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CONTENTS

LETTER FROM THE EDITORS

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The articles contained in this volume have been double blind refereed. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies.

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MANUSCRIPTS

MATCHING SALES MANAGEMENT BEHAVIOR WITH ORGANIZATIONAL STRATEGY

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ABSTRACT

The authors investigate the link between the strategic focus of the organization and selected practices of sales people and sales managers. Using data from a national sample of public accounting firms, and the Miles and Snow typology of strategic choice, three general areas of personal selling and sales management behavior are found to be significantly associated with organizational strategy.

BACKGROUND

Selling and the management of the selling activity are vital ingredients to most organizations. Significant budgets are regularly deployed in the recruitment, selection, training, and retention of effective sales people. Sales activities that are in tune with the organization's overall strategic thrust should be more effective. Yet the link between specific strategic approaches and street-level actions of sales managers and sales people is at best vague and unclear. At worst, and perhaps this is most often the case, there is no visible connection between strategy and selling/sales management whatsoever.

Strategic choice is a function of business environment. Most environmental models include economic, technological, political, legal, social/cultural, and competitive activities as primary components of the setting in which strategic decisions are made (Czinkota & Kotabe, 2001). Strategic change is expected to follow environmental change (Miles, Covin & Heeley, 2000). And, selling and sales management activities are expected to change along with strategic change.

Perhaps the most visible, and consequently the one most demanding of a response, is environmental change emanating from competitors. Competitive behavior no doubt often results from or is derived from other environmental components, but competitive change does represent the most obvious environmental influence on strategic adjustment. Those responsible for strategic choice must deal with changing competitive behaviors, even if the reactive choice is to do nothing. More adroit strategists might also anticipate and speculate about possible changing competitive behaviors.

One very popular strategic move on the part of competitors is to develop a new product or service, one that has not been part of the industry's traditional product or service mix. The new product/service (or range of new product/services) is then either directed at the industry's same group of customers and/or at completely new markets. Typologies of strategies for growth label these behaviors as product-development or diversification (Ansoff, 1957). For smaller companies who practice a strategy of product-development, the recommendation is usually made that

incremental product changes should be sought in liew of breakthrough types of products or services (Allen, 2000).

Miles and Snow (1978) offer a very descriptive and especially applicative model of potential reactions to competitive behaviors that involve product/service-development strategies. Miles and Snow outlined a continuum of strategic behaviors that they label the 'adaptive cycle,' a process of adaptation available to managers in their efforts to react to changing environments. Their process included four specific strategic choices. One choice is to hold on to the present product/service mix and commit resources to strengthen that position. This strategy calls for doing a better, more effective job of what is currently being done. The goal is to hold or increase market share. Ansoff called this a strategy of market penetration (Ansoff, 1957). More contemporary marketing theorists might define this as an organization sticking to its core competency (McShane & Von Glinow, 2000).

Miles and Snow labeled this first strategic choice the strategy of the 'defender.' In their words:

> *"defenders have narrow product/market domains. They do not tend to search outside their domains for new opportunities. Rarely do they make adjustments in their technology, structure, or methods of operations. Instead, they devote primary attention to improving the efficiency of their existing operations." (p.29)*

Perhaps the extreme opposite of the defender-strategy is the organization that moves aggressively to the newest product/market. This is the cutting-edge organization that attempts to be a leader both by creating product/market change and/or by quickly embracing the newly emerging product/market. This strategy usually includes abandoning the present product/market in favor of the new one. Miles and Snow called this the 'prospector' strategy, and described prospector organizations as, "ones that are continually searching for new market opportunities; organizations willing to experiment with potential responses to environmental trends. They are creators of change to which competitors must respond." (Miles & Snow, 1978, 29)

A third strategic choice for dealing with competitive changes in the environment that was articulated by Miles and Snow is a middle position between defender and prospector. Labeled the 'analyzer', this is the organization that operates in two types of product/market domains, one relatively stable, and the other changing. While trying to hang on to the more stable, traditional product/market, the organization also attempts to adapt to emerging product/markets that are thought to have potential.

Finally, Miles and Snow define the 'reactor', or the default strategy of no strategy. This organization has no strategic focus or plan, but simply makes adjustments on an adj-hoc basis as demanded by its competitive environment.

Previous research has successfully used the Miles and Snow typology in settings appropriate to marketing management, some of which have contributed to the understanding of the link between strategic choice and personal selling/sales management. McDaniel and Kolari (1987) first demonstrated the applicability of the typology to the area of marketing strategy. Studying the impact of environmental change on the strategic response of commercial banks, they concluded that

most components of the marketing mix are impacted by strategic choice. Especially relevant to the present investigation is McDaniel and Kolari's finding that a variety of promotion related activities did vary with strategic response. For example, an organization's emphasis on personal selling and sales training was found to be greater among prospectors than among defenders or analyzers. Telephone solicitation was also more pronounced among prospectors than in the other groups. Other types of sales promotion was not significantly different among the groups, however. More recently, (Panitz, 1995) reported that public accounting firms behaving as prospectors were more dependent on marketing activities than those firms executing strategies of analyzers and/or defenders.

Regarding the specific connection between selling/sales management activities and strategic response to environmental change, contemporary theory warns of the price organizations may incur in making sales related changes (Jones, Roberts & Chonko, 2000). And, recent empirical evidence documents the dynamic relationship between the marketplace, strategic choice, and the role of sales people (Anderson, 1996). One study even concluded that changes in the competitive environment may make the conventional sales force obsolete (Colletti & Chonko, 1997).

No past research has been located however, that links the exact strategic choice alternatives posed by the Miles and Snow model with specific personal selling/sales management issues. The purpose of the data reported here is to help define that link. Chosen for investigation are three sales/sales management activities: 1. the organizational connection between general marketing support and sales management, 2. sales training, and 3. sales person behavior with prospective buyers.

An organization's marketing activities might be perceived as those activities and programs that enhance the efforts of sales people. This would include all forms of promotion and publicity, as well as sales analyses, assistance with customer identification, record keeping, and/or anything done to aid sales people and the sales department in their efforts.

The expectation is that businesses seeking to introduce new products/services as a strategic thrust against competitors (Miles and Snow's 'prospectors') will have sales people and sales managers who are especially dependent upon marketing support. More specifically, there will be significant differences among prospectors, analyzers, defenders, and reactors regarding their needs for marketing support. Organizations exhibiting prospector strategies will be the most dependent upon marketing support, followed by analyzers, and lessor still by defenders. This investigation parallel previous studies that used the Miles and Snow typology, and does not include the reactor category (McDaniel & Kolari, 1987; Panitz, 1995).

The importance of how sales training is deployed is also expected to vary around differences in strategic focus. Technological specifications and product features which accompany new and different product/service offerings will be a special importance to prospecting strategists. As will training in specific methods of selling. Even such staples as human relations and customer satisfaction will be more necessary to include in sales training among the prospectors. Prospectors, by definition, are most likely to be dealing with newly emerging products and sales approaches, and they are most likely to be approaching groups of potential buyers they are not previously familiar with. All of this argues for a greater emphasis on sales training, an emphasis shared less among analyzers, and less still among defenders.

Finally, selling behavior itself will be impacted by differences in strategy. Table 1 identifies a partial list of sales traits that are very significant to prospectors. As indicated in the table, traits run from displaying technical skills to market segmentation skills to simple human relations skills. Again, the prediction is that prospectors will be most in need of this list of sales traits, analyzers somewhat less, and defenders least of the three groups.

TABLE 1
RELEVANT SALES SKILLS WHEN USING STRATEGIES OF PRODUCT DEVELOPMENT

DEFINING LEVELS-OF-SERVICE TO CLIENTS
IDENTIFYING TARGET CLIENTS
SELLING MULTIPLE LINES OR GROUPS OF PRODUCT/SERVICES
INCREASING QUALITY & QUANTITY OF CLIENT INTERACTIONS
RAISING CLIENT SATISFACTION USING COMPUTER-ASSISTED TECHNOLOGY FOR CLIENT DATA

The general hypothesis of the present study is that alternative strategic responses to competitive actions elicit alternate responses in selling and sales management behavior. And that changed behavior, whether it be in the sales function's use of marketing support, sales training and/or personal selling activities, will be of most importance to Miles and Snow's prospectors, of somewhat less importance to analyzers, and of least importance to defenders.

TESTING THE HYPOTHESIS

Currently, the professional accounting industry presents a striking example of environmental change, especially environmental change marked by competitive product-development strategies. Recent years have witnessed significant departure from traditional offerings by accounting firms. Many accounting firms have drastically expanded the scope of their services. Examples include a ever widening range of consulting services, forays into some aspects of marketing research, information system design, and web-site development. One very well documented incidence of a strategy of product development in the accounting industry is Price Waterhouse's 1990 move into investment banking services (Kerin & Peterson, 2001). Traditionally the exclusive domain of investment banking firms, such investment banking services as assistance in raising capital, merger and acquisition services, and general financial advisory services were now available to Price Waterhouse clients and to others from Price Waterhouse itself. Further, several recent investigations have concluded that public accounting businesses are placing more emphasis on personal selling activities (Traynor, et.al., 1995, and Diamantopoulos, et. al., 1993). The academic community claims these changes are driven by demands from clients for quicker information, global competition among accounting firms themselves, and increasing concentration of market power among larger customers (Albrecht & Sack, 2000).

A randomly selected, national sample of single office, independent public accounting companies served as data providers for this investigation.. A single mailing to the president/CEO of five hundred firms (address list purchased from a mailing list organization) produced 164 usable responses.

Potential respondents were provided definitions of Miles and Snow strategy descriptors of 'defenders,' 'prospectors,' 'analyzers,' and 'reactors.' They were then asked to self-report themselves into the category most closely representing their accounting firm. The appropriateness and accuracy of using the self-report approach to defining strategic response has been debated in the literature (Snow & Hambrick, 1980), The same approach was used in McDaniel and Kolari (1987) and Panitz (1995), and both of these studies also utilized the Miles and Snow typology. These same two studies also eliminated the 'reactor' category as a strategic-choice, as was done in the current study. In the current study, seventy respondents define their organization as a 'defender' when it came to competing with product-development strategists. Forty-eight saw themselves as 'analyzers,' and twenty-eight were 'prospectors.' (Eighteen answered as 'reactors.)

The McDaniel and Kolari study (1987) identified forty-nine 'marketing elements' that may be impacted by strategic-choice. Their elements revolved around traditional marketing mix topics (pricing, promotion, distribution, and product) to which were added elements focusing on marketing research and other activities undertaken with customers. The present study selected from the McDaniel and Kolari list those elements most descriptive of marketing support for selling, sales training, and personal selling behavior. Fifteen statements were created to make these elements operational. Using seven point scales (7=very important; 1=not at all important), respondents were asked to identify the amount of importance they associate with each statement.

Each statement was first examined for overall mean response. A one-way Analysis of Variance was then calculated on the differences between the three strategic choices. Results of this analysis are contained in table 2.

CONCLUSIONS

As predicted, significant differences in sales management practice characterize businesses pursuing alternate responses to competitors who are expanding their product/service offerings. The degree of marketing support for personal selling, the focus of sales training, and selected aspects of personal selling behavior all are affected by differences in business strategy. This conclusion was supported by responses to eleven of the fifteen statements contained in the survey instrument.

On the issue of general marketing support for selling activities, responses to all five statements exhibited significant differences among Miles and Snow's defenders, analyzers, and prospectors. Support activities designed to help the sales function sell additional services, obtain additional clients, and retain existing clients were perceived as having different levels of importance depending upon the firm's major strategic thrust.

TABLE 2:
THE IMPACT OF ALTERNATE STRATEGIC-CHOICES ON SELECTED PERSONAL SELLING/SALES MANAGEMENT ACTIVITIES

MARKETING SUPPORT:	Defender	Prospector	Analyzer	F-Ratio	Sign.
Marketing activities should enable firm's representatives to sell services	4.06	5.71	4.72	7.699	.0006
Marketing activities should enable the firm to obtain additional clients	4.79	6.14	5.11	5.624	.0044
Marketing activities should enable the firm to retain existing clients	4.83	6.04	4.87	3.954	.0211
Marketing activities should develop a mutual understanding between clients and staff of the firms capabilities and the clients need for various services	4.85	6.04	4.96	4.72	.0100
Regular meeting between senior management and staff are held to discuss service quality issues	3.75	5.21	4.06	5.163	.0067
TRAINING:	Defender	Prospector	Analyzer	F-Ratio	Sign.
Sales people are trained to provide quality technical service	5.70	6.50	6.00	3.75	.0367
Sales people are trained to provide quality interpersonal interactions with clients	5.01	5.64	5.06	1.397	.2503*
Sales people are trained to sell services offered by the firm	3.20	4.71	3.87	6.766	.0015
SALES PERSON BEHAVIOR:	Defender	Prospector	Analyzer	F-Ratio	Sign.
Places a primary emphasis on the quality of interactions with clients	5.62	6.32	6.11	4.053	.0192
Clearly defines the level of service a client may expect	5.57	5.93	6.00	2.379	.6958*
Clients select this firm because of the friendliness and courtesy of staff in providing service	5.35	5.50	5.40	.171	.8430*
Emphasizes client satisfaction as a priority over other obligations	6.02	6.50	6.32	2.638	.0714
Each professional sales person is expected to promote (or sell) other services used by the firm	4.19	5.36	5.19	5.955	.0100
Emphasizes specialization for a specific set of target clients	4.42	4.79	4.51	.5336	.5875*
Important data about prospective clients is kept up to date in a computer information system	1.80	6.070	3.277	4.834	.0091*

* NOT SIGNIFICANT AT .10 OR HIGHER

Statements measuring the importance of mutual understand between clients and company staff, and of the need for regular meetings on this topic were also valued differently depending on a firm's strategic approach.

The need for sales training on the marketing of additional services, especially technical services also turned out to be significantly influenced by strategic choice. Opinions on the need for training in interpersonal skills were not statistically significant (the direction of the response pattern on this issue, however, was identical to the patten exhibited on statistically significant outcomes).

Finally, on the topic of selling behavior, four of the statements registered responses dependent upon strategic choice. Three did not. However, on the three statements where responses were not statistically significant, the pattern of response closely parallels that of the significant outcomes. Quality of interaction with client, emphasis on client satisfaction, utilizing selling time to promote a widening range of services, and maintaining computer-assisted client files were all found to be sales person activities, the importance of which varied with alternate strategic choice.

Perhaps the most lucid outcome to the study is found in the pattern or direction of responses. Across all statements, and for all three sales/sales management topics, prospectors reported higher mean scores, followed by analyzers, followed by defenders (see table 2). Clearly, for this group of public accounting organizations, those following a strategy of new product/new client cultivation rely most heavily on their sales or client contact function. Analyzers, i.e., those organizations sitting the fence between the old and the new, are less focused on their selling and sales management activities. And those attempting to strengthen their traditional approach to the market, the defenders, are the least oriented toward their selling/sales management function.

The central implication of the findings generated by this investigation appears straightforward. Upper management must regularly and thoroughly communicate its strategic focus to the all members of its sales organization. Recall that responses came from chief executives, not from members of the sales staff. And that chief executives reported that strategic choice does impact selling and sales management. What that expected impact should be must be communicated throughout the firm's sales organization.

A further implication of this research is that efforts that better link general marketing activities with the activities of sales people should be implemented. Sales people and their managers should be aware of and understand the role of advertising and promotion. Public relations and company image should also be presented as connected to selling activities. Overall, organizations should strive for more integrative systems of business operation that includes the sales function. Isolating the selling activity as a field operation driven by quotas and sales goals should be avoided. In fact, data from this study might be construed as calling for the inclusion of sales personnel in the development of strategic response to their competitive environment.

The research reported here suffers from two important limitations. First, data are confined to a relatively small sample of one narrowly defined business type. And, that business type, the public accounting organization, in one not usually associated with marketing or personal selling. Certainly, before findings from this investigation can be safely generalized, future studies must expand the scope of the sampling frame.

Lastly, and perhaps of greater concern, is the absence of performance measures in the present study. Future research will hopefully incorporate ways of determining the appropriateness of

specific selling/sales management behavior as that behavior changes in response to strategic choice decisions.

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PERCEIVED RISK AND MORAL PHILOSOPHY: SITUATIONAL INFLUENCES IN MARKETING ETHICAL DECISION-MAKING

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ABSTRACT

A sample of marketers was surveyed to examine the impact of risk perceptions on moral philosophy, ethical judgments, and intentions in a scenario involving bribery. Results indicate that those perceiving more risk assigned more importance to deontological and rule-oriented arguments, harsher ethical judgments, less intention to pay, and greater perceptions of an ethical issue. Low-risk subjects preferred act-based, situational reasoning. Implications are discussed.

INTRODUCTION

A significant body of theoretical and empirical research has emerged in recent years examining ethical decision-making in marketing. While the studies have frequently concerned themselves with marketers' values (Singhapakdi & Vitell, 1991, Vitell et al., 1993), individual constructs such as Cognitive Moral Development (Goolsby &Hunt, 1993), organizational factors (Zey-Ferrell & Ferrell, 1983) and any number of demographic variables, a common element in many of these and other studies is the influence of formal moral philosophical reasoning in ethical decision-making. Moral philosophy - whether explicitly considered or intuitively applied - lies at the heart of the best known theories of ethical decision-making in marketing (Hunt & Vitell, 1986; Ferrell & Gresham, 1985; Ferrell, Gresham & Fraedrich, 1989).

Two variants of moral philosophy - Teleology (sometimes referred to as utilitarianism) and Deontology - are featured prominently in the theoretical literature; their influence in decision-making has been substantiated in direct tests of the theories and numerous other empirical studies. The apparent popularity of teleological and deontological accounts of moral reasoning may best be explained by Nozick (1981) who notes that all of substantive ethics has been fitted or poured into these two powerful and appealing molds (p. 494).

Taken collectively, however, studies of moral philosophy and ethical decision-making have yielded sometimes contradictory results. A preponderance of studies suggests that deontological reasoning contributes more heavily to ethical judgments and behaviors (Vitell & Hunt, 1990; Hunt & Vasquez-Parraga, 1993; Akaah, 1997; DeConinck & Lewis, 1997), but others find that teleological considerations seem to dominate individuals' ethical judgments (Fritzsche & Becker, 1984; Hegarty & Sims, 1978, 1979; Dubinsky & Loken, 1988; Thong & Yap, 1998).

The primary objective of this study is to determine whether another previously unconsidered variable, perceived risk, affects both the content of moral reasoning, and individuals' ethical judgments and intentions. The significance of this approach is that it, in a departure from previous

practice, treats moral philosophy itself as a dependent variable. Most existing studies of moral philosophy rely on a post hoc classification of individuals' moral philosophy (e.g. Fritzsche and Becker 1983, 1984, which classify managers as deontologists or rule-utilitarians), based on responses to dilemmas presented in vignettes. These classifications are in turn used as grouping variables, or some such predictor of judgments, intentions, and behaviors. As noted by Fraedrich and Ferrell (1992), however, individuals can and do change their moral philosophy, depending on circumstances. Following a brief review of moral philosophy and studies of risk perception, several hypotheses are presented. The results are analyzed, and the implications for marketing practice are discussed.

Moral Philosophy

Teleological theories are essentially concerned with the outcomes of behaviors; the goodness of any action is weighed solely by its consequences. Two variants within teleology are utilitarianism and egoism. Ethical egoism holds that individuals should always try to promote their own greatest good (Hunt & Vitell, 1986). Utilitarianism asks simply "what alternative will produce the greatest balance of good over evil," for a community or an organization while egoism focuses on the actions that will result in the greatest good for the individual. The well-known disclaimer that "the end justifies the means" is an appeal to utilitarian reasoning, demonstrating utilitarianism's preoccupation with outcomes.

Deontology, essentially a duty-based theory, stresses that the rightness of an act is not determined by any set of outcomes; certain actions are right because they uphold basic obligations of duty, justice, and fairness (Ashmore, 1987; Laczniak & Murphy, 1993). Thus, deontological thought looks to the intrinsic properties of any action for its moral worth. Based upon the Greek Word deon, meaning duty, deontology expresses the moral obligation to (among other things) pay our debts and tell the truth because it is "the right thing to do" (Reidenbach & Robin, 1990).

Two characteristic of deontological thought, which set it apart sharply from teleological thought, have to do with the 1) derivation of moral rules, and 2) the moral agent's motivation to apply them. On the source of moral rules, Kant focused on the role of reason, not results, in determining right and wrong. Kant believed that rigorous consistency in moral reasoning would yield a set of categorical imperatives, or requirements of all persons in all situations which would operate as moral guidelines. Referring to the "autonomy of the will" Kant argued that everyone dictates moral law to himself or herself, following his or her conscience. Kant further assumed that if each person's conscience is rationally formed, all moral agents could arrive at, and abide by the same conclusions or moral imperatives.

The second issue, that of motivation, goes to the heart of deontology. For Kant, we have a duty to obey moral laws, because they are moral laws, and not because of their consequences. It would be Kant's position that right follows from duty. While Kant acknowledged that people may perform good works and derive pleasure in the process, he denied that such consequences should be their motivation. Essentially, people can do good things for bad (or any) reasons, and when they do, these acts have no moral worth.

A fundamental distinction which cuts across both teleological and deontological thought is that of act and rule orientation. Act utilitarianism, for example, holds that while rules may be useful generally in determining how to bring about the greatest good, rules are fundamentally limited as well. Ultimately, the specific characteristics of an action, within a specific situation, are the only sufficient guidelines for moral reasoning. Rule utilitarianism, on the other hand, emphasizes the centrality of rules in determining what should be done. Rule deontology is perhaps best exemplified by familiar maxim "do unto others as you would have others do unto you." One need only to follow the imperatives of a finite set of such rules to ensure that his or her actions are intrinsically right. This emphasis on motives, as opposed to outcomes, neatly sidesteps the difficulty of calculating all the possible outcomes of any given action, which are essentially "endless, like ripples in a pond" (Smart, 1961).

