanced levels of salesperson SE.

While the statistical relationships were not as strong between salesperson autonomy and RA and the resulting levels of performance, CO and CS, the findings still supported the hypotheses. With regard to salesperson autonomy, the findings indicated that an increase in salesperson autonomy was positively related to performance, CO and CS. Thus, as a salesperson's autonomy increases, so does his/her motivation and ability to creatively perform his/her job. As the salesperson's motivation level increases, that increase (all other factors being equal) should be accompanied by a performance increase. Further, one might anticipate that the combination of enhanced performance and freedom in how to perform one's job might also

facilitate customer-oriented behaviors, as the salesperson now has sufficient levels of ability and discretion required for an enhanced customer focus. Moreover, with the performance expectations met and the ability to engage in selected behaviors freely, the salesperson may then be able to achieve greater levels of CS.

The firm may be able to enhance salesperson autonomy in a number of ways. For example, some salespersons likely have stronger autonomy desires than others. Such individuals may have the ability and desire to work free of the constraints accompanied by levels of micro-management and rules. Thus, a firm may be able to devise tests of other criteria that identify sales applicants desiring autonomy and thus autonomy could be utilized as a selection criteria. Additionally, sales force autonomy may be fostered through managerial practices that include a strategy of increased coaching, empowerment and enabling. However, such strategies may adversely impact the sales organization if the salesperson's skill, knowledge and motivation are insufficient to adequately perform his/her job. Therefore, an accompanying strategy would entail providing the salesperson with the requisite skill, knowledge and motivation base (perhaps via training), necessary to facilitate salesperson autonomy.

RA may also lead to increased salesperson performance, CO and CS levels. Sales training is one of the more obvious methods of reducing RA. Training activities which allow salespersons to learn appropriate activities and behaviors may reduce uncertainty regarding expectations. In addition to training, the firm might also engage regular coaching activities and performance appraisals with their salespersons. The feedback process may be enhanced through the engagement in these activities, thus enhancing salesperson role clarity.

CONCLUSION

Each of the independent variables examined in this study may be amenable to training and development activities. Thus, training and management communication may potentially enhance SE with regards to a salesperson's role. As is the case with SE, prior research suggests job autonomy may be fostered through managerial acts and training, and that firms should reduce their salespersons' RA. The fact that these skills/traits are subject to managerial mediation is relevant because development activities can be initiated to positively influence these variables (i.e. performance, CO, CS).

A salesperson should develop more SE through training and managerial activities. Job autonomy appears to be a trait facilitated by managerial acts, and ambiguity should be reduced through managerial activities and training. The findings suggest that future research should be conducted to identify relationships between the variables examined in this study. One avenue of future research might be an assessment of the relationships between these variables using a distinct salesperson sample. One might examine the degree to which these relationships hold in a variety of sales positions, such as those delineated in the taxonomy developed by Moncrief, Marshall and Lassk (2006). Additionally, other dimensions of salesperson behaviors, traits, skills

and outcomes could be examined. One avenue of research might evaluate the relationships existing between CS ratings and managerial ratings of salesperson performance to determine the significance and directionality of the relationships.

However, regardless of future research endeavors, the findings of this study provide a ‘jumping off’ point in evaluating the impact of SE, autonomy and role ambiguity on sales performance, CS and salesperson CO. The research indicates that each of these salesperson characteristics has the potential to positively affect desirable sales outcomes. Thus, further investigation is warranted to pursue this particular study.

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APPENDIX

Construct	Items
Role Ambiguity	Clearly planned goals and objectives exist for my position
	I know exactly how I am supposed to do in my job
	I receive clear explanations of what has to be done
	I know how my performance is going to be evaluated
	I know my job responsibilities
	I know I properly manage my time in my job
Job Autonomy	I have significant autonomy in determining how to do my job
	I can decide on my own how to do my job
	I have considerable opportunity for independence and freedom in how I do my job
	This job allows me to use personal initiative or judgment in carrying out work
Self-efficacy	I know the right thing to do in selling situations
	Overall, I am confident of my ability to perform my job well
	I feel I am capable of the task of selling
	I feel I have the capabilities to successfully perform this job
Customer-orientation	I find it easy to smile at each of my customers
	It comes naturally to have empathy for my customers
	I enjoy responding quickly to my customers' requests
	I enjoy remembering my customers' names
	I get satisfaction from making my customers happy
	I really enjoy serving customers
	I try to help customers achieve their goals
	I achieve my own goals by satisfying customers
	I get customers to talk about their services needed with me
	I take a problem solving approach with my customers
	I keep the best interests of my customer in mind
	I am able to answer customers' questions carefully
Performance	my year-to-date sales volume:
	ranks in the bottom half of all salespeople
	is below average relative to other salespeople in the company
	is better than most salespeople in my company
Customer service	my year-to-date CS rating:
	is below average relative to other salespeople in my company
	is better than most salespeople in my company

SERVICE QUALITY DIMENSIONS AND SATISFACTION DETERMINANTS WITH THE ALASKA OMBUDSMAN'S OFFICE

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ABSTRACT

Ombudsmen are public officials that investigate complaints by citizens against government agencies. Originating in Sweden in the early 1800s, ombudsman offices are now common in various federal, state, and local governments, in hospitals, universities, and even corporations. Their essence is to investigate complaints and make recommendations when warranted. This study assessed satisfaction levels of complainants regarding the Alaska Ombudsman's Office, and found that more than 60% were satisfied to extremely satisfied. Next, the study examined the various dimensions of service quality. Four factors emerged: Professionalism, Accessibility, Rapport, and Promptness. These and other variables were regressed against a measure of satisfaction, with the strongest relationship emerging between satisfaction and Professionalism, followed by problem resolution, and only then by the extent to which the complainant was favored in the findings. Importantly, this suggests that professional service processes and problem resolution are more important in generating satisfaction than placating complainants.

INTRODUCTION

Research on the dimensions of service quality and on the relationship of service quality to satisfaction has a rich history in marketing. The focus here is on a type of relationship that has not yet been examined, specifically the services of ombudsmen. In the original Swedish model, the ombudsman's roll is to impartially investigate complaints by citizens and to make recommendations where warranted. Under other models the ombudsman may act as a mediator or an advocate for the complainant.

The first ombudsman's office was established by the Swedish parliament in 1809 (United States Ombudsman Association, 2006). Since that time many other countries, five U.S. states, and many counties and municipalities have established ombudsman offices, and variations on the original model have been established by corporations, universities, hospitals, and others (see

Finucan, 2005; Hill, 2002; Organization for Economic Co-operation and Development, 2005; Steiber, 1989).

When rendering services, there are three parties to any situation that calls on the services of the ombudsman; the complainant, the organization against which the complaint is lodged, and the ombudsman. The complainant, in this case, is seeking to have perceived wrongs redressed by going to a third party, the ombudsman. The ombudsman's role is, first, to determine whether or not the complainant has a valid complaint, and second, to make recommendations if warranted.

In the marketing literature complaining behavior and service recovery effort impacts on customer satisfaction have been examined (e.g., Bitner, Booms and Tetreault, 1990; Maxham and Netemeyer, 2002; Smith, Bolton and Wag, 1999; van Doorn and Verhoef, 2008). In such research the focus concerns organizations that presumably want to satisfy customers, customers who perceive a process or outcome failure, and on subsequent recovery efforts by the offending organization. As an independent third party, ombudsmen are not initially focused on turning dissatisfied customers into satisfied customers (which in marketing is usually referred to as service recovery), but in objectively assessing the merits of complaints. The outcome of the service might be bad news to the complainant, the organization against which the complainant has filed a complaint, or both. In previous research on complaining behavior the focus has been on the relationship of service failure and recovery efforts to satisfaction and repurchase intentions. A useful metric for firms concerned with upset customers might be something like the percent of complainants who were placated and satisfied. This metric would not be appropriate for an ombudsman's office; here a metric should be linked to objectivity and accuracy.

Understanding the relationship between ombudsmen efforts and customer or citizen satisfaction is useful in a couple of ways. First, it extends our understanding to a new type of relationship that is prevalent in our society. There are a growing number of ombudsmen, and other commercial relationships such as brokers, where managing conflicting interests between two independent participants is important. Second, understanding this relationship may provide insights useful across a wide range of relationships. Understanding the drivers of satisfaction in this type of relationship may prove useful in studying relationships between buyers and sellers, for example, or company representatives charged with addressing complaints.

Prior research on ombudsmen is sparse, and none is concerned with evaluating service quality from the perspective of parties involved in a complaint or in linking service efforts to satisfaction. Reviews of the nature and number of complaints handled have been done (Gregory and Pearson, 1992; Hill, 2002; Stieber, 1989), as have the general outcomes of the process (Hill, 2002). Gregory and Pearson also reviewed the perceived effectiveness of the United Kingdom's parliamentary ombudsman by members of parliament (1992).

PURPOSE

The first purpose of this study was to determine satisfaction levels among citizen complainants with the services provided by the Alaska State Ombudsman's Office. To date the Ombudsman's Office has had no explicit, formal means of assessing the degree of satisfaction of either the complainant or the agency against which the complaint was filed. Therefore, the first objective was to answer the question

How satisfied are complainants with the Alaska State Ombudsman's Office?

Given the absence of knowledge regarding complainant satisfaction levels, the objective was to estimate satisfaction levels.

A second objective was to determine if there are different factors that underlie service delivery perception. Specifically,

What are the various factors, or dimensions, that underlie perceptions of service delivery?

A third objective was to identify the determinants of satisfaction. Specifically, the third objective was to answer the question

To what extent is satisfaction a function of how service is rendered (service processes), as compared to the investigative outcomes (with regard to favoring the complainant versus the government agency)?

From the perspective of a complainant there are two considerations when evaluating outcomes: 1) Did the Ombudsman's Office generate a sound finding, and 2) to what extent did the ombudsman agree with me? In this research the first consideration is linked inextricably to the processes used, and the second was directly measured.

In order to address these questions a sample of complainants to the Alaska State Ombudsman's Office was chosen, and a mail questionnaire administered.

METHODOLOGY

Relevant numbered questions and the response categories from the questionnaire are provided in the appendix. To facilitate communication question/item numbers from the appendix are repeatedly referred to throughout this paper.

Six candidate items were included to measure satisfaction, specifically question 31 (regarding how pleased complainants were with the outcome), question 33 (regarding the extent to which complainants agree or disagree with the findings), question 38 and question 39 (regarding how pleased complainants were with the people they worked with and how satisfied they were with the Ombudsman's Office) and question 40 (regarding their intention to use the service in the future), and question 41 (regarding whether complainants would recommend the Ombudsman's Office to others). Variants of all the items have been used in other studies (see Maxham and Netemeyer, 2002; Reichheld, 2003; Roberts, 1989; Smith, Bolton and Wagner, 1999), and were felt to display face validity. Note that variants of questions 40 and 41 have been considered to reflect behavioral intentions (e.g., Reichheld, 2003). In this exploratory study the distinction between satisfaction and behavioral intention was not explored.

Items used to measure potential service quality dimensions, questions 1 through 30, were based on the work of Parasuraman, Zeithaml and Berry (1985, 1988; Parasuraman, Berry and Zeithaml, 1990), who have identified five factors that relate to service quality across a number of services: tangibles, reliability, responsiveness, assurance, and empathy. Two major modification were made to Parasuraman, Zeithaml and Berry's SERVQUAL instrument. First, all items relating to tangibles were eliminated. In rendering their services, complainants and agency representatives rarely visit the Ombudsman's Office. Second, similar to Cronin and Taylor (1992), rather than burden respondents with responding to modified SERVQUAL items twice, the decision was made to ask respondents directly how much better or worse the Ombudsman's Office performed compared to their expectations. Hence a disconfirmation approach was employed with one pass through the 30 questions. Such scale modifications are not uncommon and have in fact been recommended (Carman, 1990; Cronin and Taylor, 1992; Oliver and Swan, 1989a; Taylor and Cronin, 1994).

Response categories for all questions varied from 1 to 5, and were written such that the midpoint could be considered neutral.

Dillman's Total Design Method (1978) was followed to the extent possible in constructing and administering the questionnaire. The final questionnaire was 7 pages long with 43 items. Addresses were typed on the envelope, and a letter personally signed by the ombudsman was included. A signed reminder postcard was mailed one week after the initial mailing.

The questionnaire was mailed to 658 recent complainants chosen by the Ombudsman's Office whose cases were closed. In choosing the cases, the decision was made to exclude cases initiated by prison inmates, since many inmates are perceived as using the ombudsman's services to harass correctional employees. Forty-four questionnaires were returned by the Post Office as undeliverable, and partially useable responses were received from 232 respondents, yielding a gross response rate of 37.8%. A more detailed analysis of the responses resulted in discarding another 9 questionnaires, yielding a total of 223 questionnaires, which equates to an effective response rate of 33.9%. Since, for the purposes of this study, we are primarily interested in the

relationships among various variables, and less in estimating the relative response frequencies in the population of non-inmate complainants, the response rate and the resulting sample size was deemed adequate.

RESULTS

The resulting data were analyzed using SPSS. Where appropriate the pairwise option of choosing data for analysis was employed.

Satisfaction with the Ombudsman's Office

In order to address the research question regarding the satisfaction levels of complainants with the Ombudsman's Office an appropriate scale was needed. Therefore, questions that were intended to measure satisfaction as well as behavioral intentions were examined, specifically questions 31, 33, 38, 39, 40, and 41. Table 1 depicts the inter-item correlation matrix. All values are high and statistically significant, with the lowest correlation being between questions 31 and 41, at .705. Reliability analysis yielded a Cronbach's alpha of .956, and indicated that dropping items would not increase alpha.

Table 1: Satisfaction Items Inter-Item Correlation Matrix[a]

Questionnaire Item	31. Pleased with outcome	33. Agree with decision	38. Pleased with employees	39. Satisfied with office	40. Would use again	41. Would recommend office
31. Pleased with outcome?	1.000	.811	.752	.825	.703	.705
33. Agree with decision?	.811	1.000	.729	.820	.739	.771
38. Pleased with employees?	.752	.729	1.000	.857	.727	.767
39. Satisfied with office?	.825	.820	.857	1.000	.844	.869
40. Would use again?	.703	.739	.727	.844	1.000	.920
41. Would recommend office?	.705	.771	.767	.869	.920	1.000

a. All correlations are significant at the .001 level (two-tailed).

Table 2 provides information regarding the satisfaction levels of complainants. Values could vary from 1 to 5, with responses of 1 and 2 signifying dissatisfaction, values of 4 and 5 signifying satisfaction, and with 3 indicating the respondent was neither satisfied nor dissatisfied. The scale value for 5.4% of the complainants was the lowest value possible, and it is reasonable to assume that these complainants were very, if not totally, dissatisfied. Note that 21.5% had scale values less than the scale midpoint of 3, and we can assume that these complainants are at least partially dissatisfied. Values greater than or equal 3 were recorded for 78.5%, and we can assume that these complainants were at least partially satisfied. A full 26.0% were apparently

very, if not totally, satisfied. Hence the distribution of satisfaction is skewed, and the mean and standard deviation of the scale was 3.88 and 1.27, respectively.

Table 2: Satisfaction Scale Value		
Satisfaction (y) value range	**N**	**Percent**
Equal to 1 (very dissatisfied)	12	5.4%
Greater than 1 to < 2	16	7.2%
Greater than or equal to 2 to <3	20	8.9%
Greater than or equal to 3 to < 4	34	15.3%
Greater than or equal to 4 to <5	83	37.2%
Equal to 5 (very satisfied)	58	26.0%
TOTALS	223	100%

Service Quality Dimensions

In order to identify the various factors, or dimensions, of service quality the factor structure of the data regarding the service rendered by the Ombudsman's Office as measured by items 1 through 30 of the questionnaire was examined. These are the questions that were patterned after SERVQUAL items used to measure reliability, responsiveness, assurance, and empathy factors (Parasuraman, Zeithaml and Berry, 1986; 1988).

The preliminary analysis supported the use of factor analysis. The anti-image correlation matrix values were generally low. Only 9 had partial correlation coefficients over .40, and only 4 had a partial correlation coefficient over .5 (the greatest was between question 23 (Neutral?) and question 24 (Impartial?) at -.789). Anti-image correlations provide the partial correlations between factors, given the effects of other variables. Low partial correlations support the use of factor analysis (Hair et al., 1998, p. 99).

The Kaiser-Meyer-Olkin Measure of Sampling Adequacy (MSA) was .955, and Bartlett's Test of Sphericity was significant at .000. The MSA is an index that ranges between 0 and 1, and is an indication of the intercorrelations among the variables and the appropriateness of factor analysis. Hair et al. (1998, page 99) state that an MSA above .80 is meritorious. Bartlett's Test of Sphericity is the probability that the correlation matrix has significant correlations among some of the variables (Hair et al., 1998, p. 99). The MSA for the individual question items were all above .90 except for question 19, which had an MSA of .861, and question 20, with an MSA of .849. Hence, it was deemed that factor analysis is appropriate for this data set.

The data was factor analyzed using principal components analysis with an oblique rotation employing Kaiser normalization. Four factors had eigenvalues over 1 (19.442, 1.594, 1.198, and 1.094). The 5th factor's eigenvalue was only .776. The scree plot also suggested 4 factors. When the factor solution was restricted to three factors the results were difficult to interpret, although in general the first and fourth factors tended to merge. Hence the four-factor solution seemed most appropriate. It is worth noting that the four-factor solution is also

consistent with SERVQUAL, in that the questionnaire was developed by adapting items measuring 4 of the 5 SERVQUAL factors.

Table 3 depicts the initial rotated pattern matrix with four factors. This initial pattern matrix was refined in steps. First, items that did not load greater than .50 on any factor, and had roughly equal loadings on 2 or more factors were eliminated. This resulted in the elimination of 7 questionnaire items. A subsequent factor analysis suggested eliminating two additional items since their loading were below .55 and they had loadings greater than .40 on two factors. In a third factor analysis two other items were eliminated because of loadings less than .55 and had significant loadings on two factors. No further elimination of items was indicated by an additional factor analysis.

The final factor solution had a Kaiser-Meyer-Olkin MSA of .932, and Bartlett's test of sphericity had a significance level of .000. The final pattern matrix, with names assigned to the factors and with only significant questionnaire items is depicted in Table 4. The items that load highly with the Professionalism factor in this study do not have counterparts in SERVQUAL (Parasuraman, Zeithaml and Berry, 1990), except for item 15, which seems similar to SERVQUAL's empathy items. Items that appear to be consistent with SERVQUAL's empathy factor split between this study's second factor, Accessibility, and the third factor, Rapport. Item 17 is very similar to a SERVQUAL item that loaded on their assurance factor, but in this case it loaded highly on the Rapport factor. The fourth factor in this study, termed Promptness, does appear to be equivalent with SERVQUAL's responsiveness factor.

The factors are highly correlated, as shown in Table 5. This is not surprising. The professionalism factor accounted for 63.14% of the variance, the Accessibility factor for 7.47%, Rapport 5.57%, and the promptness factor 4.99%. The cumulative variance accounted for by these four factors is 81.17%.

Cronbach's alpha was computed for scales made up of the items for each factor. It was .973 for the 10 items reflecting Professionalism, .754 for the two items reflecting Accessibility, .905 for the four items reflecting Rapport, and .890 for the three items reflecting Promptness. In the subsequent regression analyses, the average of the sum of the individual items was retained as an indicator of each factor for the first three factors. However, with regard to the Promptness scale, it was decided to use the average of the responses to items 1 and 2, and to disregard item 4, because it had a relatively low loading on the Promptness factor and seemed fundamentally different from the other two items. Removing item four resulted in a Cronbach's alpha value of .892. Hence the alpha values, with the exception of accessibility, were quite respectable.

Table 3: Initial Pattern Matrix: Principal Components Analysis, Oblique Rotation (Kaiser normalization), Pairwise Deletion				
	Component			
Questionnaire Item	1	2	3	4
1. How fast to request?	-.129	.143	-.164	-.819
2. How fast once responded?	.087	.077	-.031	-.809
3. Keeping promises?	.309	.052	-.102	-.559
4. Kept you informed?	.208	.074	-.004	-.701
5. Right first time?	.490	-.003	-.113	-.401
6. Comfortable talking with them?	-.013	.101	-.812	-.020
7. Trustworthy?	.396	-.047	-.540	-.045
8. Guarded information?	.240	.071	-.391	-.257
9. Willing to listen?	.006	.010	-.785	-.129
10. Attentive?	.055	-.001	-.759	-.187
11. Competent?	.436	-.077	-.321	-.325
12. Knowledgeable?	.358	.071	-.236	-.300
13. Professional?	.413	-.014	-.479	-.121
14. Willing to help?	.333	-.106	-.545	-.181
15. Did they understand?	.644	-.085	-.107	-.198
16. Respond to requests?	.297	-.009	-.261	-.483
17. Courteous?	.053	.137	-.765	.032
18. Error free?	.715	-.027	-.076	-.124
19. Convenient hours?	.090	.827	.155	-.113
20. Easy to contact office?	-.018	.885	-.094	.030
21. Easy to contact staff?	5.73E-005	.543	-.431	-.078
22. Fair?	.738	.165	-.208	.084
23. Neutral?	.874	.110	-.153	.215
24. Impartial?	.839	.097	-.187	.168
25. Thorough?	.856	.015	.003	-.088
26. Effective?	.871	.038	.152	-.205
27. All concerns considered?	.848	.028	.012	-.076
28. Useful?	.892	.051	.143	-.093
29. Interested in solving?	.444	.119	-.417	-.038
30. Evaluate issues well?	.800	.010	-.074	-.068

Table 4: Final Pattern Matrix: Factors with Relevant Loadings				
	Factor			
Questionnaire Item	Professionalism	Accessibility	Rapport	Promptness
1. How fast to request?				-.752
2. How fast once responded?				-.725
4. Kept you informed?				-.562
6. Comfortable talking with them?			-.838	
9. Willing to listen?			-.831	
10. Attentive?			-.771	
15. Did they understand?	.711			
17. Courteous?			-.785	
18. Error free?	.745			
19. Convenient hours?		.911		

Table 4: Final Pattern Matrix: Factors with Relevant Loadings				
	Factor			
Questionnaire Item	Professionalism	Accessibility	Rapport	Promptness
20. Easy to contact office?		.843		
22. Fair?	.783			
23. Neutral?	.890			
24. Impartial?	.875			
25. Thorough?	.891			
26. Effective?	.922			
27. All concerns considered?	.878			
28. Useful?	.901			
30. Evaluate issues well?	.823			

Table 5: Factor Correlation Matrix				
Factor	Professionalism	Accessibility	Rapport	Promptness
Professionalism	1.000	.398	-.681	-.513
Accessibility	.398	1.000	-.413	-.211
Rapport	-.681	-.413	1.000	.353
Promptness	-.513	-.211	.353	1.000

Satisfaction Determinants

Table 6 depicts the inter-item correlations of the satisfaction scale, the scales measuring the four service factors, and questions 32 and 36. Question 32 asked respondents “Do you feel the Ombudsman’s Office favored you or favored the agency you called about?” Responses were recoded such that higher values indicate that the Ombudsman’s Office favored the complainant more. It is assumed that respondents interpreted this question such that the more the finding supported the complainant the more they were favored. Clearly complainants who are vindicated by the decision of the Ombudsman are more likely to be satisfied with the results of their complaint. The real question is whether this is more important than aspects of the service delivery. Question 36 asked respondents “To what extent did contacting the Ombudsman’s Office resolve your problem?” Again, it is expected that the greater the extent the problem is resolved the more satisfied the respondent will be, and the real question is its relative importance in determining satisfaction levels.

As Table 6 indicates, all values are significant and positive. Satisfaction is most highly correlated with the Professionalism factor, then the extent to which the problem was resolved (question 36), and then the others.

A stepwise regression was performed, using a level of significance of .05 for variable entry, and a value of .10 for variable removal. The dependent variable was Satisfaction, and the independent variables were the variables included in the correlation matrix of Table 6. As shown

in Table 7, the following variables were entered in the following order: Professionalism, question 36 (resolution), question 32 (favored complainant), Rapport, and then Accessibility. The only variable not entered was Promptness. Note that the first regression, with Professionalism, resulted in an adjusted R-square of .810, and this was improved by only .033 with the addition of question 36, and then again by only .016 with the addition of question 32 regarding who was the favored party. The variables entered subsequent to this, while statistically significant, are of no practical significance. Therefore, this study suggests that Professionalism, followed by the degree to which the problem was resolved, and only then by the extent to which the complainant was favored determine Satisfaction, and then to only a minor extent.

Table 6: Inter-Item Pearson Correlations: Factors and Variables Used in Regressions

	Satisfaction	Profession-alism	Accessibility	Rapport	Promptness	32R.[a] Who was favored?	36. Problem resolved?
Satisfaction	1	.887(**)	.315(**)	.707(**)	.662(**)	.637(**)	.777(**)
Professionalism	.887(**)	1	.428(**)	.760(**)	.701(**)	.576(**)	.741(**)
Accessibility	.315(**)	.428(**)	1	.453(**)	.394(**)	.132	.329(**)
Interpersonal Style	.707(**)	.760(**)	.453(**)	1	.636(**)	.452(**)	.494(**)
Speed	.662(**)	.701(**)	.394(**)	.636(**)	1	.413(**)	.588(**)
32R. [a] Who was favored?	.637(**)	.576(**)	.132	.452(**)	.413(**)	1	.459(**)
36. Problem resolved?	.777(**)	.741(**)	.329(**)	.494(**)	.588(**)	.459(**)	1

** Correlation is significant at the 0.001 level (2-tailed). N varied from a low of 200 to a high of 223.
a. Reversed, such that 5 means 'very much favored me.'

Table 7: Stepwise Regression Models Summary: Satisfaction As The Dependent Variable

Model	Independent variables	R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Change Statistics		
						R-Square Change	F Change	Sig. F Change
1.	Professionalism	.901	.811	.810	.56030	.811	796.157	.000
2	Model 1 + 36. Problem resolved	.919	.844	.842	.51107	.033	38.355	.000
3	Model 2 + 32R. [a] Who was favored?	.928	.860	.858	.48496	.016	21.346	.000
4	Model 4 + Rapport	.931	.866	.863	.47593	.006	8.008	.005
5	Model 5 + Accessibility	.932	.869	.866	.47170	.003	4.282	.040

a. Reversed, such that 5 means 'very much favored me.'

Table 8 depicts the coefficients for the third model. The coefficient for Professionalism is greater than for question 36 (Problem resolved?), which in turn is greater than question 32 regarding who was favored. A series of individual simple regressions were performed against all the candidate independent variables. The greatest adjusted R-square was obtained regressing Satisfaction against Professionalism (.785), the extent to which the problem was resolved (.602), and Rapport (.500). Looking at the standardized slopes of the simple regressions, the same three variables have the steepest slopes.

Table 8: Regression Coefficients For Third Model: Satisfaction as the Dependent Variable

	Unstandardized Coefficients		Standardized Coefficients		
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	.531	.113		4.709	.000
Professionalism	.638	.046	.619	13.817	.000
36. Problem resolved?	.198	.031	.256	6.345	.000
32R. [a] Who was favored?	.186	.040	.159	4.620	.000

a. Reversed, such that 5 means 'very much favored me.'

DISCUSSION

With regard to satisfaction levels of complainants, the data indicate a fair spread of values, although the distribution of values was skewed towards the very satisfied end of the scale. The disaggregated results were useful for comparing the performance of different offices, and in identifying employees that might be doing an outstanding job. Re-administering this questionnaire on a regular basis can be employed to tracking changes in performance over time.

There are a couple of tentative, more important conclusions from this study. First, consistent with other studies regarding services, there are several dimensions associated with service delivery. It appears that the various dimensions are similar, but somewhat different, than those identified in the work of Parasuraman, Zeithaml and Berry (1990) and others. In particular, four factors were identified, which is equivalent in number with other SERVQUAL-based studies, given that perceptions regarding tangibles were not sought in this study.

Regarding the determinants of satisfaction, the most important factor in this instance was the factor identified as Professionalism, and was significantly affected by the extent to which the problem was resolved, who the ombudsman is perceived to have favored, and the Rapport factor. Importantly, it appears that satisfaction is more a function of how service is delivered than a function of who was favored.

Managerial Implications

The results suggest that how the ombudsman's service is rendered is more important to complainant satisfaction than the extent to which the finding is found to be in the complainant's favor. Among the several dimensions of service quality the factor identified in this study as Professionalism appears to be the most important service dimension. However, all the factors are correlated, and it may be a mistake to exclude attention to the other three dimensions, specifically Promptness, Accessibility, and Rapport. Employee training and feedback in service delivery may be important to satisfying those with complaints. This implies that the processes involved in handling complaints are more important that in service outcomes. If true, focusing on developing objective professional processes are more appropriate than focusing on placating customers.

The results also suggest that complaint resolution is an important driver of satisfaction. Hence efforts to complete an investigation and resolve the issue are important.

This study shows that collecting this information can be useful to ombudsmen. It would be a relatively simple matter to collect information regarding perceptions of performance and expectations, as well as satisfaction levels, for each complainant, and possibly from each agency involved in an investigation. Collecting and monitoring satisfaction levels and drivers of satisfaction could be useful in improving the quality of work delivered by employees. A reasonable action would be to identify those who do a particularly good or poor job at satisfying complainants; presumably these employees might provide guidance to others.

Tentatively, the results of this study suggest that those responsible for handling customer complaints in firms can potentially satisfy complainants through the manner in which each case is handled: assuming the customer is right, and that there has been a service failure, is not necessary. Resolving the issue through professional behavior may be more important that finding for the customer.

Limitations

It is important to bear in mind that the various factors regarding service delivery are correlated, and hence obfuscate the relative importance of various aspects of service delivery to satisfaction levels. It is inappropriate to assign too much significance to the relative regression coefficients and the relative R-square increases attributed to second and subsequent factors. A further limitation is that the same data used to identify factors and develop scales was used in the subsequent regression analysis. The cross-sectional nature of the data is another limitation.

While scale development followed the advice of Churchill (1979), and is consistent with scale development of others, there was no test of the scales or factors that used a different, fresh data set. The data was randomly split into two samples, and then subsequently refined, and while

the results are consistent with the use of the whole data set, there were some differences. Clearly this study should be replicated with a new data set.

Measurement errors are a shortcoming of the measure regarding who was preferred (question 32), and the measure of problem resolution. There is ambiguity in both questions. With regard to who was favored, while the intent was to measure whose position was favored by the ombudsman, respondents might have responded with the notion of whom the ombudsman was biased towards. Similarly, problem resolution might mean different things to different complainants.

Finally, the data came from one geographical area. The results may not apply to different regions with different subcultures or cultures.

Directions for Future Research

Given that the scales were developed and subsequently used with a single data set from a single geographical area, replicating this study is clearly needed. A question is How stable and relevant are the factors, and the items that compose the factors, particularly across cultural settings? Further, given the findings, efforts to develop more comprehensive measures regarding who was favored, and regarding problem resolution, would be useful.

A useful extension, consistent with other research, would be to examine the relationship between satisfaction and behavioral intentions in detail.

It would be possible to deepen our understanding of relationship satisfaction and service delivery by extending this research in another way. It is possible to measure perceptions of three parties to the services of the ombudsman: the complainant, the agency against whom the complaint was filed, and the employee responsible for handling the complaint. To what extent, and under what circumstances is satisfaction a zero-sum event? Further, are there other factors (e.g, trust, extent and nature of conflict) that impact perceptions of service quality and satisfaction?

Another extension would be to examine the dimensions of service quality in other, similar relationships, such as with regard to mediators and arbitrators, and to a lesser extent agents and brokers. Extending the research to the relationship between company representatives and customers who have complaints would also be appropriate and beneficial.

Finally, conducting longitudinal studies, or using true experimental designs, to examine relationships would enhance confidence in uncovered causal relationships.

CONCLUSIONS

First, in rendering services ombudsmen can expect to find a range of satisfaction levels among complainants. More importantly, various facets of their service determine complainant satisfaction.

Regarding service delivery, four different factors, or dimensions, were uncovered in this study. While not identical to the dimensions found in other studies regarding other services, the results are largely congruent with other studies: Service performance does entail different dimensions, in this case named Professionalism, Accessibility, Rapport, and Promptness. Scales exhibiting good psychometric properties for each of these factors were developed.

Finally, satisfaction with ombudsman's service is a function of how the service is delivered, dominated by Professionalism, the extent to which the ombudsman favors the complainant, and the extent to which the problem is resolved.

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APPENDIX: THE RELEVANT PORTION OF THE OMBUDSMAN QUESTIONNAIRE						
Compared to what you feel you have a right to expect from the Ombudsman's office,…	Much Better Than What I Expected		About What I Expected		Much Worse Than I Expected	Does Not Apply, Don't Know
1. …how fast were they in getting to your request?	5	4	3	2	1	0
2. …once they got to your request, how fast were they?	5	4	3	2	1	0
3. …how good were they at keeping promises?	5	4	3	2	1	0
4. …how good were they at keeping you informed?	5	4	3	2	1	0
5. …how good were they at doing thing right the first time?	5	4	3	2	1	0
6. …how comfortable did you feel when talking to them?	5	4	3	2	1	0
7. …how trustworthy do you think they were?	5	4	3	2	1	0
8. …how careful do you believe they were in guarding any sensitive information you may have shared?	5	4	3	2	1	0
9. …how willing were they to listen?	5	4	3	2	1	0
10…how personal was the attention you received?	5	4	3	2	1	0
11…how competent were they?	5	4	3	2	1	0
12…how knowledgeable were they?	5	4	3	2	1	0
13…how professional were they?	5	4	3	2	1	0
14…how willing to help were they?	5	4	3	2	1	0
15…how will did they understand your problem?	5	4	3	2	1	0
16…how well did they respond to your requests?	5	4	3	2	1	0
17…how courteous were they?	5	4	3	2	1	0
18…how error-free do you believe they were?	5	4	3	2	1	0
19…how convenient were their office hours?	5	4	3	2	1	0
20…how easy was it to contact the Ombudsman's Office?	5		3	2	1	0
21…how easy was it to contact the staff person working on your case?	5	4	3	2	1	0
22…how fair were they?	5	4	3	2	1	0
23…how neutral do you believe they were?	5	4	3	2	1	0
24…how impartial were they?	5	4	3	2	1	0
25…how thorough was their review of your problem?	5	4	3	2	1	0
26…how effective were they in handling your problem?	5	4	3	2	1	0
27…were all of your concerns considered?	5		3	2	1	0
28…how useful were they?	5	4	3	2	1	0
29…how interested did they appear in solving your problem?	5	4	3	2	1	0
30… how well did they evaluate the issues of your complaint?	5	4	3	2	1	0

APPENDIX: THE RELEVANT PORTION OF THE OMBUDSMAN QUESTIONNAIRE						
Concerning Your Overall Impressions and Opinions…	Very pleased		Neither pleased nor displeased		Very displeased	Does not apply, don't know
31. How do you feel about the outcome of your complaint?	5	4	3	2	1	0
	Very much favored this agency		Didn't favor either		Very much favored me	Don't know
32. [a] Do you feel the Ombudsman's Office favored you or favored the agency you called about?	5	4	3	2	1	0
	All of it		Some of it		None of it	Don't know
33. How much of the ombudsman decision did you agree with?	5	4	3	2	1	0
	Totally resolved		Somewhat resolved		Not at all resolved	Don't know
36. To what extent did contacting the Ombudsman's Office resolve your problem?	5	4	3		1	0
Concerning How Satisfied You Are…	Very pleased		Neither pleased nor displeased		Very displeased	Does not apply, don't know
38. How pleased are you with the people you worked with from the Ombudsman's office?	5	4	3	2	1	0
	Very satisfied		Neither satisfied nor dissatisfied		Very dissatisfied	Don't know
39. How satisfied are you with the Ombudsman's Office?	5	4	3	2	1	0
	Yes!					No!
40. Knowing what you know now, would you use the services of the Ombudsman's Office again?	5	4	3	2	1	0
	Strongly recommend services					Strongly not recom-mend services
41. If a friend wanted to use the services of the Ombudsman's office and asked your opinion, what would you advise?	5	4	3	2	1	0
a. When labeled 32R indicates reverse scaling during data analysis, such that the higher the response value the more the respondent was favored.						

RELATIONSHIP MARKETING IN BANK MUTUAL FUND RETAILING: RE-ENGINEERING FROM A SALES TO AN ADVISORY PLATFORM

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ABSTRACT

The mutual fund industry is the third largest financial institution next to commercial banks and life insurance. Its innovative design of financial products and distribution channels has led to its rapid growth. Despite the keen competition among different channels, traditional channel members have managed to maintain their market share. New members in this industry, such as banks, have continued to lag behind. This paper examines key service attributes of banks as compared to those of other channel members in the mutual fund industry. Salient perceptions of customers and non-customers are mapped to provide an audit of vulnerabilities. Managerial implications are discussed.

INTRODUCTION

Mutual funds have been the fastest growing category of household financial assets for more than two decades with total asset value in the United States reaching $14.7 trillion in 2012 (Investment Company Institute (ICI), 2013). This makes it the nation's third largest financial institution next to commercial banks and life insurance. Today, 44% or 53.8 million households own mutual funds compared to less than 6% in 1980 (ICI, 2012). Among investors who hold funds outside work retirement plans, nearly 80% own funds purchased through professional financial advisers who are compensated through sales loads or asset-based fees (Howat and Reid, 2007). This substantial increase in fund ownership by individual consumers has been stimulated in part by the innovative product development strategy of the mutual fund industry. Mutual funds offer a range of investments that appeal to the needs of consumers and the market conditions. For instance, there is a range of investments that appeal to the different risk preferences of individual consumers as well as, virtually, a fund for all market conditions. Aggressive equity growth funds for the bull market, municipal bonds for the bear market and money market funds for highly liquid checking purposes. Another factor that has led to the substantial increase in fund ownership is the innovation the mutual fund industry has made in the design of its distribution channels. This has been expanded beyond the traditional avenues of full-service brokers, financial planners and direct purchases to the newer channels of banks and life insurance agents.