Another strain of moral philosophy to come under researchers' scrutiny holds that moral actions depend on the nature of the situation and the individuals involved. This belief, referred to as ethical relativism, is deeply skeptical about the usefulness of universal rules intended to promote rights, justice, or utility (Giacalone et al., 1995; Singhapakdi, Vitell & Franke, 1999). Forsyth's Taxonomy of Ethical Ideologies (1980) posits that individuals "high" in the relativism construct are either: situationists (relativistic and also believing that desirable outcomes can usually be obtained), or subjectivists (relativistic, but more inclined to believe that undesirable consequences of moral decisions will be mixed in with desired ones). Subjectivists feel that since moral standards are only valid in reference to one's own behavior, moral evaluations must ultimately depend on personal perspectives, whereas situationists look for "contextual appropriateness;" not what is "good" or "right" but what is "fitting" (Fletcher, 1973, 186). Common to both positions and relativism in general is the idea that there are many different ways to look at morality, and that situations must be examined individually.

Risk and Ethical Decision-Making

Although the risk literature has not reached a consensus as to the antecedents to risk perception (Sitkin & Pablo, 1992), the prevailing approach has been to operationalize perceived risk as some combination as perceived lack of time, information, and control among alternatives (MacCrimmon & Wehrung, 1985). The propensity of managers to take risks and the cultural approval of risk-taking are well noted in the literature (Kogan & Wallach, 1964; Rowe, 1977; MacCrimmon & Wehrung, 1985; March & Shapira, 1987), however, the identification of a risk-taking propensity among managers has proved elusive. Personal and organizational characteristics such as mood (Wright & Bower, 1992), problem framing (Tversky & Kahneman, 1981), and monitoring, evaluating, and rewarding of outcomes may either encourage or discourage risky behaviors (Ouchi, 1977; March & Shapira, 1987; Beets & Killough, 1990).

Although only a few studies expressly depict risk factors and their effects in ethical decision-making, the findings suggest that perceived risk does, not surprisingly, seem to have an impact on ethical judgments, intentions, and behaviors (Hegarty & Sims, 1978, 1979; Song & Yarbrough, 1978; Laczniak & Inderiedden, 1987). In an early study of marketing managers, Fritzsche and Becker (1983) concluded that as consequences became more severe, individuals'

ethical judgments became more "ethically positive." Two other studies (Laczniak & Inderrieden, 1987; Dabholkar & Kellaris, 1992) similarly found that the seriousness of negative outcomes is significantly linked to ethical judgments and intentions. In perhaps the only study to date to link risk ethical judgments, and behaviors, Bellizzi and Hite (1989) observed that supervisory reaction is more severe as risks become more pronounced.

Less is known, however, about the way that risk perceptions affect deontological and teleological thinking about ethical issues. Fraedrich and Ferrell (1992) concluded that sales managers would apparently change their moral philosophical positions in response to risk perceptions. Because risk deals almost exclusively with outcomes and probabilities, it might seem reasonable, at first glance, to expect that as perceptions of risks and the saliency of outcomes increase, deontological reasoning will fade into the background of the decision-makers' thinking, with teleological calculations taking precedence.

Evidence to the contrary, however, comes from Janis and Mann (1977), who have demonstrated that decision-makers, faced with immediate threats, exhibit varying levels of arousal, and rely more heavily on "simple-minded" decision rules, in preference to externally available information. This type of emotional arousal, in Janis and Mann's account, leads to errors in cognitive functioning, in interpreting new information, and a generalized "defensive avoidance" in business, career, and marital decisions. If this condition would tend to preclude the use of teleological calculation, Monat et al. (1972) suggest that less risky decision situations elicit more coping responses, lower levels of arousal, and fuller use of available information. These findings, taken collectively, suggest that risk perception may influence the type and quality of marketers' moral reasoning. It is therefore expected that:

H1:	*Subjects in the high risk group will ascribe greater importance to the deontology measures than subjects in the low risk group.*
H2:	*Subjects in the high risk group will ascribe greater importance to the rule orientation measures than subjects in the low risk group.*
H3:	*Subjects in the low risk group will ascribe greater importance to the teleology measures than subjects in the high risk group.*
H4:	*Subjects in the low risk group will ascribe greater importance to the act orientation measures than subjects in the high risk group.*

Because relativism is not usually presented as a dependent variable in research to this date, the antecedents of relativistic thinking are not well established. Singhapakdi et al. (1999) examined whether such demographic factors as gender, education, income, and years' work experience are associated with relativism, and uncovered no significant associations. Most research findings suggest that relativism is negatively associated with ethical sensitivity (Singhapakdi, et al.,1999), positively associated with more lenient ethical judgments (Barnett et al., 1994), and unrelated to Cognitive Moral Development (Ho et al., 1997). By logic, however, it seems reasonable to assume that situational characteristics, including such risk determinants as lack of time and information for decision-making, would make it more difficult to identify situationally "fitting" and appropriate

ethical considerations. Under high risk, Janis and Mann (1977) show individuals' preference for consistent decision rules, and it is therefore expected that:

H5:	*Subjects in the high risk group will ascribe less importance to the relativism measure than subjects in the low risk group.*

Jones (1991) has suggested that characteristics of an ethical dilemma will cause it to be seen as "morally intensive." Jones' theory, supported by numerous investigations of moral intensity (e.g., Morris & McDonald, 1995, Singhapakdi et al,. 1996), holds that the magnitude of consequences, and probability and temporal immediacy of consequences, will cause individuals to experience heightened perceptions of the presence of an ethical issue, more severe ethical judgments of unethical behaviors, and less intention to engage in these behaviors. The strong conceptual overlap between Jones' theory and perceived risk as usually conceptualized lead to the following hypotheses:

H6:	*Subjects in the high risk group will indicate significantly more severe ethical judgments of the unethical behavior than subjects in the low risk group.*
H7:	*Subjects in the high risk group will indicate significantly less intention to engage in the unethical behavior than subjects in the low risk group.*
H8:	*Subjects in the high risk group will indicate significantly greater perceptions of the presence of an ethical issue in the scenario than subjects in the low risk group.*

RESEARCH METHOD

A national mailing list of sales managers was used to generate a random sample. Sales managers were deemed suitable for this research because the scenario described in the research instrument involves sales practices and decisions that they, as opposed to salespeople or other marketing practitioners, could conceivably face. Of 1,809 questionnaires delivered, 479 questionnaires were returned. 32 questionnaires were discarded from the analysis because of incomplete/inconsistent responses, and an additional 38 subjects scored at the median for perceived risk. To examine the hypotheses, subjects were grouped using a median split procedure into "high-" and "low-perceived risk" groups. The resulting sample, 409 responses, represents a 23% response rate (409/1809). Finally, to ascertain the possible influence of non-response bias on survey results, the procedure described by Armstrong and Overton (1977) was used, with no significant differences found between earlier- and later- respondents to the survey.

The data depict the typical respondent as a married male, between 35 and 54 years of age, with a bachelors' degree, and approximately 27 years' work experience. Demographics for the sample are presented in Table 1, with a comparison of the high and low risk groups. For most demographic variables, no significant differences exist between the groups. The only observed differences between the groups are that the lower risk group had fewer years' job tenure, and a slightly higher overall level of education.

Table 1: Demographic Profile of the Sample						
Variable	Grouping	All	High-Risk (n=217)	Low-Risk (n=192)	X^2	p
sex	male	374	196	178	.741	.389
	female	35	21	14		
marital status	single	22	8	14	4.243	.120
	married	362	192	170		
	divorced	24	16	8		
age	18 - 24	3	1	2	9.480	.091
	25 - 34	10	3	7		
	35 - 44	124	56	68		
	45 - 54	164	90	74		
	55 and over	91	56	35		
education	high school	31	21	10	18.01	.001
	some college	85	59	26		
	bachelor's degree	156	70	86		
	graduate school	137	67	70		
job tenure (yrs)		27.18	29.88	24.13	(t_{340} = 4.327; p=.000)	

The data collection instrument for the study was a self-administered questionnaire, with a vignette describing a scenario in which the subject is to assume the position of a hypothetical sales manager requested to pay a bribe in order to gain entry to a foreign country. Subjects were randomly assigned to either of two treatment groups. In the high risk treatment group, the vignette contained additional information to indicate the lack of time and information relative to the decision. The low risk group received a questionnaire identical in all other respects with the exception that the levels of time and information for making a decision were greater. Regardless of risk level, a financial sanction (loss of bonus) related to the individual's action was included. In this way, perceptions of risk were based on possible adverse financial consequences, as opposed to social censure or other outcomes.

Immediately following the scenario, subjects are asked to indicate their intention to make the payment (four semantic differential items originally used in Fritzsche and Becker 1984), their ethical judgments of the requested payment (four semantic differential items used by Dabholkar and Kellaris 1992), a single measure of perceived ethical content, and a set of moral philosophy measures developed by Boyce and Jensen (1978). The moral philosophy measures ask respondents to indicate the importance of deontological reasoning, rule-based reasoning, etc. in making their

decision. Responses range from "extremely important in my decision" to "extremely unimportant in my decision."

Given the sensitive nature of the research, it is possible that responses will be subject to response set bias. Singhapakdi and Vitell (1991) found evidence of considerable "yea-saying" in attempting to measure marketers' deontological norms. To control for this tendency, a covariate was used in the multivariate analysis. Covariate analysis removes extraneous variation attributed to response sets which may be linearly related to dependent variables (Hair et al., 1992) and allows for more sensitive tests of treatment effects.

A widely used covariate for controlling response set bias is Crowne and Marlowe's (1964) Social Desirability Scale. The scale identifies individuals who describe themselves in favorable, socially desirable terms in order to achieve the approval of others (Robinson & Shaver, 1973). For this study, a shortened 10-item version developed by Strahan and Gerbasi (1972) was used. The measure is reported by Strahan and Gerbasi to be approximately equal to the Crowne and Marlowe scale in terms of reliability, with an overall correlation between the two measures greater than .8. Copies of the questionnaire, the vignette, and all measures are available from the author.

RESULTS

Multivariate Analysis of Variance (MANOVA) was used to test the eight hypotheses. For hypotheses one through five (reported in Table 2) - that risk will affect the importance of the various moral philosophies - Wilk's statistic indicates a significantly different pattern of responses across the high and low risk groups. Similarly, the multivariate statistics for the test of hypotheses six through eight (reported in Table 3) - that subjects in the two groups will exhibit significantly different ethical judgments, intentions, and perceptions of ethical content in the scenario - indicate a different response pattern between the high and low risk groups.

Univariate tests reveal that subjects who felt greater risk in the ethical dilemma ascribed greater importance to the deontology measure than subjects in the low risk group, in support of H1. Also, in support of H2, subjects in the high risk group apparently ascribe greater importance to rule-oriented moral reasoning than subjects in the low risk group. No support is found for H3, that subjects in the lower risk group would ascribe greater importance for the teleology measure than subjects in the high risk group. H4, that subjects in the lower risk group would ascribe more importance to act-oriented moral reasoning than subjects in the high risk group is supported by the data. Finally, H5 - that subjects in the high risk group would ascribe less importance to the relativism measures in the survey than the subjects in the low risk group would - was supported.

Univariate analyses of hypotheses six through eight indicate support for all three hypotheses. Specifically, subjects in the high risk group demonstrate significantly more severe ethical judgments of the requested payment (H6), less intention to make the payment (H7), and greater perceptions of the presence of an ethical issue (H8).

Table 2: Multivariate Test of Significance: High and Low Risk Groups

	Value	F	Significance
Wilk's Lambda Test	.84	18.180	.000

Univariate Tests of Significance

Variable	F	Significance	Group	mean[a]	sd	n
Deontology	26.542	.000	high risk	5.02	1.184	215
			low risk	4.42	1.132	192
Rule Orientation	55.973	.000	high risk	5.00	1.162	215
			low risk	4.14	1.330	192
Teleology	.169	.732	high risk	3.34	.955	215
			low risk	3.33	1.015	192
Act Orientation	15.598	.000	high risk	3.45	1.137	215
			low risk	3.62	1.071	192
Relativism	30.111	.000	high risk	2.43	1.593	215
			low risk	3.28	1.627	192

[a] scoring for all variables: 1 = "extremely unimportant in my decision"
2 = "extremely important in my decision"

Table 3: Multivariate Tests of Significance: High vs. Low Risk and Ethical Judgments and Intentions

	Value	F	Significance
Wilk's Lambda Test	.728	49.609	.000

Univariate Tests of Significance

Variable	F	Significance	Group	Mean	sd	n
Ethical Judgment [a]	130.279	.000	high risk	6.66	.658	212
			low risk	5.24	1.673	190
Intention [b]	127.835	.000	high risk	6.90	.543	212
			low risk	5.32	1.957	190
Ethical Issue [c]	38.257	.000	high risk	1.28	1.078	212
			low risk	2.18	1.776	190

[a] 1 = "ethical" 7 = "unethical"
[b] 1 = "likely/possible/definitely would" 7 = "unlikely/impossible/definitely wouldn't"
[c] 1 = "ethical issue present" 7 = "no ethical issue present"

DISCUSSION OF FINDINGS

The first conclusion to be drawn is that the findings suggest strongly that moral reasoning itself may be seen as the product of personal and situational factors - in this case perceived risk - and that moral reasoning should not be construed as a static set of philosophical positions, as in previous studies which classify individuals as "rule-utilitarians" or "act deontologists."

In addition, it seems clear, based on these findings, that it is risk perception itself which leads marketing managers to sense the presence of an ethical issue, to condemn payments of bribes, and to decide against engaging in these questionable business practices. The risk manipulation reported here produced clear and significant differences in moral philosophical positions. It may therefore be more appropriate to view moral philosophy as a mediating variable at best; in no sense fully causal with respect to behaviors in situations having ethical content.

Many previous studies have established a link between deontological reasoning and more ethical behaviors (e.g. Vitell &Hunt, 1990; Hunt & Vasquez-Parraga, 1993; Harris & Sutton, 1995; Akaah, 1997). The conclusion is sometimes drawn that ethical training and organizational codes of ethics should strive to enhance employees' deontological perceptions about the intrinsic properties of behaviors, and that rule-based (as opposed to outcome- or act-based) evaluations of behaviors are generally preferable from the standpoint of organization-wide ethics (Hunt & Vasquez-Parraga, 1993, Bellizzi, 1996). The findings in this study, however, lead us to a fuller appreciation of the delicate interplay of moral reasoning and situational factors such as perceived risk in ethical decision-making, beyond simply identifying individuals' propensity to be "deontological" and to assume that our ethics training has achieved its objective.

From a qualitative standpoint, this study does not take exception to those who suggest that some moral philosophical positions are more desirable (e.g., deontology and rule-based reasoning). The results actually lend support to earlier findings linking deontology with more ethical decision-making. Further, it seems reasonable to speculate that act-oriented reasoning, based on proximate characteristics of the decision situation as opposed to an established set of rules, may stimulate a kind of short-term thinking about immediate outcomes, at the expense of long term organizational goals (Hunt & Vasquez-Parraga, 1993).

For designers of organizations' ethical codes, the challenge is to find the balance between the goals of developing employees' ethical reasoning and at the same time, to preserve the element of risk. Song and Yarbrough (1978) report that the Internal Revenue Service makes it an explicit goal to preserve an element of uncertainty in auditing practices in order to reduce the incidence of unethical tax reporting practices. Organizational codes of ethics must stress heavily the importance of rule-based procedures, and the consequences of unethical behaviors (admittedly, and problematically, a teleological concern) in a way which does not somehow undermine employees' propensities to evaluate questionable behaviors from a deontological standpoint - based on their intrinsic worth.

The account presented by Janis and Mann (1977) and Monat, et al. (1972), and supported by these findings, suggests strongly that perceived risk will cause individuals to be more deontological, and to use less information about outcomes in decision-making, in preference to available decision rules. A strongly presented risk element in a well-designed organizational ethics

code should effectively preclude marketers' propensities to search for exceptions, loopholes, or similar justifications for gratifying, but unethical behaviors. More simply, the risk element in an organization's ethical code, combined with consistent monitoring and enforcement, will encourage decision-makers to pull out the rule book, and to look to the intrinsic properties of the action, as opposed to trying to total up the costs and benefits.

LIMITATIONS OF THE STUDY

As with other studies attempting to operationalize the moral-philosophical reasoning process, it would appear that better measures of, for example, "deontology" and "rule-utilitarianism" are needed. The dependent measures used in this study have demonstrated test-retest reliability in earlier studies, however, their overall validity remains unaddressed. Another difficulty with the moral philosophy items is that respondents were asked to indicate the "importance" of each statement in making their decision. It may be the case that subjects did not necessarily feel that act utilitarian or teleological considerations are unimportant; they just didn't much agree with the statement.

Finally, the choice of a single scenario raises concerns about the generalizability of the results. Because, for many, the most important properties of ethical dilemmas are their situational properties, it would not be warranted to suggest that similar results would hold for all situations having ethical content.

An important issue, somewhat beyond the scope of this study, is how best to understand the antecedents of risk perception, and how they impact marketers' ethical reasoning. The findings in this study do not establish a solid link between lower perceptions of risk and teleological reasoning. The limitations of cost/benefit analyses are increasingly apparent, however. As automakers come under fire for concluding that it is better to pay damages to plaintiffs than to make design changes in their products, when they are aware of what most observers would consider an ethical concern about the safety of their products, it is fair to wonder whether a "cool detachment" from the difficult moral, ethical, and public relations concerns leads marketers to overlook or underestimate these implications.

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EXPLORING XERS AND BOOMERS ON PERCEIVED VALUE

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ABSTRACT

While Boomer consumerism has dominated the U.S. market in the last two decades, the new marketing challenge for all industries is Generation X, defined as the 46 million American young adults born between 1965 and 1978. As the market shifts to focusing on the new generation, how such generation evaluates, perceives and chooses the various offerings, becomes critical for success. An empirical study of both segments on perceived value provided insights into some differences between the segments. Results show similarity between segments in that they perceive Core Value, Personal Value, and Sensory value, but differences in what constitutes these dimensions for the respective segments. Results are discussed and strategic implications are addressed.

INTRODUCTION

A cursory examination of the literature on the differences between the Baby Boomers (born 1946-1964) and Generation-X (born 1965-1978) might lead one to believe that they come from different planets, rather than to believe that they are merely differently aged members of the same species. Baby Boomers (also referred to as Boomers or the post war generation) started life in homes with working fathers and stay-at-home mothers who watched black and white TV's in the living room. Generation X (also referred to as Xers or Baby Busters) grew up in homes with multiple color TV's and other electronic conveniences and may have been latch-key children because both parents worked....if both parents were present in the family. Boomers grew up with one or more siblings (Swinyard, 1997) while the Xers like as not came from single child households (Williams, Absher & Hoffman 1997). Boomers grew up in an industrial era, where a career meant staying with the same firm for many years while Xers arrived in the boardrooms to radically change both the culture and management (Loomis, 2000).

Boomers have been the determinant force in retailing for roughly fifty years. Unlike previous generations, they are predicted to break out of traditional patterns and actively try to avoid the forces of aging. They are likely to continue to work past normal retirement age, in part from fears of the loss of Social Security. Because they have in many instances delayed having families or are having second families, they will have to balance aging, working and raising young children at an age when their parents were settling down to homes without children. While they seek quality above all else (Dychtwald & Gable, 1986), they will seek more comfort and convenience as they

age. Boomers outnumber their offspring almost 2 to 1 at roughly 80 million to 46 million (Levine, 1994; Dychtwald, 1997; Evans, 1999). The Xers are at the beginning of their earnings potential and eschew politics, while their parents are approaching the zenith of their purchasing power and are demonstrating increased political influence (Laczniak & Lusch, 1997).

Critical reasons as to why marketers cannot ignore Xers include: they constitute 21% of the US population (Holliday, 1995), they spend an annual 125 billion dollars on consumer products (Rabinowitz, 1994; Cyr, 2000), they are more educated, more ethnically diverse, more savvy, more brand loyal, spend more on technology (Cyr, 2000), and will become the dominant generation by the year 2040 (Dortch, 1996). While experts at the Retail Advertising & Marketing Association's RAC 2000 conference in Chicago called for special tactics when marketing to Xers, it may not be easy as both marketers and advertisers often misunderstand the segment (Gallanis, 2000). To prepare for this new segment, marketers need much information to be able to make ready a suitable marketing mix. One way to accomplish this is to look at how the Boomers and the Xers perceive value for products. While many opinions have been offered about the Xers and what they like and don't, few empirical contributions have been offered to date. The present study provides empirical evidence on the differing perceived value between Boomers and Xers.

UNDERSTANDING AND TARGETING GENERATION X

Beside their age, what as marketers do we know about this up and coming generation? The literature provides several cues and opinions. If anything these 'insights' are numerous, confusing, and often contradictory. While considering generalizations to be detrimental, Williams, Absher and Hoffman (1997) nevertheless identify Xers as being independent, materialistic, desirous of quality time, slow in committing, angry, frustrated, cynical, and rebellious. Caudron (1997) notes that their life-long exposure to MTV, Video-Games, and other fast-paced elements provides them with the ability to better cope with multiple sources of information at once.

Xers seem more conscious of brand names than Boomers. Some prestige product makers (for example: Monteblanc, Waterman, Parker, Prada, Donna Karan and Gucci) have successfully marketed themselves to Generation X preferences (Underwood, 1996). In fact, upscale brands have been forced to adopt dual strategies to reach both the Baby Boomers and the Generation Xers (Gelsi, 1996). Among discounters, Target uses the right strategy with their youthful advertising (Gallanis, 2000). Department stores such as Sears and Penneys, which have been consistently losing the Xer market share to Old Navy, The Gap and discount retailers, need to reinvent their promotions with more honesty and humor (Gallanis, 2000). New brands (Curve by Liz Claiborne) are being marketed exclusively for Generation Xers with expensive national print and television campaigns (Miller, 1996). Soft drink companies are targeting young audiences as they update their images dramatically. Recent polls indicate that the influence of Xers permeates politics too, where generational identity could lead to success for politicians (Ebenkamp, 1996). According to Harvard University's Center for Housing Studies, Xers are buying homes faster and sooner than Boomers did in the 1960s. Also rather than conventional homes, Xers prefer live/work units, lofts, infill sites,

and houses they can customize (Evans, 1999). Marketers are making creative overtures to better reach the Xers (Matzer & Benezra, 1996; Rosner, 1996).

Loomis (2000) perhaps identified it best that each passing generation is given a label that speaks for the significance of that generation's youth. But unlike previous generations, Xers do not appear to have any specific defining moments to synergize their experiences. Technology driven products are appealing to this segment (Holliday, 1995). Demographics and preferences show that Xers are dramatically different from the preceding Boomers (Stephenson, 1996). The old rules will no longer apply as the Depression, GI, Boomer, and Xer generations have very different approaches both from each other and from their generational leaders. The response of this generation to everyday life will probably redefine marketing as we know it. Barrow (1994) assumes to present the majority of marketers' opinions in stating that Xers will be interested in simplicity and value, and will stay more at home and buy from there.

Targeting requires defining the market, and if there is any one characteristic symbolic of the Xers group it is an almost instinctual aversion to being defined or typecast in any way. So, what can marketers do? Rabinowitz (1994) suggests some credible strategies: first, accept the "off the beaten path" credo. Second, as the group values authenticity, be direct. As in previous generations, there has been a small but highly visible segment that comes to symbolize the generation in a psychological and sociological way. What does trickle down to the masses is the age-specific culture and the icons in music and mass media that they listen to and watch. For those targeting Generation X, honesty, humor and subtlety should rule the strategy and message (Frengut, 1994). The labels linked to today's young adults have sought to either quantitatively or qualitatively describe the market. Some simply focus on its size or relevant position, while the rest seek to capture the most distinguishing feature. In the end, as successful marketing relies on knowledge, this knowledge may be particularly crucial for targeting Xers (Morrison, 1994).

PERCEIVED VALUE

If we are to believe that Generation X will seek outstanding value (Barrow, 1994), then it is imperative to understand how the newer generation perceives such value. Both practitioners and academicians have considered the concept of perceived value in marketing. To date, however, there have not been any attempts that looked at value perceptions from the Xer point of view. This could be a serious lapse if we are to believe that the Xers will drive the markets in the near future. Kantamneni and Coulson (1996) studied the treatment of perceived value in marketing, economics and other social studies to identify its domain and dimensionality. Their effort resulted in a 27 item scale that could be used to capture the essence of perceived value. If the Xers are different compared to the Boomers, and if such differences are manifested in how they evaluate products' value, then surveying them with the perceived value scale can provide some initial and critical information for the development of marketing strategy. Subsequent studies can be built on this information as even the Xers are apt to change over time as will every other consumer. While studying the Xers alone can be beneficial, comparing them to the current market of Boomers will

provide additional insights. Thus the present research will review both the Boomer and Xer segments.

DATA

We rejected probability sampling in favor of judgmental sampling due to the typical issues of costs and time of completion but more importantly due to the exploratory nature of the research. The survey was administered to 750 respondents (including 160 students) in Florida, Illinois and Kansas. While surveys were distributed to students in class, they were distributed to the other respondents at home, office or other place of employment and collected 3 to 4 days later. No other information was given prior to the survey other than the directions provided on the survey itself. A total of 518 responses was collected, representing a 69.06 percent rate of return. Elimination of outliers resulted in samples of 211 respondents for the Xer segment and 179 respondents for the boomer segment.

METHODOLOGY

Researchers using multivariate analysis find Mahalanobis distance measures very useful in identifying outliers in the sample data. Consider a sample whose average income is $40,000. One observation of $80,000 would have had a major influence on the preceding average. If all other observations were more or less in a particular narrow range, the exclusion of $80,000 on the basis that it is an outlier, will make the resultant average income more "realistic." With a single variable such as income it is easy to discard the extreme values (whether they are too high or low relative to the rest). As researchers consider more variables, the detection of outliers becomes cumbersome. Mahalanobis distances become useful for these type of situations. These are distances between respondents in a multidimensional space. The distances between respondents will determine their similarity; as the distance between a respondent and the others increases, the similarity between that respondent and the others diminishes. Respondents with large Mahalanobis Distances should be treated as outliers and not considered for further analysis. Mahalanobis distances can be generated using a variety of statistical programs.

Mahalanobis' Distances were generated for the cases using SPSSx. Given the .001 alpha and 44 degrees of freedom (for the 44 independent variables consisting of the 27 scale items and the demographic indices in the sample), the Chi Square was estimated at 73.402 . The rejection criterion of distances greater than the Chi square of 73.402, indicated that there were several outliers in the sample. Excluding these outliers yielded samples of 211 for the Xers and 179 for the Boomers. The sample sizes were considered appropriate for the research techniques because both fairly meet the "rule of thumb" of having 5 subjects per variable. Statisticians use Factor Analysis to uncover any interdependent relationships among the variables of interest. The procedures are also useful when data reduction and summarization are necessary. One recommended approach to factor analyzing the data is Principal Components Analysis (PCA). PCA is most useful when the primary objective

is to determine the minimum number of factors that will account for maximum variance in the data. PCA is generally used when the research design is exploratory. Following the research paradigm proposed by Churchill (1979), PCA using the Varimax (orthogonal) rotation was performed on the data. Variables that load on more than one factor are considered complex and generally discarded from subsequent analysis (Tabachnik & Fidell, 1989). PCA was done on an iterative basis to allow the identification and removal of such complex variables. Only loadings in excess of .30 were considered for the analysis. To test the resulting factors for internal consistency, Cronbach's Alpha (also called Coefficient Alpha) was estimated for all the factors in each segment. Using Nunnally's (1978, 245) guidelines on reliability, only the relevent factors were retained for both the segments.

RESULTS & DISCUSSION

Prior to the analysis, the critical question was whether the segments would differ. If the segments were to differ, how will this difference manifest itself in the resulting perceived value structures? The literature review was of little help as it was both enlightening and confusing. While there were several opinions indicating the two segments to be significantly different, there was also disagreement as to what exactly Generation X was. Opinions were plenty and all around with very little empirical support. One of the exceptions was the research in human resource management where there was empirical support for what motivated these two segments (Tulgan, 1996; Walker & Clurman, 2000). These motivations were significantly different for the Xers and Boomers.

TABLE I: Rotated Factor Matrix for Xers

Item	Factor 1	Factor 2	Factor 3	Factor 4
FUNCTION	.80455			
RELIABLE	.73463			
SAFETY	.67170			
DURABLE	.65218			
USEFUL	.59311			
SYMBOLIC		.78413		
INDIVIDUAL		.71002		
SUBSTITUTE		.63526		
EXCHANGE		.62698		
TOUCH			.79734	
SMELL			.79151	
SOUND			.65853	
SCARCITY				.80097
BRDNAME				.70551

It is reasonable to assume that motivations and aspirations of people will also impact their consumption. Thus, we expected to see different perceived value structures. It should be noted that while factor analytic studies have been quite popular in marketing and other social sciences, it is also widely accepted that the identification and labeling of factors is a matter of researcher conjecture and preference. Different experienced researchers may look at the same results but come away with different labels for the factors. Thus the factor labeling in the following section is somewhat subjective.

Based on the premise that the two segments are different, we also expected the factor loadings, both in nature and value, to be different. This also was found to be true. Further, we considered only exploratory factor analysis and not confirmatory factor analysis for two critical reasons. First, from the literature we knew the segments to be potentially different but not how they would be different. Second, we were unable to hypothesize before hand the number of common factors, which is the minimum requirement for a confirmatory factor analysis, and also the nature of the factor structure. Only future research will allow us to hypothesize these requirements for the next level analysis.

TABLE II: Reliability Analysis of Factors for Generation X

Item	Mean if Deleted	Variance if Deleted	Corrected Item-total Correlation	Alpha If Item Deleted
FUNCTION	23.9663	9.4240	.6235	.6698
RELIABLE	23.8942	10.2883	.5112	.7111
SAFETY	24.1875	9.4188	.5221	.7072
DURABLE	24.1202	9.9130	.4940	.7167
USEFUL	24.3702	10.2439	.4474	.7332
N of Cases = 211 N of Items = 5 Alpha = .7521				
EXCHANGE	12.7346	9.8340	.4132	.6707
INDIVIDUAL	11.8341	10.4438	.5040	.5965
SUBSTITUTE	12.6540	12.3607	.3689	.6770
SYMBOLIC	12.1137	9.9584	.6200	.5243
N of Cases = 211 N of Items = 4 Alpha = .6852				
SMELL	8.4402	5.2476	.5668	.5389
SOUND	8.3110	5.6576	.4568	.6772
TOUCH	8.3684	5.3684	.5205	.5974
N of Cases = 211 N of Items = 3 Alpha = .6979				
BRDNAME	4.9761	2.2158	.2866	N/A
SCARCITY	4.7512	1.9763	.2866	N/A
N of Cases = 211 N of Items = 2 Alpha = .4450				

The rotated factor matrix from factor analysis of the Xer data is presented in Table I, and the reliability analysis of the factors is presented in Table II. PCA extracted four factors and the Varimax converged in 5 iterations. All variable loadings in each factor were at least .59311. Comrey (1973), has indicated that loadings that are .55 or more can be considered "good." The first factor was comprised of functionality, reliability, safety, durability and usefulness, and is labeled CORE VALUE. Symbolicness, individuality, substitutability and exchange loaded on the second factor, which we then identify as PERSONAL VALUE. Touch, smell and sound allow the third factor to be identified as SENSORY VALUE. Scarcity and brandname identify the fourth factor as COMMERCIAL VALUE. Reliability analysis was performed on all factors to test their internal consistency. While factors 1, 2, and 3 had alphas of .7521, .6852, and .6979 respectively, the fourth had the lowest of .4450. Based on Nunnally's (1978) observations, the first three factors were considered reliable and retained but the fourth rejected.

Proceeding in a similar manner, PCA was performed on the Boomer data followed by the reliability analysis.

TABLE III: Rotated Factor Matrix for Boomers

Variable	Factor 1	Factor 2	Factor 3	Factor 4
FUNCTION	.77505			
USEFUL	.76345			
RELIABLE	.73668			
QUALITY	.73495			
DURABLE	.70128			
SATISFY	.65389			
SAFETY	.59453			
SYMBOLIC		.79268		
INDIVIDUAL		.78944		
EFFORT		.64067		
SCARCITY		.61296		
SUBSTITUTE		.60412		
SMELL			.77647	
TOUCH			.71517	
TASTE			.69459	
LOOKS			.67980	
SOUND			.60974	
DESIRE			.33054	
PRICE				.79964
ETHICAL				.76970

Table IV: Reliability Analysis of Factors for Boomers				
Item	Mean if Deleted	Variance if Deleted	Corrected Item-total Correlation	Alpha If Item Deleted
FUNCTION	35.8708	20.0793	.6676	8129
USEFUL	36.3034	19.2747	.6629	.8129
RELIABLE	35.7753	20.8871	.6170	.8211
QUALITY	36.0337	20.2022	.6133	.8209
DURABLE	36.1461	20.1254	.5870	.8252
SAFETY	36.1236	21.9733	.4850	.8389
SATISFY	36.4551	20.2607	.5734	.8273
N of Cases = 179 N of Items = 7 Alpha = .8444				
SYMBOLIC	16.5642	18.6967	.5907	.6747
INDIVIDUAL	16.1453	18.8215	.5895	.6756
EFFORT	16.4637	18.2501	.4895	.7136
SCARCITY	15.5251	18.9699	.4560	.7255
SUBSTITUTE	16.4413	20.6861	.4543	.7226
N of Cases = 179 N of Items = 5 Alpha = .7472				
SMELL	18.0341	17.8274	.5930	.7184
SOUND	17.6989	19.5717	.5288	.7407
TASTE	17.0455	20.5122	.5085	.7478
TOUCH	18.0398	19.1013	.5112	.7471
LOOKS	17.7500	17.9143	.6045	.7141
N of Cases = 179 N of Items = 5 Alpha = .7755				
PRICE	4.6067	2.1496	.3896	N/A
ETHICAL	4.8146	2.5361	.3896	N/A
N of Cases = 179 N of Items = 2 Alpha = .5594				

PCA here also resulted in four factors labeled CORE, PERSONAL, SENSORY and COMMERCIAL VALUES, respectively. Reliability analysis of the factors allows the retention of factors 1 (alpha = .8444), 2 (alpha = .7472), and 3 (alpha = .7755) but not the last (alpha = .5594). Despite a slight difference in variable loadings, the same factor labels have also been selected for this analysis.

For both segments, only three factors were retained for further analysis. Considering the factor of CORE VALUE, for both segments functionality is the most important variable after which the order differs. For Boomers CORE VALUE includes quality and satisfaction with the product.

Is this perhaps indicative of the relevance of the term quality to the Boomers? Satisfaction was also important to this group. Was quality such a concern for the group that satisfaction was necessary for them to repeat the brand purchase? One viewpoint could be that because of improvements in quality and product standardization, past experiences of the Xers make satisfaction almost a given. Which is why Xers were concerned with neither. Or it simply may be indicative that the younger generation is more practical or more inured to current environmental conditions and less likely to protest perceived inequities. Only further research can clarify these results.

Considering PERSONAL VALUE, for both groups what the product represents (the symbolic aspect), and individuality (whether the product enhances their self identity), were respectively the most important. The order of the other variables differs after that with exchange being considered by Xers and effort and scarcity being considered by the Boomers. This may suggest several different meanings. One understanding may be that for the younger group, the extrinsic value of the product could come from exchangeability of the product but for the older group it is based on the effort expended and scarcity of the product. It is clear that the older group had much less choice in the marketplace than did the Xers at similar life cycle stages.

Looking at SENSORY VALUE, Boomers considered all the five senses as important in value perceptions but the younger group considered only touch, smell and sound as relevant. Again of the several possible meanings, one understanding could be that looks are unimportant to the younger generation. This is evident in the departures from tradition, in today's product offerings, under the guise of "alternatives." As for taste, among other things, it could simply mean that the younger generation simply thought of nonfood products when responding to the survey. As noted by Kantamneni and Coulson (1996), situations and the consideration of specific products may generate different factor loadings within the same subset of variables that constitute the domain of value.

While factor analysis was useful in identifying the underlying dimensions of perceived value, further and direct comparison of the samples for each of the 27 perceived value variables was conducted. The mean response of each group was compared on every variable in a simple z-test.

There were no significant statistical differences (alpha = .05) on most items of the scale except for Situation, Quality, Conspicuous, Storename, Brandname, Symbolism and Individuality. Of these, only Individual, and Symbolic were part of the value structure for the Xers and quality loaded for the value structure of the Boomers. Although all seven variables were more highly rated by the Xers, only Quality, Individual and Symbolic, representing 15% of all *factored variables*, can be considered to discriminate between the two groups.

MANAGERIAL IMPLICATIONS

This research indicates that Xers have a different perceived value structure than do Baby Boomers. Suggestions as to what is appropriate are not lacking in the literature (for example, Morrison, 1994; Rabinowitz 1994). Present research provides specific evidence to support differential approaches by marketers. This conforms to previously published conjecture however, this paper provides the first empirical support for this belief.

Present research indicates that it is crucial to maintain quality and satisfaction in any product offering to Boomers that will require repurchase, since they assume it will be present. Boomers also value products that are scarce and require extra effort to acquire. This indicates that limited distribution may be more effective with Boomers than with Xers. Additionally, Boomers unlike Xers, consider looks and taste when valuing products.

Gallanis (2000) observed that Target uses the right mix of promotions to attract Xers. Marketers *may* benefit by distributing their products through stores such as Target as they are well known and positively viewed by the Xer segment. Brand name products are also more favorably considered by the Xers. Although this is already known to marketers (Underwood, 1996; Gelsi, 1996) who have sometimes targeted both the Boomers and the Xers but used differing promotional and retailing strategies, *these variables (storename and brandname) do not directly impact their value structure*. It is reasonably assumed that as Xers seem to prefer certain stores, the brands they already like may benefit further by being offered in such stores. Xers also indicated that they were more likely to be influenced by the situation than their older peers. We attribute this to their youth and hence less experience in the shopping process.

Since the Xers have a somewhat simpler factor structure, one could hypothesize that this is a result of having less experience in the marketplace. Alternatively, they may simply have a more parsimonious decision making process.

This study is limited by the lack of specific products for the consideration of the subjects. The sample size also limits generalizability. However, this exploratory research has provided critical insight into the value structure of these two groups. Future research should consider specific products to highlight each of the factors, and the international arena to develop national and cultural differences in value perceptions.

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AN EVALUATION OF THE MARKETING STRATEGIES OF NIGERIAN INSURANCE COMPANIES

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ABSTRACT

The apparent unclear performance of the Nigerian insurance industry, in addition to the dynamics in the insurance business environment, spurred the present research. Using a survey research methodology to investigate the marketing strategies utilized by Nigerian insurance companies to cope with the dynamics of the business environment in order to achieve set objectives, it was found that competition and clients' behaviour towards insurance services had the highest impacts on the marketing strategies of Nigerian insurance companies. Additionally, it was found that the marketing strategies of market development, pricing based on what insurance clients can afford, and use of high-level public relations were the most emphasized strategies in the Nigerian insurance industry. These findings, along with other interesting findings, were discussed pertaining to the research problem, empirical and anecdotal evidence, and extant literature, in addition to their managerial and research implications.

INTRODUCTION

To achieve set organizational goals and objectives, companies conceptualize, design, and implement various strategies. These strategies can be corporate, business, or functional. Marketing strategies constitute one of the functional strategies amenable to application by contemporary companies in order to be efficient and effective.

Marketing has been defined and conceptualized in myriads of ways, depending on the author's background, interest, and education (Osuagwu, 1999). For example, marketing can be seen as a matrix of business activities organized to plan, produce, price, promote, distribute, and megamarket goods, service, and ideas for the satisfaction of relevant customers and clients. Relatedly, Achumba and Osuagwu (1994) posit that marketing is important for the success of any organisation, whether service- or product - oriented.

Insurance is a mechanism for reducing the uncertainty of an individual/organization through the exchange or transfer of specific risks to the insurer who offers a form of economic restoration, albeit partly, to the insured for loses incurred. Meidan (1984) has argued that the insurance services sector constitutes a financial service industry that has currently been changed by aggressive strategic marketing behaviour.

Insurance business behaviour in Nigeria, historically, can be traced to the actions of British merchants in 1874. These British merchants commenced their insurance business activities as agents for insurance companies in Britain, the major area of business being marine insurance. These agents operating in Nigeria packaged and organized insurance covers for imported and exported products.

In 1921, the Nigerian insurance industry got a prop with the establishment of the Nigerian branch office of the Royal Exchange Assurance (REA) of London. This Nigerian branch office of the REA formed the foundation of the present Royal Exchange Assurance of Nigeria (REAN), which is the oldest insurance company in Nigeria. The REAN operated as a monopolist in the Nigerian insurance industry for about twenty (20) years before other companies entered the insurance industry.

According to Egerue (1994), indigenous Nigerian insurance companies were not profoundly entrepreneurial at the earlier stage because of the following reasons:

1. *Lack of trained manpower*
2. *Intense competition from superior foreign companies.*
3. *Lack of adequate and sufficient capital base on the part of indigenous insurance companies.*
4. *Poor infrastructural development.*
5. *Poverty of the Nigerian capital market.*

Therefore, early indigenous Nigerian insurance companies were owned and operated by regional governments, and the patronage of these insurance companies was mainly from the regional governments that owned them. The relatively good performance of these regional insurance companies, in addition to the liberalized regime of governments of the day pertaining to regulations in the industry, resulted in the proliferation of insurance companies. This proliferation tasked insurance companies to design and implement efficient and effective marketing strategies, in addition to other strategies, in order to achieve set organizational goals and objectives.

The Nigerian economy, presently, is experiencing downturn in all relevant indices of growth and development. The democratic regime of the time is striving to design policies and strategies that will rescue the Nigerian economy out of the woods. Thus, there is an increasing attention to all sectors of the economy, including the Nigerian insurance industry. The regulation of the Nigerian insurance industry by government started in 1961 with the enactment of the insurance companies Act, 1961. This Act has been modified many times. Presently, the Nigerian Insurance Commission Decree, 1997, regulates insurance practice in Nigeria.

However, with few functional and reasonably competitive companies in Nigeria, low indigenous/local investment, and little foreign investment in the Nigerian economy, existing insurance companies in Nigeria compete fiercely for insurance businesses. This has, consequently, led to the design of all forms of marketing strategies by Nigerian companies in order to survive, grow, and achieve set goals and objectives.

Therefore, the generic research questions guiding this present study are:

1. *What are the levels of emphases placed by Nigerian companies on their marketing strategies?*
2. *How important is the environment in the marketing strategy emphases of Nigerian insurance companies?*
3. *What is the effectiveness of marketing strategies in Nigerian insurance companies?*

It is the ambition of this study to present empirically- supported answers to the above questions.