Today, mutual funds are sold mainly through five channels, namely full-service brokers, discount brokers, direct, banks and life insurance agents. Competition among these channel members is keen for new influx of monies into the funds from existing and new investors (ICI, 2006; Coates and Hubbard, 2007). Winning this competition is important for two reasons. First, studies have shown that consumers after choosing a particular channel tend not to switch. These consumers often purchase other mutual funds through the same channel. Thus each new customer is viewed as a stream of future cash flows into the fund. With such channel loyalty, it becomes imperative for channel members to reach their target consumers effectively. Secondly, fund managers are usually remunerated as a percentage of net asset value. The economics of fund manager compensation often results in a relatively flat marginal revenue curve and a downward sloping marginal cost curve. Profit maximization in these situations usually necessitates attracting as many fresh purchases of fund shares as possible so as to increase the total net asset value of the fund net of total redemption (Baumol et al, 1990; Cocheo, 1991).

BANKS AND MUTUAL FUND RETAILING

Compared to other channels of distribution, banks are relatively new in this area of mutual fund retailing. Commercial banks offer their customers proprietary mutual funds as well as nonproprietary funds which are managed by independent mutual fund companies but sold through banks or their intermediaries. Research shows that they have consistently found no difference in the difficulty of selling proprietary and third-party funds (Carter, 1993; Curtis, 1997).

Banks have made significant inroads into this lucrative industry. They have remained one of the most “trusted and respected of financial intermediaries” (Rose, 1993; Singer, 2012). However, banks have yet to fully optimize and leverage this privileged position. The total percentage of mutual funds bought through banks remains low compared to those purchased from other channels of distribution such as full-service and discount brokers. This represents a large potential market that banks have yet to effectively tap into (Morris, 2001; Singer, 2012). This market is important to banks for several reasons. First, banks continue to be challenged by a persistently slow growth in its traditional banking products. This is especially true in a financial environment such as from mid-2000 to the present where interest rates have been exceedingly low resulting in traditional bank instruments such as certificates of deposits yielding negligible interest. Banks are, therefore, challenged to find financial instruments that will provide income for their customers (Wallack, 2009; Singer, 2012). Secondly, other non-banking competitors are gaining larger market shares in profitable traditional banking products like auto loans and credit cards. Finally, the changing demographic landscape has brought about major changes in the financial needs of consumers. With the aging of the baby boomers, banks will continue to see its pool of prime borrowers (age 25-44) decline by nearly 10% between 1990-2020 while the pool of prime savers/investors (age 44-64) will expand by about 70% (Bowen & Hedges, 1993).

Banks need to be able to find income for these investors. Mutual funds are extremely popular vehicles of investment for consumers, with the median age of mutual fund investors being 45 years. Furthermore, studies show that in 2012, 53% of households owning mutual funds held funds purchased through the professional advice channel. This represents a significant opportunity for banks.

Mutual funds are a natural fit to the products already offered by banks, and their growth rates are expected to substantially exceed those of traditional bank instruments. It is, therefore, a necessary tool to help stem the outflows of money from traditional bank instruments such as certificates of deposit (Asher, 1996; Singer 2012).

In 1995, the total asset value in the mutual fund industry was $3.028 trillion. This has increased to $14.7 trillion in 2012. Yet, despite the large increase in total asset value in the industry, the proportion that banks claim as their market share in this industry remains low despite the growth of bank customers over that period (Reid, 2013). Customer and non-customer perception of banks and their service attributes have been identified as one of the major problems leading to this stagnant growth in market share (Choong, 2008). Consumers generally do not associate banks with mutual fund purchases and investments. Additionally, though banks have often perceived themselves as being in the retail business, its customers and non-customers tend to think otherwise. A substantial proportion views them as “intimidating” at worst and “dull” and “uninteresting” at best (Dery, 1998; Choong, 2008). Obviously, banks need to be able to position themselves better in the marketplace if they are to improve their share of customers.

The purpose of this paper is to investigate the key service attributes of banks as compared to those of other channel members in the mutual fund industry. Channel members included in this study are financial planners (FP), full-service brokers (FSB), discount brokers (DB), insurance agents (IA) and banks, all of which have been identified as the key providers of financial service advising in the mutual fund industry (ICI, 2013). The paper further examines the salient perceptions of its customers and non-customers and audits the current weakness of banks. Finally, it uncovers managerial implications useful to banks in their calibration of their positioning strategy.

METHODOLOGY

Questionnaires were distributed to five thousand individuals who had recently bought mutual funds outside their company retirement plan. More specifically, these were purchases that were made outside their retirement 401(k), 403(b) accounts and so on. The questionnaire is the outcome of two focus groups. Participants in the focus groups were individuals who had recently purchased mutual funds outside their company retirement plans. Results of the focus group indicated that they viewed investment advice, fees, fund performance, transaction accuracy and

convenience, relationship with their providers and personal service as being important service quality aspects of their financial service provider.

These service aspects or attributes were included in the questionnaire which required respondents to rate their financial service providers on a list of service aspects on a 7-point Likert scale where 1 represents the lowest rating on the attribute and 7 represents the highest rating. Respondents were also asked to include their perception of the other financial service providers.

RESULTS AND DISCUSSION

In order to uncover the key underlying dimensions that consumers use to evaluate banks and other channels, factor analysis was applied to the channel service attribute ratings.

Factor analysis is the procedure for summarizing the consumer ratings on the service attributes into a smaller number of dimensions, which can then be identified as the salient dimensions underlying the respondents' ratings. The analysis extracted factors that had eigenvalues more than one. Two factors are extracted using this criterion. The results of the factor analysis, after applying the varimax rotation procedure, are summarized in Table 1. Varimax rotation is used because of its assumption of orthogonality among the factors. These factors or dimensions are the key drivers of the mutual fund investor.

Table 1
Results of Factor Analysis of Attribute Ratings

Attributes	**Factor 1**	**Factor 2**
Personalized service	**0.840**	0.167
Initial and ongoing investment advice or guidance	**0.818**	0.095
Established relationship with the provider	**0.777**	0.312
Good source of financial information	**0.763**	0.392
Provider is familiar with my investment needs	**0.747**	0.400
Low or no commission	0.070	**0.847**
Provider sells funds with solid performance	0.472	**0.724**
Convenient way to purchase investments	0.492	**0.717**
Efficient order processing	0.523	**0.689**
Provider has good reputation	0.556	**0.688**
Factor Labels	Social Advisory Relationship	Transactional Efficiency

The first factor relates to functional quality and refers to personalized service, perceived quality of investment advice, relationship with the financial service provider and perceived quality of financial information. This is congruent with Hausman's (2003) Social Quality Aspects, which refer to the manner in which core services are delivered. As such, this factor is labeled Social Advisory Relationship.

The second factor relates to the cost of transaction, fund performance, convenience of buying and selling mutual funds, efficiency of order processing and reputation. This is similar to

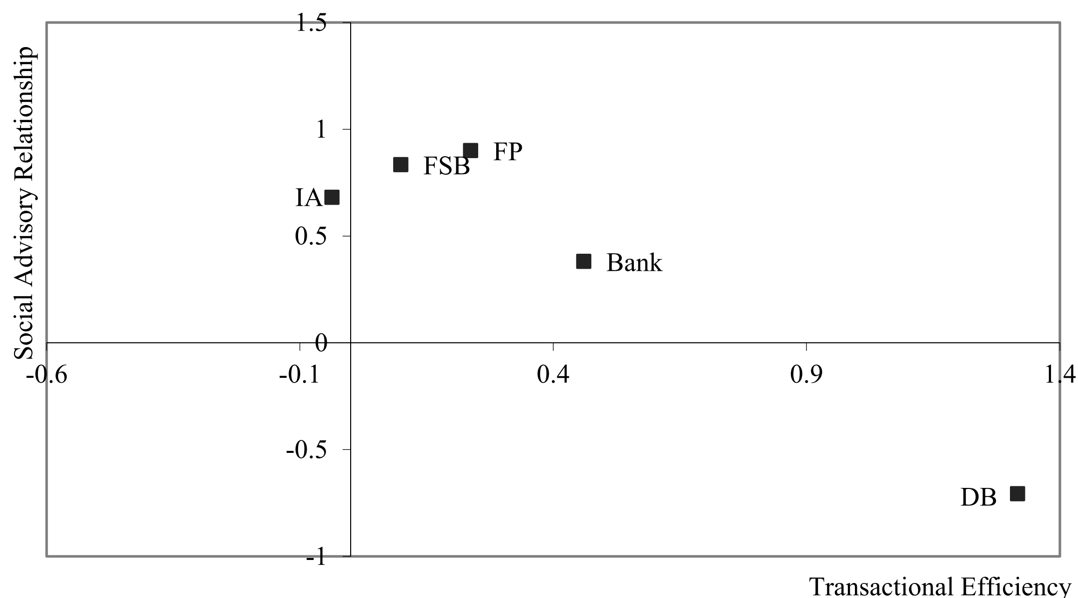
Hausman's (2003) and Gronroos' (1997) technical quality. As such, this factor is labeled Transactional Efficiency.

PERCEPTION OF CHANNEL MEMBERS

Product positioning is a key concept of competitive marketing strategy. It is often referred to as the "place" the product or service occupies in the consumer's mind. In order to investigate the salient perceptions of bank customers and non-customers, the results of the factor analysis are used to create a perceptual mapping that represents this perceptual space. By doing so, we are able to know the basic cognitive dimensions that the consumer uses to evaluate the service and the relative "positions" of their product with respect to those dimensions. This technique has been useful for organizations in industry developing new products, evaluating marketing strategies and identifying strategic opportunity windows.

As such, it is an effective strategy for banks to identify how customers and non-customers perceive them in the market place. Additionally, it also readily identifies how consumers perceive other channels of distribution. It is by mapping these perceptions that banks will be able to identify their strengths and weaknesses in the marketplace. Perceptual maps are plotted using factor scores and are presented in Figure 1 and 2 respectively.

Figure 1: Map of Customers



In both these figures, the vertical axis shows Social Advisory Relationship and the horizontal axis indicates Transactional Efficiency. It is noteworthy that among both customers and non-customers (see figures 1 and 2 respectively) financial planners (FP) and full-service brokers (FSB) are positioned highest along the Social Advisory Relationship dimension. These are the two traditional channels of distribution for mutual funds. This means that customers and non-customers alike perceive financial planners and full-service brokers as providing personalized service, good financial information, quality advice and guidance as well as being familiar with their investment needs. Non- traditional channels like banks and insurance (IA) companies are positioned lower on this axis. In fact, in the minds of bank customers, banks are perceived as exhibiting less Social Advisory Relationship and are positioned only higher than discount brokers (DB).

Looking at Figure 1, banks are positioned higher than FP, FSB and IA along the Transactional Efficiency axis for bank customers. This indicates that bank customers view this particular channel intermediary as being a cost effective and convenient way to purchase mutual funds. They also perceive it favorably as an institution with high reputation, selling mutual funds that perform.

While it is important to understand how our customers' perceive our services, it is equally important to measure the perceptions of non-customers. Information from this measurement will provide valuable inputs into developing new services, product offerings and advertising messages. This is especially important to banks whose strategic goal is to capture a segment of the large mutual fund market both from new customers coming into the industry as well as from existing customers of other channels.

Figure 2: Map of Non-Customers

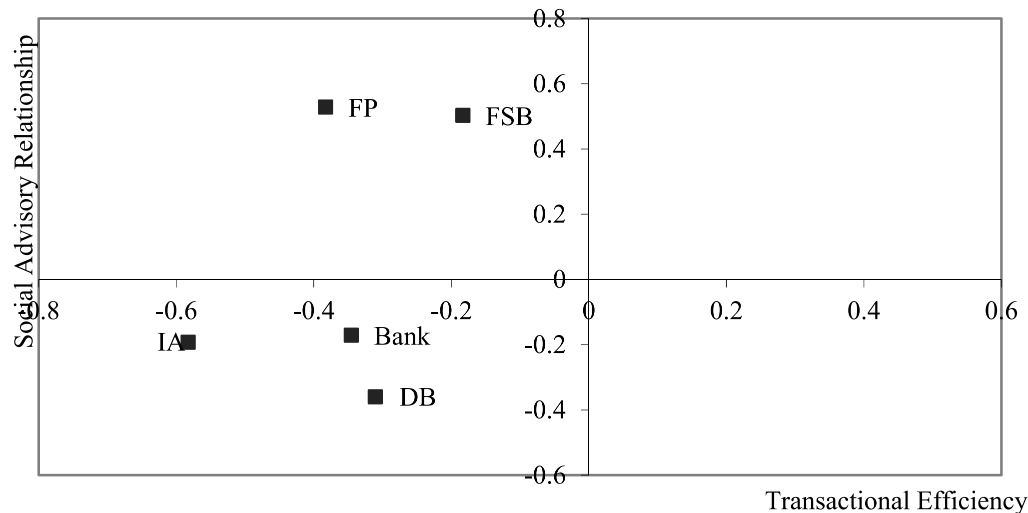


Figure 2 shows the perceptions of non-customers. An important finding is that banks are perceived by non-customers to exhibit little Social Advisory Relationship. The positioning distance between banks and financial planners (FP) and full service brokers (FSB) is large. In fact, banks are positioned in the negative quadrant of this particular axis, just slightly higher than insurance agents (IA). Discount brokers (DB) are, of course, located lowest in the area of Social Advisory Relationship both among their customers (see Figure 1) and non-customers. It is, therefore, not surprising that banks have not grown their market share over the last twenty years. Non-customers of banks do not view this channel as a source of financial advice and information. They also do not perceive this channel as providing personalized service that is able to help them develop their investment plans and reach their financial goals. In the area of Transactional Efficiency, it is interesting to note that non-customers perceive all five channel intermediaries as having little Transactional Efficiency. Full service brokers fare the best in this area. Banks fare relatively better than FP and IA in this area. This result indicates that despite familiarity with the banks as convenient institutions of deposits, non-customers perceive it to have little efficiencies in mutual fund transactions.

MANAGERIAL IMPLICATIONS

The results have several managerial implications. The first is for banks to recognize that they are in the advisory as oppose to merely the retail business. As such, engaging in relationship marketing where trust is central becomes so important. Banks have allocated significant resources to increasing customer satisfaction and service. However, the results indicate that both bank customers and non-customers view banks as lacking in Social Advisory Relationship. Even bank customers have failed to recognize the banks as a source of good investment information and financial advice. They continue to perceive the banker as impersonal and have not perceived that they have a relationship with a banker who is familiar with their individual investment needs and financial goals.

The second is the need to educate bank employees and bank customers. Banks are often not the financial institution consumers think about when investing in mutual funds. Dery (1998, p57) asserts that "consumers generally don't come into a bank branch to "buy a product." They don't even think of what a bank has to offer as "products," so they are clearly not in a buying mindset. Studies have shown that the bank customers hear about the bank's mutual funds through branch employees and by word of mouth. Bank employees should be trained to explain in clear understandable terms the options of mutual fund investments as an addition or alternative to traditional bank products like certificates of deposit. In addition, bankers should understand that consumers essentially do not set out to simply buy mutual funds but are really seeking solutions to their "problems." They want advice on how to allocate their assets, manage their portfolio and make financial investments to reach their specific goals. For example, they may be

seeking financial solutions to questions such as, how do I save for retirement? Or, what is the best way to pay for my child's education? Consumers often lack knowledge or are disinclined to decipher the complexities of financial jargon and strategies. Bankers should be trained to understand the needs of their consumers and provide investment solutions to their individual needs.

This is even more important in the high net worth segment of the market that banks have always actively cultivated. Studies have shown that the most affluent target markets are knowledgeable with high financial literacy. A study by ICI has found that customers with greater assets are also more likely to use the advice channel. However, it has also been shown that only 2.3% of purchases of affluent investors' mutual fund purchases are made through banks (Capon et al., 1994; ICI, 2012). This target market was shown to be extremely knowledgeable and to place high emphasis on mutual fund rankings, performance and other investment criteria. Thus, marketing to this target would require that banks re-engineer their training from a sales to an advisory platform. This means that bankers need to be trained to provide solutions to their customers' problems and be conversant in key areas such as portfolio analysis, asset allocation or financial planning assistance, estate planning and disbursement of assets in retirement.

The results also indicate that non-customers view banks as providing little Transactional Efficiency. Obviously, banks have not been able to convince the large pool of target market that purchasing mutual funds through them is efficient. Several banks faced with this problem have re-engineered themselves to make purchasing mutual funds convenient. Some have even made it possible to purchase them through their ATMs.

Evidence indicates that banks can increase their market share and stock value by increasing the quality of service they offer their customers (Bowen and Heges, 1993; Choong 2008). They should position themselves better to benefit from the nationwide migration of household financial assets to the mutual fund industry. Banks are perceived positively in the market place as stable and respectable. However, consumers continue to perceive them as cold, unfriendly and not a place to purchase mutual funds.

Thus to increase their stake in the mutual fund industry, banks have to change the perceptions of their customers and non-customers. Many banks already have the infrastructure to support excellent Social Advisory Relationship and provide quality Transactional Efficiency. They need to communicate this more effectively to their targets and re-engineer their positions to be less of a traditional aloof depository and retail site and concentrate instead on developing an advisory platform with personalized service, professional advice and transactional efficiency. Full service brokers and financial planners have a head start, but banks have the trust, respect and infrastructure that will serve them well.

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MEASURING CUSTOMER BEHAVIOR AND PROFITABILITY: USING MARKETING ANALYTICS TO EXAMINE CUSTOMER AND MARKETING BEHAVIORAL PATTERNS IN BUSINESS VENTURES

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ABSTRACT

Customer activity and turnover is a critical component in measuring profitability and market performance. Understanding customer behavior is a vital in examining firms the marketplace. The purpose of this study is to examine of the use of marketing analytics to measure customer behavior in small business enterprises (SME). The study used three hypotheses to guide the direction of the research. Building on key theoretical concepts grounded in accounting, finance and marketing literature, this study used analytics to measure both customer behavior and firm behavior patterns. This study examined three significant marketing analytics: (a) customer behavior analytics (customer turnover/frequency; velocity of profit/payment for services); (b) marketing behavior analytics (potential of product/services; economic conditions); and economic behavior analytics (pricing adjustment; market barriers). A random sample (N = 198) of businesses were examined for the study. A quantitative methodology was used to examine data collected from the businesses. The results were calculated using a discriminant analysis and a Pearson's Correlation. Based on the results of the study, the marketing behavior analytic proved to be moderately significant in predicting customer behavioral patterns.

INTRODUCTION

Analytics have been used to measure business performance for many years. Analytics have been mostly used in manufacturing firms and related industries. However, using analytics to measure small-to-medium business enterprises (SME) is still relatively new. The use of analytics to examine SMEs is an emerging approach in research. Considering the lack of research on the use of analytics with SMEs, there is a myriad of opportunities for examining their use with firms. Analytics can be tactical or strategic, depending on the level of decision structures they support. They can be real-time, near real-time or batched, depending on the data they process. Analytic queries can be planned or unplanned, repetitive or non-repetitive. Analytics from multiple customer touch points can help optimize customer interactions with the firm by providing a unified view of a customer (Chan, 2006). Using analytics to measure SME

performance has been under-researched. Given the lack of history or prior research in using analytics measure SME, there are untapped opportunities to improve firm performance and possibly minimize enterprise risk.

Drawing on insights from the prior use of analytics in manufacturing industries and others, this study examines SMEs with the use of analytics to measure firm activity and performance. This study contributes to the emerging literature and field of analytics. This study attempts to provide a greater insight into how SMEs operate and examine the impact of analytics as an indicator of firm performance. This study contributes to the emerging literature and the field of entrepreneurship. The importance of this research is threefold. First this study fills a gap in the prior studies with respect to explore the use and impact of analytics in entrepreneurship and SME firm performance. Second, although the use of analytics has been common in the manufacturing industries, this study expands on the prior research and literature by examining their use with SMEs across 11 different industries and sectors. Thus we examine SME firm performance with different industries. Lastly, the utilization of analytics with SMEs is to better understand their performance and its implications on how performance can be improved.

This paper is organized in the following format: (a) the first section provides the background of the study; (b) the second section provides the theoretical foundation for the study with a review of the literature; (c) section three discusses the research process with the development of the theoretical model and conceptual model of the study; (d) section four describes the methodology (statistical research design) for the empirical study; and lastly (e) the last section discusses the results and conclusions from the empirical findings and provides the recommendations for future research.

LITERATURE REVIEW

This research is a continuation of the prior work on small-to-medium business SMEs. The researcher wanted to investigate SME market behavior patterns with analytics. There are four sections in this literature review. Due the fact that there are separate sections within the literature, this will provide a strong basis for the study and theory.

Using Analytics and Measuring Business Performance and Activity

The use of data analytics is emerging. It is emerging in such fields as healthcare, which is a key discipline for healthcare finance. The using business intelligence for competitive advantage is strategic for the execution of business strategy (Giniat, 2011). Historically, the use of analytics with credit scores in small-to-medium lending by community banks is surprisingly widespread (Berger, Cowan & Frame, 2010). In addition, the use of analytics can be forward looking with Customer Relationship Management (CRM) strategies. CRM can leverage customer intelligence created by CRM analytics that enhances CRM operations, and conversely, CRM operations

collect critical customer data for CRM analytics (Chan, 2005). The use of analytics is critical in talent management. Conventional workforce planning typically utilizes metrics of people, process and production to recommend hire, reduction and development actions (Shen, 2011).

Analytics have also been used with Continuous assurance (CA) as a methodology for the analytic monitoring of corporate business processes Continuous analytic monitoring-based assurance will change the objectives, timing, processes, tools, and outcomes of the assurance process (Vasarhelyi, Alles & Kogan, 2004). The use of in-memory analytics technology can allow operational data to be held in a single database that can handle all the day-to-day customer transactions and updates, as well as analytical requests – in virtually real time (Acker, Gröne, Blockus, & Bange, 2011). In addition to the real gains in performance and speed offered by in-memory analytics, these new systems can significantly, improve the quality of the business and customer intelligence they generate. The new way to make decisions is to base your thinking on numbers: predictive analytics and statistics. Using analytics is the new way to be smart (Ayres, 2007).

The use of metrics in the study of small-business success is important for both researchers and entrepreneurs. Financial performance is the most cited performance metric. The majority of these were in the financial area, with survival, competitive, and "other" variables also being used (Weinzimmer & Manmadhan, 2009). The retail industry has a history of using analytics and metrics. Scientific methods can be applied to the revenue-driving areas of merchandise such as assortment, pricing, placement, and promotion to obtain further insight and make decisions that are more precise. In addition to the four Ps, there are other decision-making areas of the retail business that can benefit from data-driven analytics. These include placement of stores, allocation of labor, and the option to include services such as free shipping, gift-wrapping, or layaway (Harikumar & Nagadevara, 2012).

Some of the world's most successful companies are driving growth by using analytics to analyze data in extraordinary ways (Davenport & Harris, 2007). There is also the use of analytics in human resources (HR). They can redirect the money they spend today on the wrong employee initiatives to more beneficial employee initiatives. HR departments can be held accountable for impacting the bottom-line the same way business or product leaders are held accountable. Managing HR with data is critical (Mondore, Douthitt & Carson, 2011; Pemmaraju, 2007).

Business process analytics advance risk analysis beyond traditional, retrospective activities such as attribution and decomposition studies and allow an actionable, forward-looking perspective (Eicher & Ruder, 2007). In terms of entrepreneurship, it seems that analytic individuals' intentions toward entrepreneurship rely more strongly on their self-efficacy beliefs concerning the planning, marshalling of resources, and implementation stages of the new venture creation process (Kickul, Gundry, Barbosa, & Whitcanack, 2009). The use of analytics in marketing has been a welcomed innovation. For years, marketing departments could not effectively measure the return on investment (ROI) with advertising campaigns. Now with using

analytics, it can be measured. As ROI in marketing is in the priority list for many Chief Marketing Officers today across the globe, knowing where, when, how and on whom to spend becomes very critical (Sathyanarayanan, 2012).

Using Analytics in the Field of Marketing

Using analytics to measure business performance has been used for many years. However, using analytics to measure marketing is still relatively new. Analytics can be tactical or strategic, depending on the level of decision structures they support. They can be real-time, near real-time or batched, depending on the data they process. Analytic queries can be planned or unplanned, repetitive or non-repetitive. Analytics from multiple customer touch points can help optimize customer interactions with the firm by providing a unified view of a customer (Chan, 2006). With analytics, data about customer's brand preference, shopping frequency, buying patterns can be effectively captured from various sources like retail outlets, web and survey. Data can then be sliced and diced so as to gain useful insights about customers past, present and future buying behavior (Sathyanarayanan, 2007). In response to the pressure on marketers to demonstrate their value to the firm, there have been several high profile calls for more research in the area of marketing performance measurement (Davenport & Harris, 2007; Farris, et al., 2006).

In many cases, marketing effectiveness is hard to determine for organizations of all sizes: (a) marketing activity has both tangible and intangible effects; (b) marketing activity has both short-term and long-term (future) effects; (c) marketing operates within a volatile and uncontrollable external environment that includes its customers, competitors and legislators; (d) marketing operates within an internal environment which is subject to constraint and change; (e) there is corporate confusion between marketing (the total business process) and the what the marketing department does; and (f) when it comes to available metrics for measuring marketing performance and/or effectiveness, marketers are spoilt for choice (Brooks and Simkin, 2011).

The measurement of marketing performance has been a concern in the field of marketing for decades. In order to represent the current situation of companies about marketing measurement, the research identified the actors that are involved in the process. Furthermore, Azam and Qamar, (2011) they concluded from their study that the agents involved in the development of the measures are mainly from the marketing department, followed by finance, market research agencies, IT staff, external agencies and consultants. In the field of marketing, metrics and analytics have not use as like such fields as accounting, finance and management.

Using Analytics in Others Fields For Measurement

Using analytics and data to make market predictions can be used in four broad analytics generated across organizations: (1) market predictions, (2) customer segments, (3) need and opportunity-focused analytics and (4) customer value analytics (Bailey, Baines, Wilson, & Clark, 2009). Solcansky, Sychrova, and Milichovsky (2011) also argued metrics could be divided into two groups – financial metrics and non-financial metrics. Some companies use Marketing

dashboard as the comprehensive set of important tools for internal and external synthesis. Furthermore, financial metrics are used more often than nonfinancial metrics. The importance of justifying marketing investments and the metrics necessary to measure marketing performance thus have taken center stage (Grewal, Iyer, Kamakura, Mehrotra & Sharma, 2008).

Finance and marketing have traditionally been on different pages, talking different languages and unable to establish common goals (See, 2007). Customer analytics helps companies to turn data in to knowledge and provides meaningful insights about customers, their buying pattern, campaign effectiveness and so (Sathyanarayanan, 2010). There is a downside of using metrics. The end result of such assumptions can be an over-reliance on statistical modeling techniques: the use of simplistic models in relation to situations that are highly complex, or a search for spurious precision (Ozimek, 2010).

The use of analytics in marketing has been utilized in different ways to understand profitability: (a) analytics to measure lifetime value of a customer (CLV) is becoming popular (Shih & Liu, 2003); (b) analytics used in measuring customer relationship management (Furness, 2001); (c) customer analytics to measure customer retention (Saubert, 2009); (d) using cluster analytic to measure customer relationship management (Panayides, 2002; Chan 2005; Marsella, Stone & Banks, 2005; Dabija, Abrudan, & Anetta, 2006); and lastly (e) the linkage of customer satisfaction, customer retention, and firm profitability as to why customer satisfaction measurement (CSM) has been a focal point in marketing decision making (Wu, DeSarbo, Chen, & Yi Fu, 2006).

The Emerging Use of Analytics and Metrics in Management Decisions

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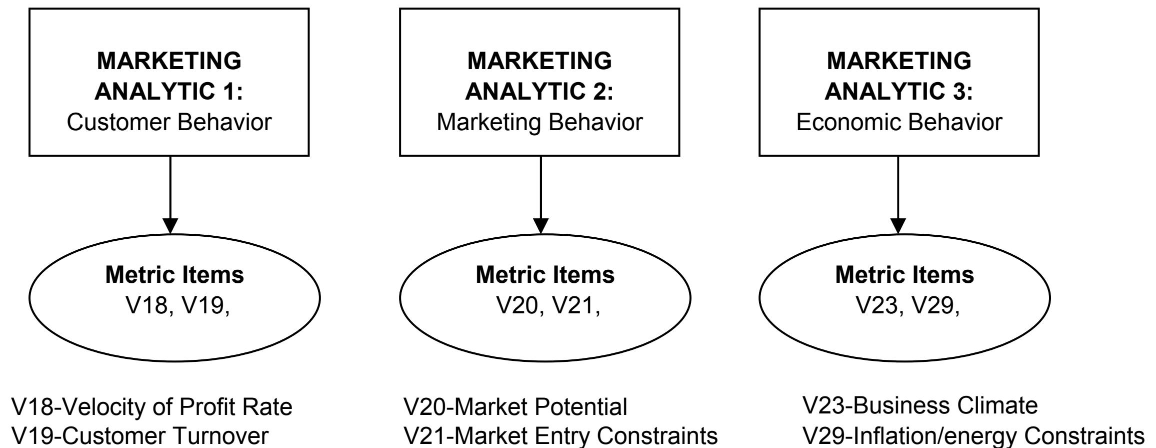
THEORETICAL FRAMEWORK OF THE STUDY

Theoretical Framework Model

In this section, the conceptual relationship between the marketing analytics and variables are displayed. What is illustrated is the three marketing analytics and metrics. The following theoretical model is presented in more detail with the specific variables for the study. The model that follows gives the both the analytics and variables and thus appropriated separated by the three categories (see Figure 1).

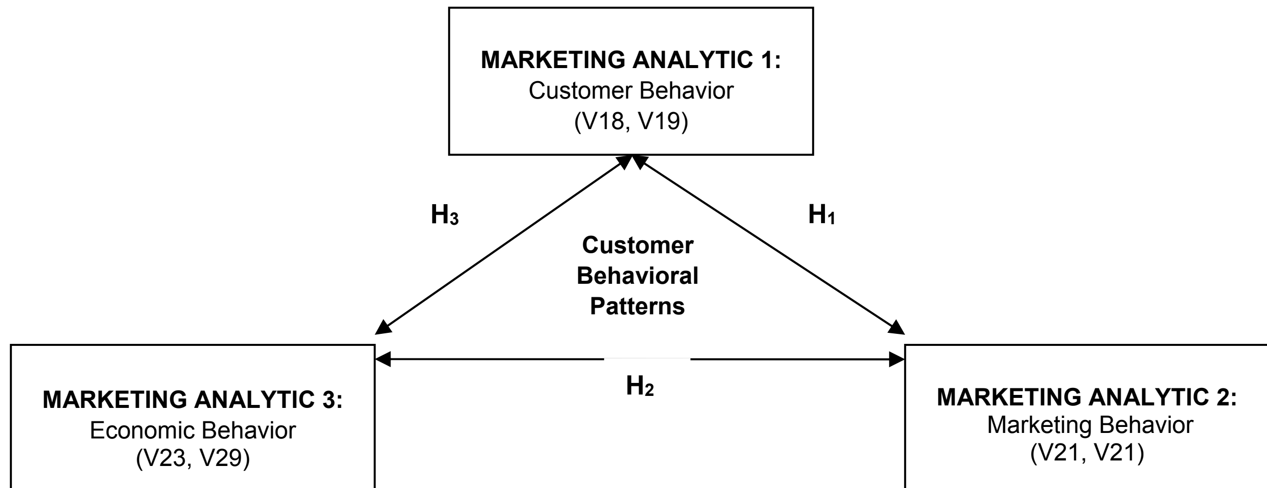
Figure 1 Theoretical Framework of the Study: Marketing Analytics and Metric Items



Conceptual Model of the Study

In this section, the conceptual relationship between the marketing analytics and customer behavior are displayed. In Figure 2 we present our conceptual model of marketing analytics. The model includes three contributors to customer behavioral patterns. These analytics provide a predictor into customer behavior in SMEs. The following theoretical model is presented in more detail with the specific variables for the study. To establish the theoretical model and conceptual model, the researcher tried to meet three criteria: (a) internally, the theory must be logically consistent; (b) must be in agreement with known data and facts; and (c) the theory must be testable; ultimately be subject to empirical evaluation (Jaccard & Jacoby, 2010).

Figure 2 Conceptual Framework Model of the Study:
Marketing Analytics and Their Effect on Customer Behavior Patterns



Theory and Hypotheses

Our first three hypotheses suggest that customer behavior in SMEs is positively influenced by three marketing analytics: (a) customer behavior analytic (V18-Velocity of Profit Rate, V19-Customer Turnover); (b) marketing behavior analytic (V20-Market Potential; V21-Market Entry Constraints); and (c) economic behavior analytic (V23-Business Climate; V29-Inflation/energy Constraints).

The research suggests that an emphasis on some differentiating the effects on customer behavior in SMEs (see Figure 1). It is proposed that these three analytics directly influences customer behavior in SMEs. Accordingly, the following hypotheses are submitted:

H_1: *Customer behavior analytics can positively predict customer behavioral patterns in small business enterprises (SME).*

H_2: *Marketing behavior analytics can positively predict customer behavioral patterns in SMEs.*

H_3: *Economic behavior analytics can positively predict customer behavioral patterns in SMEs.*

In summary, our proposed model consists of the three marketing factor analytics that influence that impact customer behavior. Our three hypotheses suggests those relationships are most critical to the examining the influences on customer behavior in SMEs and the hypothesized relationships.

METHODOLOGY AND STATISTICAL RESERCH DESIGN

Research Design Strategy

This study is an extension of previous research on small business enterprises (SME). The researcher will examine customer behavioral patterns and marketing patterns in SMEs. The study used a *survey research strategy*. First, the study utilized a quantitative approach as a methodology. Second, this study used a *non-experimental, exploratory research design*. Third, the study used a *cross-sectional research design strategy*, which attempts to collect quantifiable or quantitative data with two or more variables.

The researcher made the decision to use a survey research design for the following reasons: (a) typically, survey research is guided by logical constraints (Allen & Yen, 1979; Babbie, 1973; Campbell & Stanley, 1963; Dunn-Rankin et al., 2004); (b) survey research has the tendency to be deterministic, especially when a researcher attempts to explain the reasons for and sources of observed events (Keppel, 1982; Kerlinger,1985); (c) survey research is economical when a researcher can carefully examine the relevance of each variable; and (e) survey research is precise (Afifi & Clark, 1984; Converse, & Presser, 1986)

ANALYSIS

To test our hypotheses, we conducted a discriminant analysis, and regression analysis with the data. It was determined that these were most appropriate for the statistical analysis. We used SAS (Statistical Analysis System) version 9.0 (2011) and SPSS (Statistical Package for Social Sciences) version 17.0, for the analyses. After the data collection was completed, a data-cleaning process was implemented prior to the data analysis. When errors were detected, the original source was located and corrected. The majority of the data-cleaning problems were the following types: (a) data entry or input errors, (b) misspellings, and (c) duplicate or redundancy of input. Other data cleaning issues concerned incomplete surveys. For each equation, the dependent variables were measured with the independent variables.

1) ***Descriptive Statistical Analysis.*** The study used descriptive statistics (mean, median, and standard deviation) to summarize the overall trends in the data and compare the scores (Creswell, 2005). In addition, descriptive statistics were used to compute and assess the general pattern in the data. The following demographic and professional variables were reported from the data: industry type group, and the three analytics groups.
2) ***Inferential Statistical Analysis.*** Inferential statistics were used to make inferences about the data's population based on different analyses (linear regression, discriminate analysis,

correlation). Inferential statistics were employed to draw conclusions about the population based on the representative sample in the study.

Variables: Measurement of Independent and Dependent Variables

Our empirical analysis involves six variables, each measured through self-reported survey items. The survey is primarily based on a 5-point scale, with both an anchor and a middle variable. A Cronbach's alpha was used to determine reliability of the variables in the survey.

Dependent Variables. There are three sets of dependent variables. The three analytics were used as dependent variables to test the three hypotheses in the study: (a) Customer Behavior (Velocity of Profit Rate; Customer Turnover), Economic Behavior (Business Climate; Inflation/Energy Constraints) and (c) Marketing Behavior (Market Potential; Market Entry Constraints).

Independent Variables. A 32-item, multi-item scales, and a 5-point Likert scale were used. Primarily the 5-point point scale was used to measure three marketing analytics (customer behavior, marketing behavior and economic behavior). *Industry type* was used as the independent variable for the study.

1) *Consumer monopoly-type industries.* These are businesses in industries that have little to no competition; monopolistic and have a strong identifiable niche; price is not an important consideration; however value to the consumer is because they are willing to pay the firm's asking price regardless of cost.
2) *Consumer competitive-type industries*. These industries have a few competitors, but are not monopolistic and have strong an identifiable niche in the marketplace. Price is not an important consideration; but market position is important. They have a strong competitive advantage.
3) *Commodity-type industries*. These industries that have an excessive amount of competitors and price is the single most important consideration; examples are textile manufacturers, producers of raw materials such as corn and rice, steel producers, gas and oil companies, lumber industry and paper manufacturers; the product or services in these types of industries do not have any defining characteristics to the consumers.
4) *Semi-commodity type industries.* These are businesses that have a somewhat common product or service that have a fair amount of competitors in the marketplace. Price is somewhat an important characteristic and market position is not important. They do not have a strong competitive advantage (Buffett & Clark, 1997; Buffett & Cunningham, 2001). This study used this framework and taxonomy to classify businesses by market saturation.

These analytics consist of six items (metrics) of the survey questionnaire. The measure model was tested by examining each of the item's significance. For measuring the dependent variables,

we measure six variables in the three analytic groups. We used the analytics as three indicators in measuring the three behaviors within the businesses.

RESULTS OF STUDY

The results of the findings are presented. The descriptive statistics of the study's key variables, along with the mean and standard deviations are presented in Tables 1. Table 1 shows the frequency and percentages of the industry types with the firms. Also, the data in Table 1 shows that 45.5% of the businesses were commodity-type businesses. The descriptive statistics for the main analytics and its variables of interest are presented in Tables 2 to 7. Tables 2 to 7 summarizes the results of the cross tabulations in the data. A cross tabulation was conducted with each of the marketing analytics. The industry type and items in the appropriate the analytics.