This study is scoped within insurance companies operating in Lagos state of Nigeria, and within the period of 1992 - 1997. This choice of only one state in Nigeria's 36- state - structure, and within operational period of 1992 - 1997, may be considered as an apparent limitation of the study. However, this apparent limitation of state and operational period may be offset by the facts that Lagos state is the business and economic heartbeat of Nigeria. Also, executive impression is that the operational period chosen for this research (1992 - 1997) is considered to be the peak in the use of various marketing strategies by Nigerian insurance companies. However, the exploratory nature of this research in addition to the usual methodological problems associated with survey research techniques should be considered as some of the major limitations of the present research. Also the fact that the research did not control for size, market segment of operation, years of experience in the industry, and ownership structure (i.e. private versus government) are likely sources of limitations.

THEORETICAL FRAMEWORK

Marketing seems easy to describe but extremely difficult to practice (Cowell, 1980). Organizational managers in many firms have applied the so- called marketing concept, which may be simple or complex. The marketing concept and its variants (for example, the total quality management concept) are essentially concerned with satisfying clients' needs and wants beneficially. Developing and implementing efficient and effective marketing strategies which incorporate relevant dimensions of the marketing concept involve the organic tasks of selecting a target market (customers/clients) to operate in, and developing an efficient and effective marketing - ingredients (marketing - mix) combination.

Marketing thought, with its practice, has been moving speedily into the service industry (Kotler & Connor, 1977). Extant literature, partly, centres on the discussion of whether product (physical) marketing is similar to, or different from, the marketing of service, concluding that the differences between product (physical) and service might be more of emphasis than of nature or kind (Cowell, 1980). Marketing is one of the salient and important organic functions which help service organizations to meet their business challenges, and achieve set goals and objectives (Kotler & Connor, 1977).

The word "service" has been used to denote an organization or industry that "does something" for someone, and does not "make something" for someone (Silvestro & Johnston, 1990). Service also denotes companies or firms that meet the needs and wants of society, and these organizations are substantially bureaucratic in nature (Johns, 1999). Again, service may be described as intangible, and their outcome is perceived as an activity rather than a tangible offering. The issue concerning the distinction between services and tangible products lies on the proportion of service components that a particular offering contains (Johns, 1999).

A service may be seen as an activity or benefit which can be offered to an organization or individual by an organization or individual, and which is essentially intangible. It is a separately identifiable and intangible offer which produces want- satisfaction to the client, and which may or may not be necessarily tied to sale of a product (physical) or another service (Osuagwu, 1999). Services include a wide range of activities, and form some of the growing sectors of the economies

of developed and developing countries. Services, include professional services (legal, accounting, medical, management consulting, etc), general services (insurance, postal, telephone, internet, transportation, tourism, etc), maintenance and repair services, and services from marketing researchers and product manufacturers, among others.

Insurance service is not a tangible offer like food, cars, and clothing. The main variable affecting a person's demand for insurance service is that person's attitude towards risks. The peculiarities of insurance services may create marketing programmes that are different from those found in the marketing of tangible products. The peculiarities may, also, require unique marketing approaches and strategies. However, marketing concepts, principles, and strategies are of relevance in the marketing of insurance services. Sound and robust marketing strategies are important to the survival and growth of any business, including insurance business, considering the increasingly subtle, unstable and seemingly hostile business environments in which contemporary business organizations operate (Mc Donald, 1996; Creveling, 1994). Therefore, in order to formulate and implement efficient and effective marketing strategies, business organizations should have a thorough and continuous understanding of the relevant environment that impact on their marketing strategies.

According to Schnars (1991), marketing strategy has been a salient focus of academic inquiry since the 1980s. There are myriads of definitions of marketing strategy in extant literature, and the definitions reflect different perspectives (Li, Kinman, Duan & Edwards, 2000). However, the consensus from extant literature is that marketing strategy provides the avenue for utilizing the resources of an organization in order to achieve its set goals and objectives. Generally, marketing strategy deals with adapting the marketing mix - elements to environmental forces. It evolves as a result of the interplay of the marketing mix elements and the environmental factors, which impact on these elements (Li, Kinman, Duan & Edwards, 2000). Therefore, the function of marketing strategy deals with determining the nature, strength, direction, and interaction between the marketing mix - elements and the environmental factors in a particular situation (Jain & Punj, 1987). According to McDonald (1992), the aim of an organization's marketing strategy development is to establish, build, defend, and maintain its competitive advantage. Managerial judgement is of importance in coping with environmental ambiguity and uncertainty in strategic marketing (Brownie & Spender, 1995).

Marketing strategy development has the following peculiarities:

1	*It is specifically concerned with devising the approach by which an organization can effectively differentiate itself from other competitors by emphasizing and capitalizing on its unique strengths in order to offer better customer/client value over a long period of time (Jain & Punj, 1987).*
2	*It is a subtle process which usually involves subtle decision-marking operations by organizational managers, and which requires an exhaustive examination of changing relevant environments and a build - up of essential and useful pieces of information (Mintzberg 1994 (a), 1994 (b));*
3	*It entails a broad scope of strategic information (Mintzberg, 1994 (b); Taylor et al., 1992).*
4	*It is business sphere knowledge - intensive (McDonald & Wilson, 1990; Dubelaar et al., 1991).*
5	*It carries a high level of uncertainty and ambiguity (Brownlie & Spender, 1995).*

6	*It requires managerial experience, intuition, and judgement (Little, 1970; Mintzberg, 1976, 1994 (a), 1994 (b); Brownlie & Spender, 1995; McIntyre, 1982; Alpar, 1991).*

However, achieving efficient and effective marketing strategy by an organization is difficult (Li, Kinman, Duan & Edwards, 2000).

As a result of the ambiguity and instability of environmental factors, strategic marketing may pose a difficult task to organizational strategists. Many factors constrain organizational managers from designing and implementing efficient and effective marketing strategies (McDonald, 1992). This difficulty is aggravated by the fact that many environmental factors interact in an astonishing manner, thereby affecting the managers' efficiency and effectiveness in strategic marketing issues (McDonald, 1989, 1996). Against this background, the present research attempts to assess the marketing strategies of Nigerian insurance companies, the impacts of environmental factors on such strategies, and the effectiveness of the marketing strategies.

Insurance may be seen as a business activity that provides some kind of relief to a person or organization. According to Osoka (1992), insurance can be a conceptualized as an arrangement by which a party (the insurer) gives a promise to pay (indemnify) another party (the insured) a stated sum of money in case anything happens to the insured, which results into a stated/specified form of loss. In order to transfer the risk to the insurer, a policy is sold by the insurer to the insured for a price/premium (Diacon & Carter, 1984).

The growth of insurance companies and business in Nigeria has been phenomenal; from one insurance company in 1948 to about 100 insurance companies in the late 1990s, with attendant competition and other factors. It seems that this growth in the number of insurance companies in Nigeria has not been matched with an equal growth in the awareness of insurance services to clients and other interested publics. In order to be efficient and effective, Nigerian insurance companies have to devise good marketing strategies that will enable them to reach out to a wider spectrum of the society for patronage. The interaction of these marketing strategies and the relevant environmental factors determines the performance of insurance companies in Nigeria.

Insurance products in the Nigerian business environment include motor, fire, accident, sickness, health, on-shore off- shore operations, pensions, annuities, bonds, endowments, capital redemptions, marine, aviation, contractors all risk (CAR), engineering, electronic equipment, goods - in -transit, bankers' blanket cover, bankers' vault insurance, cash - in- transit, fidelity guarantee, agriculture, pecuniary, public/product/professional liability, consequential loss, erection all risk, plant all risk, and group life/policy/deposit administration, among others.

The Nigerian insurance environment is characterized by internal and external environmental factors. The environmental factors include men, money, materials, management, machines, facilities' location, market, technology, legal provisions, economic factors, organizational culture, political factors, structure of the insurance industry, insurance clients' behaviour, among others. The marketing strategies of Nigerian insurance companies are expected be used to adapt to these environmental factors in order to achieve set performance measures.

The Nigerian insurance industry seems to have witnessed some form of corporate performance (Okwor, 1992; Falegan, 1991; Daniel, 1989; Olawoyin, 1985; Ogunrinde, 1990).

However, Osoka (1992) and Akhile (1989) posit that the Nigerian insurance industry is still far from reaching matured performance standards. Against these conflicting assertions concerning the performance of the Nigerian insurance industry, it is necessary to use empirical evidence to have a clearer picture of the Nigerian insurance industry, especially focusing on the marketing strategies adopted by Nigerian insurance companies and the resultant performance indices.

Marketing is becoming increasingly vital in the contemporary Nigerian insurance business environment. Environmental variables and intense competition from other financial institutions have compelled Nigerian insurance companies to devise ways and means to survive and operate efficiently and effectively. Specifically, Nigerian insurance companies are showing some interest in the relevance of marketing techniques in their businesses. These interests have been manifested in form of myriads of products and prices, among other marketing activities. Osoka (1992) asserts that for the Nigerian insurance industry to survive the stiff competition and other environmental forces, it is necessary for practitioners in the Nigerian insurance industry to adopt innovative marketing strategies

According to Johne and Davies (2000), organizations experiencing competitive and other environmental threats in their business operations can utilize three forms of strategic innovations. These innovations include market innovation (i.e. improving the mix of markets served), product innovation (i.e. improving the mix of products/service offered), and process innovation (i.e. improving the mix and efficiency of internal operations). Marketing inputs and strategies have been implicated as important variables in steering and shaping innovative business development (Day & Reibstein, 1997; Kin & Mauborgne, 1997; Johne, 1999). According to Meidan (1984), the identification and satisfaction of clients' needs and wants should be the focus of the marketing activities of insurance companies, and these objectives are attainable via the identification of likely marketing - mix variables and strategies, including relevant environmental impacts on them.

METHODOLOGY

Survey research methodology was employed in this research in line with the research practice of some previous researchers interested in strategic marketing (Li, et al, 2000; Jain & Punj, 1987; among others.). Subjects (Ss) for the research study consisted of a convenience sample of marketing executives in Nigerian insurance companies. The Nigerian Insurance Year Book (1998) provided the list of Nigerian insurance companies from where the convenience sample was taken.

The respondents consisted of Assistant General Managers, Senior Managers, Managers, Assistant Managers, and Officers responsible for marketing activities in their respective insurance companies. Most of the respondents (74%) had professional and/or academic qualifications in insurance and business administration. Their ages ranged from 26 - 47, and their working experience ranged from 3 to 17 years. One can, therefore, state with relatively confidence that these respondents were reasonably qualified to assess and comment on the strategic marketing practices of their respective companies. The logic of this research, in fact, is to accept the evaluative assessment and comments of these respondents as representing the strategic marketing behaviour of the sampled insurance companies. Therefore, subject to the usual limitations associated with

survey research methodology (Zikmund, 1994), the data gathered for this research from these respondents may be taken to represent a rich data - set.

Using senior executives in Nigerian insurance companies who were undergoing a nine - month executive development programme in Lagos state of Nigeria, a pilot study of four Nigerian insurance companies was undertaken in order to test and improve the research instrument. Also during the pilot study, cross - interviews were conducted, where possible, with top executives of some Nigerian insurance companies who were not respondents to the initial pilot study. This was done to purify and improve the quality of the research instrument.

The research instrument consisted of sections A, B, C, D, and E. Section A asked for the marketing executives' perceptions of the importance of environmental factors in their companies marketing strategies. This piece of data was collected using a six - point scale (ranging from "very high importance" (6) to "no importance at all" (1)), depicting varying degrees of the importance of environmental factors in the marketing strategies of their respective insurance companies. Also, respondents were asked in this section A to indicate, on a six-permit scale, the relative effect of environmental factors on the insurance companies' marketing strategies, ranging from "very high effect" (6) to "no effect at all" (1).

Section B of the research instrument required the respondents to indicate the relative emphases which their insurance companies have placed on dimensions of marketing strategies. This piece of data was collected via a six - point scale, ranging from "very high emphasis" (6) to "no emphasis at all" (1), indicating varying levels of attention/emphasis placed on aspects of marketing strategies. Section C of the research instrument required the respondents to provide some quantitative data on their companies' performances measures with respect to average gross earnings in the last five years, average market share in the last five years, and average profit before tax in the last five years.

Section D of the research instrument asked respondents to indicate, on a six-point scale, the effectiveness of their companies' marketing strategies with regard to profit, market share, marketing cost, gross earnings risk spreading, clients' satisfaction, and overall departmental performance. This piece of data was collected using a six - point scale ranging from "very high effectiveness" (6) to "no effectiveness at all (1). Finally, Section E of the research instrument requested the respondents to provide some background data such as years of working experience, age of the respondent, educational/professional qualifications, and status of the respondents in their respective organizations. Respondents were also asked to list five managerial problems confronting strategic marketing practice in their companies, and were required to proffer solutions to the listed problems. These data were utilized in discussing some of the research findings.

Operationalization of Research Variables.

Three major variable were used in this research, and they include:

1 *Environmental variables.*
2 *Marketing strategy variables.*
3 *Performance variables.*

Environmental variables were developed from the literature, (Kim & Lim, 1988; Kotler, 1988; Okoroafo, 1993; Meidam, 1984). The environmental variables included competition in insurance business, government policy, technology in insurance business, legal provisions, economic factors, structure of the Nigerian insurance industry, and insurance clients behaviour. These environmental factors appear frequently in the strategic marketing literature, and these variables seem theoretically and practically appropriate for insurance marketing strategies (Wilson, Gilligan & Pearson, 1992).

Marketing strategy variables were developed from relevant literature (Udel, 1972; Kotler, 1986; Kotler, 1988; Bush & Brobst, 1979; Baker & Hart, 1989). The marketing strategy variables included product strategy, pricing strategy, promotional strategy, distribution strategy, and mega marketing strategy. These five broad marketing strategy variables were operationalized into twenty-seven (27) items.

Performance measures/variables were both qualitative and quantitative. Respondents on average gross earnings, average market share, average total cost, and average profit before tax provided quantitative performance measures in the last five years. Qualitative performance data were obtained from the respondents' perceptual response on the effectiveness of the companies marketing strategies using the following performance measures: profit, market share, marketing cost, gross earnings, risk spreading, clients satisfaction, and marketing departmental performance. These performance measures were utilized following the suggestions of Median (1984) and Mathew et al (1964).

One thousand, one hundred (1,100) copies of the research instrument were administered to a convenience sample of the marketing executives of Nigerian insurance companies. Of the 1100 copies of the questionnaire, 704 copies were returned. Only 683 copies of the returned questionnaire were found reasonably completed and usable for this research, resulting in an effective response rate of 62 %.

Descriptive statistics were used to determine the relative emphases on marketing strategies by Nigerian insurance companies, in addition to determining the importance and effect of environmental factors on the marketing strategies of Nigerian insurance companies. Pearson's product moment correlation analysis and factor analysis were used to determine relationships between variables. All the data analysis procedure was accomplished using the 8.0 version of the IBM SPSS/ PC plus package. Data analysis was done at 95% confidence level or higher. The statistics, measurement scale, and data analysis procedures used in this research followed the suggestions of Wimmer and Dominick (1987), McNamara (1972, Blalock (1979) Labovitz (1970, 1975), Abelson and Turkey (1970), Steers (1975), Angle and Perry (1981), Nie et al (1975), Kim and Mueller (1978), and Nunnally (1978).

The factor structure of the research instrument scale was assessed using the Eigen value "greater-than-one" suggestion of Kim and Mueller (1978). Cronbach's alpha was used to test for the instrument's convergent validity, and according to Nunnally (1978), a research -measuring instrument under development should have a minimum Cronbach's alpha value of 0.70. The discriminant validity of the research instrument was determined by computing the zero - order correlations. Essentially, moderate-to-low zero-order correlations (inter-correlations) can provide some evidence of discriminant validity (McColl-Kennedy & Fetter, 1999). The nomological

validity of the research instrument was determined using a series of correlation analysis with respect to variables that should relate to and should not relate to other variables. The results of the analyses are shown as tables 1.0 to 9.0.

RESULTS AND DISCUSSION

Table 1.0 shows the descriptive statistics of the importance of environmental factors to insurance marketing strategies, while table 2.0 shows the descriptive statistics of the impact of environmental factors on insurance marketing strategies. Nearly, all the environmental factors witnessed relatively high levels of importance and impact on insurance marketing strategies. However, economic factors (A105) recorded the least importance and impact on insurance marketing strategies. This finding is at variance with expectations. It may be explained because most Nigerians, because of the poverty level in the country, are seriously concerned with immediate survival, and are not seriously concerned with the future earnings and survival which insurance policies address. It may also be explained because insurance is substantially concerned with security, and security needs and wants exist across all strata and segments of the society, irrespective of the economic standing of members of those strata or segments. However, it is sometimes difficult to understand the importance and impact of an environmental factor (such as economic factor). This is because some environmental factors may interact in a confusing and astonishing way to the extent that organizational strategists and executives may not understand the importance and impacts of these environmental factors (MacDonald, 1989; 1996).

Table 1.0: Descriptive Statistics of Importance of Environmental Factors

Variable	Mean	SE	*	R^2	Cum. High (%)	Cum. Low (%)
A101	5..50	.31	.97	.94	90.0	10.0
A102	5.10	.18	.57	.32	90.0	10.0
A103	4..30	.30	.95	.90	80.0	20.0
A104	4.10	.57	1.79	3..21	70.0	30.0
A105	5.40	.27	.84	.71	40.0	60.0
A106	5.00	.21	.67	.44	80.0	20.0
A107	3..90	.50	1.59	2..54	70.0	30.0
A108	3.80	.39	1.23	1..51	60.0	40.0
A109	5.00	.26	.816	.67	90.0	10.0

Table 2.0 shows that competition (A2 01) and clients' behaviour towards insurance services (A209) had the highest impacts on insurance marketing strategies in Nigeria. Direct and indirect forms of competition in the Nigerian insurance industry as a result of increased number of licensed insurance companies, in addition to competition from allied financial companies. Also, clients' behaviour towards insurance services has traces of apathy and indifference. Additionally, clients

may show positive or negative behaviour towards a company and its insurance services, depending on the clients' tribal attachment to the company and its management. The more a company is owned and/or managed by somebody from a client's tribe, the more positive behaviour the client has on the company and its services.

Table 2.0: Descriptive Statistics of Influence of Environmental Factors on Insurance Marketing Strategies Variables (N = 510)

Variable	Mean	SE	*	R^2	Cum. High (%)	Cum. Low (%)
A201	5.40	.31	.97	.93	90.0	10.0
A202	5.00	.26	.82	.67	70.0	30.0
A203	4.20	.33	1.03	1.07	70.0	30.0
A204	4.10	.23	.74	.54	80.0	20.0
A205	5.30	.26	.82	.68	50.0	50.0
A206	5.00	.21	.67	.44	80.0	20.0
A207	4.20	.33	1.03	1.07	80.0	20.0
A208	3.80	.29	.92	.84	70.0	30.0
A209	5.10	.31	.99	.99	90.0	10.0

Table 3.0 shows the descriptive statistics of emphases on dimensions of insurance marketing strategies. Many of the marketing strategy variables showed above average emphases. However, insurance service quality (BI), deletion of old insurance products (B3), and using chairman to get clients (B25) received below average emphases. This means that relatively low emphases were put on dimensions of service quality and elimination of old insurance services (which are product strategies), in addition to low emphasis on using chairmen to get insurance clients (mega marketing). In contemporary terms, it may be said that the concepts and principles of total quality management (TQM) and megamarketing have not been adequately emphasized in Nigeria's insurance industry. Often, Nigerian insurance clients complain about the poor quality of services rendered by Nigerian insurance companies, particularly with respect to settlement of claims, follow-up, and comprehension of insurance policy terms and conditions. According to Meidan (1984), identification and satisfaction of insurance clients' needs and wants should be the emphasis of insurance companies. These objectives are partly achievable through reasonable emphases on the marketing - mix combinations of products, pricing, promotions, distribution, and megamarketing strategies, among others.

The highest marketing strategy emphases were placed on "market development" (B7), "pricing based on what the market can bear" (B19), and "high level public relations" (B26). In the Nigerian insurance industry, aggressive salesmanship activities are undertaken by insurance sales agents/representatives in order to win new clients/market. Also, price negotiations may be tailored towards what the prospective client can afford to pay. In the case of high-level public relations, this marketing strategy is practised in the Nigerian insurance industry in form of gratifications and

inducements used to secure insurance business from individuals and/or companies, for example brokers. In some cases, no insurance business agreement takes place between a broker and an insurance company if gratifications and inducements (popularly referred to as PR in the Nigerian business environment) are not agreed upon.

Table 3.0: Descriptive Statistics of Emphasis on Insurance Marketing Strategy Variables (N=510)

Variable	Mean	SE	*	R^2	Cum. High (%)	Cum. Low (%)
B1	5.50	.22	.71	.50	40.0	60.0
B2	4.30	.37	1.16	1.34	80.0	20.0
B3	2.70	.47	1.49	2.23	30.0	70.0
B4	4.00	.39	1.25	1.56	70.0	30.0
B5	5.10	.23	.74	.54	70.0	30.0
B6	5.10	.23	.74	.54	70.0	30.0
B7	5.00	.30	.94	.89	90.0	10.0
B8	4.50	.50	1.58	2.50	80.0	20.0
B9	3.50	.60	1.90	3.61	50.0	50.0
B10	3.60	.50	1.58	2.49	70.0	30.0
B11	4.20	.36	1.14	1.29	60.0	40.0
B12	4.40	.60	1.89	3.60	70.0	30.0
B13	3.60	.40	1.27	1.60	50.0	50.0
B14	4.10	.41	1.29	1.66	70.0	30.0
B15	3.30	.58	1.83	3.34	60.0	40.0
B16	3.30	.56	1.77	3.12	50.0	50.0
B17	3.90	.59	1.85	3.43	60.0	40.0
B18	3.70	.37	1.16	1.34	60.0	40.0
B19	3.50	.62	1.96	3.83	90.0	10.0
B20	3.20	.61	1.93	3.73	50.0	50.0
B21	3.60	.63	2.00	4.00	50.0	50.0
B22	2.70	.58	1.83	3.34	50.0	50.0
B23	3.30	.65	2.06	4.23	60.0	40.0
B24	3.40	.60	1.89	3.60	70.0	30.0
B25	2.80	.68	2.15	4.62	40.0	60.0
B26	3.40	.64	2.01	4.04	90.0	10.0
B27	3.20	.71	2.25	5.07	80.0	20.0

Table 4.0 shows the zero-order correlations of the marketing strategy variable (B1-B27). Most of the coefficients are statistically significant at 95% level or higher. These zero-order correlation coefficients were used as evidence of discriminant validity of the research's measuring instrument in the line with the suggestions of Nunnally (1978). Specifically, the moderate to low zero-order correlation coefficients, as shown in table 4.0, provide evidence of discriminant validity, implying that the marketing strategy research variables are distinct (McColl-Kennedy & Fetter, 1999).

Table 4.0: Zero – Order Correlation Coefficients of Insurance Marketing Strategy Variables

	B1	B2	B3	B4	B5	B6	B7	B8	B9	B10	B11	B12	B13	B14	B15	B16	B17	B18	B19	B20	B21	B22	B23	B24	B25	B26
B1																										
B2	.35^{xx}																									
B3	-.01	.30^{xx}																								
B4	,15^{xx}	.38^{xx}	.27^{xx}																							
B5	.30^{xx}	.33^{xx}	.05	.30^{xx}																						
B6	.29^{xx}	.21^{xx}	.06	.33^{xx}	34^{xx}																					
B7	.29^{xx}	.28^{xx}	.19^{xx}	.39^{xx}	.31^{xx}	.63^{xx}																				
B8	.17^{xx}	.39^{xx}	.24^{xx}	.60^{xx}	.32^{xx}	.39^{xx}	.50^{xx}																			
B9	.23^{xx}	.17^{xx}	.28^{xx}	.40^{xx}	.29^{xx}	.39^{xx}	.37^{xx}	50^{xx}																		
B10	.16^{xx}	.37^{xx}	.33^{xx}	.36^{xx}	.18^{xx}	.34^{xx}	.32^{xx}	.54^{xx}	.44^{xx}																	
B11	.17^{xx}	.30^{xx}	.23^{xx}	.38^{xx}	.20^{xx}	.29^{xx}	.35^{xx}	.44^{xx}	.38^{xx}	.43^{xx}																
B12	.23^{xx}	.23^{xx}	.12^{x}	.18^{xx}	.15^{xx}	.22^{xx}	.13^{x}	.36^{xx}	33^{xx}	.39^{xx}	.44^{xx}															
B13	.12^{xx}	.32^{xx}	.37^{xx}	.38^{xx}	.07	.20^{xx}	.21^{xx}	.43^{xx}	.35^{xx}	.40^{xx}	.51^{xx}	.41^{xx}														
B14	.19^{xx}	.20^{xx}	.15^{xx}	.22^{xx}	.12^{x}	.23^{xx}	.19^{xx}	.26^{xx}	.28^{xx}	.28^{xx}	.39^{xx}	.35^{xx}	.49^{xx}													
B15	.02	.14^{xx}	.29^{xx}	.16^{xx}	.09	.14^{xx}	.13^{x}	.17^{xx}	.24^{xx}	.27^{xx}	.21^{xx}	20^{xx}	.35^{xx}	.39^{xx}												
B16	.04	.18^{xx}	.29^{xx}	.14^{xx}	.09	.10^{x}	.20^{xx}	.22^{xx}	.22^{xx}	.32^{xx}	.23^{xx}	.18^{xx}	.30^{xx}	.27^{xx}	.69^{xx}											
B17	.08	.10	.21^{xx}	.06	.12^{x}	.13^{x}	.11^{x}	.13^{x}	.16^{xx}	.24^{xx}	.13^{xx}	.18^{xx}	.23^{xx}	.16^{xx}	.30^{xx}	.34^{xx}										
B18	.18^{xx}	.10	.91^{xx}	.11^{x}	.13^{x}	.18^{xx}	.21^{xx}	.15^{xx}	.20^{xx}	.12^{x}	.19^{xx}	.12^{x}	.27^{xx}	.29^{xx}	.38^{xx}	.39^{xx}	.36^{xx}									
B19	.14^{xx}	.25^{xx}	.22^{xx}	.16^{xx}	.14^{xx}	.21^{xx}	.23^{xx}	.27^{xx}	.30^{xx}	.33^{xx}	.27^{xx}	.13^{x}	.25^{xx}	.26^{xx}	.40^{xx}	.40^{xx}	.38^{xx}	.50^{xx}								
B20	.09	.24^{xx}	22^{xx}	.16^{xx}	.08	.16^{xx}	.16^{xx}	.30^{xx}	.24^{xx}	.30^{xx}	.34^{xx}	.23^{xx}	.25^{xx}	.20^{xx}	.32^{xx}	.37^{xx}	.30^{xx}	.30^{xx}	.53^{xx}								
B21	.18^{xx}	.14^{xx}	.18^{xx}	.02	.19^{xx}	.17^{xx}	.19^{xx}	.06^{xx}	.26^{xx}	.19^{xx}	.20^{xx}	.21^{xx}	.25^{xx}	.26^{xx}	.33^{xx}	.36^{xx}	.28^{xx}	.36^{xx}	.41^{xx}	.34^{xx}						
B22	.10	.19^{xx}	.27^{xx}	.13^{x}	.12^{xx}	.16^{xx}	.16^{xx}	.20^{xx}	.25^{xx}	.34^{xx}	.26^{xx}	.23^{xx}	.31^{xx}	.30^{xx}	.26^{xx}	.32^{xx}	.30^{xx}	.26^{xx}	.33^{xx}	.27^{xx}	.43^{xx}					
B23	.15^{xx}	.12^{x}	.21^{xx}	.14^{xx}	.18^{xx}	.35^{xx}	.20^{xx}	.24^{xx}	.37^{xx}	.37^{xx}	.26^{xx}	.37^{xx}	.23^{xx}	.33^{xx}	.19^{xx}	.22^{xx}	.27^{xx}	.20^{xx}	.32^{xx}	.27^{xx}	.38^{xx}	.41^{xx}				
B24	.23^{xx}	.10^{x}	.06	-.02	.20^{xx}	.21^{xx}	.12^{x}	.08	.24^{xx}	.24^{xx}	.23^{xx}	.30^{xx}	.16^{xx}	.26^{xx}	.18^{xx}	.15^{xx}	.28^{xx}	.24^{xx}	.28^{xx}	.23^{xx}	.39^{xx}	.39^{xx}	.52^{xx}			
B25	.07	.15^{xx}	.21^{xx}	.18^{xx}	.07	.11^{xx}	.07	.20^{xx}	.30^{xx}	.29^{xx}	.31^{xx}	.28^{xx}	.29^{xx}	.24^{xx}	.26^{xx}	.24^{xx}	.15^{xx}	.20^{xx}	.27^{xx}	.31^{xx}	.29^{xx}	.37^{xx}	.36^{xx}	.34^{xx}		
B26	.11^{x}	.14^{xx}	.17^{xx}	.20^{xx}	.05	.24^{xx}	.23^{xx}	.29^{xx}	.30^{xx}	.24^{xx}	.27^{xx}	.24^{xx}	.27^{xx}	.96^{xx}	.31^{xx}	.27^{xx}	.21^{xx}	.27^{xx}	.35^{xx}	.28^{xx}	.30^{xx}	.32^{xx}	.44^{xx}	.31^{xx}	.52^{xx}	
B27	.15^{xx}	.11^{x}	.16^{xx}	.14^{xx}	.06	.18^{xx}	.11^{x}	.15^{xx}	.27^{xx}	.26^{xx}	.23^{xx}	.26^{xx}	.28^{xx}	.26^{xx}	.27^{xx}	.19^{xx}	.18^{xx}	.20^{xx}	.25^{xx}	.21^{xx}	.27^{xx}	.31^{xx}	.42^{xx}	.38^{xx}	.67^{xx}	.47^{xx}

^{x} P<0.05; ^{xx} P<0.01

Table 5.0 shows the correlation matrix of marketing strategy variables (B1-B-27) and environmental factors (A21-A29). Many of the correlation coefficients are statistically significant at 95% level or letter, thereby confirming the nomological validity of the research instrument in line with the suggestions of McColl-Kennedy and Fetter (1999).

Table 5.0: Correlation Matrix of Insurance Marketing Strategies (B1 – B27) and Environmental Factors (A21 – A29)

	B1	B2	B3	B4	B5	B6	B7	B8	B9	B10	B11	B12	B13	B14	B15	B16	B17	B18	B19	B20	B21	B22	B23	B24	B25	B26	B27
A21	.23^{xx}	.09	.05	.11^{x}	.16^{x}	.14^{xx}	.06	.03	.15^{xx}	.07	.11^{x}	.11^{x}	.19^{xx}	.07	.11^{x}	.05	.09	.24^{xx}	.16^{xx}	.09	.14^{xx}	.14^{x}	.08	.18^{xx}	.16^{xx}	.10	.17^{xx}
A22	.03	.03	.13^{x}	.09	.07	.01	.10	.06	.07	.16^{xx}	.07	.03	.16^{xx}	.03	.20^{xx}	.24^{xx}	.17^{xx}	.23^{xx}	.17^{xx}	.10	.12^{x}	.19^{xx}	.00	.06	.14^{x}	.09	.06
A23	.10	.10	.20^{xx}	.11^{x}	.06	.07	.13^{x}	.09	.18^{xx}	.14^{xx}	.12^{x}	.09	.21^{xx}	.05	.12^{x}	.08	.22^{xx}	.16^{xx}	.14^{xx}	.09	.13^{x}	.16^{xx}	.08	.08	.11^{x}	.09	.04
A24	.02	.09	.20^{xx}	.12^{x}	.09	.14	.16^{xx}	.29^{xx}	.17^{xx}	.22^{xx}	.10	.16^{xx}	.15^{xx}	.07	.15^{xx}	.16^{xx}	.27^{xx}	.20^{xx}	.22^{xx}	.23^{xx}	.07	.28^{xx}	.07	.09	.04^{xx}	.11^{x}	.00
A25	.10	.06	-.00	.07	.10	.11^{x}	.17^{xx}	.06	.09	.06	.03	.05	.11^{x}	.05	.05	.04	-.03	.10	.08	.09	.07	.00	-.01	.01	.04	.10	.09
A26	.12^{x}	.03	.15^{xx}	.06	.04	.12^{x}	.13^{x}	.06	.15^{xx}	.08	.09	.09	.15^{xx}	.13^{x}	.03	-.01	.17^{xx}	-.01	.04	.03	.02	.04	.02	.03	.09	.08	.03
A27	-.09	.01	.20^{xx}	.13^{x}	.05	.11^{x}	.13^{x}	.09	.08	.12^{x}	.11^{x}	.02	.16^{xx}	.11^{x}	.11^{x}	.14^{xx}	.12^{x}	.14^{xx}	.14^{xx}	.13^{x}	.07	.17^{xx}	.10^{x}	.05	.11^{x}	.17^{xx}	.04
A28	.02	.13^{x}	.18^{xx}	.10	.15	.16^{xx}	.14^{xx}	.12^{x}	.19^{xx}	.14^{xx}	.09	.14^{xx}	.15^{xx}	.08	.11^{x}	.08	.18^{xx}	.14^{xx}	.15^{xx}	.11^{x}	.15^{xx}	.14^{xx}	.06	.16^{xx}	.06	.13	.04
A29	.14^{xx}	.03	.03	-.00	.04	.10	.14^{xx}	.04	.12^{x}	.07	.02	.12^{x}	.17^{xx}	.21^{xx}	.10	.09	.10^{x}	.16^{xx}	.10	-.03	.17^{xx}	.15^{xx}	.17^{xx}	.12^{x}	.02	.10	.09

^{x} P < 0.05 ^{xx} P < 0.01

Table 6.0 shows the correlation matrix of marketing strategy variables and qualitative measures of performance, while table 7.0 shows the correlation matrix of marketing strategy variables and qualitative measures of performance. Most of the correlation coefficients in table 6.0 are statistically significant at 95% level or higher, while most of the correlation coefficients in table 7.0 are not statistically significant at 95% level or higher. Specifically, while the results in table 6.0 confirm evidence of nomological validity, the results in table 7.0 could not. The results in table 7.0 may raise doubt as to the quality of quantitative data supplied by the respondents. Usually, Nigerian organizational executives are reluctant in releasing accurate quantitative data, and this may explain the apparent doubtful perception attached to table 7.0.. However, the results in table 6.0 may serve as evidence of nomological validity.

Table 8.0 shows the results of the principal components analysis of the marketing strategy variables. All the Eigen values in table 8.0 are greater than one, thereby confirming convergent validity as suggested by Kim and Mueller, (1978). Table 9.0 shows Cronbach's alpha coefficients of the major research measures. "Marketing strategy variables" and "Importance of environmental factors on marketing strategies" met Nunnally's (1978) internal consistency (reliability) standard for newly- developed research measures, while "Effect of environmental factors on marketing strategies" failed to meet Nunnally's (1978) standard for reliability. Specifically, Nunnally (1978) recommended 0.70 Cronbach alpha value (internal consistency) for newly developed research instruments. Therefore, subject to the specific and usual limitations associated with this type of research, the research instrument appears reliable and valid.

Table 6.0: Correlation Matrix of Marketing Strategies (B1-b27) and Qualitative Measures of Performance (D1 – D7)

	D1	D2	D3	D4	D5	D6	D7
B1	.14^{xx}	.06	-.05	.11	.15^{xx}	.23^{xx}	.20^{xx}
B2	.26^{xx}	.14^{xx}	.05	.24^{xx}	.09	.20^{xx}	.27^{xx}
B3	.18^{xx}	.08	.13^{x}	.13^{xx}	.07	.09	.10^{x}
B4	.27^{xx}	.25^{xx}	.11^{x}	.20^{xx}	.20^{xx}	.23^{xx}	.22^{xx}
B5	.10	.07	.02	.11^{x}	.15^{xx}	.18^{xx}	.24^{xx}
B6	.17^{xx}	.28^{xx}	.19^{xx}	.19^{xx}	.20^{xx}	.19^{xx}	.35^{xx}
B7	.24^{xx}	.37^{xx}	.22^{xx}	.25^{xx}	.27^{xx}	.27^{xx}	.33^{xx}
B8	.32^{xx}	.28^{xx}	.17^{xx}	.31^{xx}	.28^{xx}	.32^{xx}	.33^{xx}
B9	.23^{xx}	.21^{xx}	.14^{xx}	.22^{xx}	.25^{xx}	.28^{xx}	.28^{xx}
B10	.27^{xx}	.15^{xx}	.04	.23^{xx}	.21^{xx}	.21^{xx}	.32^{xx}
B11	.23^{xx}	.22^{xx}	.09	.16^{xx}	.19^{xx}	.15^{xx}	.23^{xx}
B12	.11^{x}	.03	.05	.08	.24^{xx}	.15^{xx}	.14^{xx}
B13	.26^{xx}	.12^{x}	.05	.14^{xx}	.16^{xx}	.12^{x}	.19^{xx}
B14	.20^{xx}	.13^{x}	.04	.14^{x}	.14^{xx}	.13^{x}	.18^{xx}
B15	.14^{xx}	.07	.04	.08	.11^{x}	.02	.14^{xx}
B16	.11^{x}	.12^{x}	.07	.12^{xx}	.14^{xx}	.11^{x}	.19^{xx}
B17	.08	.08	.10	.17^{xx}	.10^{x}	.15^{xx}	.20^{xx}
B18	.16^{xx}	.18^{xx}	.14^{x}	.22^{xx}	.17^{xx}	.10	.10
B19	.28^{xx}	.22^{xx}	.15^{xx}	.31^{xx}	.20^{xx}	.22^{xx}	.29^{xx}
B20	.25^{xx}	.27^{xx}	.23^{xx}	.24^{xx}	.12^{x}	.21^{xx}	.24^{xx}
B21	.19^{xx}	.13^{xx}	.10	.19^{xx}	.18^{xx}	.21^{xx}	.23^{xx}
B22	.26^{xx}	.18^{xx}	.15^{x}	.22^{xx}	.18^{xx}	.18^{xx}	.24^{xx}
B23	.13^{x}	.12^{x}	.10	13^{x}	.32^{xx}	.28^{xx}	.27^{xx}
B24	.11^{x}	.08	.12^{xx}	.13^{x}	.25^{xx}	.23^{xx}	.20^{xx}
B25	.17^{xx}	.05	.07	.11^{x}	.22^{xx}	.19^{xx}	.14^{xx}
B26	.20^{xx}	.18^{xx}	.16^{xx}	.23^{xx}	.25^{xx}	.27^{xx}	.19^{xx}
B27	.13^{x}	.04	-.01	.08	22^{xx}	.20^{xx}	..18^{xx}

^{x} P<0.05; ^{xx} P<0.01

This study has provided empirical evidence pertaining to the emphases on insurance marketing strategies, and the importance and impact of environmental factors on such strategies. The research findings show that product and mega marketing strategies received relatively low emphasis. Also, it was found that marketing strategists did not consider economic factors important in Nigerian insurance companies. These findings have managerial and research implications. First,

Nigerian insurance marketers should be sensitized to the importance of their offerings to their clients, including the impressions their clients have of those offerings.

Table 7.0: Correlation Matrix of Marketing Strategies and Quantitative Performance

	C1	C2	C3	C4
B1	.03	.02	.08	.03
B2	.02	.11[x x]	.15[xx]	.02
B3	.06	.03	..11[xx]	.06
B4	.06	.07	.03	.06
B5	.04	-.03	-.03	.04
B6	.04	-.01	.02	.04
B7	.05	.02	.03	.05
B8	.05	.06	.03	.06
B9	.02	-.00	-.03	.02
B10	.03	.05	.03	.04
B11	.05	.02	.03	.06
B12	.05	-.01	-.01	.05
B13	.02	.02	.06	.03
B14	.02	-.01	.03	.02
B15	.04	-.05	-.06	.04
B16	.07	.03	-.01	.07
B17	.03	.02	.09	.02
B18	.06	-.01	.04	.05
B19	.06	.04	-.00	.06
B20	.04	.09	.06	.04
B21	.00	-.04	-.02	-.01
B22	-.01	-.00	.06	-.00
B23	.05	.08	-.02	.04
B24	.02	.08	.04	.01
B25	-.08	.01	.08	-.08
B26	.05	.05	.03	.04
B27	.04	-.05	.02	.04

[x] P<0.05; [xx] P<0.01

Second, efforts should be geared towards having an improved total insurance package (TIP) having core, peripheral, and augmented product components. It is hoped that this improved TIP will create positive attitudes in insurance buyers' behaviour, which will subsequently lead to achievement

of set marketing objectives. Third, Nigerian insurance service marketers should bear in mind that economic consideration is a salient determinant of strategic marketing performance.

Table 8.0: Results of Principal Components Analysis of Marketing Strategy Measures

Variables	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7	Communality
1	.33	.29	.32	.41	.33	- .10	.35	.71
2	.46	.36	-.14	.05	.36	.27	.39	.71
3	.44	.01	-.38	-.21	.01	.37	.04	.51
4	.48	.54	-.18	-.18	-.18	.05	.15	.64
5	.36	.39	.17	.44	.15	.09	.20	.57
6	.50	.40	.22	.30	-.33	- .15	-.19	.71
7	.49	.48	.02	.29	.33	- .08	-.08	.70
8	.60	.53	-.14	-.13	-.11	.7	-.10	.71
9	.62	.25	.08	-.05	-.19	.03	-.17	.51
10	.64	.22	-.08	-.18	.08	.22	-.24	.62
11	.61	.24	-.02	-.25	.15	.15	-.09	.55
12	.53	.09	.20	-.26	.43	-.18	-.24	.67
13	.62	.09	-.21	-.36	.23	-.23	-.03	.67
14	.57	-.06	.05	-.17	.15	-.55	.04	.69
15	.54	-.32	-.42	.04	-.06	-.24	.10	.65
16	.54	-.30	-.47	.11	-.02	-.11	.03	.64
17	.44	-.30	-.17	.26	.11	.14	-.26	.47
18	.49	-.29	-.22	.36	.07	-.24	.11	.58
19	.61	-.25	-.22	.29	.11	.10	.02	.59
20	.54	-.18	-.22	.08	.02	.21	-.03	.43
21	.53	-.36	.07	.30	.10	.03	-.01	.52
22	.57	-.27	.09	-.01	.11	.23	-.13	.48
23	.61	-.18	.41	-.04	-.06	.11	-.29	.66
24	.49	-.29	.48	.16	.18	.09	-.17	.65
25	.55	-.29	.28	-.36	- .19	.18	.34	.78
26	.59	-.24	.22	-.17	- .32	-.17	.20	.64
27	.53	-.29	.38	-.27	- .21	.09	.32	.73
Eigenvalue	8.70	2.52	1.75	1.60	1.14	1.08	1.02	

Therefore, efforts should be made by organizational marketers towards understanding the relevant economic factors that affect both insurance clients' behaviour, and the strategic options to be adopted to cope with such behaviours. Fourthly, insurance marketing academics should

endeavour to study holistically the relevant business functions and activities which may enhance or hinder the understanding and applicability of relevant modern management concepts and principles to insurance services marketing. The concepts and principles of total quality management (TQM) are recommended for holistic study, in addition to contemporary marketing management issues such as relationship marketing, value analysis, business process re-engineering, megamarketing, re-marketing, co-marketing, bench-marketing, and permission marketing, among others.