Table 1: Results: Industry Type by Market Saturation *(N = 198)*

Industry Type Variable	Competitors in Marketplace	Frequency	% of Total
1. Consumer monopoly-type industry	0 – 4	40	20.2
2. Consumer competitive-type industry	5 – 10	39	19.7
3. Semi-commodity-type industry	11 – 20	29	14.6
4. Commodity type-industry/product	21 and higher	90	45.5
Total		**198**	**100.0**

Table 2: Velocity of Profit: How Rapid the Customer Pays for Goods and Services and Rapid the Firm Makes Money in Industry Types *(N = 198)*

		Industry Type					
	Velocity of Profit Metric	Consumer-Monopoly Type Industry	Consumer Competitive Type Industry	Semi – Commodity Type Industry	Commodity Type Industry	Total	% of Sample
V19-Velocity of Profit	Paid immediately	22	15	11	37	85	42.9
	A day or more than 24 hours	0	2	1	10	13	6.6
	Neutral; not sure	3	2	9	5	19	9.6
	A week or more	7	6	4	9	26	13.1
	A month or more (invoicing)	8	14	4	29	55	27.8
	Total	**40**	**39**	**29**	**90**	**198**	**100.0**

Results of Marketing Analytic 1: Customer Behavior and Patterns

Table 3:Customer Turnover Behavior in Business Enterprises Money in Industry Types *(N = 198)*							
	Customers Per Day Metric	**Consumer-Monopoly Type Industry**	**Consumer Competitive Type Industry**	**Semi - Commodity Type Industry**	**Commodity Type Industry**	**Total**	**% of Sample**
V19-Customer Turnover	20 or more customers per day	9	10	5	12	36	18.2
	15 or customers per day	3	2	2	8	15	7.6
	Neutral; not sure	4	11	14	20	49	24.7
	10 or less customers per day	5	4	2	6	17	8.6
	5 or less customers per day	19	12	6	44	81	40.9
	Total	**40**	**39**	**29**	**90**	**198**	**100.0**

Results of Marketing Analytic 2: Marketing Behavior and Patterns

Table 4: Market Potential of Product/Services Money in Industry Types *(N = 198)*							
	Market Potential Metric	**Consumer-Monopoly Type Industry**	**Consumer Competitive Type Industry**	**Semi-Commodity Type Industry**	**Commodity Type Industry**	**Total**	**% of Sample**
V20-Market Potential	Product/service has existed 6 years or more	25	29	14	79	147	74.2
	Product/service has existed 3 -5 years	5	3	3	5	16	8.1
	Not sure; neutral	3	2	5	3	13	6.6
	Product/service is nearly new; 2 years in existence	0	3	3	3	9	4.5
	New product/service; none exist on the market	7	2	4	0	13	6.6
	Total	**40**	**39**	**29**	**90**	**198**	**100.0**

Table 5: Market Entry Barriers Effect on Business Enterprises Money in Industry Types *(N = 198)*							
	Market Entry Metric	**Consumer-Monopoly Type Industry**	**Consumer Competitive Type Industry**	**Semi-Commodity Type Industry**	**Commodity Type Industry**	**Total**	**% of Sample**
V21-Market Entry	Barriers highly unlikely	9	3	3	15	30	15.2
Barriers	Barriers unlikely	7	9	5	17	38	19.2
	Not sure; neutral	3	4	12	9	28	14.1
	Barriers likely	12	11	6	25	54	27.3
	Barriers highly likely	9	12	3	24	48	24.2
	Total	**40**	**39**	**29**	**90**	**198**	**100.0**

Results of Marketing Analytic 3: Economic Behavior and Patterns

Table 6: Economic/Business Climate of Business Enterprises Money in Industry Types *(N = 198)*							
	Economic/Business Climate Metric	**Consumer-Monopoly Type Industry**	**Consumer Competitive Type Industry**	**Semi-Commodity Type Industry**	**Commodity Type Industry**	**Total**	**% of Sample**
V23-Business Climate	Highly thriving	16	11	9	23	59	29.8
	Somewhat thriving	13	16	6	33	68	34.3
	Not sure; neutral	9	9	13	26	57	28.8
	Somewhat declining	2	3	1	7	13	6.6
	Highly declining	0	0	0	1	1	.5
	Total	**40**	**39**	**29**	**90**	**198**	**100.0**

Table 7: Business Enterprises: Inflation/Energy Cost Influence on Pricing Controls Money in Industry Types *(N = 198)*							
	Inflation/Energy Metric	**Consumer-Monopoly Type Industry**	**Consumer Competitive Type Industry**	**Semi-Commodity Type Industry**	**Commodity Type Industry**	**Total**	**% of Sample**
V29-Inflation/Energy	Can adjust pricing freely	28	20	16	45	109	55.1
	Can adjust pricing with some constraints	9	12	4	30	55	27.8
	Not sure; neutral	2	3	5	4	14	7.1
	Cannot adjust pricing with some constraints	0	1	4	4	9	4.5
	Cannot adjust pricing freely	1	3	0	7	11	5.6
	Total	**40**	**39**	**29**	**90**	**198**	**100.0**

Discriminant Analysis of Customer Behavior and Patterns

A discriminant analysis is a statistical method that is used in predicting to a dichotomous criterion variable; it is a group membership analysis used to distinguish between groups with predefined characteristics (Vogt, 1993). A discriminant analysis has two basic purposes: (1) to describe major differences among groups following a MANOVA analysis; and (2) to classify subjects into groups based on a combination of measures (Stevens, 1992).

The task of conducting the discriminant analysis included using four independent variables that were used in the study. The four independent variables (IV) were industry saturation variables: (a) consumer monopoly-type industry; (b) consumer competitive-type industry, (c) semi-commodity-type industry, and (d) commodity type-industry/product. The six dependent variables (DV) were used for the discriminant analysis as follows: (a) velocity of profit rate, (b) customer turnover, (c) market potential, (d) market entry constraints, (e) business climate, and (f) inflation/energy constraints. When the six variables and their coefficients are

combined to create the discriminant score, the analytic will serve as a way to classify the data points.

Discriminant analysis is a mathematical maximization procedure. The goal of the procedure is to find uncorrelated linear combinations of original (predictor) variables that maximize the between-to-within association, as measured by sum-of-squares and cross-products (SSCP) matrix. The logic behind discriminant analysis involves finding the function with the largest eigenvalue-this results in maximum discriminate among groups (Stevens, 1992). The first discriminant function is the linear combination that maximizes the between-to-within association if illustrated by the following equation (Mertler & Vannatta, 2002):

$$DF_1 = a_{10}x_0 + a_{11}x_1 + a_{12}x_1 + a_{11}x_2 + a_{13}x_3 + \ldots + a_{1p}x_p \quad (1.1)$$

Where DF = discriminate function
v = the discriminant coefficient or weight for that variable
x = respondent's score for that variable
a = a constant
i = the number of predictor variables

The second discriminant function is illustrated. The analytic procedure then proceeds to find the second linear combination—uncorrelated with the first linear combination—that serves as the next best separator of groups. This is illustrated by the following equation (Mertler & Vannatta, 2002):

$$DF_2 = \mathrm{a}_{20}\mathrm{x}_0 + a_{21}x_1 + a_{22}x_2 + a_{23}x_3 + a_{24}x_4 + \ldots + a_{2p}x_p \quad (1.2)$$

The third discriminant function is illustrated. It is constructed so that it is uncorrelated with the first two and it serves as the third best separator of the groups (Mertler & Vannatta, 2002):

$$^{r}\, DF_1 \bullet DF_2 = 0 \quad (1.3)$$

For this study, Discriminant Analysis was used to conduct a multivariate analysis of variance test of the hypotheses for the study. The study investigated the possibility of predicting (with a meaningful degree of accuracy) which variables would be significant with industry types and customer behavior. A sample of (N = 198) small business enterprises (SME) were used to measure customer behavioral patterns with three predictive analytics.

Table 8 presents the standardized discriminant function coefficients. Table 8 shows the Wilk's, λ F -ratios, degrees of freedom and the significant function. The F-test was employed to determine the level of significance of the computed discriminant analysis equation. This is equivalent to F ratios (.800 to 8.560) and 3 degrees of freedom (*df*). As a result of the analysis, it

was determined the market potential variable is significant, and yielded a significant *F* ratio ($F = 8.56$; $df = 1$; and $p = .000$).

Table 8: Tests of Equality of Group Means Table *(N = 198)*					
Predictor Analytics	**Wilks's λ**	***F***	***df1***	***df2***	***p***
Customer Behavior Analytic					
V18-Velocity of Profit Rate	.967	.819	3	194	.485
V19-Customer Turnover	.971	1.911	3	194	.120
Marketing Behavior Analytic					
V20-Market Potential	.883	8.560	3	194	.000
V21-Market Entry Constraints	.988	.800	3	194	.495
Economic Behavior Analytic					
V23-Business Climate	.985	1.000	3	194	.394
V29-Inflation/energy Constraints	.975	1.679	3	194	.173

Note: CI = confidence interval for odds ratio

Application of the Wilks' Lambda Test

Before the discriminant functions can be generated, it must be ascertained if, indeed, the four industry type groups differ significantly on the across three analytics (six variables). This is a text of equality of industry type groups and is conventionally measured by the Wilks' Lambda statistics. The Wilks's λ was calculated to be from .817 to .980.

The scales do discriminate among the industry types among the variables. Table 9 shows the overall Chi-square test was significant (Wilks $\lambda = .817$, Chi-square = 38.838, df = 18, $p <. 003$; the two functions extracted accounted for nearly 80% of the variance in the analytics, confirming the hypotheses. Table 10 shows the tests of equality between the group means. The table shows the eigenvalues, variances and canonical correlations. Based on the results of the canonical correlations, it shows as highly successful: 71.6% of the cases were correctly reclassified into their original categories.

Table 9: Wilk's Lambda Table and Tests of Functions *(N = 198)*				
Test of Functions	Wilk's Lambda	Chi-square	*df*	*p*
1 through 3	.817	38.838	18	.003
2 through 3	.942	11.486	10	.321
3	.980	3.792	4	.435

Table 10: Eignevalues and Tests of Equality of Group Means *(N = 198)*				
Function	Eigenvalue	% of Variance	Cumulative %	Canoncial Correlation
1	$.153_a$	71.6	71.7	.364
2	$.041_a$	19.1	90.7	.198
3	$.020_a$	9.3	100.0	.140

Note: a. First 3 canonical discriminate functions were used in the analysis.

Discriminant Function Coefficients and Group Centroids Results

Table 11 shows the standardized canonical discriminant function coefficients. The discriminant functions were calculated. The table gives the deriving discriminant function scores from standardized predictors. Table 12 shows the three functions at the group centroids. This indicates the average discriminant score (aka centroid or multivariate mean) for each group on each function.

Table 11:Standardized Canonical Discriminant Function Coefficients			
	Function		
Analytics and Variables	**1**	**2**	**3**
Customer Behavior Analytic			
V18-Velocity of Profit Rate	-.022	.410	-.467
V19-Customer Turnover	-.251	-.594	.393
Marketing Behavior Analytic			
V20-Market Potential	.913	.064	.145
V21-Market Entry Constraints	.022	.041	-.569
Economic Behavior Analytic			
V23-Business Climate	-.217	.394	.364
V29-Inflation/energy Constraints	-.197	.506	.549

Table 12: Functions at Group Centroids			
	Function		
Industry Type	**1**	**2**	**3**
Consumer monopoly-type industry	.391	-.334	-5.39
Consumer competitive-type industry	5.08	.215	-.238
Semi-commodity-type industry	.589	.237	.203
Commodity type-industry/product	-.389	-2.12	6.19

Note: Unstandardized canonical discriminate functions evaluated at group means.

Classification Results of Predicted Group Membership Results

Table 13: Classification Results of Predicted Group Membership						
		Predicted Group Membership				
	Group: Industry Type	Consumer Monopoly-Type Industry	Consumer Competitive-Type Industry	Semi-Commodity-Type Industry	Commodity Type-industry/	Total
Original Count	Consumer monopoly-type industry	4	2	5	29	40
	Consumer competitive-type industry	0	2	5	32	39
	Semi-commodity-type industry	1	1	7	20	29
	Commodity type-industry/product	3	0	2	85	90
%	Consumer monopoly-type industry	10.0	5.0	12.5	72.5	100.0
	Consumer competitive-type industry	.0	5.1	12.8	82.1	100.0
	Semi-commodity-type industry	3.4	3.4	24.1	69.0	100.0
	Commodity type-industry/product	3.3	0	2.2	94.4	100.0
Cross-validated Count	Consumer monopoly-type industry	3	2	6	29	40
	Consumer competitive-type industry	1	0	5	33	39
	Semi-commodity-type industry	2	1	6	20	29
	Commodity type-industry/product	3	0	3	84	90
%	Consumer monopoly-type industry	7.5	5.0	15.0	72.5	100.0
	Consumer competitive-type industry	2.6	.0	12.8	84.5	100.0
	Semi-commodity-type industry	6.9	3.4	20.7	69.0	100.0
	Commodity type-industry/product	3.3	.0	3.3	93.3	100.0

Note: (a) Cross validation is done only for those cases in the analysis in cross validation. Each case is classified by the functions derived from all cases other than that case; (b) 49.5% of original grouped cases correctly classified; and (c) 47.0% of cross-validated grouped cases correctly classified.

Table 13 shows the predicted group membership. The rows represent actual group membership and columns represent predicted group membership. Within each cell, the number and percent of cases correctly classified are shown. For this example, all of the diagonal cells show perfect classification (100.0%).

Correlation Matrix and Results of Study

A Pearson's correlation was used to measure any intercorrelations between the variables in the data. The Pearson's correlation coefficient is used to show a linear relationship between two variables that been measured on an interval or ratio scales (Vogt, 1993). A Pearson correlation analysis was conducted between the variables to be used in the linear regression analyses, namely, Velocity of Profit Rate, Customer Turnover, Market Potential, Market Entry Constraints, Business Climate and Inflation/energy Constraints. This is illustrated by the following equation:

$$r = \frac{\sum XY - \frac{\sum X \sum Y}{N}}{\sqrt{(\sum X^2 - \frac{(\sum X)^2}{N})(\sum Y^2 - \frac{(\sum Y)^2}{N})}} \tag{1.4}$$

The correlations are presented in Table XX. Notably, the variables that were significantly correlated with the other variables at $p < 0.001$ are illustrated. Of note, the strong intercorrelations were between the variables Business Climate and Customer Turnover. There was a significant correlation (.009).

Table 14: Correlation Matrix of Variables and Means and Standard Deviations *(N = 198)*

Variable	Mean	*SD*	1	2	3	4	5	6
1-Velocity of Profit Rate	2.76	1.727	—					
2-Customer Turnover	3.46	1.524	.179	—				
3-Market Potential	1.61	1.199	-.086	-.112	—			
4-Market Entry Constraints	3.26	1.408	.145	-.067	-.189	—		
5-Business Climate	2.14	.938	-.049	.009	.020	-.066	—	
6-Inflation/energy Constraints	1.78	1.123	.206	-.106	-.038	.217	.053	—

Note: $^*p < 0.001$

DISCUSSION

The primary goal of this research was to assess whether marketing analytics can act as a predictor of customer behavioral patterns in small business enterprises (SME). Our study

attempts to provide empirical evidence and theoretical arguments to support the idea that marketing analytics can predict customer, economic, and marketing behavior in SMEs.

In examining the support for our first hypothesis, we tested it with a discriminant analysis. We need to evaluate our results to determine if it supported the first hypothesis. Our first hypothesis suggests that customer behavior analytics can act as a predictor of customer behavioral patterns in small business enterprises (SME). Based on the discriminant analysis, the results do not support Hypothesis 1. As a result of the findings, the Consumer Behavior Analytic (Velocity of Profit; Customer Turnover) was not a significant influence on customer behavior in SMEs. Nor was the analytic a strong predictor variable (p = .582; p = .323). Therefore, the hypothesis could not be supported.

The second hypothesis suggests that marketing behavior analytics acts as a moderate predictor of customer behavioral patterns. In examining the support for the second hypothesis, based on the results of the linear regression analysis, it partially supported Hypothesis 2. As a result of the findings, the Marketing Behavior Analytic (Market Potential; Market Entry Constraints) proved to be a moderate predictor variable (p = .001; p = .879). Therefore, the hypothesis could be supported.

Lastly, the third hypothesis suggests that economic behavior analytics can act as a predictor of customer behavioral patterns. Based on the results analysis, did not support Hypothesis 3. as a result of the findings, the Economic Behavior Analytic (Business Climate; Inflation/energy Constraints) results indicated that it was not a predictor variable (p = .101; p = .076). Therefore, the hypothesis could be supported. In conclusion, our study proved there is a need to conduct more research on marketing analytics. While the results were not positive, this study took an ambitious step in examining customer behavior in SMEs.

CONCLUSIONS AND CRITICAL OBSERVATIONS

The objectives of the study were to determine whether marketing analytics can act as a predictor of customer behavioral pattern. Focusing on the customer behavioral patterns in small business enterprises (SME), we attempted to use three marketing analytics (customer behavior analytics; marketing behavior analytics; and economic behavior analytics) as constructs.

First we applied the development the conceptual models to the examination and review of customer behavior patterns to the data. This type of examination is necessary for the sound development of the three constructs in the customer behavior in SMEs. Furthermore, it would be premature to explore the proposed theoretical model without first maintaining the soundness of the conceptual model, in this case customer behavior. In developing the conceptual model we tried to meet three essential criteria in development of the theory (Jaccard & Jacoby, 2010).

Second, we identified six areas of customer behavior that need further elaboration to advance the theory through development. Our examination concluded that the unique behavioral

and social resources of the customers could not be identified. Based on the results of the discriminant analysis, only the marketing behavior analytic proved to be moderately significant. This is a test of equality of the industry type groups and is conventionally measured by the Wilks' lambda statistics. Nevertheless, the scales do discriminate among the industry types among the variables (see Table 9).

Third, to test our hypotheses we conducted a Pearson correlation to investigate intercorrelations with the variables in the marketing analytics. The implication here is that more research needs to be conducted on the analytics and that our results bore little fruit on that. The results also suggest the three analytics will need some development to become better predictors of customer behavior patterns.

These results have a least two implications. First, the research begins to provide some insight on customer behavior in business enterprises. Our study suggests that marketing analytics can moderately predict customer behavior. Second, our results shed some light on the need for refining the use of marketing analytics as a measurement tools for examining customer behavior. Furthermore, more research needs to be done to refine marketing analytics to ensure better measurement of customer behavior patterns.

In summary, this research contributes to the development of a theory of marketing analytics to measure customer behavior. The results of our study make several contributions to the literature. This study adds to the foundation of marketing theory and the potential advantages of using analytics as a measure tool. Although the results were not what we anticipated, this study could be a start in using analytics to measure customer behavior in firms. There is much more that can be investigated in terms of using marketing analytics.

Limitations of Study

As with any research study, this study is not without its share of limitations. The limitations that were an influence on this study were not significant, yet there were challenges. First, the findings of this study are based on a non-experimental design. Because of that, it does not establish the issue of causality between the research variables in the study. This will need to be further developed.

Second, we had time constraints for collecting data and it may have been a limitation to collecting more data. It is possible that we could have collected more data and possibly attained different results. Furthermore, this study may present a limited representation of the target population we were looking for. Third, the findings of this study are based on a self-reported data. Hence, these findings cannot be generalized to other industries, or beyond the geographic scope of this study.

Fourth, we recognize that we had a limited amount of marketing analytics to work with. We are confident that if more analytics were used we could have taken in consideration other variables that have an impact the firms. Nevertheless, the results of our study need to be

interpreted with some level of caution. Thus, this study does provide a significant contribution to the body of the prior research in marketing.

Directions for Future Research Opportunities

This study extends our prior studies on small business enterprises (SME). The results of this can possibly lead to future work on marketing analytics. This study could be expanded to determine further firm characteristics with marketing analytics in terms of firm performance. There are many opportunities for future research that could extend beyond the scope of our research.

First, one example is this study could be repeated with modification in order to reexamine the relationship between dependent variables and independent variables in terms of developing more analytics for measurement of firm dynamics. Second, another example would be that future research could examine firm analytics in terms of minority business enterprises and if they are different or more successful than their non-minority, counterparts are. Third, despite the positive findings, it is important that future research extend the work to a larger samples size.

Fourth, a longitudinal study would provide another opportunity and have the added advantage of measuring firms and the analytics over a long period. Fifth, a future research could further examine customer turnover analytic its relationship to firm profitability. Lastly, the results of our study could be expanded to determine what specific types of marketing analytics are more critical to firm dynamics and profitability. In addition, there is room to extend this study to specific sub-demographic populations (women owned businesses, minority owned businesses etc).

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APPENDIX A: USING LINEAR REGRESSION FOR PREDICTIVE ANALYTICS WITH CUSTOMER BEHAVIOR

Linear Regression Predicting Customer Behavior and Patterns

We wanted to further measure the customer behavior patterns to support the discriminant analysis findings. So we used a linear regression to determine the behavioral patterns in the data. The case *with* a reference group will be denoted Linear regression attempts to model the relationship between two variables by fitting a linear equation to observed data (Vogt, 1993). This is illustrated by the following equation:

$$y_i = \beta_1 x_{i1} + \ldots + \beta_p x_{ip} + \varepsilon_i = x_i^{T}\beta + \varepsilon_i, \qquad i = 1, \ldots, n, \qquad (1.5)$$

where ^{T} denotes the transpose, so that $\boldsymbol{x}_i^{T}\boldsymbol{\beta}$ is the inner product between vectors $\boldsymbol{x}_i$ and $\boldsymbol{\beta}$.

The regression analysis was conducted utilizing the six analytic variables (Velocity of Profit Rate, Customer Turnover, Market Potential, Market Entry Constraints, Business Climate, and Inflation/Energy Constraints) as the dependent variables (DV). Industry type was used as the independent variable (IV).

The analytic variables explained a significant portion of variance in relationship with industry types, $R^2 = 0.16$, SE = .066, $p < 0.001$. The variable Market Potential moderately predicted the relationship with industry types, $\beta = 0.39$, t (552), $p = 0.001$. The other analytics variables, Velocity of Profit Rate, Customer Turnover, Market Entry Constraints, Business Climate, and Inflation/Energy Constraints did not significantly predict a relationship with industry types (see Table 15). Table 16 illustrates the logistic regression determinants with the IV (industry types).

Table 15: Linear Regression Determinants for Industry Types *(N = 198)*

Predictor Variables	β	SE	95% CI	*df*	*t*	*R²*	*p*
Customer Behavior Analytic							
V18-Velocity of Profit Rate	.039	.103	.259	1	.552	.002	.582
V19-Customer Turnover	.071	.090	.268	1	.991	.005	.323
Marketing Behavior Analytic							
V20-Market Potential	-.226	.069	-.089	1	-3.254	.051	.001
V21-Market Entry Constraints	.011	.084	.178	1	.152	.000	.879
Economic Behavior Analytic							
V23-Business Climate	.117	.055	.200	1	1.647	.014	.101
V29-Inflation/energy Constraints	.126	.066	.248	1	1.781	.016	.076

Table 16:Linear Regression Determinants for Industry Types *(N = 198)*		
Industry Type Variable	**Rank**	**Log Determinant**
Consumer monopoly-type industry	1	.847
Consumer competitive-type industry	1	.374
Semi-commodity-type industry	1	.830
Commodity type-industry/product	1	-.811
Pooled within-groups	1	.253

WHEN GENERATION Y BUYS EUROPEAN WINE: A CONSUMER DECISION-MAKING MODEL

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ABSTRACT

The purpose of this paper is to examine the wine-buying decision-making process of U.S. Generation Y purchasers, when they select European wines. This is one of few empirical studies of U.S. Generation Y wine consumers and their wine purchasing decisions. Using the Howard Model of Consumer Decision Making, the researchers analyzed the significant factors Generation Y purchasers use as they make decisions about wine purchases. Generation Y respondents across the United States who were of legal drinking age were surveyed. In total 713 usable surveys were obtained.

The researchers found that when Generation Y purchasers consider European wines, the variables of consumer experience and brand familiarity are significant to the decision process. In addition, the consumer search process helps to build brand familiarity. In turn, brand familiarity improves the consumer attitude which contributes to the intent to purchase wine.

The results provide valuable information about Generation Y wine purchasers and it is to these individuals the global wine industry is looking for market growth. European wineries and their associations can use this information to improve their promotional activities and better educate Generation Y purchasers about their products as they develop marketing programs and positioning strategies within the U.S. Wineries can also target other upon whom Generation Y purchasers rely for recommendations. This information will enable wineries to use their marketing funds more efficiently.

WHEN GENERATION Y BUYS EUROPEAN WINE: A CONSUMER DECISION-MAKING MODEL

Over the past several years, European wine consumption has declined, even as much as 42.3 percent over an 18-year period (Gual and Colom, 1997; Serra-Majem and Araceta, 2001; Gual, 2006; Rabinovich *et al*., 2009). Although no one single factor has been identified as the cause of the decline, researchers have posited that several factors have led to this phenomenon. These factors include "marketing factors, public health policies, the evolution of prices and taxation, European Union agricultural policies, a growing awareness of public opinion about the

toxicity of alcohol and competition from non-alcoholic beverages" (Gual and Colom, 1997, p. S21). Although the consumption of wine has decreased in European countries, table wine consumption in the United States (U.S.) has grown every year since 1994. As a result, European wine producers may need to expand their exports to U.S. consumers. This intention was specifically identified in the European Union Commission's "review of the Common Agricultural Policy: compete internationally on quality rather than quantity" (Europa, 2009). According to Europa (2009), alcohol is a very important economic commodity to the European community. Alcohol sales create jobs, generate fiscal revenues through alcohol taxes, and contribute approximately nine billion euros annually to the EU's economy through trade. One of the most significant measures of quality to the European Communities is geographical indicators. France alone has 466 geographical indicators for wine that generate 16 billion euros of income annually. Likewise, Italy's 300 geographical indicators generate five billion euros for wine and spirits on an annual basis; Spain's geographical indicators contribute 2.8 billion euros of income for wine and spirits annually (Europa, 2009).

Geographical indicators are signals of both product origin and quality. They provide information to assist consumers in making purchase decisions and have been found to be of such value that consumers are willing to pay a premium if the product origin is guaranteed. However, geographical indicators are not sufficiently protected by World Trade Organization rules. The result is that European Union geographical indicators are not adequately protected and efforts to compete on quality in the international market are being stymied. A perusal of the literature shows little research that addresses the importance of a wine's geographical indicator in relation to U.S. consumers.

The growth in U.S. wine consumption is driven by several factors, including the adoption of wine as a beverage for a variety of occasions by Generation Y, the quality of wines available at all price points, and the acceptance of moderate wine consumption as part of a healthy lifestyle. It is common practice to segment the U.S. market by consumer age cohorts and "marketing managers need to fully understand age-related changes and identify effective ways to target these changing age segments" (Schewe and Noble, 2000, p. 129). To take advantage of the growth opportunities provided by Generation Y in the U.S. market, it is important to understand the characteristics of this segment of the population.

Although the literature addressing this segment lacks a coherence relating to their age span, for purposes of this study, Generation Y will be defined as those individuals born between 1977 and 1994 (Paul, 2001; Bakewell and Mitchell, 2003; Weiss, 2003; Hawkins *et al.,* 2004; Geringer, 2007). In 2005 there were over 75 million members of Generation Y in the United States, numbering at least two million more than Generation X (Brooks, 2005). This segment is such an important market in the United States that Stapinski (1999, p. 62) commented that brands who "miss their mark with Generation Y may not recover."

Generation Y has immense buying power. It is estimated that this group of consumers spend between $175 billion to $187 billion per year for products such as clothing and wireless

technology (Weiss, 2003; Sanchez, 2004). Business Wire (2005) estimates that this generation's spending power is $200 billion annually and the group exerts influence over an additional $300 to $400 billion in annual purchases. With respect to food and beverages, this cohort influences 72 percent of the purchases in the United States (Nucifora, 2000). Nucifora (2000, p. 1) states that this market segment "will ultimately dictate the success or failure of today's marketers, particularly those operating in the business-to-consumer marketplace." This is echoed by Neuborne and Kerwin (1999, p. 80) who comment that "this is the first generation to come along that's big enough to hurt a boomer brand by simply giving it the cold shoulder." The authors also state that "companies hoping to win their hearts and wallets will have to learn to think like they do – and not like the boomers who preceded them" (Neuborne and Kerwin, 1999, p. 80). Thomaselli and Dipasquale (2002, p. 16) indicated that Generation Y is "a coveted target due to its purchasing power and position as a barometer of all things stylish."

Members of Generation Y grew up in a "more media-saturated, brand-conscious world" (Neuborne and Kerwin, 1999, p. 80) which needs to be reflected in the ads targeted to this group. This generation tends to buy on impulse and switch brands arbitrarily. Expression and acceptance are important to this generation; they are more peer-oriented as a result of easier communication with their peers through technology. This market segment prefers to receive information through internet advertisements, company web sites, email, and social networks (e.g., Facebook, Twitter). They are frequently distrustful and cynical when presented with advertisements that attempt to "coax" them into a purchase; they prefer a more direct, honest, and practical approach. Those marketers who continue to use national television campaigns to target to this market have found that advertisements that are "funny, unpretentious, and often confusing to older consumers" work best (Neuborne and Kerwin, 1999, p. 80).

Studies which address the consumer behavior of Generation Y are needed. According to Wolburg and Pokrywcznski (2001, p. 36), they are "believed to have unique characteristics that are different from proceeding generations." Generation Y provides the wine market an opportunity for incredible growth. Not only are these individuals consuming wine for a variety of casual occasions, they have not been as negatively impacted by the economic downturn as earlier generations (Wine Market Council, 2009). To succeed in the expanding U.S. market, European Union wine producers need to understand the factors beyond geographical indicators that are important to Generation Y consumers in making the purchase wine.

MODEL DEVELOPMENT AND HYPOTHESES

Whereas prior researchers have limited their efforts to particular components of the consumer's decision-making process, this study applies a more comprehensive consumer decision-making model to the decision to purchase wine. A Consumer Decision Making (CDM) model was introduced in 1963. This model (Howard, 1994, p. 35) included the constructs of

Information, Brand Recognition, Confidence, Intention, and Purchase. Over the years, this initial model has been tested and additional constructs have been added.

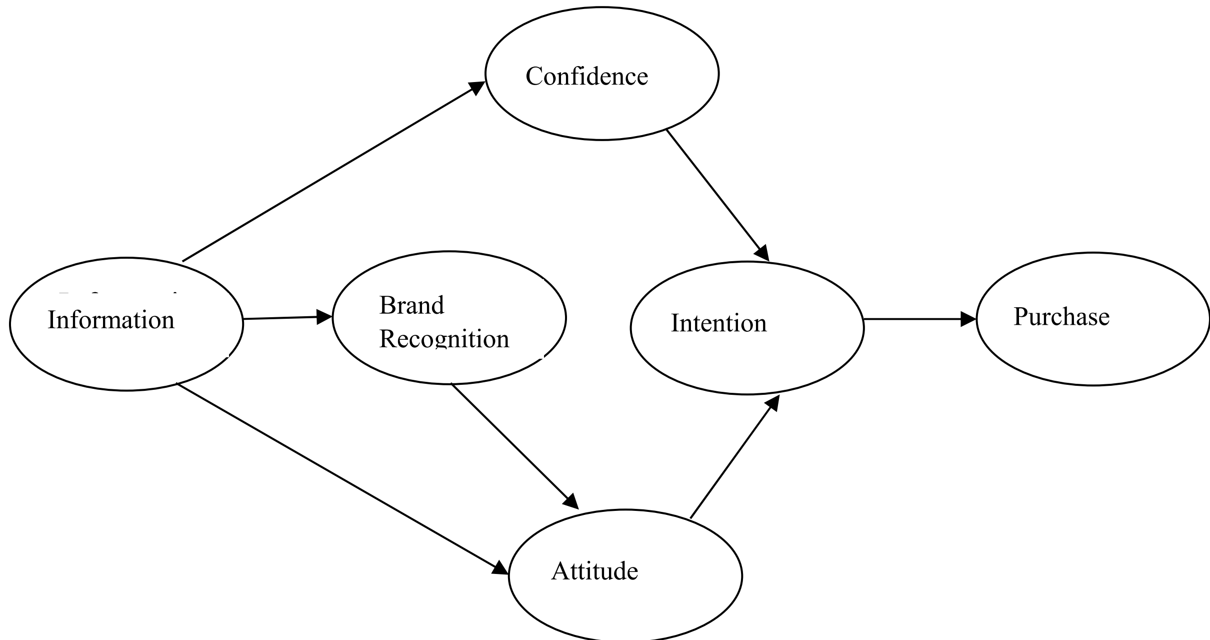

Figure 1
Howard's Consumer Decision Making Model

The Howard CDM model has been tested and expanded over the years since its inception, and it is still considered a "highly respectable" (Goff and Gibbs, 1993, p. 227), parsimonious model, and is widely used by practitioners as well as theorists (Geringer, 2007). It is considered a general model that may be used to illustrate the process of consumer decision-making (Lyman, 1985; Goff and Gibbs, 1993; Holbrook, 1995). The current research model expands upon the Howard CDM model and includes the constructs of Experience, Brand Familiarity, Confidence, Search, Attitude, and Purchase Intention.

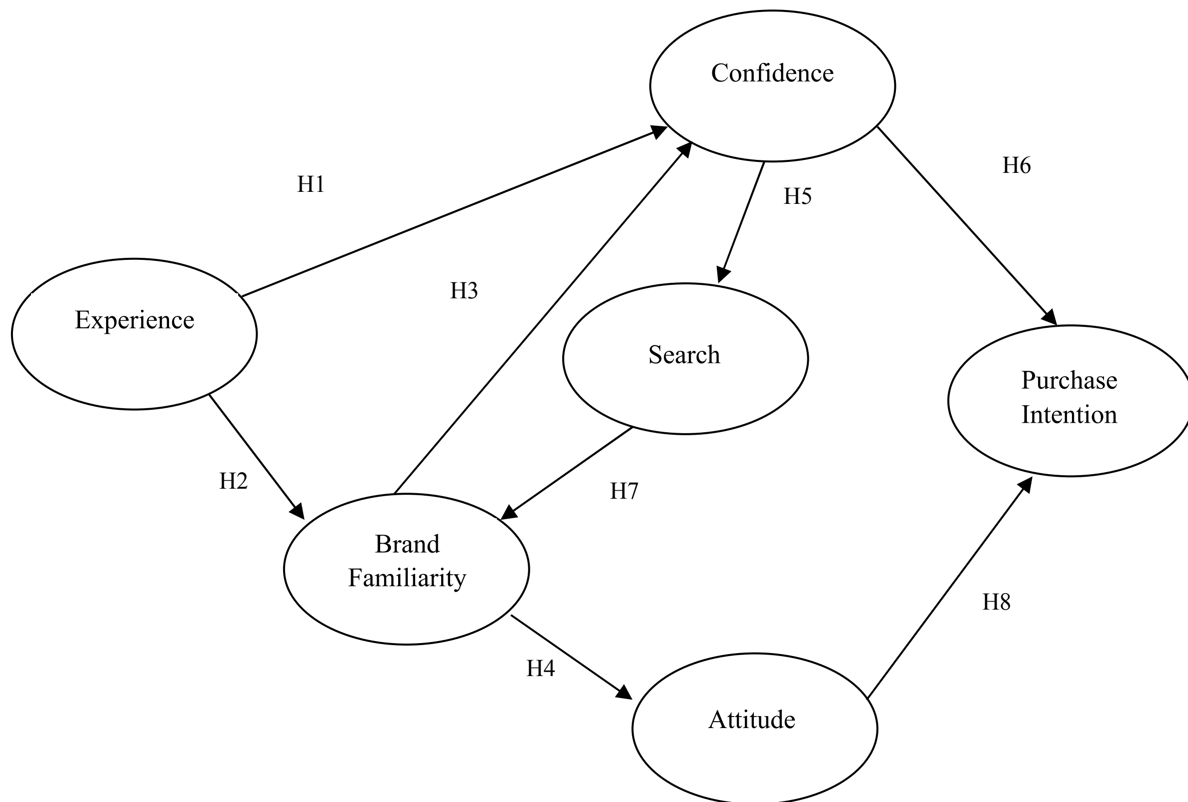

Figure 2
Research Model

MODEL CONSTRUCTS

Experience

The terms Experience (used in this research model) and Information (from the Howard CDM model) represent the individual's personal exposure to a product. The Experience construct is important in product design (Hekkert and Jacobs, 2005) in that those consumers who have more experience with a product are more likely to identify those product features that are important in making the purchasing decision. That is, greater individual experience with a product increases the likelihood of purchase. Direct experience, through ownership, increases the consumer's evaluation of a product (Hoch, 2002). Given the prior experience with a product, consumers are more confident in their ability to evaluate the product (Griffith and Chen, 2004).

Dodd *et al*. (2005) applied a portion of the consumer decision-making model to the decision to purchase wine. Specifically, they analyzed the relationship(s) among experience, subjective knowledge (confidence), and potential sources of information when consumers are faced with purchasing wine for home or restaurant consumption. They found that for both types of consumptions, past experiences are positively associated with subjective knowledge (i.e., confidence).

H1: Consumer experience is positively related to decision-making confidence.

In their study, Nowak *et al*. (2006) studied customer satisfaction, perceptions of fair pricing, product quality, service quality, commitment, and positive emotions on the level of brand equity among Generation Y consumers visiting wineries in Northern California. Brand equity was considered an additional value associated with a product because of the brand name (i.e., brand familiarity). They reported that the customer's experience with brand commitment, product quality, service quality, and fair pricing were significant predictors of brand equity.

H2: Consumer experience is positively associated with brand familiarity.

Brand Familiarity

In Howard's original model, the construct "Brand Recognition" was identified as the consumer's mental picture (Geringer, 2007) of the product that assists in creating the consumer's preference for a particular brand. This preference for the brand then increases the consumer's confidence in selecting the brand. More recent studies have replaced the term "Brand Recognition" with "Brand Familiarity." The terms are also used interchangeably by Holden and Vanhuele (1999), Lange and Dahlen (2003), and Frieder and Subrahmanyam (2005).