Table 9.0: Reliability Coefficients of Research Measures (Cronbach's Alpha)

S/N	VARIABLE MEASURE	CRONBACH'S ALPHA COEFFICIENTS
1	Marketing Strategy Emphasis	0.76
2	Importance of Environmental Factors to Marketing Strategies	0.73
3	Effect of Environmental Factors on Marketing Strategies	0.65

Although this study has provided some knowledge for the understanding of strategic marketing practices of Nigerian insurance companies, it has some limitations. First, the size of the different insurance companies studied was not controlled. Second, the market segments of interest served, in addition to years of experience in the segment(s) of interest, were not controlled in the present study. Thirdly, other methods of assessing reliability and validity many have yielded better results than the present method used. For example, following the work of McColl-Kennedy and Fetter (1999), the construct validity of this type of research may be better assessed by utilizing confirmatory factor analysis of Fornell and Larcker (1981), or the multi-trait muiti-method of Cook and Campbell (1979). Finally, future research works are to be undertaken in order to refine the cobwebs found in the present research, and orient it to more specific contexts (business, time, location, etc) in Nigeria's insurance industry.

KEY TO RESEARCH VARIABLES

A101=Importance of Competition; A102=Importance of Government Policy; A103=Importance of Technology; A104=Importance of Legal Provisions; A105=Importance of Economic Factor; A106=Importance of organizational Culture; A107=Importance of Political Factor; A108=Importance of Structure of Industry; A109=Importance of Clients Behaviour; A201=Effect of Competition; A202=Effect of Government Policy; A203=Effect of Technology; A204=Effect of Legal Provisions; A205=Effect of Economic Factors; A206=Effect of organizational Culture; A207=Effect of Political Factor; A208=Effect of Industry Structure; A209=Effect of Clients Behaviour

B1=Emphasis on service quality; B2=Emphasis on New Products; B3=Emphasis on deletion of Products; B4=Emphasis on Research & Development; B5=Emphasis on Reliability of Services; B6=Emphasis on Market Penetration; B7=Emphasis on Market Development; B8=Emphasis on Market Research; B9=Emphasis on Post-sales Services; B10=Emphasis on Services Branding; B11=Emphasis on Services Advertising; B12=Emphasis on Personal Selling; B13=Emphasis on Sales Promotions; B14=Emphasis on Public Relations; B15=Emphasis on Price Skimming; B16=Emphasis on Price Penetration; B17=Emphasis on Price based on Government Rules; B18=Emphasis on Price based on Competition Practice; B19=Emphasis on Price based on what the Market can bear; B20=Emphasis on cost-plus pricing; B21=Emphasis on rebates; B22=Emphasis on opening branches offices; B23=Emphasis on prospecting to clients; B24=Emphasis on use of intermediaries; B25=Emphasis on use of chairmen; B26=Emphasis on high-level

public relations; B27=Emphasis on use of powerful connections; C1=Average gross earnings in the last five years
C2=Average market sphere in the last five years; C3=Average marketing cost in the last five years; C4=Average profit before tax in the last five years
D1=Profit effectiveness measure; D2=Market share effectiveness measure; D3=Market cost effectiveness measure; D4=Gross earning effectiveness measure; D5=Risk- bearing effectiveness measure; D6=Clients' satisfaction effectiveness measure; D7=Departmental performance effectiveness measure.

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EXPANDING THE USE OF FOCUS GROUPS IN THE NONPROFIT SECTOR

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ABSTRACT

Nonprofit organizations are very important to the U.S. economy. It is estimated that there are over 1.5 million nonprofit organizations in the United States. This sector is growing rapidly with an average of 30,000 new organizations formed annually. The nonprofit sector retains approximately 25 million employees, as well as 93 million volunteers. Americans donated $190 million to nonprofit organizations in 1999 (Mutz & Murray, 2000). The current climate in the nonprofit sector is one of increasing competition due to the increasing number of options presented to donors and the decrease in funding by the government sector. As in any competitive market, nonprofit organizations need to focus on building and maintaining relationships with their multiple stakeholders. Traditionally few nonprofit organizations have had research budgets to acquire information on how to sustain relationships with stakeholders. Using focus groups is a cost effective and efficient method to understand and build relationships with stakeholders. This article explores the expanded role of focus groups in nonprofit organizations from a method of gathering data about stakeholders to a vehicle for communicating with stakeholders. The authors propose a field study that examines the use of focus group as a communication vehicle in U.S. nonprofit organizations.

INTRODUCTION

The Internal Revenue Code identifies 24 different categories of organizations that can legally be classified as nonprofits and receive tax-exempt status. These include charitable, religious, scientific, and educational institutions, as well as social welfare groups, business leagues, and social clubs. In the current competitive climate for funding, nonprofit organizations should be as concerned as for-profit organizations about stakeholder satisfaction. This satisfaction can be directly related to the branding of a nonprofit organization (Campbell, 1996). It is only recently that the concept of branding has been associated with nonprofit organizations. The main reason that these organizations are reticent to create and develop their brand image has been the cost of these activities. There also exist other issues that complicate nonprofit marketing strategies. First, nonprofits have multiple, and often non-financial objectives. Rather than the bottom line being financially driven, social profit is the goal. Social profit is best understood as a form of education, health, safety, cultural enrichment or some other benefit to individuals and the community (Gallagher & Weinberg, 1991).

Marketing research procedures require that an organization have the resources to dedicate to marketing the organization. Most small nonprofit organizations must rely solely on volunteers to do whatever marketing gets done. The result is that nonprofit marketing for all but very large, established organizations such as the Cleveland Clinic, the Chicago Lyric Opera, or The Girl Scouts of America is done without benefit of a formal strategy, an in-depth plan, or even evaluation criteria.

The competitive environment of nonprofit organizations also complicates marketing strategies because, in many cases, competitors for funding can also serve as collaborators striving for the same social goals. For example, Share Our Strength, America's Second Harvest, Bread for the World and local food banks all work together to provide food security for hungry people. However, they must also compete for donor dollars, volunteer time and government grants to ensure that they remain solvent and fulfill their missions. This type of cooperative competition is one of the reasons nonprofit organizations have unique marketing needs that require unique marketing strategies. While consumers are happy to support two competing hospitals sharing one hospice program or even one specialized MRI, these same consumers would be outraged if they found out that the only two hardware chains in a community worked together. What, in one case, is considered smart utilization of resources, in the other case is cause for an anti-trust suit.

Finally, a further complication is that nonprofit organizations have multiple stakeholders; including customers who are may not be the ones who pay for the products or services provided (Kinnell & MacDougall, 1997; Drucker, 1990). These stakeholders include donors, volunteers, board members, employees, government agencies, private funding institutions, communities, the media, and, of course, customers or those who are being served. Even among donors there may be different demographic segments. For example, the American Heart Association segments its donors into 41 different categories based on age and income (Drucker, 1990). It is the development of relationships with various stakeholders who play multiple roles that is the focus of this paper. Specifically, this paper will discuss using focus groups as a facilitating tool for the development and stewardship of stakeholder relationships. Focus groups have a dual purpose in nonprofit organizations. The first function is the traditional role of gathering data to understand its stakeholders wants and needs. The second function is as a communication vehicle for the organization.

Businesses have long used focus group research as a tool to understand their customers and to better satisfy the wants and needs of those customers (Bruneau & Campbell, 2000; Campbell & Bruneau, 1998). This same method of research can be beneficial to nonprofit organizations in identifying the wants and needs of their many stakeholders. Focus groups are recommended as a cost-effective research technique for several reasons (Stewart & Shamdasani, 1990; Edmunds ,1999; Henley & Hodiak, 2000) including:

1	Focus groups are efficient. They can provide data from a group of people more quickly and at less cost than if each individual were interviewed separately.
2	Nonprofit organizations usually have a database of donors and volunteers, so accessing participants actively interested in the organization is cost effective.
3	Focus group research obtains rich and large amounts of data in the stakeholders' own words.

4	Focus groups allow the researcher to interact with stakeholders, fostering clarification of complicated issues. The participants' emotional intensity can be.
5	Focus groups allow stakeholders to interact and build upon the responses of other participants creating a synergy that may yield ideas that would not have surfaced in a one-on-one interview. This synergy encourages creative problem solving.
6	Focus groups are flexible. They may used to research a wide range of topics with a variety of individuals in a variety of settings.
7	Focus groups are perhaps the only way to gather information from specific populations such as children or illiterate adults.
8	Focus groups provide a forum for nonprofit organizations' stakeholders to express their opinions. This forum can, itself, provide a marketing tool to foster loyalty and encourage further participation in the organization.

The following sections of this paper will discuss how focus group research can be valuable in specific tasks of developing relationships with stakeholders, including understanding their attitudes about the mission and goals of the organization, using their input to develop and evaluate programs, and understanding their motivations for giving money and volunteering time to the organization. The communication function of focus groups will also be discussed in terms of cultivating organizational loyalty.

USING FOCUS GROUPS TO GATHER STAKEHOLDER DATA

Focus groups have been used in marketing research as a tool to gather data about consumers. Traditional uses of focus groups by for-profit organizations have included new concept testing, evaluating marketing communications, positioning a product and testing a product's usability. Focus groups are especially useful as a brainstorming mechanism. The role of focus group in collecting stakeholder data is very similar to those used in for-profit organizations. Focus groups with a nonprofit organization's stakeholders can be used to brainstorm the organization's vision, mission, goals, and objectives; to provide input into the organizations programs, and to understand why stakeholders contribute time or money to the organization.

Understanding Stakeholders' Attitudes And Values To Define The Organization's Vision, Mission, Goals And Objectives

Strategic market planning consists of defining the organizations' vision, mission, goals and objectives. Stakeholders' input can be invaluable in aiding an organization in the strategic planning stage. For example, a mission works best if it is distinctive from other organizations. By cultivating a distinctive mission and developing an organization climate that reflects a personality, an organization stands out and attracts a more loyal group of members or contributors (Kotler & Andreasen, 1996). Conducting focus groups with stakeholders can help organizations clarify what makes them distinctive from the stakeholders' viewpoint. New communication ideas may evolve

from the stakeholders' opinions stated in their own words. Organizations may be able to gain new slogan ideas, learn new ways of phrasing old ideas, and acquire insights on how best to explain the organization to the public (Lauer, 1996).

One of the first steps in the planning process is defining the organization's strengths and weaknesses, opportunities and threats. Stakeholders who are not internal to the organization but who care about the organization may have a clearer view of how:

1	the organization is viewed by the public; and,
2	how they would like the organization to be viewed by the public.

While fundraising is always important, the vision, mission, goals and objectives are often non-financial, particularly in small nonprofit organizations. Different stakeholder groups may have varying opinions about what the non-financial outcome of the organization should be. Focus groups are an excellent way to discuss these diverse goals and objectives.

Utilizing Stakeholders' Input For Program Development/Evaluation

Stakeholder input is crucial in the development of a nonprofit organizations programs and activities. Organizations often misinterpret the wants and needs of their stakeholders (Bowen, 1999). There are many examples of organizations developing programs without stakeholder input and getting into trouble. For example, in 1997 the American Medical Association (AMA) entered a deal with Sunbeam Corporation that required the AMA to endorse only Sunbeam home health products in exchange for royalties from sales of the products. The AMA was compelled to withdraw from the deal due to intense criticism from its members, officers and the media. Sunbeam then filed a suit against the association (Bartling, 1997). This would not have occurred if the AMA had conducted focus groups to determine their members' and their officers' views of the alliance prior to entering into it. Nonprofit organizations often do not realize the extent that they need stakeholder input in developing their programs (Yudelson, 1988).

The executive staff and boards of many nonprofit groups consist of professionals who often feel that they have the capability of determining the needs of their stakeholders. The governing boards are used to interacting with people, deciding what they need and providing the service to meet those needs. Unfortunately, this focus on constituents' needs often ignores their wants. Marketing distinguishes between individual wants and needs. While people have general needs, they base their specific purchases on their wants. For example, a nonprofit mental health center was experiencing a drop in client billings and could not figure out why. After surveying past patients, they found out that clients had stopped coming to group therapy sessions because they disliked the room in which the sessions were held. While the patients had complained to the therapists, the complaints were viewed as being petty gripes and not serious (Brinckerhoff, 1997). Again, this disaffection could have been avoided if a focus group had been conducted with current or previous clients of the center to uncover the seriousness of patient discomfort. Their needs were being met,

but their wants were not satisfied. It is important that focus groups be conducted periodically to ensure stakeholders' wants and needs continue to be in accord over time.

Many nonprofit organizations rely on fundraising events to earn money. In planning these events, it is imperative to have stakeholders' input (Littlefield, 2000). Focus groups with stakeholders can greatly help in planning the event. Through focus group research, the organization is able to assess the stakeholders' interests, time constraints and willingness to participate in the event. The event will have a much better likelihood of success if participants' opinions are considered. One example where stakeholders' opinions were not sought was a fundraising gala organized by the Montana Hunger Coalition to celebrate their tenth year in existence. A hall was rented, menu selected, band hired, and celebrities were asked to donate items that could be auctioned. However, the organization did no research to determine whether anyone was interested in attending this gala event. One month before the event was to take place, it had to be cancelled because of minimal ticket sales. This situation could have been avoided if focus groups were designed to solicit input from supporters of the organization determining if they would attend the event.

Stakeholder input can also be important in evaluating the success of programs. Unlike businesses, where the success of an activity can be measured in terms of sales or profits, nonprofit organizations have less tangible measures of success. Focus groups conducted either during a program or after its completion can give the organization insight into the perceived success or failure of the program. This feedback can then be used designing future programs. For example, an affinity group for health care education in Missoula, Montana, the Minerva Society, uses focus groups each year to design their health education lectures for the following year. When the Minerva Society was created, a staff person arranged the program. However, the success of the program today is attributed to focus group feedback. The participants of the focus groups were more creative in their suggestions and more attuned to the wants of the audience than the staff person. This participation by group members in focus groups ensures that programs evaluated positively by stakeholders can be repeated, and programs evaluated negatively can be revised or discontinued.

Determining Stakeholders' Motivation For Contributing To The Organization

Why do individuals give to charity? This needs to be understood in order to conduct effective fund raising. Donors to organizations are varied in the size and type of donation that they make. Kotler and Andreasen (1996) divide the donor market into four categories: 1) foundations; 2) corporations; 3) government; and 4) individuals. A list of donors should be readily available in a database maintained by the organization (Nichols, 1995). While it is very easy to determine the demographics (or firmographics) of each of these types of donors, that is not enough information to determine their motivations for contributing to the organization. (Campbell, 1999). Focus groups allow an organization to put a human face on its donors. An organization can learn from stakeholders, in their own words, what they believe about the organization, what they like or dislike about the organization, and why they donate to it (Fey,1995). Each type of donor will have multiple reasons for donating time or money to a nonprofit organization. Several potential reasons for giving have been identified by previous research. These include: belief in the cause, need for self-esteem,

need for recognition, fear of contracting the problem, concern for humanity, need to make a difference, need to socialize with other donors, desire to change the world, interest in promoting a business, need for a tax deduction, peer pressure and a multitude of other motives (Kotler & Andreasen, 1997; Keegan, 1994). Focus groups can be used to analyze each donor market in terms of their reasons for their contributions. Knowing why stakeholders contribute to an organization helps in tailoring communications to that donor.

Organizations who do not consider donors motives when fundraising attempt to solicit funds by telling potential donors that the organization needs money. They highlight the good works that the organizations does and what will be done with the donation. In other words, they try to motivate giving to meet the organizations needs, rather than finding out what each group of stakeholders want and showing them how their donation meets their needs to give, to volunteer or to participate (Kotler & Andreasen, 1996).

FOCUS GROUPS AS A COMMUNICATION VEHICLE

In addition to the role of gathering stakeholders' opinions and ideas, focus groups should have a communication objective. During focus groups, stakeholders can be given information about the nonprofit organization. The small group setting provides an excellent vehicle for two-way communication. Stakeholders can ask questions and clarify their opinions about the organization. Asking stakeholders to provide their opinions and ideas about various topics indicates that the nonprofit organization values their opinions. Thus focus groups are a method of cultivating stakeholders' loyalty to the organization.

Cultivating Stakeholders' Loyalty

Because of the intense competition for donors' contributions, organizations should focus on fund development rather than merely fundraising (Drucker, 1990). This distinction means that organizations must recognize that the donor is important to the organization not only because of the money or time donated, but because donors serve as advocates of the organization. While it may be costly and time consuming to establish donor relationships, once they are established, the cost of fundraising is actually reduced as the organization has a base of donors who do not need to be resold on the importance of the organization or the integrity of its cause. When a donor or volunteer feels included in and valued by the organization, he/she is likely to give monetary gifts of increasing amounts, remained dedicated over time, attract friends to the organization, and enhance the public perception of the organization (Mutz & Murray, 2000).

Conducting focus groups with donors signals that the organization views the donors as important to the organization in many ways. Focus groups contribute greatly to the communication function as well as the research function (Lauer, 1996). Conducting focus groups is a way for the staff of an organization to communicate how much they value the opinions of their stakeholders. In some cases, it is also an opportunity to inform the participants about certain aspects of the organization and to solicit their support.

CONCLUSION AND RESEARCH AGENDA

For focus groups to be effective, they should be part of an ongoing marketing communications program (Lauer, 1996). Rather than conducting a few isolated focus groups when the organization finds itself in financial trouble or in a crisis mode, focus groups should be included as part of the long-range planning process. A continuing focus group program can be an effective tool for building a strong reputation and gaining long-term stakeholder support. Conducting focus groups can provide insights to marketing management that, in turn, can help a nonprofit organization maintain service quality, keep donors satisfied and generate a dependable source of revenue (Borman & Lo, 1995).

The authors believe that research on the use of focus groups by nonprofit organizations is potentially rich with important data to be uncovered. How many of the smaller nonprofit organizations currently conduct research on their stakeholders' opinions? Of those that do, are the specific goals of the research met? Are focus groups being used to merely collect data or is the dual function of focus groups as a data collection tool and a communications vehicle being implemented? What opportunities exist to capitalize on information focus groups provide? What are the barriers to conducting focus groups by nonprofit organizations? These questions will be addressed in a future research study that will combine qualitative and quantitative methodologies.

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ADVERTISING, FIRM SIZE AND PROFITABILITY IN THE SERVICE SECTOR

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ABSTRACT

The marketing strategy and industrial economics literatures contend that firm level strategies and external market forces, respectively, are explanations for cross-sectional variations in profit rates. A considerable volume of prior literature has analyzed the relative explanatory power of firm strategy and market environment in explaining profitability differences across manufacturing industries. Historically one would argue that service industries were too localized for an analysis of the determinants of profit rates at the national level. However, the past twenty years have seen the emergence of national level firms in a number of service industries that were previously dominated by small locally owned businesses.

The purpose of this study is to develop and test a model that evaluates the relative importance of firm strategy and industry fixed effects in explaining cross-sectional variation in profit rates across service industries. The most important findings are that strategic effects and industry effects have roughly equivalent explanatory power for U.S. service industries. Moreover, advertising appears to be the strategic variable that is most closely linked to variation in profit. The findings of the paper are important because they provide insight as to whether firm strategy or choice of market is the most important decision open to firms.

INTRODUCTION

Recent contributions to industrial economics and marketing strategy concentrate on external market forces and firm level strategies as alternative explanations for cross-sectional variations in profit rates. While the marketing strategy literature focuses on controllable strategic decision variables as the primary determinant of profitability, the economics literature positions the external market environment as the more important factor. The question of which is more important in determining profitability bears directly on the issue of whether strategic choices or market environment is more important in determining success.

Richard Schmalensee (1985) developed a conceptual framework that can be used to analyze the relative importance of firm strategy and external market environment in determining cross sectional profit variation. Schmalensee's (1985) methodology specifies profit rate as a function of both continuously measured strategy variables and industry fixed effects. A comparison of the relative explanatory power available from continuously measured strategy variables with that provided by industry fixed effects (captured by dummy variables) can provide important insights

regarding the relative importance of firm marketing strategy and external market in explaining cross sectional profit variation. Should industry fixed effects dominate firm strategy variables in explaining profit rate variation, we would conclude that the external market environment is the most important determinant of profitability.

While numerous studies have utilized the industry fixed effects approach to study cross sectional profit rate variation for manufacturing industries, we know of no prior research that utilizes this methodology to examine variation in profit rates across service industries. Historically one might argue that the highly localized nature of service industries precluded an examination of service industry profitability at the national level. Service sector profitability was considered to be a function of local market conditions rather than the specific service industry in which the firm operated. The past several decades have witnessed the emergence of national firms in a number of service industries. While hotel franchises have been operating on a national level for several decades, national service firms have recently emerged in industries as diverse as auto repair, hospitals, doctor's offices, accounting firms and motion picture theaters. The increased importance of national service firms raises the possibility of national competition in markets that were previously viewed as exclusively local or regional. As service markets become more national, issues related to marketing strategy and external market become important in analyzing profit rate variation across the service sector.

The purpose of this paper is to analyze the determinants of profit rate variation in the U.S. service sector using the framework developed by Schmalensee (1985). The topic addresses important marketing issues related to firm strategy and market environment as alternative determinants of profitability. Moreover, the data used allow for the specification of profit rate models across a broad range of firm sizes, thereby facilitating an analysis of the determinants of profitability for a wide variety of service firms. The importance of firm size in explaining profitability is prominent in the works of Michael Porter (1985 & 1998).

PREVIOUS LITERATURE

The growing importance of service industries to the U.S. economy has been widely documented in academic literature and in the popular press. Cook, Goh and Chung (1999) report that whereas 64% of the U.S workforce was employed in services in 1965, eighty percent of total employment is expected to be in services by early in the twenty first century. Moreover, there is evidence to suggest that the face of service industries is changing in the U.S. Bharadwaj and Menon (1993) report that contemporary service industries are characterized by slow growth, rapid innovation and increasing competition. Atternan and Guseman (1988) describe the service sector as more concentrated than in the past as economies of scale increase the advantage of large firm size. While the works of Bharadwaj and Menon (1993) and Atternan and Gueseman (1988) document the changes that have occurred in the service sector, their research provides little or no analysis regarding the impact of these changes on profitability. Empirical studies that have dealt with profitability in the service sector have often focused on the importance of organizational structure and competitive advantage. For example, Bagchi-Sen and Kuechler (2000) argue that fully

diversified, pro-active firms tend to outperform firms that operate in a more reactive fashion. Similarly, Bharadwaj, Varadarajan, and Fahy (1993) contend that in service industries, some firms are more profitable than others simply because the successful firms possess a special characteristic that is difficult for competitors to duplicate. This unique characteristic allows these firms to consistently outperform their rivals regardless of whether relative industry profit rates are high or low. The research of Bagchi-Sen and Kuechler (2000) and Bharadwaj, Varadarajan and Fahy (1993) thus suggest that attributes of the individual firm are important in explaining variation in profitability. However, results are often mixed regarding specific attributes that affect profitability.

Research regarding market share as a proxy for firm market power is often inconclusive. Prior studies by Bharadwaj and Menon (1993) and Carman and Langeard (1980) reach different conclusions on the relationship between profitability and market share. Bharadwaj and Menon (1993) view increased market share as a double edge sword that increases both financial performance and risk. Alternatively, Carman and Langeard (1980) propose that increased market share in the service sector provides positive benefits to firms in the form of greater access to scale economies and a more dominant market position.

There is reason to believe that advertising spending may provide less of a strategic advantage in the unique service environment. Woo (1987) contends that advertising can communicate very little regarding service quality to consumers and is thus of little value to the firm. Balasubramanian and Kumar (1990) contend that the role of advertising in services is very limited suggesting an overall negative relationship between financial performance and advertising expenditures. These results suggest that marketers operating in the service sector may need to move away from generally accepted strategies used by firms operating in manufacturing.

Habib and Victor (1991) compared structure-performance models for the service sector with similar models estimated with manufacturing data. They found that while the structure-performance framework yields significant relationships between profitability and structure measures for manufacturing firms, there is no such relationship for the service sector. While the prior research of Habib and Victor (1991) provides important insights regarding the relationship between market structure and profitability in service industries, the applicability of their findings is limited by the use of data that were drawn exclusively from multinational firms. Moreover, Habib and Victor's (1991) empirical approach did not allow them to directly test for firm and industry effects in the service sector. As stated above, the model developed by Richard Schmalensee (1985) provides an ideal framework for testing the relative importance of firm and industry effects in explaining cross sectional variation in profit rates.

Following Schmalensee (1985), the most common approach for capturing market and firm level effects is to include industry level dummy variables along with continuously measured strategic firm values as right hand side variables in profit rate models. Using Federal Trade Commission Line of Business data, Schmalensee's now familiar result provides evidence that industry effects dominate corporate and market share effects in explaining cross-sectional variations in profit across manufacturing industries. From a practical standpoint, Schmalensee's findings offer empirical support for the continued examination of the industry as an important unit of observation when studying cross-sectional variation in profit rates.

Subsequent studies by Scott and Pascoe (1986), Cubbin and Geroski (1987), and Wernerfelt and Montgomery (1988) furnish at least partial support for Schmalensee's fundamental conclusions regarding the importance of industry effects. Neither Scott and Pascoe nor Cubbin and Geroski find industry effects to be as dominant as Schmalensee's and Wernerfelt and Montgomery's (1988) research suggests. Rumelt (1991) argues that Schmalensee's technique provides essentially a one-year snapshot estimate of variable industry effects and that a more appropriate methodology is to focus on stable differences in industries across time. Using variance decomposition techniques, Rumelt observes that stable industry effects account for only eight percent of the variation in business unit rate of return and only 40 percent of the variation in industry returns. Long-term business unit effects, on the other hand, account for 46 percent of the variation in rate of return across business units. Rumelt's findings thus suggest that while industry effects undoubtedly are important in explaining cross-sectional variation in profit rates, the focus on the industry as the source primary of cross-sectional variations in profit across manufacturing is misplaced.

Powell (1996) criticizes the earlier studies arguing that both the data and methodology are flawed. Powell's research utilizes a sample of undiversified firms and includes interviews with CEO's. Despite these differences in methodology and data, Powell's findings that industry affiliation explains in the neighborhood of 20 percent of profit variation is consistent with the majority of previous studies. The general consensus of the previous literature is, therefore, that industry effects are important (but perhaps not dominant) in explaining variations in profit across manufacturing industries.

The previous empirical literature covering manufacturing industries provides an appropriate departure point for the analysis of firm and industry effects in the service sector. Variables such as firm size, advertising intensity, capital intensity, and market share, deemed important in prior manufacturing studies, should appear in a model that is designed to capture firm and industry fixed effects in services. Moreover, prior empirical research suggests that in addition to the variables listed above, the interaction between firm size and advertising should be included in the model. Ravenscraft (1983) and Caves and Pugel (1980) both offer evidence that interactions between firm size and advertising are important in explaining profit rate variation. While the prior studies using manufacturing data provide evidence regarding variables that should be included in a study of service industries, unique characteristics of services suggest that two additional variables should be included in the model. A study of profit rate variation across service industries should include measures to capture how firms are financed (i.e. equity or debt) and bad debt relative to sales. Inclusion of these additional variables is warranted because of the diverse nature of service firms in terms of size, managerial expertise, and access to financial capital.

The model for explaining cross-sectional variations in profit across service industries could thus be summarized in very general terms by Equation 1 below:

(1) Profit Rate =f (Strategic Effects, Market Environment Effects, General Economic Climate).

The strategic effects focus on the strategies that firms can use in confronting their competitive environment, the market environment effects would capture similarities in conditions within the industry or service type, while the general economic climate variable captures the effects of the macro-economy or business cycles on profitability. The specific measures for each of these broad concepts along with the data used to test the model are discussed below.

DATA AND METHODOLOGY

We know of no data source that allows for specification of equation 1 for a broad range of firm sizes at the firm level. Data sources such as COMPUSTAT and CRISP, for example, contain data for medium and large firms, but do not include small firms in their samples. Consequently, a study of service sector profitability across the entire firm size distribution must rely upon more aggregated data. The Internal Revenue Service: Sourcebook For The Corporate Statistics Of Income contain data that are grouped into twelve diverse asset size classes ranging from firms with zero assets to an open ended upper category consisting of firms with 250 million or more in total assets. Appendix 1 contains the twelve asset size classes found in the IRS data. We omit the bottom category from our data in order to avoid problems associate with the computation of measures such as return on assets for firms with zero assets. Although the IRS data do not permit observation of individual firm behavior, the data do provide financial statement measures for firms that are similar in size.

Our data cover the years 1991-1995 and include all twenty-three-service sector industries that are contained within the IRS data. Our sample does not include financial services because these industries are grouped into a separate Finance, Real Estate, and Insurance sector. Moreover, the size and asset base of financial service firms such as banks and insurance companies make these industries incompatible for inclusion in an analysis of other services.

Firms are grouped according Enterprise Statistic industry definitions, a level of aggregation that approximates three digit Census industries. The specific service sector industries included in the sample are found in Appendix 2. The IRS data are widely familiar to researchers in marketing and economics and have been used in previous research by Demsetz (1973), Caves and Pugel (1980) and Porter (1979). Moreover, previous researchers have used these data to make inferences regarding the behavior of individual firms. For example, Michael Porter's 1979 article, widely regarded as the definitive contribution to strategic groups theory, uses the IRS data to test firm specific hypotheses.

The basic model expresses profit rate, measured as return on assets, as a function of the various strategic variables, market environment variables and macroeconomic climate. Equation 2 contains the basic specification:

$$2) \quad ROA_{ij} = \alpha_0 + \alpha_1 SHARE_{ij} + \alpha_2 FSIZE_{ij} + \alpha_3 ADIN_{ij} + \alpha_4 CAPIN_{ij} + \alpha_5 DEBT_{ij} + \alpha_6 WORTH_{ij} + \alpha_7 BUSCYCL_t + \alpha_8 FSIZE_{ij} * ADIN_{ij} + \alpha_9 FSIZE_{ij} * CAPIN_{ij} + \Sigma_{j=1}^{M-1} \alpha_{10} + jINDj + \mu$$

Dependent Variable

Return On Assets: (ROA_{ij}) measured as the sum of net income and interest paid divided by total assets for the ith size class of the jth industry. Measured as a percentage.

Strategic Effects

Average Market Share: ($SHARE_{ij}$) measured as the average market share of firms in the ith size class of the jth industry. $SHARE_{ij}$ is calculated by computing the average total receipts per firm for each size class and then expressing the average receipts per firm as a percentage of total receipts for the industry.

Firm Size: ($FSIZE_{ij}$) measured as the average assets for each firm in the ith size class of the jth industry. $FSIZE_{ij}$ is calculated as total assets in each size class divided by the number of firms (number of returns) in each size class.

Advertising Intensity: ($ADIN_{ij}$) measured as advertising expenditure for the ith size class of the jth industry, divided by total receipts for the ith size class of the jth industry.

Capital Intensity: ($CAPIN_{ij}$) measured as total assets for the ith size class of the jth industry, divided by total receipts of the ith size class of the jth industry.

Bad Debt Management: ($DEBT_{ij}$) measured as bad debt expense for the ith size class of the jth industry divided total receipts for the ith size class of the jth industry.

Capital Structure: ($WORTH_{ij}$) measured as net worth for the ith size class of the jth industry divided by total assets for the ith size class of the jth industry.

Industry Environment

Industry Fixed Effects: (IND_j) measured by a set of M-1 industry dummy variables with M being the number of industries included in the sample. The variable takes on a value of 1 if the observation falls within that industry and zero otherwise. The omitted category is industry 7310, advertising.

General Economic Conditions

Business Cycle: ($BUSCYCL_t$) measured as the rate of growth in real GDP for each year covered by the sample, 1991-1995.

Interaction Effect

Firm Size/Advertising Intensity: ($FSIZE_{ij}$*$ADIN_{ij}$) measured as the average asset size for the ith size class of the jth industry multiplied by the advertising intensity for the ith size class and jth industry.

Appendix 3 shows the means and standard deviations for each of the variables included in the study. Interest paid is included in the numerator of return on assets following the works of

Stigler (1963). Stigler argues that accounting for interest is necessary in order to avoid biases that could result from the manner in which the firm is financed (i.e. debt or equity financing).

Fisher and McGowan (1983) and Benston (1985) have been extremely critical of empirical research that utilizes accounting rate of return claiming that accounting return is highly flawed as a measure of economic return. Mueller (1990) argues that while most of the criticism of accounting based profit measures focuses on the inability of accounting return to capture the internal rate of return for an individual project, most empirical research employs accounting return for the entire firm. Mueller's (1990) point is that the critics of accounting return have never offered evidence regarding systematic biases at the firm or corporate levels. Moreover, Mueller's (1990) own research comparing accounting return to Tobin's Q (the profitability measure preferred by critics of accounting return) suggests that the signs and significance levels of important variables are the same regardless of whether one uses accounting return or Tobin's Q as the dependent variable. Finally, we agree with Martin (1993) who argues that the consequences of the Fisher-McGowan and Benston's arguments are severe, for they portend the end of empirical research based on accounting data. Martin contends, and we agree, that the costs of not using accounting data are greater than the costs of using data that are somewhat flawed.

Theory and prior empirical work provide some insights regarding the expected signs for the variables appearing on the right hand side of equation 2. Historically, there are two dominant approaches regarding the influence of market share on profitability. Ravenscraft (1983) and Gale and Branch (1982) suggest that market share is a proxy for firm efficiency. Alternatively, Shepherd (1972 & 1986) suggests that market share is a proxy for firm specific sources of market power. Although the theoretical basis and the policy implications of these two alternative views are very different, both the efficiency and market power arguments suggest a positive relationship between return on assets and market share.

Theory and prior empirical evidence suggest that large firm efficiency is responsible for a positive relationship between firm size and profitability (Scherer, 1973; Hall & Weiss, 1967). However, strategic group theorists (Caves & Porter, 1977, Porter, 1979) argue that the relationship between firm size and profitability depends upon the strategic group network that is unique to each industry. Moreover, there is empirical precedence for finding no relationship between firm size and profitability (Amato & Wilder, 1985).

Both marketing theory and prior empirical research suggest that advertising intensity is positively related to profitability. As stated above, however, Woo (1987) and Balasubramanian and Kumar (1990) argue that advertising may be less effective in service industries as compared to other sectors of the economy. Capital requirements are likely serve as a barrier to entry hence we hypothesize a positive relationship between capital intensity and return on assets. The variable measuring bad debt relative to total receipts is expected to be negative, as a high proportion of bad debt negatively influences profitability. The hypothesized sign for the net worth variable is ambiguous. On the one hand, the cost of internally generated funds may be lower than the cost associated with borrowed funds suggesting a positive relationship between net worth and profitability. Alternatively, agency theory suggests that borrowed funds may result in firms being scrutinized by lending institutions. Realizing that many service firms are small business that lack access to specialized managerial expertise, the greater scrutiny that goes with borrowing may

increase profitability The sign of the business cycle variable is expected to be positive, as growth in real GDP is expected to positively impact profitability. Domowitz, Hubbard and Pertersen (1986) document the importance of business cycle effects to the structure performance relationship. Moreover, Petersen and Strongin (1996) offer evidence to suggest that service industries are particularly sensitive to variations in the business cycle.

The works of Ravenscraft (1983) and Caves and Pugel (1980) suggest that in manufacturing industries there are important interactions between firm size advertising intensity. One explanation for these findings is that the benefits of advertising entry barriers are greatest for large firms. We include the interaction between firm size and advertising in our profit rate model for service industries based upon the prior research using manufacturing data. The hypothesized sign for this interaction is positive.

EMPIRICAL RESULTS

As stated above, theory and prior empirical research present conflicting views regarding the relative importance of firm and industry effects in explaining cross sectional variations in profit rates. The prior research of Schmalensee (1985) and others suggests that one approach for ascertaining the relative importance of firm and industry effects in explaining cross-sectional variation in profit rates is to estimate separate models with industry dummy variables both included and excluded. The difference in explanatory power between the two models then provides a basis for judging the importance of firm and industry effects.

Column 1 of Table 1 contains the estimated coefficients for the model that excludes industry effects. White's test revealed the presence of heteroskedasticity thus requiring the use of White's correction factor. The t-statistics reported in column 1 were computed using White's robust error terms. The adjusted R^2 of .19 (R^2=.20) suggests that the model provides reasonably good explanatory power as compared to prior studies using the structure-performance paradigm.

An examination of the results from column 1 suggests that the coefficients for market share, advertising intensity, firm size, capital intensity and relative net worth are all statistically significant at the .05 level. Among the significant variables, the coefficients for both advertising and firm size are positive, as hypothesized. The positive sign for the firm size variable is consistent with Carman and Langeard's (1980) contention regarding the importance of scale economies in service industries. An important rationale for hypothesizing a positive coefficient for the firm size variable is the presence of economies of scale in various aspects of the firm's performance. The positive coefficient for advertising intensity is consistent with prior structure-performance studies such as Comanor and Wilson (1974) that emphasize the capacity of advertising to serve as an entry barrier. Our findings are not consistent, however, with Woo's (1987) contention that advertising should be of little value in service industries. Our findings are in marked contrast to prior studies by authors such as Jones (1990) who questions the usefulness of advertising as a vehicle for increasing profitability.

Table 1
Estimated Regression Coefficients
Return on Assets Related to Strategy Variables and Industry Dummy Variables

Variable	Industry Effects Excluded	Industry Effects Included
Intercept	0.23 (7.42)*	0.23 (5.60)*
$SHARE_{ij}$	-4.04 (-7.8)*	-5.09 (-6.80)*
$FSIZE_{ij}$	.00000011 (3.77)*	7.56 E-8 (2.93)*
$ADIN_{ij}$	0.52 (2.12)*	0.85 (3.74)*
$CAPIN_{ij}$	-0.15 (-4.74)*	-0.11 (-3.98)*
$DEBT_{ij}$	-0.68 (-1.20)	-6.82 (-6.27)*
$WORTH_{ij}$	0.15 (3.35)*	0.14 (2.59)*
$BUSCYCL_t$	9.35 E-16 (2.27 E-12)	9.19 E-16 (2.55 E-13)
$FSIZE^{ij}$*$ADIN_{ij}$	-.00000038 (-0.24)	.000002 (1.55)
IND_j	Excluded	Included
R^2	0.20	0.37
Adj R^2	0.19	0.34
F-ratio	(22.88)*	14.57*
t statistics in parentheses	* Significant .05 level	

The coefficients for market share and capital intensity are negative and statistically significant, a finding that is in contrast to the hypothesized positive sign. The negative sign for capital intensity, while contrary to our a priori hypothesis, has precedence in prior studies (Hall & Weiss, 1967). Although our results are at odds with the a priori hypothesis regarding the effects of market share on profit rates, there is precedent such findings. Szymanski, Bharadwaj, and Varadarajan (1993) summarize the results of seventy-six studies dealing with the market share and profitability relationship. Szymanski et al. report that the magnitude, sign and significance level of the market share and profitability relationship varies across studies and within the same study.

The coefficient for the variable measuring net worth relative to total assets is positive and statistically significant. Our results suggest that firms in the service sector are more profitable when internally generated funds replace borrowing.

Column 2 of Table 1 contains estimated coefficients for the model that includes industry fixed effects. The omitted category for the industry dummy variables is 7310, advertising. We chose this industry because the average return for advertising (mean of .192) was closest to the average return of for the entire sample (mean of .194). Adding industry dummy variables to the model increases R^2 from .20 to .37 suggesting that industry fixed effects explain seventeen percent of the total variation in profit rates. Industry fixed effects that explain seventeen percent of total profit variation are comparable to the industry effects of just under twenty percent that were first reported

by Schmalensee (1985). It is important to note that industry effects that explain just under twenty percent were considered quite substantial when Schmalensee first published his results.

Examining the coefficients for the continuously measured strategic variables in the industry fixed effects model, we see few changes from the model with industry effects deleted. The coefficients for the firm size, advertising intensity and net worth relative to assets variables remain positive and statistically significant, while the coefficients for market share and capital intensity remain negative and significant. While the magnitudes of several coefficients change, the most interesting development concerns the impact of adding industry fixed effects on the coefficient for advertising .

The coefficient for advertising increases from .51 to .85, an increase of 67%, as we move from the model with the industry dummy variables excluded to the industry fixed effects specification. This substantial increase in the coefficient for advertising when industry effects are added to the model suggests that the impact of advertising on profit rates is industry specific. This finding provides rather convincing evidence regarding the importance of advertising strategy in determining service sector profit rates. That the effects of advertising are greatest after accounting for industry (by including industry dummy variables) suggests that it is intra-industry rather than inter-industry difference in advertising that is important. In short, advertising intensity relative to that of competitors in the same industry appears to be the important determinant of profitability.

One final change in the continuous variables from adding the industry dummy variables relates to bad debt. The coefficient for bad debt, statistically insignificant in column 1, is negative and significant in the industry effects specification. That bad debt is only significant when industry dummy variables are present in the model suggests that bad debt relative to competitors in your industry is the critical variable rather than absolute levels of bad debt. Our finding is thus consistent with the notion that acceptable levels of bad debt are industry specific and that it is only when firms deviate from industry norms that a problem emerges.

Table 2 contains the coefficients and t-statistics for each of the dummy variables included in the model. As stated above, the omitted category is the advertising industry, chosen as the industry whose average return on assets was closest to the average for the entire sample. The coefficients reported for the dummy variables in Table 2 relate the intercept for the industry in question to the omitted category. Three industries had negative and statistically significant coefficients: Auto Repair Services, Miscellaneous Repair Services, and Motion Picture Theaters. Industries with positive and significant coefficients include: Hospitals; Other Medical Services; Legal Services; and Accounting, Auditing, and Bookkeeping. While there is no obvious pattern to the industries with negative coefficients, except that two of the industries deal with repairs, there is clear commonality among the industries with positive dummy variable coefficients. All of the industries with positive and significant dummy variable coefficients are for industries with professional licensure guidelines that limit entry. For example, hospitals must be approved by hospital and medical boards, attorneys must pass the Bar exam, accountants the CPA exam etc. The propensity for these licensure boards to limit entry so as to maintain incomes is well established. It is surprising, therefore, that the coefficients for physicians and dentists, although reported positive, were not statistically different from zero.

Table 2
Coefficients and t-Values for Industry Dummy Variables

Industry	Coefficients
Hotels and Other Lodging Places	-0.03 (-0.78)
Personal Services	-0.06 (-1.45)
Business Services, Except Advertising	-0.03 (-0.73)
Auto Repair and Services	-0.08 (-2.37)*
Miscellaneous Repair Services	-0.08 (-2.14)*
Motion Picture production, Distribution, and Services	-0.11 (-2.72)*
Motion Picture Theaters	-0.11 (-2.97)*
Amusement and Recreation Services, Except Motion Pictures	-0.04 (-0.99)
Offices of Physicians, Including Osteopathic Physicians	0.09 (1.94)
Offices of Dentists	0.03 (0.34)
Offices of Other Health Practitioners	0.11 (1.87)
Nursing and Personal Care Facilities	-0.03 (-0.87)
Hospitals	0.31 (5.95)*
Medical Laboratories	-0.01 (-0.22)
Other Medical Services	0.16 (3.00)*
Legal Services	0.15 (2.16)*
Educational Services	0.03 (0.76)
Social Services	-0.07 (-1.93)
Membership Organizations	-0.06 (-1.40)
Architectural and Engineering Services	-0.02 (-0.53)
Accounting, Auditing and Bookkeeping.	17 (2.30)*
t-statistics in parentheses * significant .05 level	

DISCUSSION AND CONCLUSIONS

The purpose of this paper is to examine the determinants of profit rate variation across the service sector. The study offers three important results. One major finding relates to the importance of advertising intensity in explaining variation in profit rates across service industries. The coefficient for advertising intensity is positive and significant in explaining return on assets regardless of whether industry fixed effects are included or excluded from the model. The persistently positive and significant coefficient for advertising attests to the importance of marketing strategy, as measured by advertising, in determining service sector profitability. Moreover, the fact

that the coefficient increases once industry effects are introduced to the model suggests that intra-industry non-price competition is important in determining profitability.