Researchers have found that when a consumer's awareness of a brand increases, the intention to purchase that brand increases (Donthu, 1995; Choo *et al*., 2002; Lin and Chang, 2003; Koo, 2004). Additionally, brand familiarity is used in the decision to purchase even for inexperienced consumers. Consumers are more likely to select the brand with which they are more familiar, even if the brand is considered to be of a lower quality relative to other competing brands (Koo, 2004).

In a study conducted in Spain, Loureiro and McCluskey (2000) found that the Protected Geographical Identification (PDI) label is an effective signal of quality for food products, in combination with other quality indicators, such as store reputation, customer service, and location. These signals of quality help establish brand familiarity and increase the consumer's confidence they are purchasing a quality product.

H3: Brand Familiarity is positively associated with confidence.

Brand familiarity is also associated with attitude. Those individuals who are familiar with a particular brand consider that brand superior to other brands of identical quality, based upon that specific familiarity. Park and Lessig (1981), Brucks (1985), and Chiou (2000) found that product familiarity strengthens a consumer's attitude toward a product.

Nowak *et al*. (2006) reported that positive attitudes associated with the consumer's wine tasting room experiences were highly significant with brand familiarity. As brand familiarity increases, the Generation Y consumer is expected to increase their purchases of the particular wine.

H4: Brand Familiarity is positively associated with attitude.

Confidence

The consumer's belief about their knowledge of a product through past experience with purchasing and using the product (i.e., subjective knowledge) increases the consumer's confidence level and positive attitude toward a product. The greater the consumer's subjective knowledge, the greater the consumer's confidence toward the particular product (Flynn and Goldsmith, 1999).

Research results regarding the association between confidence and search efforts vary. Sheth (1974) found that as confidence toward a product declines, the consumer's search for information increases. Peter and Olson (2005) reported that more confident consumers will perform lower levels of product search as compared to consumers with moderate or low levels of confidence. However, Urbany *et al*. (1989) found that lower levels of confidence had a negative effect on search efforts.

Charters *et al*. (1999) reported that more knowledgeable wine consumers use a variety of cues and resources when making a decision to purchase wine. Less knowledgeable consumers look to the bottle design and labeling to influence their purchasing decision. However, once a purchase has been made, the price-quality ratio becomes important to the purchasing decision.

H5: Confidence is positively associated with search.

With respect to consumer confidence and purchase intention, numerous research studies have supported the same conclusion. Consumer confidence is positively related to the consumer's intention to purchase a product (Bennett and Harrell, 1975; Laroche and Sadokierski, 1994; Larouche *et al*., 1996; Huizingh *et al*., 2002).

Lunardo and Guerient (2007) surveyed individuals studying in France to determine how labels on bottled wine influence the intention to purchase. They reported that perceived authenticity from the labels caused consumers to believe that the purchase was less risky.

Authenticity included the product's origin, uniqueness as compared to other products, and reflection of the consumer's personality. As risk is reduced, the consumer becomes more confident and is more likely to purchase the bottled wine. The increased likelihood to purchase wine was significantly associated with the reflection of the label to the consumer's personality (Halstead, 2002; Lunardo and Guerient, 2007). Barber *et al*. (2006, 2007) reported that wine consumers less than thirty years old were more intimidated when purchasing wine (i.e., less confident) and thus were less likely to purchase wine. Women were found to be more intimidated than men and also less likely to purchase wine as women found the quantity of information available on wine labels to be confusing.

H6: Confidence is positively associated with purchase intention.

Search

The search construct includes two types of search: internal information search and external information search (Lamb *et al*., 2009). The internal information search reflects the consumer's use of memory to provide information of a product. The information included in memory is initially garnered from the consumer's past use of the product. In the current research model, past use of the product is included in the construct "Experience" and is not included in the "Search" construct. Thus, the "Search" construct, used in the current research model, reflects only the external information search.

External information search reflects the consumer's use of information obtained from outside sources, such as advertisements, salespersons, family, and friends. Results of prior research efforts indicate a strong association between the consumer's search process and brand familiarity (Price and Feick, 1984; Block *et al*., 1986; Miller, 1993; Ha, 2002; Ratchford *et al*., 2003).

Reporting on a study of Australian students (the majority of whom were less than 35 years of age) with prior experience in the wine industry, Charters *et al*. (1999) found that the back labels of wine bottles provide useful information to the consumer; however, only 57% of the participants regularly use the back label information. The back label was also preferred to the front label. However, most respondents preferred to speak to a salesperson rather than using the information included on the back label. Gender and knowledge of wine did not affect the results.

Halstead (2002) found that individuals purchasing wine looked to price, grape variety, country or region of origin, label and bottle design, and promotional offers as cues for "brand." When individuals participated in a taste-test, country of origin and grape variety served as cues for "brand." Additionally some participants used recommendations from family, friends, and salespersons when determining the particular brand to purchase, especially when the individual

had no prior experience with the product. The level of wine sales increased when labels included information on competitive awards won by the wine (Morey *et al*., 2002; Lockshin *et al*., 2005).

Dimara and Skuras (2003) reported that quality control certification is an important indicator of quality for unmarried wine consumers from a rural setting with a higher level of education. These individuals obtain information about a wine product from the bottle label and friends and family. The importance of quality certification decreases when information about a wine is obtained from the media. Information regarding geographic association is an important quality cue for consumers living in urban locations and who obtain information from the label. Another measure of quality, traceability (i.e., the ability to identify the wine's original producer), was found to be a significant cue for consumers obtaining information from labels; however, for those consumers who acquire information from the media, traceability was not a significant cue.

Thomas and Pickering (2003), in a study conducted in New Zealand, noted that the relative importance of wine label elements varied by gender, marital status, age, income, and type of consumer. Overall, front labels were found to be more important than back labels for those individuals less than 20 years of age and those with diplomas. However, back labels were considered to be more important sources of information for married persons and those who considered themselves connoisseurs. When deciding on the type of wine to purchase, respondents indicated that grape variety, vintage, region information, bottle color, cellaring information, bottle shape, and additional advice were important to their decision-making process.

Barber *et al*. (2006) reported that information provided on wine bottle labels was significant to consumers. Specifically, country of origin (included on the front label) was the most important attribute. This was followed by style and description of the wine (included on the back label) and vintage and brand name (included on the front label). The information provided on the front label was more significant to female consumers; females considered the back labels to be confusing, harder to read, and included too much information. Male consumers were more likely to focus on grape type and vintage.

In their 2007 study, Barber *et al*. reported that consumers "do look at the front label as an important information source and an integral part of the wine buying decision" (p. 83). They concluded that wine labels should include the relevant information of "style of wine (sweet, semi-sweet or dry), type of grape, location of winery and description of winery" (p. 83). Information provided on wine packaging is critically important to develop brand familiarity. Consumers are looking for particular attributes in wine; the product that best conveys this information will have a larger following of consumers.

Thach and Olsen (2006) reported current wine advertisements tend to project images of particular vineyards, aging winemakers, or photos of bottles. However, when using external information, Generation Y consumers are more receptive to advertising that uses "fun, social and relaxed settings; more innovative packaging and labels" (p. 307). They consider wine to enhance particular events such as enjoying time spent with friends. This segment also looks for

information regarding wine brands that emphasize quality and pricing. As this information is made available to the Generation Y consumer, they are more likely to purchase a particular brand of wine.

H7: Search is positively associated with brand familiarity.

Attitude

The concept of attitude originates in social psychology and is defined as "a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor" (Eagly and Chaiken, 1996, p. 72). One of the most commonly cited sources on attitude formation is Fishbein (1963), who stated that consumers form attitudes toward products based on their perceptions about the objects. Fishbein's model further indicates that consumers' overall attitude toward an object may be derived from their beliefs about various attributes of the product (Wu, 2003). Such attributes may include evaluative criteria, as seen in the current study. Myers-Levy and Tybout (1989) found that product information (evaluative criteria) had an effect upon the development of the consumer's attitude toward products.

According to Howcroft *et al.* (2002), the study of attitudes is important in consumer behavior because it plays an important role in purchasing decisions, as well as aiding the marketer in understanding consumers, and predicting and influencing their purchasing behavior. Howcroft *et al.* (2002) investigated the relationship between important factors (evaluative criteria) that consumers considered when deciding to adopt specific forms of banking. The current study included evaluative criteria relating to wine labeling variables as part of the attitudes variables.

According to Howard (1994) one method of measuring consumer attitude is to determine a product's attributes that consumers may use to evaluate a brand, thus developing the consumer's attitude toward that brand. The current study employs a measurement of attitude based upon the consumer's evaluation of certain attributes, also known as evaluative criteria or feature sets (Schiffman and Kanuk, 2007), such as information that may be included on the label(s) of a European wine. According to Crane and Clarke (1988), evaluative criteria is defined as those important, or salient, attributes viewed by the consumer when measuring or assessing the product.

Numerous research efforts have addressed the association between the consumer's attitude toward a product and the decision to purchase the product. The more positive the consumer's attitude toward a product, the more likely the consumer is to purchase that product (Howard, 1994; Choo *et al.*, 2002). This positive association is even more pronounced among U.S. consumers where individualism is a strong cultural element.

Verlegh and Steenkamp (1999) conducted a meta-analysis on forty-one prior research efforts. The results of the meta-analysis indicated that country of origin is a strong attribute in both the consumer attitude and likelihood of purchase of a product.

Within the wine market, the geographical indicators (also referred to as country of origin) are significant to the identification of brand. Verlegh and Steenkamp (1999) report that country of origin is a particularly strong attribute in the consumer's perception of quality. Additionally, country of origin effects are stronger when products are from more developed countries, as compared to products from less developed countries. Lockshin *et al*. (2005) also found regional awareness to be a cue for quality. Such awareness increased sales levels for both large and small brands. Johnson and Bruwer (2007) reported that wine region was the most important predictor of quality on wine labels. Regional information on a label increased consumer confidence in the quality of the product. When the wine selection was made where social pressure was high (e.g., in a restaurant setting) or the selection was made by less knowledgeable consumers, designation of origin was found to be especially important in the choice of wines (Martinez *et al*., 2006). Orth *et al*. (2005) reported that preferences for selected wine origins vary depending upon consumer motivation. For example, individuals motivated by quality indicate a preference for wine from France; those motivated by price prefer wines from Australia and California.

However, region of origin as a measure of quality may be moderated by other attributes. Perrouty *et al*. (2006) report that novice wine consumers give additional credence to region of origin cues. However, as their expertise increases, their focus shifts to other cues, such as brand and prices. These results were also found among global wine consumers (Balestrini and Gamble, 2006). Country of origin was the most important indicator of quality for wine purchases, especially when the wine was purchased for special occasions, as compared to private consumption; brand was also an important indicator of quality.

The original Howard model includes two separate constructs for "Intention" and "Purchase." However, in the current model, the construct of "Purchase" has been eliminated as the consumer's actual purchase is not measured. The "Purchase" construct has been eliminated in several previous research studies, including those reported by Lyman (1985), Goff and Gibbs (1993), Tabor (1999), and Geringer (2007), because the actuality of the consumer's purchase cannot be determined unless a longitudinal study tracks whether or not the subjects actually purchased the product. In this study, the consumer's intent to purchase wine is measured. Therefore, Howard's construct of "Intention" has been revised to "Purchase Intention."

H8: Attitude is positively associated with purchase intention.

METHODOLOGY

This study determines how members of Generation Y, who are of legal drinking age in the United States, approach the purchasing of European wines. The individuals used as a sample included only those subjects of legal drinking age in the United States; these individuals were born between 1977 and 1989. The study uses the hypothesis testing method to develop an understanding of the hypothesized relationships (Sekaran, 2003) in the Howard CDM model. The study uses quantitative data and such hypothesis testing is considered by Sekaran (2003, p. 125) to have the highest level of "methodological rigor" in comparison to other research approaches.

Initially, quantitative research was used in the development of a pilot study. One hundred subjects, members of Generation Y who were of legal drinking age, answered the questionnaire designed for the study. These subjects were drawn from a state university located in the western United States. The response rate was 100 percent, with 100 viable surveys used in the pilot study. Cronbach's Alpha was applied to the data representing the variables within each construct of the model. Cronbach alpha scores of .8 to .9 were determined for each of the constructs. Thus, the variables were considered to be very good or excellent representations of the construct included in the model (Hair *et al.,* 2003).

Once reliability of the questionnaire was determined, the survey was administered to a sample of 826 individuals across the United States. The sample represented subjects from the West, the Midwest, and the East Coast of the United States. Only respondents who fit within the parameters of Generation Y and were of legal drinking age, which totaled 713 respondents, were used for the study. Hair *et al.* (2003) developed a formula to determine an ideal sample size for determining the amount of variability in the population. The number of responses obtained in this study more than meets the requirements of this formula.

The questionnaires were administered within a classroom atmosphere. This method of administering the survey was chosen because it was an ideal way to reach subjects and it aided the collection of a large number of useable responses. The surveys and subsequent data were anonymous in nature. The investigators followed the proper procedures dictated by the participating university campuses relating to use of student subjects in research studies.

Each participant was asked to indicate his/her frequency of purchasing both American and European wines. Additionally, participants were asked to indicate their agreement, using a seven-point Likert scale, to specific statements. These statements addressed variables of each of the six model constructs, specific to the participants' decision to purchase a European wine. Demographic information included gender, age, marital status, ethnicity, income level and country/region of birth.

DATA ANALYSIS AND FINDINGS

Analysis of the data was performed using SPSS. Tests were run to discern the acceptability of each of the eight hypotheses. The Howard (1994) Model of Consumer Decision Making was tested in the data analysis. In order to test the hypotheses, initially a Measure of Central Tendency was run to give a quick perusal of the study by looking at the means and standard deviations related to each variable. In addition, tests were run to clean the data, including tests to determine skewness and kurtosis, and the box and whiskers plot. Upon determination that the data was in order, SPSS was further used to summate the scores of each variable. In addition, the Pearson Correlation Analysis was used to evaluate the association between the variables in each hypothesis. This was accomplished by "measuring the linear association between two metric variables" (Hair *et al*., 2003, p. 283).

Pearson Correlation Analysis works well with interval measures such as the Likert Scales used in this study (Hair *et al.,* 2003). A one-tailed test was run because the relationship between the constructs is directional (Salkind, 2004). According to Hair *et al.* (2003), the correlations range from -1.00 to 1.00, with zero representing a lack of association and 1.00 representing an absolute positive association. The hypotheses state that there is a positive association between the two variables, with a low correlation coefficient. The findings relating to Pearson's Correlation Analysis are presented in Table 1. The results of the Pearson Correlations Analysis indicate that all correlations were at a level of acceptance and that all hypotheses indicated significance at the 0.01 level.

Table 1
PEARSON CORRELATION OF HYPOTHESES

Hypotheses	Pearson Correlation Analysis	Significance
H1	.724**	.000
H2	.747**	.000
H3	.831**	.000
H4	.242**	.000
H5	.256**	.000
H6	.600**	.000
H7	.267**	.000
H8	.326**	.000

** Significant at 0.01 level

DISCUSSION

As noted in Table 1, each of the hypotheses are supported by the data.

H1: Consumer experience with European wines is positively related to decision –making confidence.

The findings support the hypothesis. Consumers' past experience is positively associated with confidence. The participant's experience with a specific product allows them to evaluate that product's claims, based on their actual usage. Consumer experience increases the confidence in their ability to evaluate the product. These findings are consistent with Dodd *et al.* (2005).

H2: Consumer experience with European wines is positively related to brand familiarity.

The findings support the hypothesis. These findings from the current study support the previous study of Nowak *et al.* (2006), who reported that the consumers' prior experience with a product brand predicted brand familiarity.

H3: Brand familiarity with European wines is positively related to confidence.

The findings support the hypothesis. These findings from the current study support the previous studies by Park and Lessig (1981), Brucks (1985), Laroche *et al.* (1996), and Chiou (2000). Brand familiarity plays an important role in aiding the consumer in developing consumer confidence toward a specific product. Awareness of geographical indicators (i.e., country of origin) is significant to brand identification. This brand familiarity increases consumer confidence in the product as reported by Verlegh and Steenkamp (1999), Lockshin *et al.* (2005), Orth *et al.* (2005), Balestrini and Gable (2006), Martinez *et al.* (2006), and Johnson and Bruwer (2007).

H4: Brand familiarity with European wines is positively related to attitude.

Again, the hypothesis is supported. The current research findings are consistent with prior studies by Brucks (1985), Chiou (2000), and Geringer (2007). Brand familiarity is related to the strength of a consumer's attitude and confidence toward a product. Nowak *et al.* (2006) also reported that positive attitudes associated with consumer wine-tasting room experience were significant to brand familiarity.

H5: Consumer confidence with European wines is positively related to their search.

The findings support the hypothesis. The level of confidence held by wine consumers is directly related to the search process. These findings from the current study support the previous study by Charters *et al.* (1999).

H6: Consumer confidence with European wines is positively related to their purchase intent.

This hypothesis is supported. The consumer's confidence is positively related to the consumer's purchase intention. These findings from the current study support the previous studies by Bennett and Harrell (1975), Laroche and Sadokierski (1994), Laroche *et al.*(1996), and Huizingh *et al.* (2002), as well as those by Halstead (2002), Barber *et al*. (2006, 2007), and Lunardo and Guerinet (2007). In each of these prior studies, the confidence of wine consumers was found to be positively associated with the likelihood of purchase.

H7: Consumer search for European wines is positively related to their brand familiarity.

In the current study, the consumer search process for a product acts as a means to develop brand familiarity. Thus, the hypothesis is supported. These findings from the current study support the previous studies by Price and Feick (1984), Block *et al.* (1986), Miller (1993), Ha (2002), and Ratchford *et al.* (2003). Information obtained from wine bottle labels was found to provide important cues for product brand, consistent with the results obtained by Halstead, 2002; Morey *et al.,* 2002; Dimara and Skuras, 2003, Thomas and Pickering, 2003; Lockshin *et al.,* 2005; and Barber *et al.*, 2006, 2007. Additionally, recommendations from family, friends, or salespersons were used to obtain brand information. This result was also found by Charters *et al.,* 1999*;* Halstead, 2002; and Dimara and Skuras, 2003. In the current study, wine advertisements were also used to develop brand familiarity as were advertisements in the research of Thach and Olsen, 2006. An understanding of the consumer search process is valuable to marketers because it may then pinpoint those individuals whom the consumer consults for information (Geringer, 2007).

H8: Consumer attitude toward European wines is positively related to their purchase intent.

The findings support this hypothesis. The current study found that attitude not only has a positive relation to purchase intent, but the more positive the consumer attitude toward the product, the more likely the consumer is to purchase it. This supports previous studies by Howard (1994), Verlegh and Steenkamp (1999), and Choo *et al.* (2002). Country of origin was also found to be frequently used by consumers to develop a perception of quality (i.e., the consumer's attitude toward a brand). As noted by Lockshin *et al.* (2005), Orth *et al.* (2005), and Martinez *et al.* (2006), country/region of origin is a significant quality cue in the selection of wine.

IMPLICATIONS FOR FUTURE RESEARCH

The field of marketing research could certainly benefit from further empirical research into the consumer decision-making practices of specific demographic groups, particularly Generation Y. This demographic group is considered an extremely important market segment in the United States, as indicated in studies by Selian (2004), Mitchell (2004), Zumpano (2005), and Geringer (2007).

The following are suggestions for follow-up studies to help marketers gain greater insight into Generation Y and their purchasing of wines:

1. An investigation of Generation Y as consumers in regard to wines from various countries outside of the European Union.
2. Further investigation of the search processes conducted by Generation Y when purchasing wines.
3. The investigation of the importance of specific evaluative criteria on wine labels in relation to Generation Y as a consumer segment.
4. An exploration of the best promotional methods wine manufacturers could implement to reach Generation Y consumers.
5. Further exploration of the relationship between consumer search and attitude in relation to wine purchasing.

CONCLUSIONS

This study provides a better understanding of the consumer behavior of U.S.-based members of Generation Y in relation to the decision making process for purchasing European wines. This was explored through quantitative methods, in order to gain a better understanding of the behavior of Generation Y when purchasing European wines.

Perusal of the literature indicates that the current study is the first empirical study to investigate the purchasing behavior of the U.S. Generation Y segment, representing those of legal drinking age, and their purchase decision making processes in relation to European wines. Information derived from the current study can be of value to manufacturers and marketers of wine, as well as other products. However, the results of this study may be of particular value to European wine manufacturers and marketers who wish to expand their marketing to the United States, as minimal information, regarding this specific market segment, is currently available.

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A COMPARISON OF PERCEPTUAL DIFFERENCES BETWEEN FIRST-TIME AND REPEAT VISITORS TRAVELING IN CHINA

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ABSTRACT

Repeat visitors are different from first-time visitors because they are able to form a relational connection with a destination. Empirical research has largely focused on perception of destination attributes and not on whether a true relational connection has been formed between the repeat visitor and the destination. Visitors from both the United States and Europe were asked to complete a questionnaire while visiting China where they indicated their perception of similarity between their home country and China across a variety of variables consistent with those found in the psychic distance literature. This study found that there was no significant difference between repeat and first-time visitors raising questions as to the actual level of perceptual change and relational belongingness experienced by repeat visitor.

INTRODUCTION

The travel and tourism industry is a competitive marketplace that at its core is unlike most others in that its products are mainly intangible (Graburn & Moore, 1994) and that "unlike other products and services, tourism sells excitement, unknown experiences, and the sense of discovery to travelers" (Rittichainuwat, Qu, & Mongkhonvanit, 2006, p 77). Taking this difference into account, it therefore is essential to competitive success that destination marketing organizations (DMO) understand the importance of a positive visitor experience and find ways to create destination brands around those experiences; effective branding that becomes central in the broader development of a destination's image (Blain, Levy, & Ritchie, 2005; Hankinson, 2004; Murphy, Moscardo, & Benckendorf, 2007). A tremendous amount of travel and tourism research focuses on the central role of the travel destination in trying to explain the factors influencing a destination image's level of attractiveness in the perception of travelers (e.g., Beerli & Martin, 2004; Hu and Ritchie, 1993; Tasci & Gartner, 2007). With a greater understanding of this topic, it follows that businesses can better tailor both their marketing efforts and the actual tourism products themselves.

Within the larger set of research focused on the topic of destination image formation and destination marketing, there is a subset of this literature that has focused on the differences

between first-time visitors and repeat visitors and the effect of past experience on the visitor's decision to return (e.g., McKercher & Wong, 2004; Morais & Lin, 2010; Petrick, Morais, & Norman, 2001; Rittichainuwat, et. al., 2006). Within this literature, there is a general consensus that repeat visitors are different from first-time visitors because they have additional information as a result of prior personal experience with the destination. For DMOs, repeat visitors are especially desirable customers because they represent a stabilizing influence and a more potentially dependable source of revenue (Lau & McKercher, 2004; Opperman, 2000; Petrick, 2004). That same literature has also made it clear that the needs of repeat visitors are also very different and require more of a relational marketing strategy on the part of the DMO (Lau & McKercher, 2004; Morais & Lin, 2010). Using a finance analogy, Morais, Dorsch and Backman (2005) talk about repeat visitors trying to achieve "long-term equity" in the investments made by both the visitor and the destination.

This paper contributes to existing literature by adding to the empirical research that contrasts first-time and repeat visitors in terms of their perceptions. We do not look at the specific factors that motivate a visitor or influence their decision to patronize a destination as many other papers have done (e.g., Lau & McKercher, 2004; Morais & Lin, 2010, Petrick, et. al., 2001). Instead, this paper builds on those findings that suggest the importance of relational variables for a repeat visitor and asks whether repeat visitors actually begin to change their own perceptual organization in regards to themselves, their place of origin and their relationship with the destination that they are visiting. Fundamentally, enjoying an encounter with a destination while experiencing it as an outsider is not the same as changing one's perceptual organization and enjoying a relationship with the destination based on greater perceived fit with that society.

The data used in this paper to test this question was gathered in China where both first-time and repeat visitors to that country from both the United States and Europe were surveyed. We think that China is a particularly interesting place to test for perceptual changes between first-time and repeat visitors for two reasons. First, the tourism market has been greatly impacted by the increase in globalization and international travel continues to increase in popularity. Further, an international setting such as China represents an exotic location (Fursich, 2002) where differences between locals and Western visitors from the United States and Europe are likely to be more extreme and therefore changes in perceptual organization may be easier to observe if they are occurring.

As with any service, the perceptions of customers (i.e., tourists) and potential customers often are formed by observing various features of the product they are consuming (i.e., the destination itself) and integrating those observations into their current perceptual framework. Often the perceptions of these features are viewed in terms of similarity or dissimilarity to the same features in the home country. Therefore, surveys utilized in this study asked visitors to complete a questionnaire where they indicated their perception of similarity on a scale from one to seven between their home country and China across a variety of variables consistent with those found in the literature using the concept of psychic distance (Dow & Karunaratna, 2006;

Evans, Mavondo, & Bridson, 2008; Sousa & Bradley, 2008). They were also asked to assess their overall view of the destination in terms of its favorability on a scale from one to seven. If these evaluations vary between the populations of first-time visitors and repeat visitors, we would consider this to be evidence that perceptual organization changes of a relational nature are really occurring for repeat visitors.

LITERATURE REVIEW

Differences between First-Time and Repeat Visitors

As succinctly stated by Hu and Ritchie (1993), “the attractiveness of a destination reflects feelings, beliefs and opinions about a destination’s perceived ability to provide satisfaction relative to his or her special needs” (p. 25). Implied in this statement is that destination image formation involves both the cognitive and affective dimensions and subsequent research has indeed established the importance of both cognitive and affective components in creating a tourist’s destination image (Baloglu & McCleary, 1999; Beerli & Martin, 2004; Martinez & Alvarez, 2010; Morais & Lin, 2010).

The obvious difference between a first-time visitor and a repeat visitor relative to their destination image is that the repeat visitor has the benefit of past experience. There is no clear conclusion in the literature as to the relative importance of the cognitive and affective components but, given the benefit of experience, there is an argument to suggest that the affective component may be more heavily weighted in the case of repeat visitors than it is in the case of first-timers (Beerli & Martin, 2004; Morais & Lin, 2010). With more personal experience at a destination, the visitor is able to feel things about the destination; something they cannot do prior to visiting. Morais and Lin (2010) focus in particular on the contrast between first-time tourists and the importance of evaluative cognition in choosing an appropriate destination versus repeat visitors and the development of a long-term relationship based on an accumulation of meaningful experiences as the critical determinant in their decision to return to a destination.

In their pioneering research into first-time and repeat visitors, Gitelson and Crompton (1984) offered five potential motivations for returning to a destination: risk reduction - contentment with a particular destination, risk reduction - find the same kind of people, emotional attachment to a place, further exploration of a destination, and show the destination to other people. They concluded that this resulted in repeat visitors changing their activities during trips from more of a focus on seeking novel experiences in the first visit to seeking more relaxation and spending time with friends or relatives in the return trips. Many years later, very similar results were noted by McKercher and Wong (2004) and Lau and McKercher (2004) in their studies of tourists visiting Hong Kong. McKercher and Wong (2004) observed that “first-time visitors are keen to explore a destination, wish to travel widely through it, and find its

culture and heritage quite interesting. Repeat visitors, on the other hand, tend to prefer more social activities, such as shopping, dining, or visiting friends and relatives" (p. 172).

Ryan (2003, p. 99) offers what he calls the tourist-guest continuum which identifies six possible classifications of visitors: tourist, customer, visitor, traveler, guest, and friend. For repeat visitors, the benefits of having established relationships and developed friendships allow them to more easily move beyond the role of tourist, customer, visitor, or traveler and into the categories of guest or friend. The most notable distinction is that a guest or friend has moved beyond the role of an outsider utilizing "specially packaged tourist events" and into the role of an insider who is are able to feel a degree of belongingness with the local community as somebody who "partakes in normal events – increasingly on an equal footing with members of the host society."

Recognizing the importance of past experience and the subsequent feeling of belongingness that often defines visitor expectations, Morais and Lin (2010) presented a model for understanding the antecedents of patronizing intentions for both first-time and repeat visitors that included the concept of destination attachment as a complement to destination image. Destination attachment is conceptualized as a relational construct that recognizes visitors develop both cognitive and emotional connections toward a destination. As a relational construct, they propose that first-time visitors may be more concerned with destination attributes and processing information regarding those attributes while repeat visitors may focus more on the "destinations' psychological meaning" (p.198) and ask questions in their study focused on issues of 'place identity' and 'place dependence'.

The concept of destination attachment as developed by Morais and Lin (2010) and the tourist-guest continuum as developed by Ryan (2003) both are important in that they move the research question of how first-timers are different from repeat visitors to a different level. Morais and Lin (2010) asked five questions related to place identity in their study of visitors to a hot spring destination in Taiwan and found that four of the questions produced significant results including:

1. This destination means a lot to me
2. I am very attached to this destination
3. I identify strongly with this destination
4. I would prefer to spend more time on this destination if I could

All of the above questions leave open the possibility that the respondent if answering in the affirmative has not only changed their assessment of the destination; but, at some level, has more fundamentally changed their own perceptual organization. Still, they do not establish that such a change indeed did occur in their sample population.

Beyond a simple discussion of cognitive and affective changes in the perceptual attitudes of repeat visitors towards a destination, Ryan (2003) clearly posits and Morais and Lin's (2010) destination attachment construct would suggest the possibility that there is a more profound

experience effect for repeat visitors that in some cases will also deeply alter the repeat visitor's cognitive perceptual organization of themselves and their relationship with the destination and not just their perception of destination attributes.

The Psychic Distance Construct

The psychic distance construct is introduced in this paper as a device for thinking about perceptual differences at the level of perceptual organization between first-time and repeat visitors in the context of international travel destinations. While previous literature has studied perceptual differences between first-timers and repeat visitors, none have applied the psychic distance approach to evaluating perceptual differences between the two groups. A primary benefit of using this approach in this context is that it allows for the testing of changes in perceptual attitude and organization as travelers move across international borders.

The psychic distance construct is most commonly found in international business literature (Dow & Karunaratna, 2006; Evans, et. al., 2008; Sousa & Bradley, 2008) and is used in much of the literature to represent the ease or difficulty of operating business globally (Child, Ng, & Wong, 2002; Clark & Pugh, 2001; Evans & Mavondo, 2002; Nordstrom & Vahlne, 1994). It can be defined as "the distance between the home market and a foreign market, resulting from the perception of both cultural and business differences" (Evans & Mavondo, 2002, p. 517). There are many variations within the literature as to the operationalization of the psychic distance construct with a large variety of different variables employed across the many studies where the concept has been used (Dow & Karunaratna, 2006; Sousa & Bradley, 2008). Included among the more commonly cited variables overlapping studies are culture, religion, language, education and political systems (Dow & Karunaratna, 2006). Sousa and Bradley (2006) also included lifestyles, consumer preferences and values in their list of variables.

In measuring psychic distance, the respondent is asked to rate their perception of the similarity between their home country and another country across the list of variables using a seven point scale. In international business literature, the variables are normally combined to achieve an easier to compare score for distance that can then be more easily compared across multiple 'other' countries. In this paper, there is no need to combine the variables as only one country, China, is being analyzed.

It has previously been noted in this paper that repeat visitors are different from first-time visitors in that they have experience with the destination that manifests itself in a more psychologically meaningful relational connection and greater emotional attachment to the travel destination. In contrast, first-time visitors tend to operate at a more informational, cognitive level as they process their experiences. It would be interesting to see if, compared to first-time visitors, repeat visitors with their higher sense of connection and attachment see a reduced level of psychic distance between their home country and the foreign country they are visiting. As a follow-up to the psychic distance questions, we also ask visitors as to their overall view of the

destination in terms of its favorability. If there is perceptual movement either towards or away from the destination country as evidenced by an increasing psychic distance, any changes in the favorability rating of the destination would reflect the direction of the perceptual re-organization.

The Chinese Context

The empirical data used in this study are drawn from questionnaire responses of US and European tourists visiting China. China's history as a tourist destination is relatively recent. Between 1949 and 1976, China maintained a closed-door policy to foreigners. Following then Chinese Communist Party leader Deng Xiaoping's "Open Door" market reforms that began in 1978, tourism to China became possible for Western travelers. However, it was not until 2001 when China joined the World Trade Organization that travel restrictions were fully relaxed. By 2006, China was the fourth most-visited country in the world with 49.6 million international visitors and by 2010 it was the third most visited country in the world with 55.98 million overseas tourists. According to the World Trade Organization, by 2020 China will become the largest tourist country in the world and among the largest for overseas travel.

Given the recency of China's opening to tourism and the uniqueness of China as a destination for many Western travelers, it is a particularly interesting place to test for traveler reactions. Broadly speaking, there is a general tendency in cross-cultural narratives for Europeans and Americans to view countries in Asia such as China as distinctive and unique compared to themselves; the 'exoticising' of destinations in the context of travel and tourism related marketing (Fursich, 2002). This can lead to an interesting dichotomy - a positive tourism related destination image for many visitors in third world or developing countries even as those same travelers process increased concerns about economic, political and social risks at the country level (Alvarez & Korzay, 2008; Martinez and Alvarez, 2010; Nadeau, Heslop, O'Reilly, & Luk, 2008).

In the specific case of China, studies that have analyzed travel blogs (Li & Wang, 2011) and English language newspapers travel articles (Xiao & Mair, 2006) have found that China is viewed positively in those contexts as an exotic destination. As stated by Xiao and Mair (2006), China is viewed as "a destination of otherworldliness featured by China's ancient civilizations, long history and glorious culture" (p.10). For Li and Wang (2011), they found positive attributes consistent with those found by Xiao and Mair (2006) but also identified negative country image comments in terms of dimensions such as infrastructure, transportation, ease of communication, cleanliness and accessibility.

Research has shown that travelers can be identified as varying in their travel intentions based on their risk seeking tendencies with risk-averse travelers seeking greater novelty in the destinations they visit and risk-averse travelers seeking greater familiarity (McKercher & Wong, 2004; Qi, Gibson, & Zhang, 2009; Rittichainuwat, et. al., 2006). As previously noted, China is both novel as an 'exotic' location and potentially risky in terms of its country image. Therefore, those choosing China for their destination as first-timers traveling from either the United States

or Europe are probably not risk-averse travelers seeking familiarity but, instead, are risk-seekers pursuing novelty; people who may in fact therefore also be more open to adjusting their perceptions of the destinations they visit.

An exotic setting such as China is a particularly interesting setting in which to study changes in psychic distance because the starting point, as represented by US and European first-time visitors pursuing a novel, unfamiliar experience, should be a very high level of psychic distance in a sample of people willing to adjust their perceptions. If repeat visitors, having an increased familiarity with the destination, are prone to adjusting their perceptions to reflect a higher state of belongingness (Ryan, 2003) and attachment (Morais & Lin, 2010) to the destination, it is arguably most likely to be seen in a destination such as China which is so different from the visitor's own place of origin that any psychological movement would be more noticeable.

METHODOLOGY

Data Collection

Survey research techniques were utilized to obtain the data for the study from a convenience sample of tourists visiting China between May-October in 2005, 2009, 2010 and 2012. During this time frame, tourists to Xi'an, China were asked to participate in a survey. The respondents were interviewed at major tourist spots near Xi'an, China by graduate students majoring in Tourism Management from a major Chinese University. Each respondent was interviewed in English or, if they preferred, in his or her native language. A total of 1051 (2005, n = 268; 2009, n = 325; 2010, n = 265; 2012, n = 193) interviews with tourists were obtained. The current research considers only those respondents who were from either the US (n = 112) or Europe (n = 311) and were traveling as tourists (n = 423).

Each respondent was asked to indicate 'your perception of the similarity between your country and China on the following dimension "*education, family life, religion, language, entertainment, aesthetics, food, hotels, automobiles, cleanliness, economy and sports*". Respondents were also asked their *overall impression* of China. A rating scale of 1 (the respondent perceived his/her country and China to be *very similar* on the dimension) to 7 (the respondent perceived his/her country and China to be *not at all similar* on the dimension). Respondents were also asked their overall impression of China on a 5 point rating scale where *1 = very favorable; 2 = somewhat favorable; 3= neutral; 4 = somewhat unfavorable and 5 = very unfavorable.* The respondents were also asked to indicate their country of origin, whether this was the first time they had visited China, the reason for their visit and to answer some additional demographic questions. Age categories used were 17-25 years; 26-35 years; 36-45years; 46-55

years; and 56 and older. It should be noted that other questions not relevant to the current research also appeared on the survey.

Respondent Characteristics: Visitors from the US

Gender: Forty-one of the respondents from the US (20 males and 21 females) indicated that they had visited China before while 71 of the respondents (26 males and 45 females) indicated that they had not visited China before.

Age*:* The majority of the respondents from the US (33.6%) place themselves in the 56 and above age group and 17.8% of the respondents indicate that they are between the ages of 46-55 years. Thus, slightly more than half (51.4%) of the respondents from the US are 46 or older.

The age category 17-25 comprised 14% of the respondents (*n* = 15). Four of the respondents were repeat visitors and eleven were first-time visitors. Ages 26-35 made up 15% of the sample *(n* = 16). Eleven of these respondents indicated that they were repeat visitors to while five indicated that they were first-time visitors. Ages 36-45 are 19.6% of the sample (*n* = 21). Ten of the respondents from this age category were repeat visitors while eleven were first-time visitors. The 46-55 age category contains 17.8% of the US sample (*n* = 19) with 31.6% (*n* = 6), indicating that they had traveled to China before while 68.4% of the sample (*n* = 13) indicated that they were first-time visitors. The 56 and older category contains 33.6% of the respondents from the United States (*n* = 36). Of these respondents, 22.5% (*n* = 9) indicated that they were repeat visitors while 40.3% (*n* = 27) indicated that they were first-time visitors.

Occupation: Respondents were asked to list their occupation. The largest percentage (22.2% ; *n* = 24) of the sample indicated that they are retired. For these retired people, 25% (*n* = 6) were repeat visitors while 75% (*n* = 18) were first-time visitors. An equal percentage (14.8%) of the respondents listed student and education as their occupation(s). For those indicating they are students, 37.5% (*n* = 6) indicated they were repeat visitors while 62.5% (*n* = 10) indicated that this was their first visit. Respondents listing education as their occupation included 7 respondents (43.8%) who were repeat visitors and 9 respondents (56.3%) who had not previously visited China. Health was listed as an occupation by 10.2% of the respondents (*n* = 11) with five of the respondents indicating that they had visited China before and six of the respondents indicating that this was their first visit. Other occupational categories listed by a limited number of respondents included librarian, management, engineer, traveler, writer-editor, lawyer, marketing, business, banking, accounting, artist, architecture, law enforcement, musician, scientist and 'other'.

Respondent Characteristics: Visitors from Europe

Gender: For the respondents from Europe, 136 of the respondents (76 males and 60 females) indicated that they were repeat visitors while 175 of the respondents (92 males and 83 females) indicated that they had not visited China before.

Age: The majority of respondents from Europe (30.8%) placed themselves in the 26-35 year age category and 22.5% of the respondents indicated that they are between the ages of 17-25 years. Thus, more than half (63.3%) of the respondents from Europe are between the ages of 17-35 years. A summary of the various age groups is presented below:

Ages 17-25 comprised 22.5% of the sample (*n* = 68). Twenty five (36.8%) of the respondents had traveled to China before and 43 (63.2%) had not. Ages 26-35: This age category contains the largest number of respondents from Europe 22.5%; (*n* = 93). Thirty four of the respondents (36.6%) were repeat visitors while for 59 (63.4%) of the respondents this was their first trip. Ages 36-45 comprise 15.9% *(n* = 48) of the sample. Twenty two of the respondents from this age category (45.8%) indicate that they had previously traveled to China while 26 (54.2%) had not. Ages 46-55: This age category contains 12.6% (*n* =38) of the European sample; 65.8% (*n* = 25) of the respondents indicated that they had traveled to China before while 34.2% (*n* = 13) indicated that they had not. Ages 56 and older: This age category contains 18.2% (*n* = 55) of the respondents from Europe. Of these respondents, 45.5% (*n* = 25) indicated they were repeat visitors while 54.5% (*n* = 30) indicated they were first-time visitors.

Occupation: Whereas 22.2% of the respondents from US indicated that they are retired, only 9.2% of the respondents from Europe indicated that they are retired. Of these retired individuals, 44.0% (*n* = 11) had previously visited China while for 56.0% (*n* = 14) of the respondents this was their first trip to China. Respondents listing their occupation as student comprised the largest percentage of the sample (12.9% ; *n* = 35). Of these students, 40% (*n* =14) were repeat visitors while 60% (*n* = 21) were first-time visitors. Education was listed by 10.3% (*n* = 28) as their occupation. For these respondents, 46.4% (*n* = 13) were repeat visitors while 53.5% (*n* = 15) were first-time visitors. Respondents employed in health comprised the next largest percentage (9.2%; *n* = 25) of the respondents.

RESULTS

A primary interest of the current research project was to determine whether tourists from the US and those from Europe, who had previously visited, when compared with those who had not previously visited China, differed in their perceptions of similarity across a range of variables: *education, family life, religion, language, entertainment, aesthetics, food, hotels, automobiles, cleanliness, sports and economy*. In order to determine this, two sets of t-tests were conducted.

First, a set of t-tests was conducted to compare the means of US respondents who had previously visited China to US respondents who had not previously visited China. The results are presented in Table 1. As indicated in Table 1, there were no differences found in the perceptions of first-time visitors to China and repeat visitors to China from the US subjects on the twelve similarity dimensions used in the study.

Table 1
Comparison of US Respondents by Repeat and First-Time Visitors

US Subjects Only					Pooled Variance			Separate Variance		
	Group	N	Mean	S.D.	t-value	df	Prob	t-value	df	Prob
Education	Repeat	105	3.8286	1.655	1.02	204	.307	1.02	203.87	.307
	First-Time	101	3.5941	1.632						
Family Life	Repeat	106	4.0000	1.524	-.27	206	.785	-.27	204.77	.785
	First-Time	102	4.0588	1.585						
Religion	Repeat	106	5.1604	1.494	-.41	205	.684	-.41	202.68	.685
	First-Time	101	5.2475	1.584						
Language	Repeat	106	6.1415	1.283	-.77	205	.440	-.77	200.38	.441
	First-Time	101	6.2871	1.424						
Entertainment	Repeat	107	3.6822	1.357	-.21	207	.832	-.21	198.83	.833
	First-Time	102	3.7255	1.587						
Aesthetics	Repeat	100	4.1300	1.542	-.76	191	.448	-.76	189.05	.449
	First-Time	93	4.3011	1.587						
Food	Repeat	107	4.9346	1.455	-.08	205	.939	-.08	204.36	.939
	First-Time	100	4.9500	1.438						
Hotels	Repeat	106	2.9434	1.393	-.43	207	.666	-.43	192.98	.667
	First-Time	103	3.0388	1.782						
Automobiles	Repeat	109	2.8165	1.454	.12	207	.904	.12	194.71	.905
	First-Time	100	2.7900	1.719						
Cleanliness	Repeat	106	3.9340	1.520	.27	204	.784	.27	193.33	.785
	First-Time	100	3.8700	1.818						
Sports	Repeat	104	3.4712	1.428	-1.16	196	.247	-1.15	179.54	.252
	First-Time	94	3.7340	1.755						
Economy	Repeat	107	3.9533	1.376	.61	206	.541	.61	191.91	.544
	First-Time	101	3.8218	1.711						

The second set of t-tests, which are presented in Table 2, compares the means of European respondents who were first-time visitors to China to European respondents who were repeat visitors. An examination of Table 2 reveals basically the same results for both the European and US respondents: there are no differences found in the perceptions of first-time

visitors to China and repeat visitors on eleven of the twelve similarity dimensions used in the study. However, those who had visited China before gave a mean rating of 4.2390 for similarity of education while those who had not visited before gave a mean rating of 3.9279. The results of the t-test (t = 1.99, df = 425, p = .048) indicate that there is a statistically significant difference between first-time and repeat visitors from Europe on this dimension

Table 2
Comparison of European Respondents by Repeat and First-Time Visitors

European Subjects Only					Pooled Variance			Separate Variance		
	Group	N	Mean	S.D.	t-value	df	Prob	t-value	df	Prob
Education	Repeat	205	4.2390	1.659	1.99	425	.048	1.98	418.03	.048
	First-Time	222	3.9279	1.579						
Family Life	Repeat	205	4.5220	1.494	1.36	435	.176	1.36	432.10	.175
	First-Time	232	4.3233	1.588						
Religion	Repeat	214	5.5234	1.615	1.10	449	.274	1.09	441.76	.274
	First-Time	237	5.3586	1.574						
Language	Repeat	210	6.4524	1.170	.61	454	.543	.62	453.81	.537
	First-Time	246	6.3780	1.399						
Entertainment	Repeat	208	4.0144	1.502	-.83	446	.409	-.82	430.46	.411
	First-Time	240	4.1292	1.433						
Aesthetics	Repeat	197	4.3807	1.582	.44	424	.658	.44	407.46	.659
	First-Time	229	4.3144	1.503						
Food	Repeat	210	5.4476	1.438	.31	455	.757	.31	448.31	.756
	First-Time	247	5.4049	1.497						
Hotels	Repeat	212	2.9906	1.518	-.04	452	.969	-.04	435.67	.970
	First-Time	242	2.9959	1.427						
Automobiles	Repeat	211	2.9479	1.637	.53	456	.600	.52	432.46	.602
	First-Time	247	2.8704	1.517						
Cleanliness	Repeat	211	4.1801	1.774	1.18	452	.239	1.17	437.34	.241
	First-Time	243	3.9877	1.702						
Sports	Repeat	205	3.4634	1.750	-.83	434	.408	-.82	390.68	.414
	First-Time	231	3.5887	1.405						
Economy	Repeat	211	4.4028	1.663	1.81	449	.070	1.80	430.87	.072
	First-Time	240	4.1292	1.540						

The statistics for both Tables 1 and Table 2 also show the means of the similarity scores across the full range of variables. These results are interesting to observe given the earlier assumptions of China as an ‘exotic’ location where one might expect visitors to assess China as

highly dissimilar to either the US or Europe. The descriptive statistics show similarity scores that would actually suggest that this assumption may not be correct. In addition, European visitors seem to almost universally see China as more dissimilar to Europe than how the US visitors see China when compared to the US.

Table 3 presents the comparison of first-time and repeat visitors from the US in regards to their overall impression of China. As indicated in Table 3, there were no differences found in the overall impression of China by first-time visitors to China when compared with repeat visitors. In fact, the descriptive statistics show extremely high levels of favorability on the part of both groups.

Table 3 Impression of China
Comparison of US Tourists by First Time and Repeat Visitors

Impression of China	N of Cases		Mean		Std Dev.		T-Test		
	Repeat	First-Time	Repeat	First-Time	Repeat	First-Time	t-value	df	Prob
	44	70	1.3409	1.2857	.526	.542	0.54	112	.594

1 = Very Favorable; 2 = Somewhat Favorable; 3 = Neutral; 4 = Somewhat Unfavorable; 5 = Very Unfavorable

Table 4 presents the results of a *t*-test that compares the overall impression means of European respondents who were first-time visitors to China with European respondents who were repeat visitors. An examination of Table 4 reveals basically the same results for the European respondents as found in the earlier test with US respondents: there are no differences found in the overall impressions of first-time tourists to China and repeat tourists to China from Europe. Once again the descriptive statistics show extremely favorable impressions.

Table 4
Comparison of European Tourists by First-Time and Repeat Visitors

Impression of China	N of Cases		Mean		Std Dev.		T-Test		
	Repeat	First-Time	Repeat	First-Time	Repeat	First-Time	t-value	df	Prob
	137	174	1.3723	1.4655	.556	.651	-1.34	309	.182

1 = Very Favorable; 2 = Somewhat Favorable; 3 = Neutral; 4 = Somewhat Unfavorable; 5 = Very Unfavorable

CONCLUSIONS

Previous literature has generally agreed that repeat visitors are different from first-timers because they engage with the destination at a more relational level. In the case of repeat travelers, their motivations for travel tend to be more social and they interact more with the destination. Following in particular on the work of Ryan (2003) and Morais and Lin (2010), this paper questioned whether that translates into a perceptual reorganization on the part of the repeat visitor that creates a motivation in traveling to experience the destination country as an insider (e.g., guest or friend) and not just an outsider participating in tourist events and activities.

This study basically found that there was no significant change in measures of psychic distance when comparing repeat and first-time visitors across a broad range of variables for both US and European visitors to China. The results also showed that, consistent with previous research, impressions of China were extremely favorable for all categories of visitors with no differences found between first-time and repeat visitors. We did not test in this paper anything in regards to the findings of previous research that repeat visitors tend to spend more time visiting with friends and returning to known places during trips. But these findings support the proposition that repeat travelers visiting an exotic destination such as China that is so extremely different from their native country are not changing their perceptual attitudes at a fundamental level in regards to either their assessment of their native country or of the destination country.

The results of this paper support the proposition that even though repeat visitors may feel a greater attachment to a destination, they are still just as they were in terms of their perceptual organization when they visited the first-time. There is no indication that they have increased their sense of relational belongingness. The implications of this research for DMOs as they work to create packages for tourists visiting exotic locations is then, in many respects, to support the use of packaged tourist events and not to actually worry about creating activities for repeat visitors that may be even more specially designed to support a sense of relational belongingness with the destination. In Ryan's (2003) assessment, this would mean less of a concern for authenticity of experience and less need to provide opportunities to spontaneously engage with members of the local society in everyday settings.

The findings of this paper are obviously limited to the particular context of Western visitors to China and findings might very well vary across different contexts. In particular, the context of repeat visitors traveling to less exotic and more familiar destinations represents a potentially very different setting for study and analysis. In addition, the use of the psychic distance measurement construct is just one method among many that could be used in assessing the degree to which repeat visitors are changing their perceptual organization following their travel experiences. In the situation where relational characteristics of attachment can be argued to be occurring, moving beyond simple assessments of destination attributes, we think it is an interesting way to explore the extent to which these meaningful travel experiences that motivate repeat visitation actually also change the traveler's perceptual organization of themselves, their place of origin and the relationship they are developing with the destination.

In addition, while the focus of this paper was to see if perceptual changes occurred for repeat visitors after visiting China and not to study the absolute level of the descriptive statistics generated in this paper, it was interesting to observe the scores. First, across almost all variables, Europeans consistently viewed their countries of origin as more dissimilar to China than US respondents comparing their country's level of similarity to China. Second, given the 'exotic' location that China represents for Westerners, the actual scores were much lower indicating a greater sense of similarity than we would have expected, in particular for US respondents.

Future research can build on this paper by focusing on additional destinations or can build on it as well by using an alternative method to explore the question of perceptual change. But, we do think that more research can be done to explore the question of the traveler's perceptual organization in terms of the issues of belongingness and attachment to the destination and would encourage that research to occur.

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MANIFESTATIONS OF A STRATEGIC BRAND ORIENTATION

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ABSTRACT

A brand orientation is a strategic platform whereby the processes of an organization revolve around the creation, development and protection of brand identity with the aim of achieving long term competitive advantages (Urde, 1999). Despite the potentially critical role of a brand orientation in terms of business performance, research in this area is still relatively new. To better understand the construct, it is worthwhile to explore the antecedents as well as the consequences of a brand orientation. To this end, Harrison-Walker (forthcoming) makes a significant first step toward identifying a series of antecedents to a brand orientation. Although several researchers have investigated some of the potential consequences of a brand orientation, additional work has yet to be accomplished in this regard. Based on a review of the literature, this paper identifies some as yet unexplored consequences to (or manifestations of) a brand orientation. Managerial and research implications are discussed.

INTRODUCTION

The notion of a brand orientation first emerged in the early 1990s (Gromark & Melin, 2011). Briefly, a brand orientation is a strategic platform whereby a company deliberately and actively strives to manage the processes that give its brand value and meaning (Urde, 1999, p.122). The rationale for a firm to become increasingly brand-oriented is primarily due to the expected outcomes; more specifically, a high level of brand orientation produces stronger brands with higher brand equity (Hankinson 2001, Reid, Luxton & Mavonda, 2005; Urde, 1994; Wong & Merrilees, 2005) and improved financial performance (Gromark & Melin, 2011; Wong & Merrilees, 2007). Gromark & Melin, (2011) provide empirical evidence for a significant positive relationship between a brand orientation and profitability. In fact, they report that the most brand-oriented companies in their study had almost double the profitability of the least brand-oriented companies (Gromark & Melin, 2011).

Despite the potentially critical role of a brand orientation in terms of business performance, "brand management is a relatively young field of study, and one in which real interest was shown only during the final decade of the previous century" (Krake, 2005, p.228). Much work remains in order for marketers to gain a reasonably complete understanding of the

role of a brand orientation as a strategic platform. This can be accomplished by developing a greater understanding of the construct's antecedents and consequences.

Harrison-Walker (*forthcoming*) answered the call of Gromark & Melin (2011) and Hankinson (2011) to study and explore the antecedents of a brand orientation and identify which antecedents may be expected to either augment or diminish a firm's level of brand orientation. Based on extensive consideration of the literature, Harrison-Walker (forthcoming) identified eight potential antecedents of a brand orientation: the size of the company, brand barriers, services component, exploration of brand identity, brand research, years of planning and investment, expansion growth intention and brand management assessment.

Although some progress has been made in terms of identifying the consequences of a brand orientation (Gromark & Melin, 2011; Hankinson 2001, Reid, Luxton & Mavonda, 2005; Urde 1994; Wong & Merrilees, 2005, 2007), more work needs to be done to investigate additional outcomes of a brand orientation. The purpose of this paper is to extend the existing research to identify additional consequences of a brand orientation and to set forth a conceptual model depicting research propositions.

This paper is presented in three parts. The first section defines a brand orientation and briefly describes its role in the organization. Then based on a review of the existing literature, potential consequences of a brand orientation are identified. A conceptual model and research propositions for each of the proposed consequences of a brand orientation are presented. Finally, managerial and research implications are discussed.

WHAT IS A BRAND ORIENTATION?

Urde (1999, p.117) provides the classic definition of a brand orientation as an approach in which the processes of an organization revolve around the creation, development and protection of brand identity in an ongoing interaction with target customers with the aim of achieving lasting competitive advantages in the form of brands. Grant (1995) explains that the basis of a firm's competitive advantage lies in its unique, valuable, and hard-to-imitate resources and competencies. What constitutes true competitive advantage depends upon the competitors and the customers in the market; these are the points of reference for what is unique and valuable (Urde 1999, p.118).

Gromark & Melin (2011, p.395) expand upon Urde's (1999) definition of a brand orientation:

> *Brand orientation is a deliberate approach to brand building where brand equity is created through interaction between internal and external stakeholders. This approach is characterised by brands being the hub around which the organisation's processes revolve, an approach in which brand management is perceived as a core competence and where brand building is intimately associated with business development and financial performance.*

In this revised definition, Gromark & Melin (2011) attempt to further emphasize (1) that brand orientation requires a deliberate approach to brand building, as opposed to the ad hoc approach to branding common to many firms (Gromark & Melin, 2005; Baumgarth, 2009) and (2) the importance of making the brand the basis of the organization's processes.

Accordingly, a firm is not considered brand-oriented simply by virtue of the fact that is has branded products, complete with logos and slogans. The decisive difference is whether the brand identity represents a strategic platform for the firm or not (Urde, 1999, p.119).

A company that is brand oriented is distinguished by the high relevance accorded to branding by top management and characterized by an offer that is relatively constant, consistent, relevant to the buyer, and clearly differentiated from other companies (Baumgarth, 2010). Wong & Merrilees (2007) found that the best measures of a brand orientation were those that indicated a particularly high regard for branding. On other words, brand-oriented firms are more likely to believe that branding is essential to the business strategy and running the company and identify branding as an important asset (Wong & Merillees, 2007). Given that a brand orientation is essential to business strategy, the question arises as to where a brand orientation fits within contemporary marketing strategy.

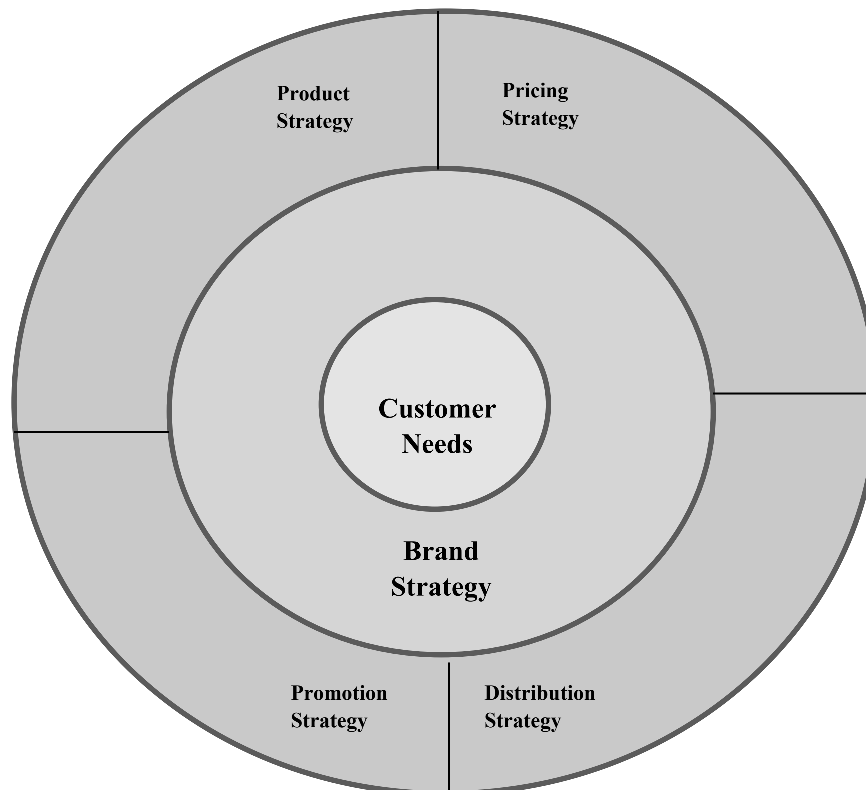
Over the years, at least three competing philosophies have influenced marketing strategies. Leading up to the mid-1950s, marketing focused internally on production efficiency (e.g. a product orientation) and aggressive selling (e.g., a sales orientation). About that time, the focus shifted externally to customer needs (e.g. the marketing concept). The marketing concept, identified by (McCarthy & Perreault, 1984) as the philosophical foundation of a market orientation, consists of three components: customer focus, integration, and long term profitability. The marketing concept is said to serve as a cornerstone of marketing thought (see Borch, 1957; McKitterick, 1957).

In an attempt to depict the market-oriented approach to marketing strategy, customer needs may be thought of as the core around which the marketing mix is designed. It is through a thorough an organization-wide understanding of customer needs that a company can develop effective product, pricing, promotion and distribution strategies leading to improved long term performance. In this conceptualization, branding is included as one of the many product strategy decisions, along with decisions such as product design, packaging, product warranties, etc. In non-brand oriented firms, the brand is simply as one of many resources within the firm and there is no discussion about the importance of basing the firm's approach on the brand as a specific resource (c.f. Collins & Montgomery, 1995; Peteraf, 1993; Prahalad & Hamel, 1990).

So then the question arises as to whether a market oriented firm can also be brand oriented and, if so, where brand orientation comes into the picture. Certainly, an organization cannot focus on a brand without meeting customer needs. Customer needs must remain at the core. As explained by Harrison-Walker (*forthcoming*), a traditional depiction of marketing strategy is comprised of two concentric circles, with customer needs in the inner circle or core

and the four Ps of marketing in the outer circle. An appropriate adaptation to incorporate brand strategy as a prominent entity would require the insertion of a middle concentric circle (see Figure 1). This makes absolute sense from a marketing strategy perspective when one considers that critical branding decisions, such as positioning, are depended upon in designing the marketing mix (Harrison-Walker, *forthcoming*). That is, strategic positioning involves designing the product and the marketing mix to fit a unique position in the consumer's mind. Therefore, once consumer information is collected and processed, the positioning strategy is formulated and the marketing mix is developed to communicate the brand's unique position (Harrison-Walker, *forthcoming*).

Figure 1: Customer Needs, Brand Orientation, and Marketing Strategy
(Source: Harrison-Walker, *forthcoming*)



In support of this conceptualization, indicating that not only are a market orientation and a brand orientation not mutually exclusive, but that a brand orientation positively impacts the effectiveness of the marketing strategy (Wong & Merrilees, 2008), Urde (1999, p.18) provides the following quote from Olle Tegstam, Senior Vice President at Nestle:

An organization can never only be brand-oriented. There have to be products that are demanded and that work together with your brand. To be brand-oriented is market orientation "plus".

MANIFESTATIONS/CONSEQUENCES OF A BRAND ORIENTATION

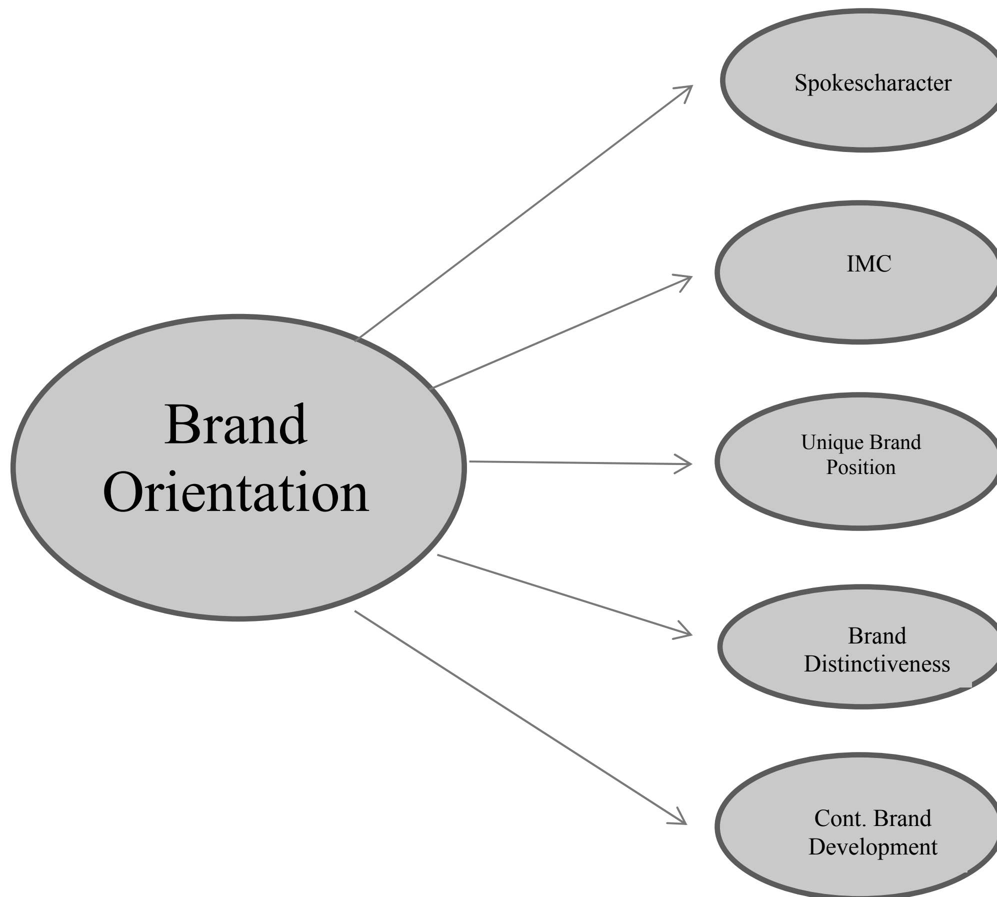
Nowadays most companies understand that brand orientation is crucial to developing strong brands and are convinced that strong brands can provide sustainable competitive advantages (Gromark & Melin, 2011). As mentioned previously, research to date has identified the consequences of a brand orientation as achieving stronger brands with higher brand equity (Urde, 1994; Hankinson, 2001, Reid, Luxton & Mavonda, 2005; Wong & Merrilees, 2005) as well as improved financial performance (Gromark & Melin, 2011; Wong & Merrilees, 2007). But what additional manifestations can we expect from firms that are truly brand oriented?

By reviewing the existing marketing and business literature it is possible to identify a number of potential manifestations of a brand orientation. In this study, five outcomes are identified as factors potentially resulting from a brand orientation. The conceptual model showing the potential manifestations of a brand orientation is presented in Figure 2. Potential manifestations include: the development and use of spokescharacters, integrated marketing communications, a unique brand position, brand distinctiveness, and continuous brand development and innovation. In the following sections, we introduce each of the potential outcomes and set forth a research proposition with regard to how each serves as a consequence to a brand orientation.

BRAND SPOKESCHARACTER

The first outcome of a brand orientation is the development of an effective brand spokescharacter. A spokescharacter is a real or "fictional animate being or animated object that has been created for the promotion of a product, service or idea," (Phillips, 1996, p.146; see also LeBel & Cooke, 2008). According to LeBel & Cooke (2008), spokescharacters are brought to life using techniques such as anthropomorphization (e.g., the California Raisins, Mr. Peanut); personification (e.g., the Green Giant, the Pillsbury Doughboy), or combining a set of traits (e.g., Uncle Ben, Aunt Jemima, Mr. Clean). Marketers create and integrate brand spokescharacters in order to engage customers' emotions and instill trust in the brand (LeBel & Cooke, 2008).

Figure 2: Manifestations of a Brand Orientation



The two functions of a spokescharacter are (1) to give meaning to the brand by symbolizing the brand's character (Phillips, 1996), and (2) to provide an emotional appeal for the brand. It is important that both meaning and emotional appeal are present, as exemplified by Green Giant. The Jolly Green Giant provides meaning by symbolizing nature (Cohen, 1988), healthy produce (Zacher, 1967) and the size and strength of the company (Phillips, 1996). However, the Giant by himself is necessarily large and remote and lacks emotional appeal (Phillips, 1996). His sidekick, the Little Green Sprout, who is outgoing and enthusiastic (Kapnick, 1992), provides the emotional appeal for Green Giant (Phillips, 1996). Thus, a tremendous amount of forethought, planning and research must go into the development of an effective spokescharacter.

Although a spokescharacter is occasionally developed by accident, as happened when the Campbell Kids were added to streetcar ads, it is far more common for marketers to carefully deliberate over the creation of the spokescharacter and its message (Phillips, 1996). Brand

oriented companies depend upon their spokescharacters when expanding product lines or targeting new market segments. Recognizing the value of its spokescharacter, Planters is relying on Mr. Peanut for successful entry into the peanut butter market, going head to head with established market leaders Jif, Skippy and Peter Pan (Welch 2012). Because a brand spokescharacter requires a deliberate approach to selecting the type of character that will represent the brand (determining the spokescharacter's personality, tone of voice, manner of communicating, size, appearance, perceived age and gender, how the character will interact with its external environment and at times with secondary spokescharacters) and reliance upon that spokescharacter to communicate the brand, we believe that brand oriented companies will engage in the deliberate and complex process of strategic spokescharacter development.

P1: A brand orientation has a positive impact on the company's development of an effective spokescharacter.

INTEGRATED MARKETING COMMUNICATION

Integrated marketing communication (IMC) is more than just a sophisticated expression for the promotion element of the marketing mix. Duncan & Mulhern (2004) describe IMC as a process related to strategically managing all brand messages in a way that contributes to the building of a strong brand. Thus, both strategy and tactics are involved. With regard to implementation, IMC requires the involvement of the entire organization, from the chief executive downward (Pickton & Hartley, 1998). "It needs consideration from the highest corporate strategic level down to the day-to-day implementation of individual tactical activity," (Pickton & Hartley 1998, p. 450).

Interestingly, IMC appears to be a critical element of brand strategy. Reid, Luxton & Mavonda (2005, p.16) argue that the distinctiveness of a brand in the eyes of consumers is not a property of the actual product (e.g. product strategy), but a function of communication of the brand. Value is increasingly being created outside the physical product (Reid, Luxton & Mavonda, 2005, p.16). Because IMC requires a deliberate, strategic and organization-wide endeavor, it is our belief that the entire organization of a brand oriented firm will engage in the strategic and tactical IMC toward developing a strong brand.

P2: A brand orientation has a positive impact on the company's extensive use of strategic and tactical integrated marketing communications.

EFFECTIVE BRAND POSITION

According to Blankson & Kalafatis (2007), positioning is considered one of the key elements of contemporary marketing management (Hooley, Saunders, & Piercy, 1998; Kotler,

2000a; Porter, 1996) and has long been acknowledged as a core branding activity (Aaker & Shansby, 1982; DiMingo, 1988; Ries & Trout, 1981). According to Kotler (2000b), positioning is the act of designing an organization's offering and image to occupy a distinctive place in the target market's mind. There are actually six bases of positioning (Aaker & Shansby, 1982): (1) by attribute, (2) by use, (3) by user, (4) by product category, (5) by price/quality, and (6) competitive positioning. For example, Charmin is positioned by attribute as the soft bathroom tissue (Harrison-Walker, 2009). Excedrin is positioned by use as the headache medicine, while Nyquil is positioned by use as the nighttime cold medicine (Harrison-Walker, 2009). MaltoMeal is positioned by price/quality as the economy cereal brand (Harrison-Walker, 2009). Alternatively, Grey Poupon is positioned by price/quality as the expensive, top of the line mustard (Harrison-Walker, 2009). As Harrison-Walker (2009) notes, each of these brands holds a distinct position in its product category and the organization's product, promotion, distribution and pricing strategies are designed to communicate and support the brand's unique position (Harrison-Walker, 2009). The characteristics of effective brand positioning are thought to be (1) perceived uniqueness (e.g. different from competitors), (2) prevalence (e.g. how many customers are aware of it), and (3) strength (Aaker, 1991).

Furthermore, positioning represents the foundation upon which marketing communications plans are formulated (Fill, 1999, Ries & Trout, 1986, Rossiter & Percy, 1997). As stated by Young (1972), the first and most vital decision an advertiser must make concerns the particular positioning of the brand. Similarly, Achenbaum (1974) states that without a doubt, brands should be strategically positioned before preparing advertising and that it is imperative to conduct the necessary market research to ensure that the brand is correctly positioned.

Notably, the strategic positioning of a brand is a careful, deliberate and complex act. As defined by Arnott (1992, pp. 111-14), positioning is "... the deliberate, proactive, iterative process of defining, measuring, modifying, and monitoring consumer perceptions of a marketable offering." Although positioning may, at times, occur as a consequence of external factors, it is the deliberate crafted actions of a firm that allow the firm to achieve a competitive position (Kalafatis, Tsogas, & Blankson, 2000; Ries & Trout, 1986; Suzuki, 2000; Trout, 1996). It is our contention that because a brand orientation requires a deliberate approach to brand building and places the brand at the center of the business strategy, brand oriented companies will be those that engage in the deliberate, proactive and iterative process of strategic brand positioning.

P3: A brand orientation has a positive impact on the company's development of a unique brand position.

BRAND DISTINCTIVENESS

For most marketers it goes without saying that, if your brand is to be bought, it needs to be at least a bit different (Ehrenberg, 2001, p.41). The terms 'brand differentiation' and 'brand distinctiveness' are often used interchangeably to capture this concept. For example, Mizik & Jacobson (2008) use the term differentiation, and define it as the ability of the brand to stand apart from its competitors. Interestingly, they measure differentiation as the average of (1) the proportion of respondents who indicated that the brand was unique and (2) the proportion of respondents who indicated a brand was distinctive (Mizik & Jacobson, 2008). Accordingly, the notion of distinctiveness was captured within their measure of differentiation.

Mizik & Jacobson (2008, p.17) qualify the role of differentiation, noting that differentiation is of little value unless it is relevant to the customer. John Murphy, founder of Interbrand, the world's leading brand consultancy, said as much in a recent issue of Market Leader: "You must ensure, most importantly, that your brand is differentiated in a meaningful though not necessarily a massive way . . . Give the consumer a reason to buy your brand rather than a competitor" (Ehrenberg, 2001, p.41). Unfortunately, almost any difference between brands that is important to sales gets copied very quickly (Ehrenberg, 2001, p.41).

It's not that serious product differentiation is difficult to achieve, in fact, there is much of it around (e.g., large vs. small packages, tomato vs. tamarind flavors, 2-, 3-, 4- or 5-door car models, a guaranteed money-back investment bond vs. a fixed interest one). However, most competitive brands have these key product variants. The realist view of branding is that nearly identical goods are made distinctive by being branded with a name, symbol, logo, distinctive packaging, advertising, and memory associations. However, for the most part, they do not necessarily function differently. (Ehrenberg, 2001, p.41)

This leads to the more expanded concept of 'distinctiveness' that is not restricted to product design (often associated with the term differentiation), but rather includes all aspects of marketing. In that regard, Wong & Merrilees (2005) define 'distinctiveness' as a firm's success in developing a brand based on distinctive products/services *or any other marketing activities (such as distribution)* (italics added for emphasis). Similarly, Urde (1999, p.127) explains that in order "to develop a strong brand, the ambition must in principle be to lead the category *in some regard*" (italics added for emphasis). The qualifying phrase of "in some regard" is consistent with the notion that brand distinctiveness may apply not only to product design, but to any of the aspects of marketing. Following this interpretation, we also use the term "brand distinctiveness" to capture all areas of marketing distinction.

It has been suggested that brand distinctiveness is an antecedent of a brand orientation (Wong & Merrilees, 2005), although this relationship has yet to be empirically examined. Because the analysis that is required to identify the most effective means by which to distinguish

a brand, considering all potential avenues in the marketing strategy, we believe that the attainment of brand distinctiveness is a positive outcome of a brand orientation.

P4: A brand orientation has a positive impact on the distinctiveness of the brand.

CONTINUOUS BRAND DEVELOPMENT/INNOVATION

Hankinson (2001) suggests the importance of an organizational culture that supports innovation as a potential antecedent of a brand orientation. Indeed, the academic literature argues in favor of organizational cultures that encourage and support the successful adoption of new ideas (Hankinson & Hankinson, 1999; Rhodes, 1997). Companies, such as 3M and Microsoft, 'allow' employees to experiment (and sometimes fail) in order to foster a climate of innovation and change (Hankinson, 2001). Importantly, both radical breakthroughs as well as small improvements are considered innovations (Gersick, 1991). Hankinson (2001) explains that more cautious organizational cultures that are resistant to change interfere with the development of a brand orientation. However, an alternative explanation is that brand oriented firms are more likely to promote and support continuous brand development and innovation.

According to Aaker (1996), a key issue in managing brands over the long term is the decision to change aspects of the brand such as its identity, its position, visual imagery, theme, slogan, emotional benefits, execution, or the development of sub-brands or extensions. Although the goal is to create an effective identity whose position and execution will endure without becoming obsolete or tired, changes are sometimes not only appropriate but even necessary (Aaker, 1996). For example, trends in the external environment may be indicative of a fundamental shift, which in turn requires a response (Aaker, 1996). Brand oriented firms are the ones that will focus their attention on these many aspects of brand management.

With each successful brand innovation, increasing attention of the firm is drawn to the brand itself, to its effect on firm performance, and therefore to the continued development of the brand. With so much attention focused on the brand in terms of its continued development, it is our belief that brand oriented firms will be associated with continuous brand development and innovation, leading to the ultimate benefit of improved business performance.

P5: A brand orientation has a positive impact on the company's continuous efforts toward brand development and innovation.

MANAGERIAL AND RESEARCH IMPLICATIONS

The purpose of this paper is to identify potential consequences of a brand orientation based on the existing marketing and business literature and to set forth a conceptual model depicting research propositions. Studies conducted on the consequences of a brand orientation

demonstrate that a brand orientation has a positive effect on business performance. Accordingly, managers should strive to develop and nurture the brand orientation of their businesses in their efforts to attain higher business performance and competitive advantage. This paper explores the more specific outcomes of a brand orientation that ultimately lead to improved business performance.

Based on the existing literature, a brand orientation appears to be associated with a number of rather direct outcomes, including: the development and use of spokescharacters, integrated marketing communications, a unique brand position, brand distinctiveness, and continuous brand development and innovation. More specifically, a brand-oriented company is more likely to (1) develop a spokescharacter for its brand, (2) engage in the strategic and tactical IMC toward developing a strong brand strive to continually develop and improve its brand through innovation, (3) engage in the deliberate, proactive and iterative process of strategic brand positioning, (4) concentrate its efforts to identify the most effective means by which to distinguish its brand, taking all aspects of marketing strategy into account, and (5) focus its attention on the many aspects of brand management, including brand identity, visual imagery, theme, slogan, emotional benefits, execution, or the development of sub-brands or extensions .

Although this paper is conceptual in nature, the proposed model suggests a number of implications for future research. The first and most apparent research implication is that the model needs to be tested empirically to determine the extent to which the proposed relationships hold true. This, in turn, requires the identification of reliable and valid measures for each construct in the model, whether through existing research or through the development of new measurement scales. The results of empirical analysis will identify the relative importance of each of the proposed outcomes. Furthermore, the impact on each of these outcomes may vary under different circumstances. For example, brand orientation may, in low tech industries, have a stronger association with brand distinctiveness than continuous brand development.

Second, the proposed model indicates only main effects of each of the outcomes of a brand orientation. Future research will need to investigate whether there is any significant interaction among the outcomes as they ultimately impact general business performance. For example, does the development of a brand spokescharacter accentuate the effect of a unique brand position on overall business performance?

Finally, while we provide important insights into the consequences of a brand orientation, there is little discussion as to the change processes required for improving each of these outcomes of a brand orientation. In other words, it would be helpful to managers to understand (particularly where it is not immediately apparent) *how* to accentuate an outcome. In this regard, it would be useful to compare the specific activities of several brand-oriented organizations to better understand how some firms achieve more positive outcomes than others.

Brand orientation research remains a relatively new field. Although the construct was first introduced in the 1990's, much of the research has been conducted only within the last

decade. Many questions remain to be answered. This paper contributes to the field by recalling how a brand orientation fits within contemporary marketing strategy and then identifying several potential consequences of a brand orientation. The managerial and research implications that are presented further support the importance of gaining a more complete understanding of a brand orientation and provide direction for the advancement of research into this important and beneficial construct.

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TRUTH AND CONSEQUENCES IN THE GLOBAL VILLAGE

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ABSTRACT

Almost everyone agrees that businesses have a moral obligation to be honest. Less emphasized is the fact that customers, the co-creators of value, are likewise obliged to be honest. Customer dishonesty like business dishonesty creates deadweight economic losses. Marketers can improve the moral infrastructure of society and eliminate these deadweight losses if they bring the moral accountability of the gemeinshaftlich village to the gesellschaftlich global economy. Customers can be made accountable through an expansion of credence markets that measure integrity and that compel the dishonest to bear the costs of their own misbehavior. The feasibility of expanding credence markets is enhanced because expansion serves the interest of honest customers who co-create most or all economic value and who thus have high levels of latent economic power. But achieving these worthwhile ends requires a rethinking of the issue of privacy.

INTRODUCTION

In their influential article on the service dominant logic of marketing, Vargo and Lusch (2004) emphasize that properly managed firms collaborate with and learn from customers, whom they view as co-producers of the value created through an exchange. In this conception, the customer becomes an important part of the supply chain. Indeed, given the fact noted by Sheth and Sisodia (2006) that "power in the marketplace—economic, informational, psychological—has shifted to consumers" (p. 4), the consumer may be seen as the most powerful and important member of the supply chain. It therefore becomes very important for consumers to exercise their informational and economic power in socially constructive ways.

Building upon Vargo and Lusch (2004), Layton (2008) refocuses the analysis of value creation on the marketing system within which value is created (cf. Alderson 1957). This subtle shift in focus emphasizes the importance of the institutional frameworks within which individuals act to create value. On this view, a key determinant of whether consumers exercise their informational and economic power responsibly will be the institutional arrangements that determine their spectrum of incentives and choices. The focus of this article will be a particular aspect of the marketing system, the moral infrastructure that may institutionally affect the degree

to which consumers are morally responsible as they play their critically important role in the creation of value.

GEMEINSCHAFT AND GESELLSCHAFT

Since marketing systems are embedded in larger social systems, we begin with an important sociological distinction that illuminates moral and economic incentives. Very early in the development of sociology, Tönnies (1887) distinguished between two fundamental modes of social organization, *Gemeinschaft* (*community*) and *Gesellschaft* (*society*), a distinction largely preserved in Durkheim's (1949) discussion of *mechanical* versus *organic* solidarity and Polanyi's (1968) reflections on *embedded* and *disembedded* economies. In a commercial context, this distinction can be exemplified by contrasting ways in which business is done in a *gemeinschaftlich* neighborhood or village and a *gesellshcaftlich*, more anonymous large city (Etzioni, 1988; Munch, 1970).

In a neighborhood or village, buyers and sellers tend to know each other as rounded individuals who interact frequently in multiple domains. In addition to their transactions in a marketplace stall or small store, they interact socially. Through years of direct observation and community gossip, they have deep knowledge of their trading partner's needs, background, and character, of the extent to which the partner is honest or dishonest, to be trusted or suspected (Varman and Costa, 2009). Agreements with the honest may be formalized by a handshake or other customary gesture. Exchanges with the dishonest are either avoided altogether or appropriate caution is exercised to preclude fraud or theft. So the dishonest lose economic and social rewards that flow from skill specialization and full integration into the community

Stigma and consequent social and economic exclusion enforce ethical norms and exact a high price from those who are widely known to be unethical whereas positive rewards of reputation flow to buyers and sellers who create economic value for themselves and others (Kurzban and Leary, 2001; Ferrell, Ferrell, and Jenkins, 1973). Thus, in a *gemeinschaftlich* neighborhood or village, social dynamics typical in business to business markets that emphasize adherence to norms (Heide and John, 1992), commitment and trust (Morgan and Hunt, 1994), and *guanxi* (Gu et al., 2008) operate in business to consumer markets (Varman and Costa, 2009).

By contrast, in a large city, buyers and sellers are typically not personally acquainted because the retail function is dispersed across many specialized establishments which often have a large sales staff. If through repeated transactions, customers do become acquainted with the staff of a store, the acquaintance is typically unidimensional, each party knowing the other only in their specialized role as buyer and seller. Since trading partners are generally unknown to each other and have little power to create social stigma or other social sanctions, exchange agreements must be standardized and formalized by contract and enforced by law (Cantor, Henry, and Rayner, 1992). There may be fewer opportunities for consumers to co-create products or to reap rewards of reputation.

While these descriptions of how commerce is organized in the relatively personal *Gemeinschaft* and relatively impersonal *Gesellschaft* may make *community* appear more attractive than *society*, developmental patterns driven by the manifest preferences of millions of people make it clear that *Gesellschaft* has overwhelming advantages in the conduct of commerce. The preeminent advantage is that it facilitates more exchanges on a much larger scale with much greater gains from specialization and trade. *Gesellschaflich* markets are also more dynamic and better adapted to changing needs because less constrained by longstanding customer and supplier relationships that reduce responsiveness to change (Adjei, Griffith, and Noble, 2009; Varman and Costa, 2009). Thus, the denizens of a city will, on average, be much wealthier than their counterparts in a small, economically isolated village and, having more product choices, will be able to purchase a more satisfying set of possessions (Fotso, 2007; Sun and Wu, 2004). But the scale and anonymity of the *Gesellschaft* can also result in a lack of moral accountability and various kinds of adverse selection, moral hazard, and free rider problems that do not arise in *gemeinschaftlich* marketing.

WHO HAS THE ASYMMETRICAL INFORMATION ADVANTAGE?

Asymmetric information is the root of moral problems that typically arise in a *Gesellschaft*. In a neighborhood or village where frequently repeated transactions are the norm, a dishonest business will soon be known and punished by a loss of patronage. Sellers have a comparatively limited asymmetric information advantage they can exploit to defraud buyers. But in a larger, increasingly global marketplace, there is more potential for buyers and sellers to be anonymous. If they are anonymous, dishonest sellers always have an advantage over honest sellers because they can profitably offer merchandise at a lower price: it costs more to offer truly high quality goods than to offer goods that only appear to be high quality. Given this advantage for the dishonest, bad products drive out good and destroy the mass marketplace—unless honest sellers can get control of the market by signaling to consumers that their products have superior quality (Spence, 1974). The development of legally protected brands, trademarks, and other signals of quality was, thus, a prerequisite for the full emergence of efficient, *gesellschaftlich* mass markets for packaged goods and other products whose quality is not immediately apparent from inspection (Church and Clark, 2001).

As Kirmani and Rao (2000) illustrate in their thorough review of the use of signaling in marketing practice, asymmetric information advantages are typically imputed to the seller. Having asymmetric knowledge about product quality, the seller, in a display of good faith, assumes the special economic burden of signaling product value to the buyer. They may do this by investing in advertising or by selling products at a loss with low introductory prices or coupons. Alternatively, they may induce trial by offering warranties or money back guarantees which effectively discriminate between the sellers of high and low quality goods because

fulfilling the guarantee is much more costly for the low quality producer who receives many returns than for the high quality producer who receives few. These generous "no risk" guarantees are effective in stimulating sales because they eliminate the seller's asymmetrical information advantage and, thereby, allay buyer fears while also enhancing positive buyer affect (Suwelack, Hogreve, and Hoyer, 2011). Signaling may also take the form of prime locations, impressive store architecture, and well trained, courteous sales staff (Mitra and Fay, 2010). Where sellers have an asymmetric information advantage, an economy will be more productive and efficient if signaling occurs (Spence, 1974).

While the asymmetric information advantage of sellers has been the main focus of researchers, the most powerful members of the supply chain, the buyers, may also have a damaging asymmetric information advantage—an advantage that is structurally more difficult to resolve than the advantage of sellers. This structural problem is rooted in the one-to-many or few-to-many relationship between sellers and buyers. Since most brands are purchased by many consumers, the task of informing consumers about brand quality is relatively manageable. Sellers can use the techniques of mass communication. And the one-to-many nature of a brand means that some substantial subset of a buyer's family and friends are likely to have relevant experience with a product that can be shared in detail with the buyer if a buyer has questions. Where family and friends lack experience, the internet generally provides consumer feedback on attributes and quality (Bailey, 2005). In this information rich context (as in the *gemeinschaftlich* village), ineffective or dishonest businesses are likely to be sanctioned by the loss of patronage as word of their incompetence or malfeasance spreads (Goldenberg et al., 2007). Thus, in the emerging networked *Gesellschaft*, business incompetence and dishonesty is a tractable problem that can be addressed nationally or internationally in much the same way as it would be in a small village.

It is structurally much more difficult for sellers to know buyers well. Whereas buyers normally do not perceive other buyers as direct competitors and generally share product information freely with each other (Feick and Price, 1987), sellers normally do view other sellers as competitors and do not share information about their customers. The press and other consumers are much more likely to comment on company and product attributes than anyone is to comment on the attributes of a particular customer. Moreover, the number of relevant observations of any given customer's behavior is generally quite small in comparison with observations of a product or company's performance. It is, therefore, much more difficult to estimate the contribution of buyers to the creation of economic value and to reward or punish them as they add to or subtract from aggregate value.

CONSUMER OPPORTUNISM

For reasons discussed above, the problem of consumer opportunism is not easily addressed. Unlike standardized products, customers vary greatly. And each interacts with a

comparatively small set of businesses. Opportunities for businesses to learn about prospective customers are much more restricted than opportunities to learn about a company or brand. In *gesellschaftlich* marketing systems, the problem of identifying and sanctioning customer opportunism is, therefore, comparatively intractable. In this section of the article, we will first illustrate the problem by discussing manifestations of consumer opportunism. Since this problem is relatively difficult to solve, our discussion of possible solutions will be held for the next major section of the article.

No Risk Guarantees

While no risk guarantees create wealth by fostering beneficial exchanges between buyers and sellers and the optimization of possession satisfaction (Anderson and Hansen, 2009; Petersen and Kumar, 2009), they also create a risk that honest businesses and customers will be exploited by free riding opportunists who are careless or dishonest. Harris (2008) amply documents the magnitude of the problem. In the U.S. product returns cost manufacturers and retailers $100 billion annually, which translates to a 3.8% reduction in profitability (Blanchard, 2007). This possibility arises because these guarantees create moral hazard and because they merely shift rather than eliminate the information asymmetry that makes signaling necessary.

No risk guarantees create moral hazard when they protect consumers from the consequences of poor maintenance or improper usage of a product. Where they exist, the cost of repairing or replacing a product that has been poorly maintained or improperly used will generally be bundled into the initial cost of the product and will be borne by all who purchase it. Thus, customers who appropriately maintain and use products bear costs incurred by those who don't.

The shift in the information asymmetry from seller to buyer also creates the opportunity for a still more egregious form of consumer opportunism. No risk guarantees allow dishonest consumers to purchase a product, use or consume it, then return the product or its package for a full refund, claiming it was unsatisfactory (Harris, 2008, The Weekly Gripe 2011). In doing this, dishonest consumers again exploit not just business owners but also the honest customers who must ultimately bear the cost of preserving the store and its services. Sellers will normally offer warrantees and money back guarantees only so long as additional profits generated by the policies exceed or equal profits that would be generated without them. If too many consumers are dishonest, the policies will never be established or will be discontinued.

Dishonest customers who abuse warranties and no risk guarantees inflict deadweight losses on an economy. Gains to trade are a critical component of wealth. Since warrantees and guarantees encourage higher levels of trading and the optimization of possession satisfaction, they increase profits, aggregate wealth, and overall social wellbeing. If consumer dishonesty or negligence makes these policies unprofitable and they are discontinued or never established, the foregone gains to trade are a deadweight loss that is inflicted by consumer misbehavior.

Shrinkage

Another obvious example of consumer opportunism is shrinkage. Retail shrinkage-–inventory losses occurring from shoplifting, organized retail crime, employee theft, administrative error, or vendor fraud (Grannis, 2007)—is estimated by the National Retail Federation to cost 40.5 billion dollars each year in the United States (Hollinger and Adams, 2007). Of that total loss, 31.6 percent has been attributed to customer shoplifting or organized retail crime and 46 percent to employee dishonesty (Hollinger and Adams, 2007). Retailers have a strong motive for reducing these losses since reductions in shrinkage can increase profits. Accordingly, in 2006, they spent 11 billion dollars on the cameras and mirrors and exit alarms and electronic article surveillance and security personnel that facilitate loss prevention (Hollinger and Adams, 2007). These losses and security expenditures—occasioned by dishonest employees and customers—substantially increased transaction costs that all participants in the economy must jointly bear.

While self-interest motivates retailers to fight theft, their self-interest extends only to the point where the marginal cost of reducing shrinkage equals the marginal profit from the shrinkage reduction. Shrinkage beyond this equilibrium point will generally be accepted as a cost of doing business. The losses will be made up by selling goods that are legitimately purchased at a higher price than would be necessary if the thefts had not occurred. In 2006, the average American family of four is estimated to have paid $440 to cover the cost of retail shrinkage (Hollinger and Adams, 2007). Of course, the costs of shrinkage are not wholly borne by honest shoppers. They are diffused more widely through the economy, also producing lower wages for workers and lower returns on investment for shareholders.

REDUCING CUSTOMER MISBEHAVIOR

As the analyses above indicate, dishonesty almost always destroys value in an economy, almost always produces deadweight losses. Since in the aggregate, it destroys rather than creates value, dishonest dealing will always be parasitic on the honest dealing that creates the goods and services that the dishonest fraudulently acquire. And since dishonesty produces nothing of value *per se*, the dishonest can thrive only where their dishonesty is unknown. So dishonesty has two related Achilles heels: it is a) essentially destructive because it creates deadweight economic losses and b) possible only when the dishonest person is functionally anonymous, i.e., when their lack of integrity is unknown. Thus, the key to reducing dishonesty and other forms of customer misbehavior in an economy is the implementation of practices that strip away the protective anonymity misbehaving consumers may enjoy in a *Gesellschaft*. Their functional anonymity lost, the dishonest and negligent can be forced to bear the costs of their own destructive behavior as they would have to do in a *Gemeinschaft* where they are better known.

Ending Anonymity

Eliminating customer anonymity is crucially important because in functionally anonymous markets the cost of detecting fraud goes up while the incidence of detection and punishment goes down. Where the identity and character of customers are unknown, retailers cannot focus security resources on those who are most likely to steal. They may narrow the scope of their security focus through the use of crude demographic or behavioral indicators, but they basically must watch all customers. Thus, the dishonest minority impose the high economic cost on society of watching all customers, both honest and dishonest (Fulda, 2001). They also impose on the honest the psychological costs associated with being vigilantly scrutinized (Birzer and Smith-Mahdi, 2006). And since most security resources are wasted on watching the honest majority, the dishonest minority is more likely to get away with free riding on the honest labors and purchases of others.

Ending anonymity is not a discrete act. Anonymity and identity can be viewed as poles on a continuum that ranges from being completely unknown in every respect (e.g., name, appearance, nationality, and location may all be unknown while interacting on the internet) to being known as intimately as a family member or close personal friend might know one. In a prototypically *gesellschaftlich* transaction, the cash-paying unnamed customer is entirely anonymous. Initial movement away from that anonymous extreme may be achieved through the use of checks, credit cards, or frequent shopper cards. A more effective tool for eliminating customer anonymity is biometric customer identification which can be either active (e.g., thumb scan) or passive (e.g., facial recognition). Technical developments are making both active and passive biometric identification of customers increasingly feasible (Alterman, 2003). If these technologies were to develop on a track that made them ubiquitous and comprehensive, frequent shopper cards or other membership arrangements would not be necessary to reliably identify shoppers who enter a store. Bricks and mortar retailers would be better situated to compete with E-tail competitors who seem destined to have detailed knowledge about most customers as anonymity on the web progressively diminishes (Rust, Kannan, and Peng, 2002)

Tracking Behavior

Knowing people's identity in the minimal sense of reliably knowing their name may have value in holding them accountable for their actions. But unless the person's past behavior can also be known, as it is in a *gemeinschaftlich* village, it is not possible to focus security resources on those who are least worthy of trust. The scope of the information that is necessary to combat a security problem varies depending on the problem that is being engaged, but to optimize the reduction of dishonesty and carelessness, whatever data are collected must be disseminated through a network. A network both minimizes the costs of information collection and maximizes the negative consequences of misbehavior.

The problems discussed above—shrinkage and the dishonest exploitation of return policies—could be addressed by linking personal identification at the time of store entry with a limited database that tracks criminal convictions and product returns. Information on criminal convictions is already a matter of public record and is available on various databases (Hollinger and Adams, 2007). And many retailers have installed or are installing returns management systems that track returns and can identify who made the return and how often that person has returned merchandise. No network currently exists for conveniently disseminating among competing stores either of these kinds of information so that retailers can make sound, real-time judgments about the likely honesty of customers entering a store or making a return. But there are no substantial technical problems that preclude the development of such a network.

Rewards and Punishments

The potential economic returns to increased societal honesty are likely to be substantial, e.g., from major savings in reduced security and supervisory costs. The infrastructure discussed above could channel these substantial returns to those who are honest while imposing substantial costs on the dishonest. Thus, for example, money-back guarantees could be offered only to those who do not have a history of excessive returns. Given a mechanism for tracking and reporting past returns, this valuable signaling device could be extended to nations and cultures where consumer opportunism currently makes it unfeasible. The wider adoption of satisfaction guarantees would eliminate deadweight economic losses that consumer opportunism currently imposes on these cultures and would facilitate the attainment of an important macromarketing objective—optimizing consumers' satisfaction with their constellation of possessions—by fostering increased levels of product sampling.

If a biometric or other ID were required for admission to a store and if honesty were tracked and reported, retailers could dramatically reduce labor costs by cutting security positions, including cashiers. Customers could ring up their own purchases and make payment using an automated but relatively low tech system that relied upon customer honor to ensure that all products were rung up and paid for rather than on the summed weight of products purchased or other cumbersome mechanisms. Occasional random audits at the door of the accuracy of the customer's scan of purchased items would probably be a sufficient dishonesty disincentive if discrepancies were reported to a network. Discrepancies could trigger more frequent random audits of that shopper and, if a pattern of dishonesty or error were noted, careless or dishonest shoppers could be compelled to pay a cashier to ring up their purchases. Anyone reported to the network as having engaged in shoplifting could be required to schedule and pay for a store-approved security person who could accompany them when they go shopping much as a village shopkeeper might shadow a known thief. And just as a shopkeeper would watch a stranger who enters the shop more closely than customers of known integrity, shoppers who do not yet have an established history of honest purchases could be audited more frequently than others who have an established integrity history.

This arrangement would tightly focus the attention of security personnel on the people who are real security risks and compel malefactors to bear the economic and psychological costs of the extra security their dishonesty makes necessary. In combination, these arrangements should produce lower costs for honest and higher costs, both economic and psychological, for dishonest customers. The psychologically burdensome stigma associated with hiring a security person to accompany them when they shop might be an especially powerful dishonesty disincentive for teenagers who are more likely than others to engage in shoplifting (Forney et al., 2005). Shame evoked by the stigma might help them reform their behavior while still young.

OBJECTIONS AND RESPONSES

Feasibility

Since improving the moral infrastructure of the gesellschaftlich economy involves significant changes in business practices, the feasibility of changes must be in question, their gemeinschaftlich analog in the village notwithstanding. But there are three reasons for thinking that changes could be successfully implemented. The first is that similar credence markets with their associated rating systems and network dissemination of information already exist and produce tangible benefits. The second is that these changes serve the interests of those who are best positioned to determine how business is conducted within a society. The third is that consumers worldwide are voluntarily enrolling in networks that make them less anonymous, the diminished anonymity in many cases being seen as a gain rather than as a loss.

Existing credence markets. In the gemeinschaftlich village where borrowers were personally well known to lenders, an informal credence market existed and credit could be extended to people known to be reliable. In emerging urban Gesellschaften, it could not be extended to functionally anonymous borrowers prior to the advent of the credit bureaus which have now been scoring the honesty of consumers in one restricted domain, payment behavior, for more than 100 years (Pagano and Jappelli, 1993). The principle function of credit bureaus, like that of the network discussed in this article, is to hold people accountable for their behavior, providing readily available credit to those who have proven they can be relied upon to pay debts while restricting or eliminating credit availability for those who have demonstrated that they will not make good on their promises to repay borrowed money. Credit bureaus deliver benefits to both businesses and consumers by facilitating transactions between buyers and sellers who are not personally known to each other and who would not, therefore, enter into mutually beneficial exchanges without credit ratings (Stiglitz and Weiss, 1981). It is no surprise, therefore, that growth in the availability of consumer credit has been directly related to growth in the availability of information about consumer creditworthiness (Pagano and Jappelli, 1993).

Information about their creditworthiness obviously helps people who have good credit. But even those who, in the short run, have bad credit can benefit in the long run from the

existence of credit rating agencies. A bad or declining credit rating can give consumers a signal that they need to improve their money management skills. Many people who initially have bad credit repair their credit rating over time by spending more wisely and, thereby, becoming more reliable exchange partners (Vercammen, 1995). Given their already extant reporting networks and their links to most major retailers, the credit bureaus would be well placed to add services reporting on consumers' product returns and criminal behaviors. So the first strong indication that changes discussed in this article are feasible is the longstanding existence of other successful credence markets.

Alignment of interests and power.

Let us turn now to the second reason for thinking proposed changes might be successfully implemented. As the creators of the economic value that everyone (including the dishonest) strives to acquire, honest businesses and their customers are well positioned to dictate what the conditions of exchange will be in a given society. The dishonest, who are economic parasites, must adapt their behavior to these conditions. So the feasibility of creating a system in which people and their behaviors are known is enhanced by the fact that honest customers benefit from being known and honest retailers from knowing them.

Retailers' strong interest in knowing the degree of honesty of customers was apparent in a survey conducted by the National Retail Federation. Responding to an item that measured the perceived importance of developing a database for tracking criminal behaviors of customers, eighty-nine percent of respondents indicated that such a database was needed and eighty-five percent that they would probably participate in the system (NRF, 2007).

Customer support for databases that track and punish dishonesty may also be high. Where customers are anonymous and behavior not tracked, honest customers must pay for both their own purchases and for those of the dishonest since the costs of shrinkage and fraudulent returns are bundled into the price of goods sold. Thus, honest customers have a strong incentive to shed their anonymity by patronizing stores that track their identity and behavior and that charge the honest less. Since no retailer can survive by serving only the dishonest (unless prices are very high to cover the costs of extraordinary security), the dishonest will, perforce, follow the honest and submit to whatever conditions are imposed by the stores that serve their interest.

Voluntary enrollment.

Turning now to the third reason for thinking that an integrity scoring network is feasible, the exponential growth of online social networks clearly indicates that many consumers are eager to shed their anonymity and be creditably known in ever-enlarging webs of linked network participants (Boyd and Ellison, 2007). The success of frequent shopper cards suggests that few customers are loathe to shed their anonymity if they are compensated with even a small discount on the price they pay for the products they purchase (Milne and Gordon, 1993). Changes discussed above would provide customers with a comparatively substantial discount if they

identify themselves as they enter the store rather than waiting until checkout at the cash register. In effect, participating customers would be creating a Better Customer Bureau with a purpose similar to that of the Better Business Bureau.

Participation in the system, like participation in the credit system, need not be mandatory. Just as people can remain unmonitored in the credit system by always paying cash, so they could remain unrated in an integrity scoring system by not identifying themselves and, consequently, bearing the costs of their anonymity. Being anonymous, they would remain under suspicion as all are with current arrangements. When shopping anonymously, they would have to employ a personal security monitor to accompany them through the store just as known dishonest people would have to do. They would have to bear the full cost of their preference for anonymity, a cost that is currently spread across all consumers, many of whom may not value anonymity.

Inequality

Equity and efficiency are often held to be the proper aims of social policy (LeGrand, 1990). To this point, we have emphasized that integrity tracking and scoring reduces deadweight economic losses, i.e., that it increases the efficiency of a marketing system. In this section we discuss the implications for economic equity since economic inequality is usually viewed as a negative social outcome (Ferrell and Ferrell, 2008; Laczniak and Murphy, 2008). Equity, on first impression, may seem to cut against the adoption of practices that track integrity, rewarding honesty and punishing dishonesty and other misbehaviors. For as is true of traditional credit scoring, broader honesty scoring is likely to widen the gap between haves and have-nots (Posner, 1974). Already possessing cultural attitudes and habits that are conducive to economic wellbeing, honest people are likely to gain further advantage if tracking and reporting make their rectitude better known. Already disadvantaged by habits that make them less productive, the dishonest are likely to suffer a further erosion of their relative economic standing if their dishonesty is better known (Rynes et al., 2005).

However, economic wellbeing is not a static zero sum game. As positive returns to honesty and negative returns to dishonesty both increase, the overall level of honesty should increase. While the relative standing of those who are initially dishonest may decline, if they respond to incentives and become more honest, the absolute level of their long-term economic wellbeing should be higher than it would have been without integrity scoring. Thus, just as poor people (like all people) are more likely to get loans in an economy that has credit scoring than in one that doesn’t (Hill, 2008) and to benefit from loans even when interest rates are high (Karlan and Zinman, 2010), so almost everyone could expect to have enhanced economic wellbeing as levels of societal honesty increase.

Error

The evaluation and reporting system discussed in this article will, inevitably, misclassify some honest people as being dishonest. And since the rating for honesty would have important practical consequences (higher/lower prices), these classification errors could injure the innocent. Errors of this kind are, of course, a serious concern. And the propagation of an error through an information sharing network would make it more serious since victims would not be able to escape undeserved consequences by moving on to another retailer.

But of course, errors would be less likely to occur in the first place if an integrity scoring system were developed. Operating as they presently do in an environment where customers tend to be comparatively anonymous, a store must, so to speak, adopt the null hypothesis that all are dishonest. It follows, as previously discussed, that security resources must be thinly spread across the entire population. Where each customer receives very limited attention, type 1 and 2 errors may be rampant. Type 1 errors occur, to the benefit of thieves, when the null (this person is dishonest) is rejected on scant or no evidence as limited attention quickly shifts to the next suspect. Type 2 errors occur, to the detriment of honorable customers, when the null hypothesis is accepted because the observed person makes an honest mistake or is misperceived as having done something wrong by harried security personnel. In such cases, lacking any other information about the person except for what is perceived or misperceived, a business may initiate legal action where it should not.

Were more known about customers, different null hypotheses (this person is honest/this person is dishonest) could be adopted for those with honest and dishonest past histories. Given a good track record, the honest might receive little security attention, and the occasional honest mistake might be overlooked, thus eliminating the Type 1 error of wrongly concluding that an honest person is dishonest. Compelling evidence would be required to reject the null hypothesis that this person, of long-standing good reputation, is honest and to adopt the alternative hypothesis that she is dishonest. Since the null hypothesis would be supported by good behavioral evidence and strong incentives to claim the ample fruits of continued honesty, the Type 2 error of wrongly presuming honesty where the person is actually dishonest may be rare.
On the other hand, those with a track record of theft or other forms of dishonesty would face the null presumption that they are dishonest. They would receive the kind of close scrutiny that would make further dishonesty impossible or that would amass clear evidence of dishonest behavior should it occur. Given good behavior over some extended period of time, the null presumption of dishonesty might be rejected due to compelling contrary evidence and the person might recover his or her standing as a person worthy of trust. Customers and retailers would both have strong profit motives (given gains to trade) for quickly and accurately demonstrating or recognizing that a past malefactor has genuinely reformed and become honest.

Since tracking past behaviors and knowing the identity of shoppers and employees will focus security attention on the people who are most likely to be problems, the overall incidence of errors is likely to decline if changes discussed in this article are adopted. Consequently, the

economic system will become more just in the sense that rewards are more likely to be commensurate with contribution. However, the increased efficiency of the system will make errors more consequential, so it will be important for the rating and reporting system to have mechanisms for identifying and correcting errors.

Past experience suggests that the existence of these procedures will not be left to chance. It will be mandated by government. Thus, in the United States, under the Fair Credit Reporting Act as modified by the Consumer Credit Reporting Reform Act, credit bureaus are required to grant consumers access to their reports and, if consumers dispute information in their file, check the potential error and correct it within 30 days of notification by the consumer. Standards are still stricter in the European Union. In both jurisdictions, the length of time that past behaviors may be tracked and reported is limited by law (San José Riestra 2002).

Privacy

The most important objection to the practice of scoring honesty and disseminating the scores is likely to be that it violates the privacy rights of those whose behavior is tracked and reported. This criticism can be developed from either teleological or deontological premises.
A teleological or consequentialist challenge to the practice is likely to be the weaker of the two critiques, for, as the discussion above has indicated, the aggregate economic and social benefits of the practice are likely to be very positive. As indicated above, lack of information under current arrangements results not just in diminished aggregate wealth but in the unjust exploitation of the honest by the dishonest.

Moreover, integrity scoring directly ameliorates the most significant teleological problem privacy advocates usually cite in opposing the dissemination of personally identified information—identity theft (Milne, 2003). Identity theft is made possible by the limited dissemination of certain kinds of information and could be made impossible by a more extensive dissemination of other kinds of information.

Alterman (2003) usefully distinguishes between indexical data (such as home addresses, mother's maiden name, social security numbers) and biocentric data (finger prints, eye scans, metrics used in facial recognition systems). While technology is rapidly making the extensive use of biocentric data possible, to date, indexical data has generally been the only option for establishing identity. A limited dissemination of indexical data can facilitate identity theft.
Where anonymous strangers have no means of validating their claimed identity, identity theft will rarely be a significant problem. In important matters, strangers will not be trusted to be who they say they are because impostiture is so easy. Indexical data facilitate identity theft because they make it possible to confirm, reliably in most cases, that people are who they say they are. This possibility creates the trust that is a prerequisite for deception. It follows that it is futile to combat identity theft by restricting the flow of indexical information. The information must be disseminated to some substantial degree to have any identificational value. But the more

cautiously it is disseminated and, thus, the more deeply it is trusted to validly identify a person, the more convincing the deception will be when the indexical information falls into the wrong hands. Thus, indexical information is structurally incapable of eliminating the problem of identity theft. It is, indeed, an essential prerequisite for the problem.

Broad dissemination of biocentric information, on the other hand, could potentially make identity theft impossible. While indexical identifiers such as social security number or credit cards are alienable from the owner and could be used by an impostor, biocentric identifiers such as thumb prints, retinal scans, and hand geometry are inalienable markers that, with appropriate protocols, cannot be replicated by impostors (Jain et al., 2000). Thus, the solution to the problem of identity theft is not a more restricted dissemination of indexical information but rather, a more extensive dissemination of biocentric information. In effect, the system could make everyone as well known by their inalienable appearance as they are known by friends and family.

While a teleological concern for identity theft is often adduced to justify restrictions on the dissemination of information, more powerful is the deontological argument that human beings have a fundamental "right to privacy" which makes it unethical to collect and disseminate information about them without their knowledge and permission (Peslak, 2005). No one thinks this right to control information about oneself is absolute, e.g., that criminals on trial have an unrestricted right to limit what witnesses can say against them. But claims that it is unethical to collect and disseminate information without permission are, nevertheless, widely supported (Lipinski, 1999). They are supported, in substantial part, we believe, because people have an instinct to avoid social interactions in which they have an asymmetric information disadvantage (Peslak, 2005; Rasmussen, 2007). Thus, laws and ethical norms that forbid the dissemination of information about people, especially invidious information, may be widely supported because they are consistent with the desire almost everyone has to control what others know about them. But these laws and norms are not the best solution to the problem of asymmetrical information.

The principal weakness of the belief that there is a deontological right to privacy is that it conflicts with the similarly widespread belief that there is a deontological right to be told the truth (Adler and Gilbert, 2006). Truth matters immensely because our ability to make informed choices between alternatives and determine our own fate is contingent on our knowing the truth about the alternatives before us. This ability is compromised to the extent that we and others have the right to control what is known about us, casting ourselves in a falsely favorable light.

If the desire to control information about us flows primarily from fear of identity theft and of an asymmetric information disadvantage in our social and economic transactions, then the solution to the problem is not norms that protect privacy but rather norms that promote truthful full disclosure all around. Full disclosure norms are preferable because it is demonstrable that they are more likely than privacy norms to optimize joint outcomes. In game theoretical research, mutual full disclosure or "knowledge about each other's knowledge" has been shown to be a predicate of a sustainable long-term equilibrium solution when there is potential for partners to enter into mutually beneficial exchanges (Aumann, 1985; Schelling, 1960).

Unsurprisingly, in business, there is widespread agreement that businesses have a moral obligation to be honest about the price and attributes of their products since honesty allows consumers to optimize their satisfaction by making sound purchase decisions (Kennedy et al., 2001). Consumers have a similar obligation to be honest when they are shopping. And just as it is appropriate for the Consumers Union or Better Business Bureau to monitor and report on the honesty of a business and the quality of its products, so it is appropriate for the honesty of shoppers to be monitored and reported. Where full disclosure generally exists, the information advantage shifts from being unknown to being known. Just as people with known good credit have an advantage over those who have an unknown credit history, so those with known integrity will have an advantage as they seek to enter into mutually beneficial exchanges with others.

CONCLUSION

Almost *everyone* recognizes that businesses have a moral obligation to be honest in their dealings with customers. Customers are also morally obligated to be honest. In the long run, the adoption of policies that reduce the anonymity of customers and that hold them accountable for their behavior is likely to redound to the benefit of both retailers and their customers because it will improve behavior and eliminate deadweight economic losses (Suler, 2004). The main implication of this article is that the effectiveness of the retail system and the overall wellbeing of society will be enhanced if consumers are reliably rewarded/punished by being subjected to the natural economic and social consequences of their honesty or dishonesty.

The suggestion that retailers facilitate this by evolving in the direction of greater transparency all around may evoke for some the specter of Orwell's "Big Brother." But this article does not imply any use of state power. It channels not Orwell but McLuhan by highlighting the next stage in the development of the "Global Village." The ever declining cost of connectivity, the widespread embrace of social networking, the current ubiquity of credence markets, all suggest that the time may be ripe for the emergence of information networks that bring the traditional moral accountability of the *gemeinschaflich* village to the billions of people who directly or indirectly trade with each other in the *gesellschaftlich* global economy.

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A SOCIAL MEDIA ADVERTISING ADOPTION MODEL FOR REALLOCATION OF TRADITIONAL ADVERTISING BUDGETS

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ABSTRACT

Many firms are struggling with how to measure their return on investment (ROI) related to social media activities. Varying and sometimes conflicting views on social media ROI measurement are posited in the literature. This paper builds on the premise of the 3D Unit of Analysis Framework (Gilfoil & Jobs, 2012) which demonstrates the limited circumstances where social media projects can be evaluated in terms of traditional financial ROI. Social media as a promotional channel is more complex than traditional media, and may be more critical to a firm's success in the long run; however, strategic organizations should not evaluate social media return as an activity independent of traditional media. Instead, companies should gain competitive advantage and improve their financial ROI through a reallocation of advertising investment – a portion of monies spent on traditional media should be shifted to social media. This paper provides an overview of the literature justifying the need for this reallocation approach and proposes an adaptation of Rogers Innovation Adoption Curve to help understand the likely path of current/future ad budget reallocation rates.

INTRODUCTION

Many firms are struggling with how to measure their return on investment (ROI) related to social media activities. Varying and sometimes conflicting views on social media ROI measurement are posited in the literature. This paper builds on the premise of the 3D Unit of Analysis Framework (Gilfoil & Jobs, 2012) which demonstrates the limited circumstances where social media projects can be evaluated in terms of traditional financial ROI. Social media as a promotional channel is more complex than traditional media, and may be more critical to a firm's success in the long run; however, strategic organizations should not evaluate social media return as an activity independent of traditional media. Instead, companies should gain competitive advantage and improve their financial ROI through a reallocation of advertising investment – a portion of monies spent on traditional media should be shifted to social media. This paper provides an overview of the literature justifying the need for this reallocation approach and proposes and adaptation to Rogers *Innovation Adoption Curve* to help understand the likely path of current/future ad budget reallocation rates.

This idea of incorporating real-time social media elements (i.e. testimonials, videos, etc.) to gain consumers'/potential consumers' trust is especially important in foregoing the "top-down" advertising style; indeed, social media usage as a tool for consumers to be exposed to products (and to share opinions about them) is growing rapidly. "Ninety-two percent of consumers around the world say they trust earned media, such as word-of-mouth and recommendations from friends and family, above all other forms of advertising - an increase of 18 percent since 2007" (Nielsen, 2012). According to David Evans at the University of Chicago, online advertising methods enable merchants to deliver information that is targeted to those consumers who value the information the most and are most likely to act on it (Evans, 2009).

The case for firms to invest in more cost effective advertising is hard to ignore. Kantar Media reports spending among the ten largest U.S. advertisers in the opening quarter of 2012 was $3.9 billion, a 5.5 percent decline compared to a year ago (Kantar, 2012). Procter & Gamble reported spending $685 million, for example, and announced plans to tighten the reins on marketing budgets and shift more money out of traditional media while reducing its total spend 4.7% (Kantar, 2012). It appears Procter & Gamble are leveraging a key differential in advertising costs between media delivery channels. The key differential is the high relative cost per mille (thousand) impressions (known as CPM) for traditional media and the low relative CPM for online media. David Evans' statement that "online advertising methods are, arguably, leading to significant reductions in transactions costs between merchants and consumers" (Evans, 2009) seems evident in Procter & Gamble's recent advertising expenditure strategy.

In spite of the apparent attractiveness of investing in social media advertising, many companies are still challenged by their inability to determine the financial performance of social media activities in terms of financial return on investment. This poses challenges for many businesses that are accountable for achieving long term strategic objectives as well as short term expenditures.

In an effort to support executives managing these types of businesses, we submit an alternative approach to thinking about social media investments. Such an approach emphasizes a "reallocation of investment" instead of an obsession with measuring immediate financial return on investment. We posit that this approach could even yield measurable advertising cost efficiencies in the short term by reallocating some advertising budget away from higher cost *traditional media* such as television, radio and print media and towards lower cost *online/social media* platforms. Questions asked in the boardroom should be: "How does our firm's inflation adjusted total cost for advertising compare to recent past history and overall industry spending trends?", "Which advertising media provide the most cost effective results?" and "What is our strategy for optimizing and reallocating our advertising investment?"

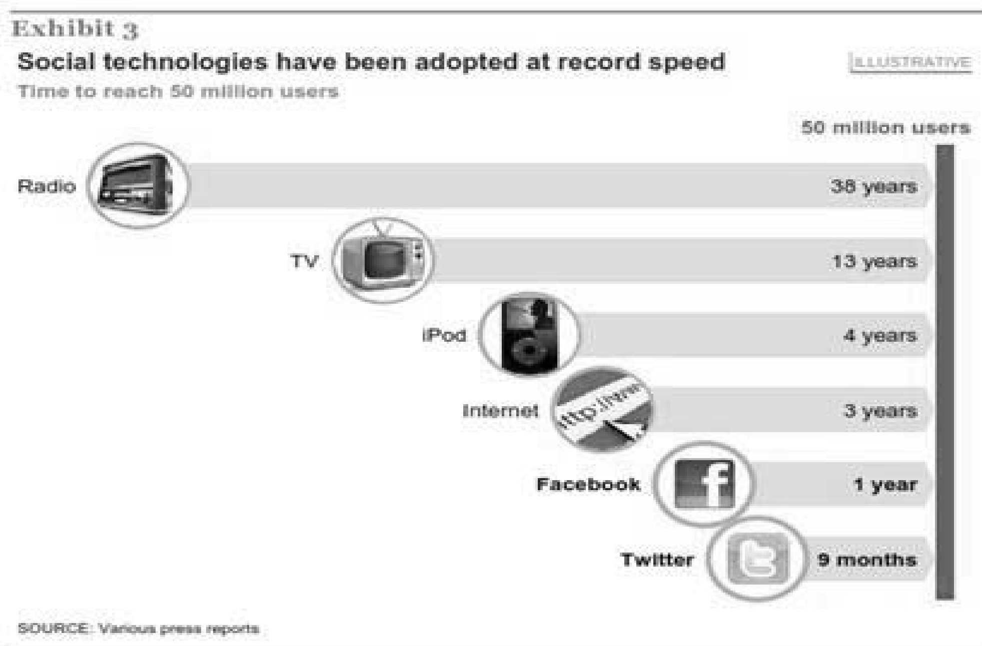
The approach advocated in this paper does not by itself determine which ad media mix to select, but rather proposes guidelines for a reallocation of some advertising spend - away from traditional media and into social media. The relative investment reallocation percentage may vary from industry sector to industry sector based on factors such as sector dynamism and the strength of the relationship between the firms in a sector and their customers/users' media usage patterns. The percentage of reallocation may also vary depending on variables such as firm size, geographic reach, etc. This paper provides an overview of the literature justifying the need for

this reallocation approach and proposes an adaptation to Rogers *Innovation Adoption Curve* to help understand the likely path of current/future ad budget reallocation rates.

LITERATURE REVIEW

Marketing theory and understanding have undergone a fundamental change with advances in the Internet. What we are seeing today is a major marketing transformation characterized by increasingly active market involvement by customers and prospective buyers. This dynamic involvement is having a fundamental impact on many businesses and their marketing operations (Kucuk, 2009). Social Media is a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0 which allow the creation and exchange of user-generated content (Kaplan & Haenlein, 2010). The diffusion or adoption rates of social media surpass all modern media to date as illustrated in Figure 1 below.

Figure 1: Social vs. Traditional Media Adoption Rates (McKinsey, 2012)



While TV took 35 years to reach 50 million viewers, social media platforms (like Facebook and Twitter) reached 50 million users in a year or less! Much of the discussion, of course, is around product or service feedback and referrals. The marketing literature suggests that the value of a referred customer is worth more than a non-referred customer (Schmitt, et. al, 2011). There is also evidence that consumers are turning more frequently to various types of social media to conduct their information searches and make their purchasing decisions (Lempert, 2006; Vollmer & Precourt, 2008). Additionally, research supports the premise that a

marketing message in which the customer is actively engaged (high involvement) is more effective than one where the customer is passively engaged (low involvement) – i.e. Celsi, et. al, (1988); Park, et. al, (2007). Social media marketing, by its very nature, requires more customer generated information (referral/opinion) and interactive consumer involvement. Recent research suggests a paradigm shift from a *company to consumer* communication to a *consumer to consumer* communication (Kozinets, et. al, 2011). Literature also suggests that the consumer is gaining more power over product information (Albuqerque, et. al, 2012) and that social media promotional methods may be more effective than traditional passive media messages (McKinsey, 2012). In spite of the theoretical attractiveness of social media promotions, the business research community has not produced a workable and generally agreed upon approach to capture and validate the ROI of social media.

SOCIAL MEDIA ROI

There are inherent complexities in measuring social media. The complexities include, but are not limited to, the non-linear relationships of the network agents, the rapid and continuous evolution of web 2.0, and the number of valuable organizational goals that can be achieved but not necessarily calculated in traditional financial terms. Often the non-financial goals come in the form of key performance indicators (KPI's), which are clearly of value to the organization, but are difficult to demonstrate a direct investment and return calculation. The term "return on investment" is well defined in the financial literature. Return on investment (ROI) simply refers to the idea that something of value has resulted from an investment of time, energy, or money. In financial circles ROI usually is reduced to a formula similar to the one shown below (Lenskold, 2003; Bragg, 2007):

$$\text{ROI} = \frac{(\text{Gain from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

In spite of the consensus on the definition of financial ROI, there have been many attempts to redefine ROI for purposes of social media measurement. This is most likely due to the inherent complexity in assigning financial value to social media marketing activities. These attempts at redefinition have yielded conflicting views on social media ROI measurement in the research literature. One example is the Hoffman and Fodor approach which requires companies to measure the *customer's* investment, not the *company's*, in social media activity (Hoffman and Fodor, 2010). Another approach is the Balanced Social Media Marketing Scorecard proposed by Augie Ray of Forrester Research (Ray, 2010). Ray's approach is basically a social media extension of Kaplan and Norton's Balanced Scorecard (BSC) strategic performance management tool widely used in performance management circles. Kaplan and Norton's BSC offers an approach for avoiding narrow ROI based performance management; instead it presents a means to capture all of the financial/non-financial benefits of corporate initiatives (Kaplan and Norton 1993, 1996, 2004). The BSC monitors business impact from four perspectives: financial, customer, internal processes, and learning and growth. Ray's extension applies this BSC approach to social media.

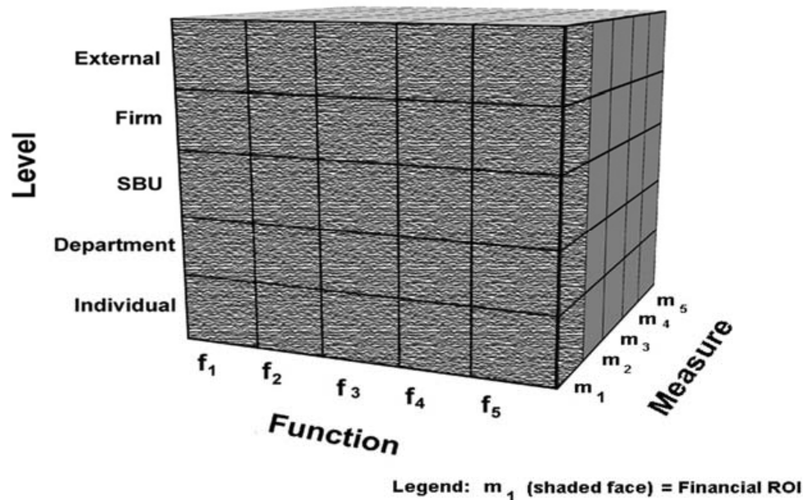
While these and other approaches make compelling arguments, they all arguably violate the strict financial definition of ROI and move into subjective realms of measurement. This can create a problem of consensus in the board room. Regardless of which alternative approach to calculating ROI is considered, according to social media expert and "Engage" author Brian Solis, marketers are failing to develop the right objectives within social media, resulting in a lack of ability to measure real return on investment (Solis, 2011).

3D UNIT OF ANALYSIS – UNDERSTANDING ROI COMPLEXITY OF SOCIAL MEDIA

Clearly there is no uniform agreement amongst researchers and industry experts on how to deal with the complexities of determining ROI in social media activities. For every social media ROI measurement approach there are also concerns expressed by researchers and industry experts. We have already posited that the industry (and/or research community) cannot change the definition of ROI, rather we must use ROI only when the unit of analysis can be measured in financial terms. We should likewise use non-financial performance measurements when the activity does not fit traditional financial ROI criterion for calculation. This can be accomplished by defining the unit of analysis clearly.

The 3D Unit of Analysis Framework (from Gilfoil & Jobs, 2012) offers a model to help understand the complexities of attempting to calculate social media ROI in Figure 2 below.

FIGURE 2: 3D UNIT OF ANALYSIS FRAMEWORK FOR SOCIAL MEDIA ROI



Legend: m_1 (shaded face) = Financial ROI

The framework suggests that only certain categories (or units of analysis) of social media activities can effectively be measured in financial ROI terms. In Figure 2 only the first level of measurement (m1) reflecting the bottom/output level of the sales funnel can be calculated in financial terms – other measures reflect values higher up in the funnel and are increasingly further removed from financial ROI (think about inquiries, "likes", or impressions resulting from social media content vs real sales). Given these measurement limitations, and the perceived need for organizations to determine investment payback from social media programs, an alternative approach to thinking about social media planning, is warranted.

REALLOCATION OF INVESTMENT (SPEND) BECOMES THE NEW "ROI"

ROI on advertising spend can be increased by media mix reallocation. This assertion is supported by ground-breaking research by industry leader Nielsen in collaboration with the Internet Advertising Bureau (IAB). Nielsen and IAB examined 18 real TV schedules across key advertiser verticals. Results showed that a 15% budget shift (vs a 0%, 5%, or 10% shift) from traditional to digital media in *non-consumer product* categories resulted in a **6.2% increase in reach** and **3.4% increase** in *consumer product* categories (Nielsen, 2012). The same report stated that a 15% budget shift (again, vs a 0%, 5%, or 10% shift) from traditional to digital media resulted in lower costs - **CPMs dropped from $13.82 to $12.31.** Figure 3 (below) depicts data highlights from the study. While that 15% reallocation figure might seem innocuous enough, if every TV advertiser immediately followed suit, the online video ad market would instantly grow sevenfold!

Figure 3: Impact of Reallocation of Budget on Reach (Adapted from Nielsen & IAB, 2012)

TV and Online Video Budget Reallocation
(results by % budget shift)
February 2013

	100% TV	95% TV / 5% Online Video	90% TV / 10% Online Video	85% TV / 15% Online Video
Reach points	57.6	60.1 (+2.5%)	61.2 (+3.6%)	61.8 (+4.2%)
Cost per reach point	$67,640	$64,739 (-4.3%)	$63,624 (-5.9%)	$63,015 (-6.8%)
February 2012	$13.82	$13.26 (-4.1%)	$12.78 (-7.5%)	$12.31 (-10.9%)

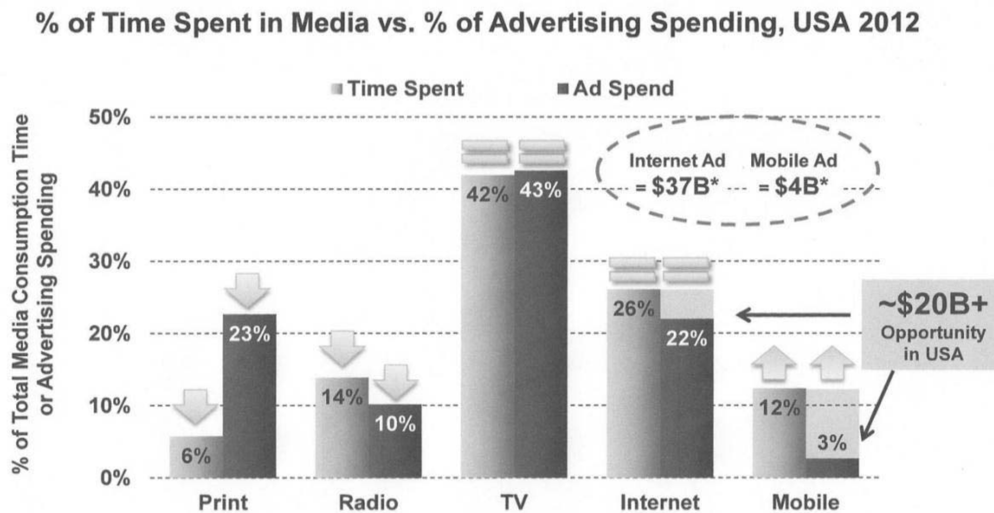
MC MARKETINGCHARTS.COM

Source: Nielsen/IAB

EMERGING TRENDS - TIME SPENT VS AD SPEND AND CPM

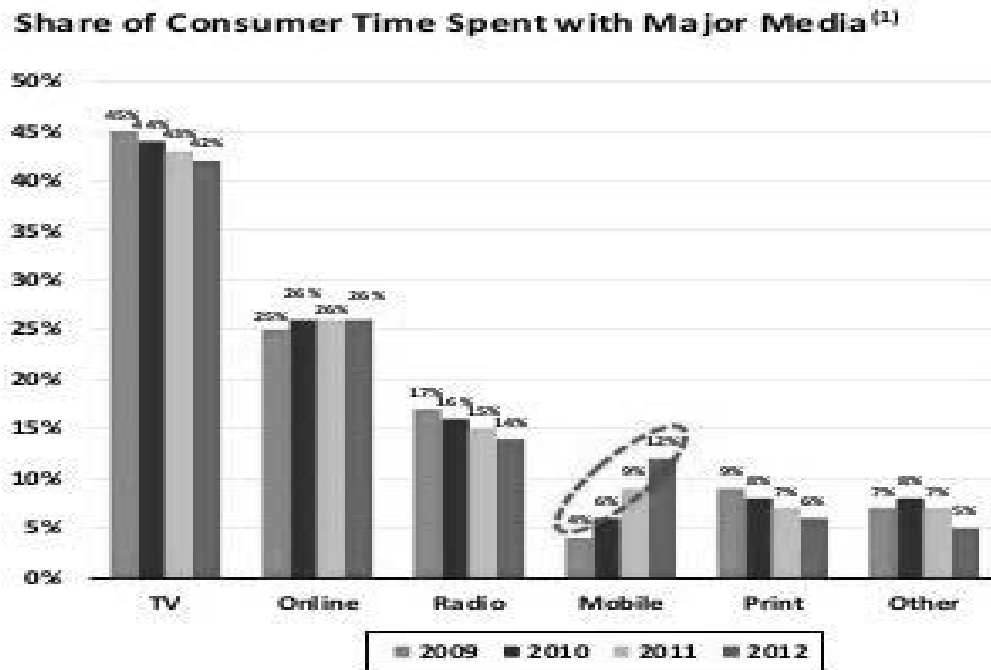
A clear environmental force supporting our case for reallocation of investment is the increasing amount of money and time people are spending consuming media *online* as opposed to using *traditional* means (i.e. newspapers, magazines, TV, etc.). The trend is noticeably away from some traditional media (newspaper, magazines, radio) and towards more internet-based media. Meeker and Wu (2013) of Kleiner Perkins provides survey data that depicts this trend in Figure 4 below.

Figure 4: % Time Spent in Media vs. % Ad Spend (Meeker & Wu, 2013)



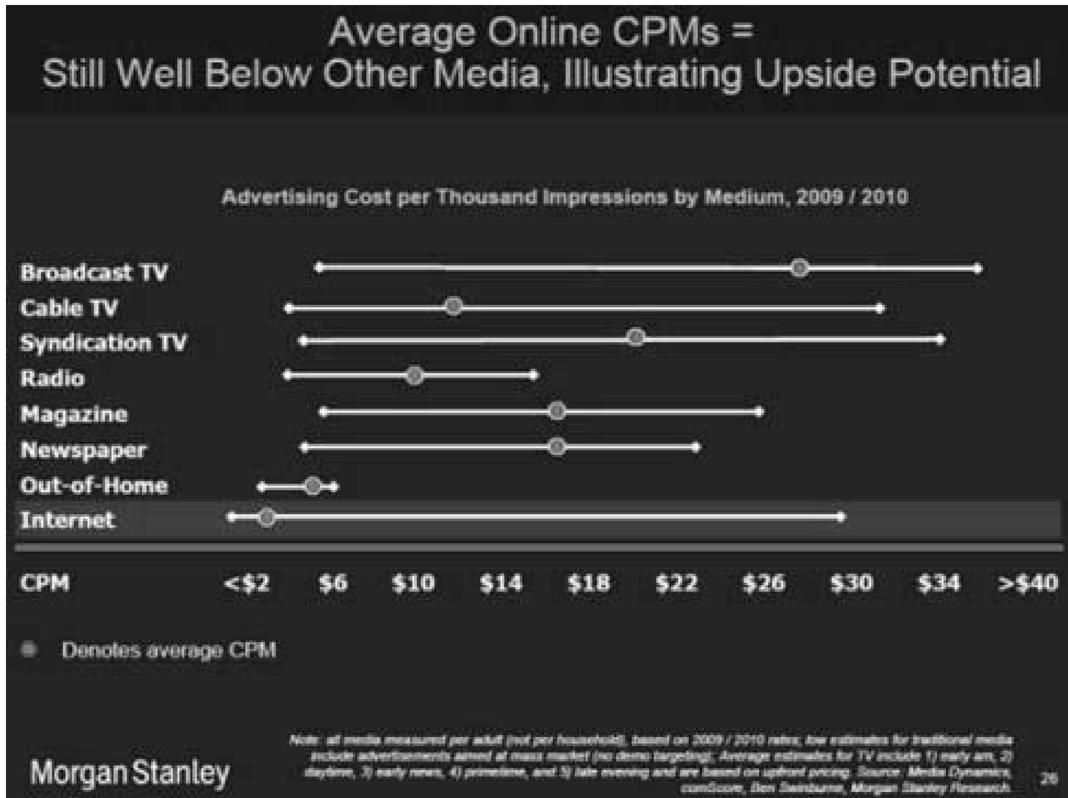
The numbers provided by e-marketer in Figure 5 (below) via the recent Blackstone 2013 Digital Marketing Industry Review corroborate Meeker and Wu's (2013) findings on user time spent by media channel.

Figure 5: Share of Consumer Time Spent with Major Media (emarketer, 2012)



TV, radio, and print channels appear to be on the decline (from a consumer time-spent perspective), while online is steadily at 26% and Mobile channels are dramatically on the uptick. Another trend supporting a reallocation of advertising investment is the <u>higher relative CPM rate</u> of *traditional* media vs. *online social media*. Morgan Stanley (2010) provides a graph in Figure 6 (below) which shows the average CPM rates by channel between 2009 and 2010. Internet CPMs are clearly more cost effective.

Figure 6: Average CPM Rates by Channel (2009-2010)



SOCIAL MEDIA IN INTEGRATED MARKETING COMMUNICATIONS (IMC)

Organizations cannot ignore such emerging online trends (i.e. user time spent, CPMs) simply because of the difficulty calculating ROI. Mangold and Faulds argue that marketing managers should include social media in their promotional mix automatically when developing and executing their Integrated Marketing Communication (IMC) strategies (Mangold & Faulds, 2009). Boone and Kurtz state that the objective of integrated marketing communications is to coordinate all promotional activities of the firm to produce a unified, customer focused promotional message (Boone & Kurtz, 2007). It is very clear that IMC must now include social media programs and initiatives if firms are to remain competitive.

We believe that we present a strong case for the reallocation of advertising spend in this body of work. However, it is important to point out that the *rate of reallocation* may vary depending on (a) the dynamics in different market sectors, (b) the strength of the relationship between companies and their customers/users in a sector, (c) user demographics in the target market, and (d) the reach required for target segments based on their media usage patterns. The

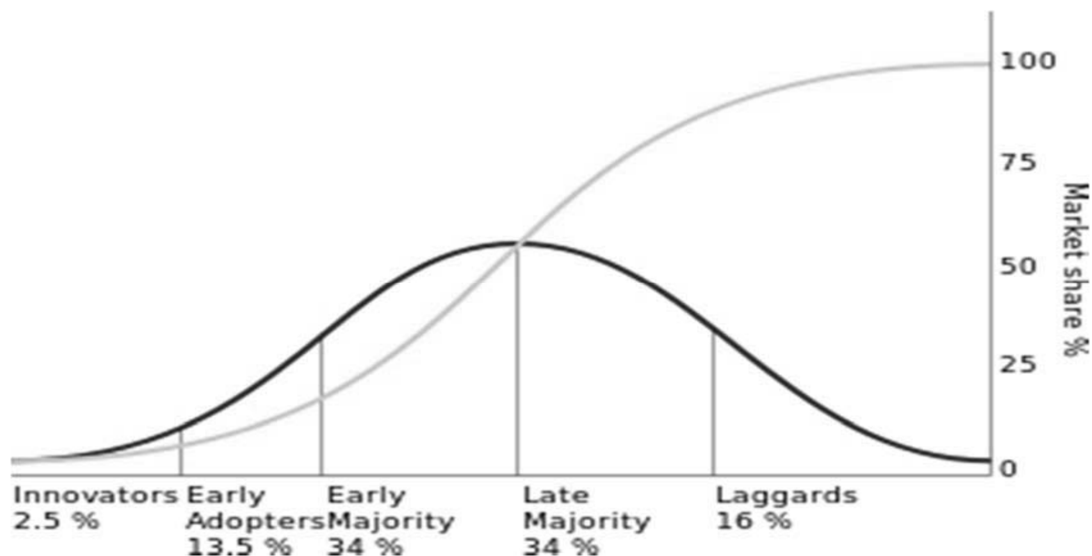
relative size of a company's advertising budget also plays a role - however larger budgets do not afford as great a competitive advantage in the online media world as they do in the traditional media world.

SOCIAL MEDIA ADAPTATION RATES – A NEW TWIST ON DIFFUSION OF INNOVATION

While the authors feel that the need to reallocate (from traditional to social) ad budget is compelling, the rate and degree to which this reallocation should proceed presents more of an onerous task. We posit that the process of adapting advertising budgets to new advertising technology is almost identical to the adaptation of innovation process experienced by consumers. The only major difference is that the analysis is most likely relevant at *the firm* unit/level instead of the *individual* consumer unit/level of analysis (see the 3D Unit of Analysis model in figure 2). Fortunately there is a large volume of research on the theory of "Diffusion of Innovation" for consumers (i.e. Rogers, 1962, 1995, 2003).

Diffusion of innovation seeks to explain the *rate* at which new ideas and technology spread. Everett Rogers (the father of this theory) defined it as the process by which an innovation is communicated through certain channels over time among the members of a social system. Discussions of the diffusion of innovation theory are varied and span multiple disciplines and decades (see Rogers, 1962). Versions of this model are commonly found in marketing textbooks around the world today. We suggest that the *Diffusion of Innovation model* (Figure 7 below) can be adapted for purposes of the advertising budget reallocation dilemma. We present this adaptation in the analysis section of this paper.

Figure 7 – Rogers Diffusion of Innovation Model (Rogers, 1962, 1995, 2003)

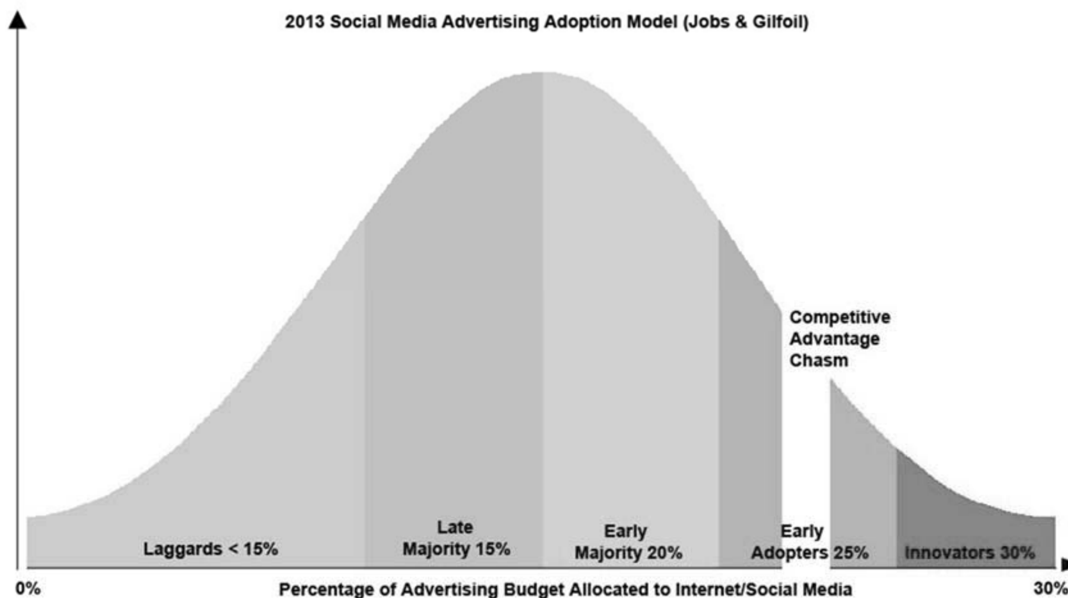


ANALYSIS

Our literature review suggests establishing a target guideline/range for shifting/reallocating ad funds from traditional to social media in the 15% to 30% range. *It is interesting to note that the 30% level approximates equilibrium with the social media* ***usage rates*** *of consumers at this time* (from Meeker & Wu, 2013).

The 15% level is supported by Nielson, IAB and others. The 20% - 30% allocation levels are supported by Meeker and Wu (2013), the Blackstone Digital Marketing Industry Review (2013), and emarketer (2012). Clearly, most firms today are not allocating 30% of their advertising budget to internet/social media programs – for many of the reasons already discussed (lack of ROI "proof" being most noteworthy). For the purpose of creating a simple Social Media Adoption model, we equate 100% adoption to ad spend equaling consumer usage rate (approximately 30%). Our preliminary analysis mapped onto Rogers' Diffusion of Innovation curve produced the model proposed in Figure 8 (below).

Figure 8 – 2013 Social Media Advertising Adoption Model (Jobs and Gilfoil, 2013)



We flipped the innovator through laggard groupings (from Rogers' model) to reflect the natural progression of social media adoption and to make the model more intuitive to readers in western cultures; we also assume, in this model, that time is static. The horizontal "x" axis of the graph reflects a zero to 15% social media budget allocation for laggards, and culminates (for innovators) at the *social media channel usage rate* (percentage of time consumers use the channel) for the time period studied. Since we are measuring budget allocation, not percentage

of the population, the sum of the "x" axis does not have to equal 100 but still represents 100% of firms that advertise with traditional media. Given the available data in 2013, that reallocation level (again, at equilibrium with social media usage rates) appears to be about 30% for innovators. Recall that data from Meeker and Wu (2013) shown in Figure 4 reflected the same (time spent/ad spend) equilibrium for TV to be at about 42-43%.

Additionally, many versions of the Rogers model speak of an "innovation chasm" which essentially separates firms that adopt disruptive technologies from those that do not. Since we do not consider social media as a purely disruptive technology (although we acknowledge this point could be argued), we equate this chasm to the point at which firms use social media advertising as a means to obtain competitive advantage.

DISCUSSION

It is important to note that our social media adoption model is a generalized model. This implies it is a composite or average representation for all industry sectors. As such, some firms may exceed a 30% social media reallocation rate and the generalized model may not apply to them. Others (with different industry/user characteristic) may experience a much less dramatic shift pattern. A key limitation of the current research endeavor is that we do not have enough quantitative data to confirm that the model follows a true bell curve as the shaded area suggests. Much more data on both social media usage rates across industries and users, as well as trial or experimental data on ad budget reallocation from "traditional to digital" (like the Nielsen/IAB study) are needed.

As with the Rogers model and other generalized models (i.e. the product life cycle), aggregate market transition/shift from one classification to the next in our model is not absolute. The percentages indicated are general guidelines and will vary from industry to industry and over time. More detailed literature reviews, together with advanced case study techniques, will eventually provide more granular allocation percentages…perhaps even by North American Industry Classification System (NAICS) code.

Going forward, a key "game changer" could be seen in the guise of Advertising Analytics 2.0, an emerging "big data" business that attempts to track the effectiveness of all traditional and digital media in driving business revenues – and having done that, suggests a real-time reallocation of advertising dollars for optimal impact. Nichols (2013) in the Harvard Business Review introduces this emerging trend and scopes out the extensive possibilities for those firms with budgets large enough to foot the bill. In addition, a cursory review of the commercial marketplace reveals a number of companies such as Adometry, C3 Metrics, C-4 Analytics, Marketshare and Rise Interactive.

The authors have already begun to identify and survey some of the key advertising analytics 2.0 players in an effort to validate and further refine our social media adoption and ad spend reallocation concepts. Ideally, longitudinal studies (by credible industry research or academic institutions) providing time-series data would go a long way to convincing corporate execs about the effectiveness of social media platforms and allow them to tailor their IMC programs for optimal spend/return patterns.

CONCLUSION

Social media ROI measurement has attracted attention because business decision makers have been slow to commit scarce advertising budget to this "new" media. Lots of discussion has ensued but calculating financial ROI against social media investment, while becoming less elusive (consider the advent of web "landing pages"), has not yet become a reality. In this paper, we consider the existing literature along with real world digital trends and suggest that, at the very least, there is evidence for a partial reallocation of investment funds – away from traditional, more expensive media towards (more cost effective) social media platforms. We further suggest that the rate (and degree) of reallocation is complicated and will vary across industry, customer base, and a host of other factors. We also posit that the rate of reallocation (social media adoption) is not unlike the much discussed "diffusion of innovation" curve and attempt to flesh out an analogous model that makes sense in the face of current data and trends. Our model needs to be validated and the overall social media adoption phenomenon needs to be further studied before practical guidelines can be generated for smaller companies with limited budgets.

On a larger scale, it appears that industry consultants and research groups (using advertising analytics 2.0) are well on their way to data driven solutions that will allow for real-time "company-centric" algorithms for understanding and tweaking traditional/digital advertising mix elements for maximum effectiveness.

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PUTTING A FACE ON SMALL BUSINESSES: VISIBILITY, VIABILITY, AND SUSTAINABILITY THE IMPACT OF SOCIAL MEDIA ON SMALL BUSINESS MARKETING

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ABSTRACT

Social media has changed the delivery, structure, and availability of information to reach current and future customers and others. Small business leaders are using social media marketing to promote their business to gain visibility, viability, and sustainability to survive in the current competitive era. This paper focuses on the role and relevance of social media in small businesses. The objectives are: (1) to analyze which social media would be more effective in the marketing and promotion of small organizations; (2) to explore the benefits and limitations of social media in small business marketing strategies, compared to the traditional promotion tools; (3) to determine how social media helps in differentiating businesses from their competitors; and (4) to analyze the importance of small businesses incorporating social media into their marketing efforts.

INTRODUCTION

This era is the information age – the age of technology – and social media are naturally an integral part of that. Currently, most people, including business leaders, are using Social Media which provides opportunities for organizations to engage, to develop a rapport with their customers, and to foster a community to accelerate sales and awareness. From the organizational perspective, social media provides the medium whereby organizations can directly communicate with their consumers. Over the several years, social media have redefined the digital media landscape and, in the process, have changed the way organizations disseminate marketing messages. As a result, social media have impacted the perceptions of customers about the organizations (Lipsman, Mudd, Rich, & Bruich, 2012).

Since 2008, the number of small businesses using social media has doubled as their leaders seek to create visibility and awareness, to identify and attract new customers, and to reinforce or change their companies' respective perceived brand images. The Small Business Success Index (SBSI) conducted a survey of 500 small business owners in December 2009 and discussed their findings as follows (Number of small businesses using social media doubled, 2010):

75 percent of the small businesses have a company page on a social networking site;
61 percent use social media for identifying and attracting new customers;
57 percent have built a network through a site like LinkedIn; and
45 percent expected social media to be profitable in the ensuing 12 months (p. 13).

Small businesses are using social media, but questions still exist. Leaders of small businesses still have to determine (1) which social medium is best for their organizations and (2) their overall objectives for using the social media. SBSI said that "Social media can be the best friend for small business owners who constantly seek new ways to maximize productivity while keeping costs low" (p.13).

According to MerchantCircle, in 2011 small businesses used social media such as Facebook (70.3%), LinkedIn (58. 2%), Twitter (39.8%), Bing (33.2%), and MySpace (19.2%) to promote their businesses (Miller, & Washington, 2013). These sites are providing a platform for the companies to reach people faster, build relationships, and connect with potential customers. Neilson reported that, "sixty percent of the people who use three or more digital means of research for product purchases learn about a specific brand or retailer from a social networking site" (McCrea, 2012, p. 74). Therefore, it is becoming increasingly important for small businesses to showcase and secure their brands on these popular social media sites. Consumers (32%) are using online social networks to find about businesses and their products and services.

COMPARISON OF SOCIL MEDIA WITH TRADITIONAL MEDIA

The increasing popularity of social media is transforming how private organizations respond and interact with society. Using social media, it is now possible for organizations to communicate their ideas and views around the globe quickly and efficiently. Traditional media communicates with their target market and environment indiscriminately whereas social media is fully customizable at the individual level, focusing on the individual needs, and businesses control the information they want to disseminate. This unique ability of social media combined with rapid and timely communication of information, is transforming the way small businesses can interact with the people. Over time, social media has significantly impacted traditional marketing methods. In order to create visibility and achieve the desired results, traditional marketing methods take time and often require a large budget. Social media has helped small organizations to have a choice of using E-marketing methods over traditional methods of marketing. Social media is now at the core of e-marketing compared to the traditional form of marketing, and it helps small organizations to easily access the global market at a minimal cost. As a result, the organizations with low capital are steering away from the traditional form to the internet based, social- media driven methods of marketing. Also, e-marketing tools provide the advantage of immediate results and accessibility to both customers and organizations, and this gives social media an edge over the traditional methods of marketing. The social networking sites such as Facebook, Twitter, MySpace, etc. allow for viral marketing and word-of-mouth promotion to be more effective than traditional media outlets because of the high level of consumer engagement associated with the various forms of web-based media. Opinion leaders have the ability to greatly influence the beliefs, behaviors, and values of consumers, and they are

able to effectively reach masses of individuals through blogs and social networks (Acar & Polonsky, 2007). Social media have provided marketers tools to reach to their respective targets with new and efficient ways of not only approaching their target markets, but also, to encourage word-mouth communication and support among online communities by increasing consumers' interest in the company (Castronovo & Huang, 2012). This leads to synergistic integration of social media as an important tool to develop an integrated marketing communication from the perspective of SME's in terms of how they perceive the future of their businesses in their marketing strategies.

THE BENEFITS OF SOCIAL MEDIA

Stelzner (2012) conducted a survey of 3,800 small and medium sized organizations to understand why these organizations are using social media marketing. The SME's reported that social media helps the organizations to grow and promote their businesses, especially to generate more awareness in terms of business exposure (85% of marketers), to increase traffic (69%) and provide organization insight (65%). Social media can help the small business organizations in terms of networking, relationships, and online branding opportunities (Bulearca, & Bulearca, 2010). The advent of the internet has increased the ability of organizations, and potential future customers, to interpersonally connect with one another, thereby creating a powerful means through which product information can be rapidly disseminated leading to increased visibility, viability, and sustainability for the small organizations.

VISIBILITY (KNOWING AND GETTING KNOWN)

Marketers use social media tools and networking sites to promote their products and services through electronic forms to create visibility for their products and services. The social networking sites such as Facebook, Twitter, MySpace, etc. allow for viral marketing and word-of-mouth promotion to be effective. Foursquare is another social media which is in a growth stage, and it influences small business organizations to connect individuals on a local and mobile basis, while incentivizing participants through increased participation. Small businesses can use Foursquare as a means of encouraging engagement within their networks, to create more visibility in the local community. For e.g., Foursquare is using strategies like specials for businesses to persuade new customers and regular customers to visit their venue. Some businesses now display a Foursquare sign on their door or window letting users know that there is a "Special" at that particular venue. Small businesses can use mobile technology and social media to better engage customers, to give them convenient channels to interact with the organizations and to deliver products, services and savings they desire (Technology used to improve customer engagement, 2013). The growing importance of social media marketing and how it helps in creating product and organizational branding has been discussed by various authors. For small organizations, it is of interest how social media can help the development of business owners' personal brands. By actively managing their online presence, people can maximize the opportunities to develop their personal brands in the direction they want to take

them (Harris & Rae, 2011). Personal branding for business owners would not only provide visibility but at the same time would help in differentiating their businesses from those of competitors. As a result, there can be a true alignment of the external expression of the personal brand of the business-owner and internal values of the small business organization.

VIABILITY/CAPABILITY (DOING THE RIGHT THINGS RIGHT)

Small and medium enterprises (SMEs) function in a fiercely competitive and turbulent environment. Social media benefits owner-managers of small businesses as they learn in peer networks to improve their management skills. Learning and working become enjoyable because social networking is where work and play collide (Campbell & Poeter, 2008). Social media helps business owners and managers to learn, by involving them in interactive relationships with their peers, community, and the wider environment (Zhang & Hamilton, 2009). They influence reflecting thinking by involving them in the social process and facilitating critical reflection in the thinking process. The confidence is formed and enhanced through observing and benchmarking their own behavior with the behavior of others, and this leads to pursuing business opportunities in more innovative ways. Participating in social networking helps business owners and managers to learn about themselves, their respective businesses, the environment and networks, social business management, and the nature and management of relationship (Cope, 2005). Organizational leaders need to set clear goals and objectives (i.e., understand what they are trying to achieve) before utilizing social media. They must determine: (1) Is it that their organizations are new and they are trying to get visibility and earn credibility? (2) Is it for public relations? (3) Are they trying to position their organizations in the market for the purposes of branding or promoting their products and services? (4) Is it for networking with similar businesses and people and building community? (Pliska, 2012) Based on the objectives of the SMBs, leaders can choose which social media can be helpful to sustain their organizations in the competitive environment.

SUSTAINABILITY (MINIMIZING VULNERABILITY)

The recent explosion of the social media may give an impression that it can be applied in any context but research shows that only twenty-six percent of small businesses are utilizing social media effectively and efficiently to produce new customers and sales. Largely, it is attributed to limited resources to devote to mastering social media marketing (Bakeman, & Hanson, 2012). Organizational leaders do not have to spend countless hours behind the computer to be involved or to promote organizations and their products. “No one likes a constant promoter or a one-way conversation, so the focus is on educating, entertaining and engaging reading” (Beck, 2012, p. 40). With the technological advancements, social media has changed the delivery, structure and availability of information involving not only large organizations, but also SMBs in the capital-intensive role of broadcasting within the reach of businesses and customers. This has influenced SMBs to collaborate with one another in social networks and become active creators of content (information and ideas) to maintain their relationships with their suppliers, customers, and contacts, and to promote their profiles and brands (Mallet & Cruz,

2010). SMB's are considered to be the economic engine leading worldwide economic development. To drive this engine, Eid & El-Gohary (2013) suggested that SMB's performance can be influenced by adopting and implementing e-marketing within their companies.

THE CUSTOMER PERSPECTIVE (DIFFERENTIATION FROM COMPETITORS)

Identifying and developing a social medium to achieve sustainable competitive advantage could be considered one of the most critical activities for small businesses. Social Media strategy would help SMBs to penetrate markets where consumers are more likely to respond to a social media strategy when they are able to interact and differentiate the organization from other organizations. Small businesses can differentiate themselves from other businesses by fostering a social relationship between consumers, and it is the most important component of a social media strategy. The expansion of social-networking sites and online social media tools is giving small businesses new and more opportunities to network with each other and their customers, and to expand their reach. Social media is not only helping SME's to reach their customers but also is partnering with other businesses to collectively enhance their profiles in a particular geographic area or community (Spors, 2008). Social networking can help small businesses to better position themselves because, "they seem more approachable and so customers and prospects are more likely to be interested in connecting with them online" (p.1). It can help owners and managers to promote their business by involving the customers in the organization. Also, it provides networking opportunities for the SMB's by offering opportunities to join specific groups so that the businesses can interact with potential customers. Also, social networking web sites help entrepreneurs to connect with one another as well as with prospects and customers, thereby providing a very unique platform to gain competitive advantage (Indrupati & Henari, 2012). Also, SMBs seek opportunities to partner with other businesses and events that can be promoted through social media (Bressler, n.d.). For example, Facebook, Foursquare, and other networking web sites are impressive examples whereby businesses can create their own groups, add events, and build interactive applications to reach their customers. Also, they offer marketing benefits to small businesses that have the potential of significantly raising the profile and brand awareness of individual small companies. The SMBs can achieve competitive advantage focusing on the price component by providing the greater customer value. Social media marketing can help with the inflow of information for small businesses. Social media not only provides the connectivity and interactivity, but also enables marketing of the organization which could eventually lead to more profit.

THE FINANCIAL PERSPECTIVE (TIME AND MONEY)

Nearly fifty percent of small businesses close within the first five years of beginning their operations because of inadequate marketing or poorly executed marketing (Cronin-Gilmore, 2012). Business owners have product or service knowledge of what is being offered to customers but do not possess the requisite knowledge of marketing their business, and the elements

necessary for success. The small business owners do not consider networking and forming business partnerships and alliances a form of marketing but consider it part of community building by involving people in it. Social networking is not limited to the networking and 'the getting to know you' part. It is also used for skill building and relationship management i.e., also about building strong, profitable relationships with people who believe in value for value (Brock, 2008). Zoho is a great concept and tool for small businesses. Zoho helps small businesses to provide functionality for running the business and staying in touch with the customers. Zoho is the most comprehensive suite of web-based programmes for small businesses (Face Value Deflating IT, 2008). The ROI of social networking is that it goes hand in hand with networking and marketing of the businesses (DeFelice, 2009).

Networking allows small businesses to bridge this gap by engaging in relationship marketing, and it can be part of social capital to provide opportunities to connect to various industries and the depth of closeness in connections. For the SMBs to integrate customer relationship management as their strategy, it is important to recognize that social media is very powerful and can be a game changer. Therefore, it is essential to understand what customers value the most. Customers are not participating in the company's social media to be engaged with business. Customers are taking the advantage of social media to know businesses and their products. Small businesses need to adopt and design the social media which can enhance the customer's experiences that deliver tangible value in return for customers' time, attention, endorsement, and data (Heller Baird & Parasnis, 2011). It is important for the SMBs to engage in the social media where their customers and businesses alike are involved. They need to get closer to the customers and their competitors to facilitate increased revenue, cost reduction and efficiencies. Social commerce is becoming a major force in social media. However, if business owners are using their time and energy to follow social media, they want to know what the returns are on their social media investments. Social media is influencing engagement and loyalty among fans, generating incremental purchases among fans, and positively influencing friends of fans (Lipsman & et. al, 2012). SMBs are using social media because they are considered as a zero-cost marketing machine or using very minimal price to get the membership (McCrea, 2012). Social media have become a popular activity for the expediency, cost savings, and exclusive offers, and sales are expected to overcome privacy fears.

LIMITATIONS, DISADVANTAGES, AND DANGERS OF SOCIAL MEDIA

LACK OF KNOWLEDGE AND TECHNOLOGICAL SOPHISTICATION (SAVVY)

Small and medium enterprises (SMEs) function in a fiercely competitive and turbulent environment. One of the challenges is how to appropriately incorporate and harness the mass collaboration that social media provides for integration into their business strategy. Zhang & Hamilton (2009) discussed pre-conditions of the recognition of the opportunity, and the desire to learn in peer networks:

- A sense of isolation and loneliness is commonly articulated by the businesses on lack of learning opportunities within different social media tools. For example, customers/ suppliers are not knowledgeable about the networking events, or, how to take the business forward.
- The business owners and managers must make a commitment to peer network building and maintenance.
- Trust and learning through open communication and sharing among peers takes time.
- Criticism/disagreement among the members may lead to negative publicity and, hence impact the organization.
- Levels of experience, articulated benefits gained from learning in peer networks may affect the image of the business.

Also, large companies have the resources and expertise to employ web designers and marketing people to create an integrated marketing communication plan utilizing social media. Small businesses mostly have limited resources or have to do it alone (Bakeman & Hanson, 2012). Though the cost of adopting the social media is very minimal, a big issue for the SMBs which have scarcity in terms of manpower is whether to invest time and resources in learning and eventually spending on media, all of which must compete for attention and investment with the demands of current operations.

CHALLENGES OF IMPLEMENTATION

Social networking is not as easy as it may appear. It involves the serious commitment and dedication to generate a healthy membership base of other businesses within the same industry and consumers. It also requires the ability to get those members to engage in the social networking and contribute content. It is challenging for the small businesses which have limited resources in terms of manpower to be involved in the social networking on a continuous basis and boost membership (Spors, 2008). It takes time for members to start participating which helps in creating the awareness and visibility for the organization. The biggest issue is how to help small businesses position and brand themselves. Social media websites and networking tools allow web users to socialize and interact with each other. One of the biggest obstacles for the small- to medium-sized business in terms of embracing social media is the transition from talking to the customers to interact with the customers. The objective of social media is to increase traffic from social networking sites and social media. Wallace (2012) noted, "Consumers are already talking so you might as well join the conversation (p.19). Product and service promotion can be an attractive use of social media. However, if owners and managers are using social media to only promote, then they could be creating negative publicity instead of positive images of their respective organizations. Of course, there may be criticism as well because of the free flow of exchange of information. Efforts should be to use any negative feedback to improve the product and/or service offerings to position the business as a symbol of quality. Li & Bernhoff (2008) gave the concept of "Groundswell". According to the authors,

many business owners and are using social media to market and distribute products just like traditional corporations did in the past, and it is an unstoppable trend which threatens the success of those small businesses which do not incorporate it as a part of their business strategy (Li & Bernhoff, 2008). While social media helps to create brand awareness, it is not essential that all small businesses have brands to leverage effectively the way that global brands can. It may be that some SMEs are too narrowly defined by sector, product, or region to benefit from the global nature of online social networking as an outward marketing strategy for small business (Mallet & Cruz, 2010).

LACK OF SECURITY

Social networking sites are vulnerable to one of the problems of security which brought down earlier internet businesses. In those cases, inexperienced internet users congregated for a time, but they became restless, leaving for the wider, wilder web. Leaders of social media like Facebook and MySpace realize this and are now struggling to achieve an appropriate balance between openness and control (Urstadt & Grifantini, 2008).

ENGAGEMENT

SMBs have a challenge to build a social customer relationship management strategy to reach out to their customers and use social engagement to influence customers and achieve feelings of loyalty towards the small businesses (Heller Baird & Parasnis, 2011). The large companies are facing the explosion of social media as well, and customers loyal to the social media leads to change and uncertainty.

DUPLICATION OF IDEAS AND PRACTICES

New small business organizations can replicate competitive ideas and practices of existing successful small businesses. Therefore, small businesses must demonstrate flexibility, agility, speed and adaptability as sources of competitiveness in the existing environment of social media explosion (Bressler, 2012). Organizational leaders must determine how their SMBs can leverage these sources of competitiveness to develop intensive social media strategies in order to develop sustainable competitive advantage for their survival.

PROTECT YOUR ONLINE REPUTATION

Businesses need to match their online reputation with the offline. It is important to develop a strong and positive online presence (Uzelac, 2011). This is one of the challenges because of the free flow of communication. Social media gives the opportunity to engage and participate in the exchange of information. The fact is people are going to “Google” and having a social media presence would boost the business credibility, thereby creating the image of the organization. Rajesh Lalwani says, “When you don’t have a reputation, all you want is attention”

(Narayanam, Asur, Nair, Rao, et.al. 2012). The world today is shaped by social media which enables and endorses any business no matter how small it is.

THE FUTURE OF SOCIAL MEDIA IN SMALL BUSINESSES-RECOMMENDATTIONS

Leaders of SMBs need to understand the psychographics of target markets. It is not the need for statistics as much as the need to develop a relationship with customers, i.e., to make a place in their hearts. It is essential for the leaders of SMBs to recognize that their choice of social media would depend on their marketing objectives. To develop a relationship it is essential that small businesses involve and engage customers in their business. SMBs can integrate social media with their marketing communications to create and sustain a positive buzz for the firm in a variety of forms.

CUSTOMER RELATIONSHIP MANAGEMENT

To involve customers and use relationship-oriented interventions builds customer loyalty i.e., moving from the product-centric approach to a customer-centric approach so that customers' likes and dislikes are accommodated. Effective customer relationship management begins with properly identifying, developing and maintaining good relationships with customers and providing value so as to appropriately allocate marketing resources to relationship development. This is very important for the SMBs because they act as a database for the marketers and can provide opportunities to understand customer preference, behavior, and characteristic information. Also, relationships are important to the small business owners, so building, leveraging, and maintaining social media would be symbiotic in assisting small business owners in their involvement with customers.

BUILDING COMMUNITIES

SMBs represent, and are part of the community, because of their affiliation with the community in which they are operating. In order to develop a community, they need to deliver a high level of market efficiency, promote consumer loyalty, and authenticity of business products and values to integrate in their business strategy of operations. The effectiveness of the community is measured in terms of engagement of customers and businesses alike, customer loyalty, and members participating in the growing business, i.e., their suggestions and ideas are incorporated to strengthen consumer relationships. It is only possible, if SMBs are involved in the social media and providing the platform to their customers to share their opinions and ideas.

NETWORKING

Small business owners should engage in informal and formal networking as an integral part of social marketing. It is important for the small businesses to focus on networking and

advantages that exist within the network groups and to determine the influence the network group has on members. Networking provides opportunities to connect to various customers and businesses to collaborate. Business owners can stimulate their own personal social networks to provide access to more reliable and exclusive information.

EVENT-BASED MARKETING

Participating in events is essential and promoting through social media as an alternate marketing communications helps to build relationships with community, local businesses, and customers. It would allow circulation of an organization's message faster and would be able to engage more audiences, thereby enhancing the overall image of the business.

MOBILE MARKETING

Limited resources may prevent SMBs from utilizing mobile marketing, but it is not essential that they have their own application for the smart phone users. They can claim their business through any social media networking website or tool where they are connected within their own community and businesses alike to target specific audiences and encourage consumer action upon viewing.

CREATING RAVING FANS

These outcomes would include developing customers into 'raving fans', highly satisfied customers, thereby increasing customer relationship management and customer loyalty. This would help the SMBs to achieve competitive advantage in their promotion strategies.

SIMPLIFY SOCIAL MEDIA

SMBs should be involved in social media which is quick and easy for the customers to transact directly because customers are looking for specific needs. Therefore, it is important that content should be current and relevant.

CONCLUSION

Use of social media marketing has become commonplace for organizations. As organizational leaders understand more about social media, they can think beyond the "Likes" and how many members and followers they have to opportunities that keep businesses alive and visible in their communities and with their customers and prospects. SMBs should use all the objectives and benefits of social media to reinforce one another, to engage customers, and to create new prospects. SMBs can be a part of social media that are unique to their respective brands, offer customer value, and involve social community. SMBs do not get competition mainly from traditional organizations. Instead, competition now comes from the internet. Therefore, it is important for SMBs now more than ever before to be a part of social media

which can provide them visibility, viability, and sustainability to achieve superior competitive advantage. These dynamic social media tools and networking sites can help SMBs to put up a face with the explicit goal of reaching the community. Future research should attempt to create a model which combines alternate marketing communications and social media to create a marketing guide for SMBs to deliver measurable business results.

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INDEPENDENT VERSUS INCENTIVIZED WORD-OF-MOUTH: EFFECTS ON LISTENERS

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ABSTRACT

Many firms have begun rewarding their customers for engaging in positive WOM. While prior research has shown that this practice can encourage WOM and be profitable, its impact on listeners has not been investigated. In this paper, an experiment is used to evaluate the effect that a firm's WOM incentive program has on listeners. Results indicate that when a listener is aware that a firm is rewarding its customers for engaging in WOM, they view such individuals as having lower source trustworthiness and source altruism. Explicit disclosure of the incentive improves trustworthiness as compared to not disclosing the incentive, but has no effect on altruism. Further, source altruism is shown to be an important antecedent to WOM usage, the extent to which listeners incorporate the WOM in their purchase decision. Implications of this research for marketing researchers and practitioners are reviewed, as are limitations and directions for future research.

INTRODUCTION

Word-of-mouth (WOM) has been widely acknowledged to have a major impact on consumers' purchase decisions (e.g., Arndt, 1967; Czepiel, 1974; Katz and Lazarsfeld, 1955; Liu, 2006; Trusov, Bucklin and Pauwels, 2009). In recent years, many firms have begun to actively encourage the spread of WOM by providing incentives for customers who successfully refer others to the firm. Such incentives typically include free goods or services, discounts on future purchases, cash, or gifts (Ryu and Feick, 2007). Not only can these programs increase the likelihood that a customer will engage in positive WOM (Ryu and Feick, 2007), but customers acquired via these means can provide greater than average revenue (Villanueva, Yoo, and Hanssens 2008) and are more effectively retained over time (Schmitt, Skiera, and Van Den Bulte, 2011). As such, some researchers recommend that firms seek to encourage WOM by rewarding this behavior (Godes and Mayzlin, 2004; Liu, 2006).

However, other research calls into question the value of referral programs. Some have expressed doubts as to whether WOM incentivized by firms is as valuable to the firm as independent WOM (Trusov et al., 2009). A vital aspect of the influence of word-of-mouth is that the individual providing the WOM (speaker) is viewed as credible by the individual receiving the WOM (listener) (Dichter, 1966; Martin and Lueg, 2013; Sweeney, Soutar, and

Mazzarol, 2008). If this credibility is compromised, then the listener is much less likely to act on the WOM provided. Speakers who are provided a reward for engaging in WOM may be viewed by listeners as providing the WOM for self-centered purposes and not viewed as being credible, hindering any positive impact the WOM may have on the listener's views of the recommended product. Given the increasingly widespread usage of referral programs by firms and the recommendation of several researchers that firms do so, it is imperative that the impact of these programs on listeners of WOM be examined in order to investigate the viability of this practice.

Relatively little empirical research has investigated what leads listeners of WOM to attend to that WOM and use it in their purchase decisions (e.g., Jun, Cha, and Aggarwal, 2011; Martin and Lueg, 2013; Sweeney et al., 2008). In examining the impact of WOM on listeners' views of the speaker and the recommended product, the concept of WOM usage (WOMU), the extent to which listeners incorporate WOM in their purchase decision process (Martin and Lueg, 2013), is utilized here. Extending this line of research regarding listeners of WOM, this study also examines the relative impact of the perceived altruism of the WOM source and the moderating impact of incentivized WOM on the relationships between source trustworthiness and altruism with WOMU. The objectives of this research are to investigate the impact of WOM speaker incentives on listeners' views of the speaker and their use of the WOM. The remainder of this manuscript is laid out as follows. First, related literature is reviewed, and hypotheses are put forth. Then, details regarding the methods used to test the hypotheses are reported. Last, a discussion of the results and the implications of this research for researchers and practitioners are provided, as well as limitations and areas of needed future research.

LITERATURE REVIEW AND HYPOTHESES

WOM is an informal and dynamic form of interpersonal communication between two or more noncommercial parties concerning products (Arndt, 1967; Kozinets, de Valck, Wojnicki, and Wilner, 2010). Many factors have been identified which increase consumers' engagement in WOM, including positive emotions (White, 2010), perceived fairness (Blodgett, Granbois, and Walters, 1993), commitment, perceived value, quality, trust, satisfaction, and loyalty (de Matos and Rossi, 2008), and products which are original (Moldovan, Goldenberg, Chattopadhyay, 2011), interesting, and publicly visible (Berger and Schwartz, 2011).

A central feature of research investigating the impact of WOM is that listeners are very concerned with the trustworthiness of the source (Dichter, 1966), which is defined as the extent to which a speaker's assertions are viewed as being true and accurate (Pornpitakpan, 2004). Both Dichter (1966) and Sweeney et al. (2008) find that listeners are quite concerned with whether a WOM speaker can be trusted. In their examination of several antecedents of WOMU, Martin and Lueg (2013) find that trustworthiness has the greatest impact on listeners.

Source altruism is defined here as the extent to which a speaker is believed to be acting primarily in the interest of the listener. Whereas source trustworthiness refers to whether the

information provided by a speaker is considered to be correct, source altruism refers to whether the motives of a speaker are mainly driven by a desire to help the listener. Information provided by a speaker may be perceived as being accurate, though the speaker's perceived motivation for offering the information may be self serving. The theoretical basis for the impact of source altruism on WOMU comes from attribution theory, which states that individuals make ascriptions of causality for the purposes of explaining their own and others' behavior (Kelley, 1973). Listeners who perceive the cause for a speaker providing WOM to be due to the self interest of the speaker are not as likely to attend to that WOM. Thus, WOM of speakers who are viewed by listeners to have more altruistic motives will have a greater impact on their WOMU.

H1 Source altruism is positively related to WOMU.

When a firm provides its customers with incentives for engaging in WOM, listeners of that WOM may well doubt the authenticity of the information provided if they are aware of the incentives. Speakers may be considered biased with regard to the information they are providing. Listeners may also attribute the motive for the WOM to be due to the incentive rather than the good of the listener. Listeners are more responsive to WOM when they believe that the speaker is simply relaying his or her opinion or experiences rather than attempting to persuade the listener (Arndt, 1967). Thus,

H2 When a firm incentivizes WOM, source trustworthiness will be lower than when the firm does not.

H3 When a firm incentivizes WOM, source altruism will be lower than when the firm does not.

Conversely, if a WOM speaker informs the listener that he or she is receiving an incentive, the listener may feel that the speaker is being upfront and honest rather than potentially attempting to be deceptive. According to attribution theory, the listener is likely to view the source as being more trustworthy and altruistic if the speaker's incentive from the firm is disclosed rather than when it is not and the listener is aware of the incentive.

H4 Disclosure of a firm incentivizing WOM by a WOM source results in greater source trustworthiness than nondisclosure when the listener is aware of the incentive.

H5 Disclosure of firm sponsorship by a WOM speaker results in greater source altruism than nondisclosure when the listener is aware of the incentive.

METHODS

A two (good/service) by three (independent WOM/sponsored and disclosed WOM/sponsored and undisclosed WOM) experimental design was utilized to test the

hypotheses. Participants in the study were provided a hypothetical scenario as a stimulus. In these scenarios, participants were told to assume that a friend of theirs had recommended a product to them which they had recently tried and really liked. A local music store was used in the good scenarios, and a lawn care service was used in the service scenarios. While no hypotheses were made concerning differences concerning a differential effect between goods and services, this manipulation was included in the experiment in order to examine the possibility for exploratory purposes and to extend the generalizability of the results. For the sponsored and disclosed WOM scenarios, the friend informed participants that if they purchased the recommended product, the friend would receive a $50 purchase credit with the recommended firm. For the sponsored and undisclosed WOM scenarios, participants were told that the recommended firm offers $50 purchase credits to those who successfully encourage others to purchase their products, but that their friend did not specifically inform them of this when providing the positive WOM. In the independent WOM scenarios, which were used as a control condition, no such information was provided.

PARTICIPANTS

In this study, data were collected using the student referral method (Babin, Hardesty, and Suter, 2003). Students in two marketing courses were offered extra credit for participating in the survey and were allowed to recruit up to four other individuals, two of whom were required to be aged 40 or older, to participate in the survey. This resulted in the collection of 277 responses. Approximately 10% of the participants were randomly contacted in order to verify the authenticity of the responses. Eight responses had greater than 10% missing data and were removed from the dataset, resulting in a final sample size of 269. Mean respondent age is 33.8 years, and 55% of the participants are female. Self-reported household income by categories is as follows: 40% in the less than $20,000 category, 10% in the $20,000 to $39,999 category, 9% in the $40,000 to $59,999 category, 8% in the $60,000 to $79,999 category, 7% in the $80,000 to $99,999 category, 21% in the $100,000 and over category, and 5% did not respond with regard to income.

MEASURES

Source trustworthiness was measured using a four-item, seven-point semantic differential response scale (Pornpitakpan, 2004). Source experience was measured using a version of an existing measure (Braunsberger and Munch, 1998) and consists of a three-item Likert-type scale anchored by “Strongly Disagree” (1) and “Strongly Agree” (7). Attitude toward the product was measured with a four-item, seven-point semantic differential response scale (Iyer, 1988), and purchase intentions were measured with a four-item Likert-type scale anchored by “Strongly Disagree” (1) and “Strongly Agree” (7) (Putrevu and Lord, 1994). WOMU was measured using

an existing six-item Likert-type scale (Martin and Lueg, 2011) anchored by "Strongly Disagree" (1) and "Strongly Agree" (7). Source altruism was measured using four original items with Likert-type response scales anchored by "Strongly Disagree" (1) and "Strongly Agree" (7) (e.g., "This person is acting in my best interests," "This person is doing what he/she feels is best for me.").

MANIPULATION CHECKS

The good/service manipulation was examined via participants' responses to the question "Would you categorize this type of product as primarily being a good or a service," which was anchored by "Good" (1) and "Service" (7). This indicated that the lawn care service was viewed as being more of a service than the music store ($M_{lawn\ care\ service}$ = 4.63; $M_{music\ store}$ = 2.36; $F (1, 264) = 140.45$; $p < .001$). The sponsorship/disclosure WOM manipulation also appeared to be successful. Significant variance as expected was observed in participants' responses to two questions concerning whether the friend would receive an incentive for recommending the product (χ^2 (df = 2) = 76.05; $p < .001$) and whether the friend disclosed receiving any such incentive product (χ^2 (df = 2) = 114.17; $p < .001$).

RESULTS

In order to confirm the hypothesized factor structure, an exploratory factor analysis was conducted using principal axis factoring, and the resulting factors were rotated using Promax rotation as the factors were assumed to be correlated. Six factors had an eigenvalue greater than one, as expected. All of the items loaded strongly on their respective components (>.60) with no significant cross-loadings (<.30). This was followed by a confirmatory factor analysis using maximum likelihood estimation of the covariance matrix. The standardized construct correlation matrix is shown in Table 1. Fit of the measurement model is good (χ^2 = 566.48, df = 284, $p < .001$; χ^2/df = 1.99; RMSEA = .061; CFI = .96; NNFI = .95), and all items load significantly on their respective constructs. Average variance extracted is above .50 for all constructs, and each construct's average variance extracted is greater than its squared correlation estimate with the other constructs. Coefficient alpha is greater than .80 for each measure. Thus, the measures demonstrate unidimensionality, convergent validity, and discriminant validity (Hair et al., 2006; Fornell and Larcker, 1981).

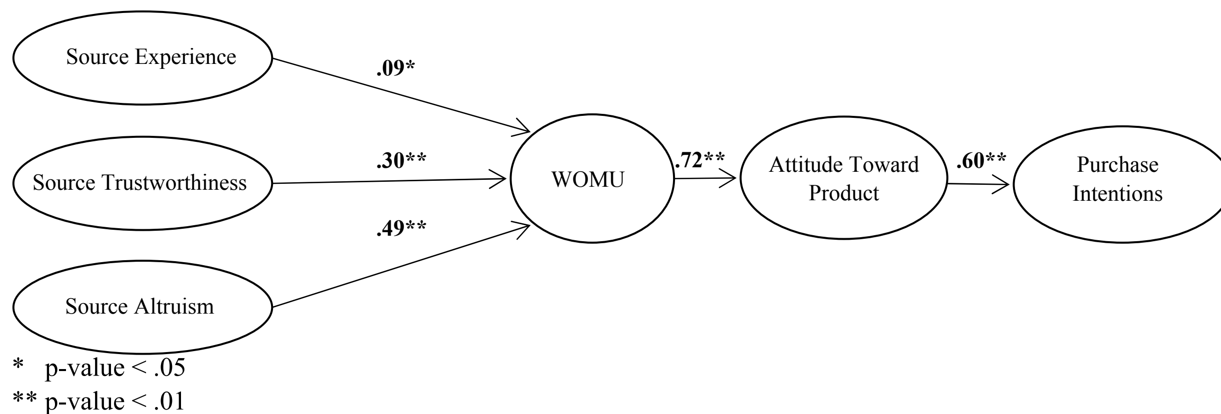
Table 1: Standardized Construct Correlation Matrix						
	Source Experience	Source Trustworthiness	Source Altruism	WOMU	Attitude Toward Product	Purchase Intentions
Source Experience	**.64**					
Source Trustworthiness	.43 *7.49*	**.62**				
Source Altruism	.36 *6.23*	.67 *17.17*	**.80**			
WOMU	.39 *6.83*	.66 *16.26*	.71 *21.60*	**.76**		
Attitude Toward Product	.38 *6.47*	.62 *14.43*	.61 *14.51*	.69 *19.27*	**.75**	
Purchase Intentions	.33 *5.66*	.44 *8.10*	.50 *10.42*	.67 *18.27*	.58 *13.13*	**.78**
Mean	4.69	4.76	4.40	4.79	4.83	4.14
Standard Deviation	1.04	1.01	1.45	1.21	1.10	1.31
Coefficient Alpha	.872	.866	.939	.950	.920	.930

Diagonal values represent the average variance extracted of each construct. Values below the diagonal are standardized construct correlations with t-values italicized on the line below.

Descriptive statistics are shown in Table 2. To test H1, the model shown in Figure 1 was tested as a latent variable structural model using maximum likelihood estimation of the covariance matrix. This model fit the data well (χ^2 = 634.88, df = 291, p <.001; χ^2/df = 2.18; RMSEA = .066; CFI = .95; NNFI = .94). Squared multiple correlations for WOMU, attitude toward the product, and purchase intentions are .59, .52, and .36, respectively. Not only is source altruism significantly and positively related to WOMU (β = .49, p < .001), providing support for H1, but of the three investigated antecedents of WOMU, source altruism is the strongest.

Table 2: Descriptive Statistics						
Independent Variables	Means (Standard Deviations)					
	Source Experience	Source Trustworthiness	Source Altruism	WOM Usage	Attitude Toward Product	Purchase Intentions
Disclosure						
Independent	4.79 (1.04)	5.10 (1.05)	5.25 (1.11)	5.24 (.99)	5.22 (1.01)	4.43 (1.29)
Disclosed	4.70 (1.09)	4.82 (.88)	3.98 (1.36)	4.72 (1.24)	4.74 (1.08)	4.02 (1.33)
Undisclosed	4.54 (.94)	4.28 (.99)	4.13 (1.56)	4.37 (1.21)	4.56 (1.16)	4.00 (1.29)
Incentivized						
No	4.73 (1.00)	4.96 (1.08)	4.89 (1.41)	4.93 (1.23)	4.98 (1.11)	4.28 (1.24)
Yes	4.67 (1.07)	4.68 (.94)	4.12 (1.41)	4.73 (1.19)	4.76 (1.10)	4.11 (1.32)
Product Type						
Good	4.70 (1.07)	4.62 (1.06)	4.08 (1.56)	4.55 (1.32)	4.63 (1.28)	4.05 (1.38)
Service	4.68 (1.01)	4.92 (.93)	4.70 (1.27)	5.02 (1.04)	5.03 (.87)	4.23 (1.26)

Figure 1
Structural Model with Standardized Path Estimates



* p-value < .05
** p-value < .01

To test H2 and H4, the independent WOM, the sponsored and undisclosed WOM, and the sponsored and disclosed WOM cells were compared with regard to source trustworthiness. This indicated that significant variance exists between these groups (F (2, 268) = 14.03, p < .001; $M_{independent}$ = 5.09, $M_{sponsored\ and\ disclosed}$ = 4.82, $M_{sponsored\ and\ undisclosed}$ = 4.26). Contrasts were then used to evaluate the hypothesized differences. This indicated that all three conditions were significantly different with regard to source trustworthiness (p < .001), with the exception of the independent WOM compared to the sponsored and disclosed WOM, for which the difference was moderately significant (p = .052). When the speaker did not disclose the WOM incentive, source trustworthiness was lower than when the incentive was disclosed to the listener. Thus, the data support H2 and H4.

To test H3 and H5, the independent WOM, the sponsored and undisclosed WOM, and the sponsored and disclosed WOM cells were compared with regard to source altruism. This revealed that significant variance exists between these groups (F (2, 268) = 24.62, p < .001; $M_{independent}$ = 5.26, $M_{sponsored\ and\ disclosed}$ = 3.98, $M_{sponsored\ and\ undisclosed}$ = 4.10). Contrasts were again used to evaluate the hypothesized differences. The independent WOM was significantly greater than both the sponsored and disclosed WOM and the sponsored and undisclosed with regard to source altruism (p < .001), but there was no significant difference (p = .542) between the sponsored and disclosed WOM and the sponsored and undisclosed WOM. Thus, the data support H3 but not H5.

For exploratory purposes, as noted above, the effects of the good as compared to the service on source trustworthiness and source altruism were compared. The service resulted in significantly greater (F (1, 268) = 4.72, p = .031) source trustworthiness ($M_{independent}$ = 5.20, $M_{sponsored\ and\ undisclosed}$ = 4.45, $M_{sponsored\ and\ disclosed}$ = 4.92) than the good ($M_{independent}$ = 4.94,

$M_{sponsored\ and\ undisclosed} = 4.12$, $M_{sponsored\ and\ disclosed} = 4.71$). However, there was no significant interaction between the good/service and the independent, sponsored and undisclosed, and sponsored and disclosed scenarios ($F(2, 268) = .08$, $p = .920$). Similarly, the service resulted in significantly greater ($F(1, 268) = 12.62$, $p < .001$) source altruism ($M_{independent} = 5.39$, $M_{sponsored\ and\ undisclosed} = 4.59$, $M_{sponsored\ and\ disclosed} = 4.28$) than the good ($M_{independent} = 5.10$, $M_{sponsored\ and\ undisclosed} = 3.74$, $M_{sponsored\ and\ disclosed} = 3.64$). Again, however, there was no significant interaction between the good/service and the independent, sponsored and undisclosed, and sponsored and disclosed scenarios ($F(2, 268) = .86$, $p = .423$).

DISCUSSION

Few would dispute the strong effect that WOM has on consumers. Likely in response to this, many firms in recent years have begun to reward their customers for engaging in positive WOM. While prior research indicates that such referral programs can successfully stimulate positive WOM, resulting in some financial and retention benefits, the impact of these referral programs on listeners has not been empirically investigated previously. In this research, the impact of firms' incentivizing or sponsoring WOM on listeners of WOM is examined. Results indicate that when listeners are aware that a firm is providing rewards to its customer for engaging in positive WOM, they view the WOM speaker as being less trustworthy and more motivated by self interest, which, in turn, leads to listeners of such WOM being less likely to incorporate that WOM in their purchase decision. If the speaker discloses to the listener that he or she will receive an incentive for a successful referral, the trustworthiness of the source is better than if no such disclosure is provided but is still somewhat inferior to that of traditional, independent WOM. WOM sponsorship also has a negative impact on the altruism of the speaker as perceived by the listener, an effect which is not lessened by the speaker's disclosure of the incentive for providing the WOM. While no hypotheses were made concerning differences between goods and services in this context, such differences were investigated for exploratory purposes. These results were found to be consistent across both a good and a service.

These findings have substantial implications for firms who provide rewards to customers who engage in positive WOM regarding their firm. While the provision of such incentives does improve the likelihood that customers will engage in positive WOM (Ryu and Feick, 2007), this WOM is not as likely to be utilized by listeners if they are aware of the incentive provided to the speaker. While encouraging WOM speakers to disclose that they are receiving an inducement reduces the negative impact of this practice on the source's perceived trustworthiness, it has no impact on the source's altruism, which has an even stronger influence on listeners' use of the positive WOM in their purchase decision. Not only do the results of this research indicate that known rewards for customers engaged in positive WOM reduce the value of their WOM from the listener's perspective, but they also suggest that a more widespread and problematic issue may arise from this practice. By incentivizing WOM, firms might be reducing the value of all

positive WOM involving their organization, even if speakers engaged in WOM are not aware of or actually participating in the incentive program. As made clear in one of the scenarios investigated in this research, if listeners are aware that a firm is offering rewards for positive WOM, they are less likely to attend to WOM involving that firm even if the speaker says nothing about receiving a reward. While it may appear to be profitable for firms to reward their customers for engaging in positive WOM (Schmitt et al., 2011), the indirect negative effects this may have on much of the positive WOM involving the firm may well counteract the direct profit yielded by the practice. Such negative effects might be partially mitigated if firms are discrete in their promotion of referral reward programs. For instance, a firm might only promote such programs among its current customers, though this would potentially create ethical issues. Another approach to lessen the negative effects might be to offer a reward not only to the WOM speaker, but also to the listener. If both parties are receiving a reward of approximately equal value, then listeners might view the situation as more equitable (Adams, 1965) and be more apt to view the speaker favorably.

This research also makes significant contributions to the marketing literature. First, this research extends previous work concerning the usage of WOM by listeners by identifying a new antecedent, source altruism. Though source altruism and source trustworthiness are similar constructs, altruism is more situation specific, while trustworthiness is likely to be a more enduring characteristic. With regard to the experimental scenarios employed here, source altruism had the strongest relationship with WOM usage of the three antecedent variables investigated. As suggested by previous research (Arndt, 1967; Kelley, 1973), listeners of WOM are very concerned with the perceived motives of the WOM speaker. If they believe that the WOM is being provided for the speaker's benefit, rather than that of the listener, they place significantly less value on that WOM. Second, this research provides additional evidence of the highly dynamic nature of WOM (Kozinets et al., 2010), as well as further validation of the importance of WOM usage (Martin and Lueg, 2013). Third, this study is the first to empirically compare factors of WOM usage across varying service contexts. This investigation reveals that while the trustworthiness and altruism of the WOM speaker was higher for the service examined than for the good, WOM usage appears to otherwise operate very similarly in both situations.

LIMITATIONS AND FUTURE RESEARCH

Though experiments using scenarios such as those used in this research have good internal validity and are widely utilized in the marketing literature, they may lack sufficient external validity. Future research should examine whether the results of this study hold in more realistic situations, such as field experiments or studies utilizing the critical incident technique. Also, only a single good and a single service were examined in this study. Additional research should explore whether the results of this study vary across multiple firms with varying levels of

services, particularly since a greater service component appears to lead to higher levels of source trustworthiness and source altruism from the listener's perspective.

An area where future research is needed regards how listeners of WOM respond to sponsored WOM speakers when listeners receive a similar benefit to that provided to the speaker. It seems highly plausible that listeners would view such a situation as being fairer than those studied in this research, and that they would respond more favorably to such WOM.

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