The second major conclusion relates to the strength of industry effects in explaining profit rate variation across service industries. We find industry effects that explain seventeen percent of profit rate variation, a finding that suggests industry effects for service industries comparable to those for manufacturing. It is important to note that Richard Schmalensee's (1985) finding of industry effects that explained just under twenty percent of manufacturing profitability were considered substantial at the time his results were published.

The final conclusions relate to the positive and significant coefficient for firm size, a finding that is robust to the inclusion or exclusion of industry fixed effects. While existing data do not permit specific tests for the presence of scale economies, our results are consistent with the arguments of Atternan and Guseman (1988) regarding the increasing importance of scale economies in the service sector.

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Appendix 1
Size Classes

Size Classes	Asset Range (Thousands of $)
1	$0
2	$1 – 100
3	$100 – 250
4	$250 – 500
5	$500 – 1,000
6	$1,000 – 5,000
7	$5,000 – 10,000
8	$10,000 – 25,000
9	$25,000 – 50,000
10	$50,000 – 100,000
11	$100,000 – 250,000
12	$250,000 or more

Appendix 2
Descriptive Statistics

	Mean	Std. Dev.	Minimum	Maximum
Return On Assets (ROA_{ij})	0.193	0.188	0.0241	1.0839
Average Market Share ($SHARE_{ij}$)	0.0033	0.0097	9.3402 E-7	0.0732
Advertising Intensity ($ADIN_{ij}$)	0.015	0.022	0.0004	0.1874
Firm Size ($FSIZE_{ij}$) (thousands $)	76562.16	312626.61	20.6841	2598927.67
Capital Intensity ($CAPIN_{ij}$)	0.590	0.484	0.0528	4.3996
Bad Debt Management ($BADIN_{ij}$)	0.005	0.008	9.3143 E-6	0.0429
Capital Structure (FIN_{ij})	0.395	0.174	0.0075	1.6530

Appendix 3
Industries Included in Sample

Industry Code	Industry Description
7000	Hotels and Other Lodging Places
7200	Personal Services
7310	Advertising
7389	Business Services, Except Advertising
7500	Auto Repair and Services
7600	Miscellaneous Repair Services
7812	Motion Picture production, Distribution, and Services
7830	Motion Picture Theaters
7900	Amusement and Recreation Services, Except Motion Pictures
8015	Offices of Physicians, Including Osteopathic Physicians
8021	Offices of Dentists
8040	Offices of Other Health Practitioners
8050	Nursing and Personal Care Facilities
8060	Hospitals
8071	Medical Laboratories
8099	Other Medical Services
8111	Legal Services
8200	Educational Services
8300	Social Services
8600	Membership Organizations
8911	Architectural and Engineering Services
8930	Accounting, Auditing, and Bookkeeping

OVERMARKETING

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ABSTRACT

As marketing theory and practice have evolved over time, increasingly questions such as "what is the correct or optimal level of marketing" have become increasingly relevant to firms, consumers and society as a whole. The goal of this manuscript is to further explore how some firms engage in excessive levels of marketing ("Overmarketing"), why this happens, and what the impact is for firms, consumers, and society.

INTRODUCTION

The role and importance of marketing in facilitating exchange has long been a troubling issue among marketing practitioners and academicians alike. Questions like "what is the 'correct' level of marketing" and "does marketing do more good than bad" have implicitly played a significant role in the development of marketing as both a discipline and a practice. In a sense, we would also like to ask (and address) questions such as these. What exactly is the "correct" level of marketing? Does the answer to this question vary when viewed from the firm's viewpoint? Or from the consumer's viewpoint? Or from society's viewpoint? What regulates the level of marketing in society? What is the result of the current system? Does the current level of marketing in society represent (a) the true wants/needs/desires of consumers for products and services, or (b) for marketing-type activities, or (c) competitive pressures and the importance of marketing to firms, or (d) some combination of all of these?

Using this context, the purpose of this manuscript is to further explore the role and general level of marketing, in both a positive and normative sense, as it is used in the facilitation of exchange. Alternatives to marketing as well as the excesses of marketing practice will also be addressed.

A BRIEF HISTORY OF CONCERN ABOUT MARKETING

At the dawn of marketing thought and practice, early authors such as Cherington (1920), Converse (1921) and Brown (1925), within each of their textbooks at that time recognized the potential for the practice of marketing to be perceived as "wasteful" at times. For these authors (and the public in general) marketing may have seemed to be unnecessary and frivolous given the context of time.

In a similar fashion, during the 1950's and 1960's a number of notable authors (Levitt, 1960; Drucker, 1958; Farmer, 1967) forewarned of the critical role marketers will play in the development of the global economy. Some of the more recent criticisms (Aaker & Carman, 1982; Arbeit, 1982; Bell & Emory, 1971; Bennett & Cooper, 1979; Bennett & Cooper, 1981; Bonoma, 1986; Brown, 1988; Farmer, 1977; Farmer, 1987; Hayes & Abernathy, 1980; Mason, 1986; Oxenfeldt & Moore, 1978; Schuster, 1987; Webster, 1981;Webster, 1988) have reflected a deepening concern for the role of marketing in society as well as a critical analysis on the part of marketers pertaining to their orientations, methods, and techniques.

OVERMARKETING (OM): A NEW BUSINESS ORIENTATION?

Although the advent of the marketing concept has been relatively recent (1950's), the acceptance of the marketing orientation generally has been both swift and convincing, both on the part of consumers and businesses. This progression is represented in the widely-accepted business orientations framework, with firms progressing from the initial production-orientation eventually to the sales orientation. Implicitly this framework typifies the dramatic changes in exchange practices over the past 50-75 years. What lies beyond the marketing orientation, though? It is argued that the overmarketing orientation (OM) does, and that OM is presently dominating a large portion of exchange activity. The OM orientation can be generally described as an exchange orientation where the "marketing of marketing" has occurred. Additionally, the OM orientation suggests that given the widespread acceptance of marketing, the general level of marketing activity is questionably high, and some macro-level externalities may be the result (and the evidence). In other words, is it possible that there may be too much marketing in society? What lies beyond the progression from production to sales to a marketing orientation? Overmarketing does, and can be defined as:

> *OM is a state or condition where marketing resources are over - applied and/or inappropriately used.*

Two caveats need to be supplied with this definition. Although under-applications of marketing resources are equally inefficient, they will not be addressed here, and are not considered as being part of the general concept. Also, instances of "marketing failures" could potentially fall under the domain of OM, but here OM is being viewed as relating to the general level of marketing activity in society. Thus, implicit within the definition and surrounding assumptions, the concept of OM addresses the series of questions raised in the beginning of this article.

Several challenges to the existing business-type conventional wisdom are embodied within OM and need to be further discussed. First, marketing activity is not dichotomous, but rather continuous. Exchange can be facilitated within the context of no marketing (i.e., self- production for self-consumption), low-levels of marketing (i.e., non-marketing), various middle-range gradients of marketing activity (i.e., production, sales, and marketing orientations) and even

excessive marketing activity (i.e., OM). Firms not only make a decision to engage in marketing, but they also decide on the level of marketing they wish to pursue.

Second, marketing is assumed to be "good". Although the benefits of marketing have been quite evident, the associated externalities are also equally convincing. Not only have consumers realized that there is "no free lunch" when it comes to marketing practices, but firms have also realized that consumers many times don't want high levels of marketing activities. Examples of this include producers, advertisers, and retailers who have all strategically limited their marketing efforts despite industry practices. The role of consumers is also a key factor here, and will be addressed in the final sections.

This second assumption can be linked to a general history of the idea of progress. Nisbett (1980) chronicled the philosophy of progress and believes it has played an important part in the development of man:

> *Simply stated, the idea of progress holds that all of mankind has advanced in the past -- from some aboriginal condition of primitiveness, barbarism, or even nullity -- and is now advancing, and will continue to advance through the foreseeable future.*

This notion of "progress" is implicit in the original business- orientation framework cited earlier, and is also consistent with the idea that "marketing is good". Clearly we as a society believe that progress is generally good and has a linear relationship with time. To a large extent OM challenges this assumption in relation to marketing practices.

OM: THE EXTERNALITIES OF MARKETING

In a sense, OM can be thought of as being a unique set of externalities associated with the marketing orientation. Because of the "marketing of marketing", a new orientation (OM) has emerged, also resulting in "side-effects" which in a sense can be thought of as externalities. Coase (1960) provides a general understanding of what is meant by externalities:

The cost of exercising a right is always the loss, which is suffered elsewhere in consequence of the exercise of that right...

> *It would clearly be desirable if the only actions performed were those in which what was gained was worth more than what was lost. But in choosing between social arrangements within the context of which individual decisions are made, we have to bear in mind that a change in the existing system will lead to an improvement in some decisions may well lead to a worsening of others.*

Externalities specifically related to marketing activities include pollution, waste, misallocation of resources, etc., and can be directly traced to specific marketing activities. These problems are widely-recognized and studied. Interestingly though, other more subtle yet potentially critical

externalities such as an addiction to marketing practices, materialism, etc. Can and do exist and are directly attributable to marketing. Attention has been paid to many of the highly identifiable externalities linked to marketing such as pollution, but the hidden costs seem to elude discussion. Several of these hidden costs, which we will call macro-externalities, will examined in order to lay the groundwork for further analysis of the causes and roots of OM.

MACRO-EXTERNALITY # 1

The activities involved in marketing a specific product or service are more important than the actual product or service. The marketing activities directly related to a specific product or service is integral parts of any eventual exchange. The key to the externality being addressed here is the relative importance of the marketing efforts associated with a given exchange. Specifically, what about cases where consumers are more attracted by the marketing of a product or service rather than the actual product or service it? In other words, do advertising, sales promotion, location; packaging, and numerous other marketing factors do more attract consumers than do the actual products or services? Schudson (1984), in his book on the impact of advertising, shares this logic:

> *Ads don't sell products, do they? Take Charlie the Tuna. Do you really go into the store and buy Starkist because Charlie the Tune said they're picky about what they put in the can? The kind of ad that sells, that has to sell, is retail advertising, the one that says, Starkist Tuna, fifteen cents off.*

Two important dimensions of this macro-externality seem to be relevant here: ethics and economics. On the ethical front, is there anything necessarily wrong with consumers being attracted to marketing? It would be naive to assume that products or services stand alone, since each eventual exchange represents the annuity of the marketing components, which are embodied within the specific product or service. Alternatively, is the focus of marketing efforts still directed at product and services, or the marketing of products and services? Is it the intended or desired role of marketers to overshadow the end result with the process of marketing? If this is what consumers want, then the answer should be yes. If this is not what consumers want, then it appears that the result has been OM.

The profitability or economic dimension of this macro- externality is more identifiable and definitive. Firms market products and services and if the eventual consumer does not desire such exchanges eventually they will continue to occur. How much control does the consumer have over the process, though? Additionally, if firms have lost sight of the true essence of the marketing concept, adjustments and reactions to consumers may not be entirely appropriate.

Somewhat of an analogy can be drawn here to addiction-type behaviors. Are some consumers suffering from addictions to marketing? Seemingly marketers are providing a service (OM) to consumers, and in some instances that service is more important than the intended focus of the exchange. Additionally, if consumers are indeed "addicted" to marketing, alternatives beyond marketing (to facilitating exchange) such as self-production for self-consumption may not be viable alternatives.

This macro-externality may also be related to recent trends towards materialism in society (Galbraith, 1958: Belk, Bahn & Mayer, 1982; Rassuli & Hollander, 1986). If materialism is focused on goods and services, clearly OM appears to be an integral part of the entire process. Do consumers value specific articles, or the marketing of those articles, or both?

MACRO-EXTERNALITY # 2

Over-reliance on tactical marketing manipulations versus "real marketing"

A number of recent criticisms have directly and indirectly questioned whether the practice of marketing is really still focused on satisfying consumers' wants and needs. A number of authors have questioned whether or not marketing efforts are driven by the ultimate consumer, or instead by competitive pressures, corporate traditions or preferences, or over-reliance on marketing strategy tools. Are marketer's really satisfying consumer wants and needs, or are they merely adjusting the marketing mix in order to provide the illusion of marketing?

Some evidence on both sides of this issue exists. The importance of implementation is finally being recognized within the marketing management literature, and represents a new pragmatism towards marketing efforts. Firms such as Patagonia and Lands' End also typify a no-nonsense approach to marketing. Alternatively, the general level of marketing activity seems to be growing at a rate, which is at least commensurate with economic growth. As Schudson (1984) might argue, the Starkist Tuna is not important, but rather the 15 cents off is. This suggests that not only consumers are addicted to marketing, but firms are also (i.e, the OM-orientation mentioned previously).

Overall, we believe that OM does exist, and should be further analyzed and identified. One of the key assumptions behind OM is that of a systems impact; the essence of an externality is that there is a "chain-reaction" of events, which results in a trade-off of relative advantages and disadvantages. Using this assumption, OM can be further described and thought of as a function of three components of an overall system:

OM = f (Willingness to Overconsume,
Supportive Macroeconomic Policies,
Supply-Side Marketing Practices)

Implicit in this systems notion is that there may be a "correct" level of marketing within any given system. The mere existence of OM suggests that the system is not correct in the normative sense. Although it may be difficult to diagnose and treat a system plagued by OM, further discussion and analysis of the origins of OM can shed further light on what can be done.

Using the 3-component framework along with a systems perspective, the next section will present and discuss the various sub-components of OM, which fall under the three major component headings.

THE SUBCOMPONENTS OF OM

Since the systems assumption is critical one behind the OM argument, the following scenario is an example of how, at a macro-level of analysis, OM has come to exist, and can be referred to in a rough sense as the OM cycle: Individuals, who have an increasing predisposition to overconsume (if given the opportunity to do so), are encouraged to do so by various practices in the business community via practices of overproduction, high value-added-rigidity (VAR) products, growth orientations, rules-driven marketing, and other forces, some of which include both consistent and conflicting economic policies imposed by state and national governments. The expected externalities of waste, pollution, etc. exist in such as system. Additionally, macro-externalities such as addiction to marketing on the part of consumers, and firms adopting an OM-orientation to business (i.e., a.k.a. firms being addicted to marketing) are a result of this system. The end result is the tripartite system, which produces a constantly recurring OM cycle. It is argued that substantial evidence exists to support this cycle; using the 3 major components of OM as subject headings, additional support for this cycle will be presented.

One final issue needs to be addressed prior to the exploration of these sub-components: that of the relationship between these sub-components. The nature of the system being addressed here is that of a highly complex series of interrelationships, which have evolved for a number of reasons. The author does not claim to have the ability to fully describe and delineate these intricate relationships. The true nature of the system may never be fully known. What this discussion facilitates is recognition of the phenomenon as well as an initial attempt at understanding of the mechanisms at work here.

COMPONENT # 1: WILLINGNESS TO OVERCONSUME

The importance of material goods to the American consumer is a well-documented phenomenon; using traditional perspectives (Galbraithc 1958; Balk, Bahn & Mayer, 1982; Rassuli & Hollander, 1986; Belk, 1985) many authors have explored the impact of materialism and overconsumption in modern society. For the purposes of this discussion, we will use the following definition of materialism (Belk, 1985):

Materialism has been defined as the tendency to believe that consumer goods and services provide the greatest source of satisfaction and dissatisfaction in life. As a result of the importance of this activity, newer perspectives on the importance of goods and services to mankind (i.e., the symbolic interactionist perspective, and semiotics, Levy, 1981; Solomon, 1983; Mick ,1986) have emerged within the consumer behavior literature. As a small, unscientific test of the plausibility of overconsumption-related issues, the author attempted to list as many such activities as they could

(within a 15-minute period); the results indicate that a wide variety of such activities are readily evident in contemporary society. Clearly, consumers desire, enjoy, and need consumption activity. Why is this the case, and what role does marketing and OM play?

To answer these questions, one can examine a number of plausible answers. At the outset, this trend can be attributed to OM, as a result of the externalities of the OM cycle. As cited beforehand, though, the issue whether or not it is a desirable trend, is debatable. One simple explanation behind the resurgence in consumption is proposed by Benton (1985), who argues that consumption, at times, acts as a surrogate for the lack of meaningful work. This is very consistent with the increasing trends of boredom within the workplace, and increased non-work or leisure time. In a sense, Benton is making a symbolic interactionist argument in that the lack of meaning in life can be "regained" by defining meaning through consumption and marketing, as opposed through other activities in life such as work. Although the meaning of symbols has always been an integral part of the human experience (Jung, 1964), their relative importance as signified through consumption and materialism has increased significantly (Rassuli & Hollander, 1986; Belk, 1985).

One final portion of the consumer's orientation towards consumption relates to a central tenet of OM, namely that OM is essentially the "marketing of marketing". Simply put, the essence of OM is that marketing has been "marketed" as a preferable system of exchange, or even a way of life for a society. The result is that consumers relinquish control and do not use (or consider) alternative modes of exchange such as self- production for self-consumption. Society has come to expect marketing to be a major component of the system of exchange; since it is part of that system, it is "bought and sold" much like goods and services are. In a study of marketing activity over the past decades, Myers, Greyser, and Massey (1979) found a general increase in the scale of marketing operations over the period of study. Clearly, consumers have come to expect a high degree of marketing, and it can be argued that at times, these consumers may be seeking not only product and\or service per se, but also the marketing of the specific product and\or service in question.

COMPONENT # 2: SUPPORTIVE MACROECONOMIC POLICIES

A number of macro-economic influences exerted by large governmental bodies have an important impact on the OM cycle. One of these influences can be simply stated as the quasi-market system on which our economy is based. Using a combination free- market system with selected governmental pressures\influences, the subsequent system is a hybrid of a truly free system. Whether or not a government can "regulate" and "adjust" an economy as large as the one in the U.S. is truly a debatable point. Clearly, during the "fine-tuning" period of the 1950's and 1960's the prevailing economic thought was in favor of being able to adjust economic conditions. In the years subsequent to that period, however, sentiment has apparently shifted, almost to the point of the purely monetarists viewpoint of enacting consistent adjustment "systems" and otherwise having a "hands off" policy, with an underlying belief that to an extent such a large economy is "uncontrollable". Such an undercurrent of belief supports the systems-perspective of OM.

Another issue here is that of the growth orientation of our economy, and society in general. In his book History of The Idea of Progress, Nisbett (1980) chronicled the importance of the

philosophy of progress, and argues that mankind holds a universal assumption of progress. Although growth expectations of politicians, corporations, and even individuals have become more reasonable in their growth\progress expectations during the past 5-10 years, growth is still considered as a desirable goal. Using an economic history perspective, however, clearly growth is not always obtainable, and its desirability seems to be questionable in the face of dwindling resources and the increasingly severe complications of higher-order exchanges. These growth expectations also manifest themselves in specific actions on the part of individuals and businesses. Examples of this final point will be discussed in the next section.

Another identifiable influence is that of the lack of coordination between business, government, and society. In the U.S., via macroeconomic and microeconomic influences, the government simultaneously encourages production and consumption, while deterring investment and savings. The result is a system, which by it may work, but on a global scale is somewhat in trouble. Compared to the often-cited example of the business- government-banking triad in Japan (Abegglen & Rapp, 1974), the U.S. pales in comparison to this highly managed and integrated system.

Although the governmental influences cited in this section are important, it seems that the largest number of identifiable influences or sub-components exist in the following section, where we will discuss the supply-side marketing practices influences on OM.

COMPONENT # 3: SUPPLY-SIDE MARKETING PRACTICES

During the introductory section of this discussion, it was noted that the debate over the value of marketing has been going on for quite some time. It is not the intention of these authors to end this debate by presenting the following ideas and conclusions. These arguments are presented in support of the notion of OM, and not intended to totally convince the reader that marketing is more "bad" than "good".

The phrase "supply-side marketing practices" is derived from the analogous phrase "supply-side economics", where the assumption of growth is a key factor. The analogy can even be extended to a "Laffer-type" OM curve . What is meant by "supply-side marketing practices" is a combination of practices all following the philosophy that "growth is good, and growth will solve everything"? This theme is common in the other two components of OM, as are a number of other themes, especially the "marketing of marketing" notion. In fact, this may be the single largest sub-component influence here. Authors such as Levitt (1960), Drucker (1958), Bennett and Cooper (1979, 1981), and Webster (1981, 1988) have all discussed and criticized misapplications of the marketing concept. Although the natural progression of business orientations is believed to be from production to sales to marketing, the concept of OM and the OM-orientation provides a conceptual framework to better categorize the role of contemporary marketing.

Additional evidence of supply-side marketing practices and OM can also be found in the controversy over the broadening of the marketing concept, which took place during the late 1960's. Whether or not the Kotler and Levy (1969) or the Luck (1969) arguments, or even the later Laczniak and Michie (1979) response is correct is not important here. Rather, what is important is

that if anything, the eventual "broadening" of the marketing concept did make the marketing concept a pervasive component of contemporary society. In turn, this widespread acceptance and may have lead to over applications and eventually OM. At the very least, the broadening of the marketing concept lead to a greater importance placed upon marketing within society.

As cited beforehand, one of the major influences of OM is competition. A major part of the argument here is that firms have concentrated more on competitive activity than on consumer activity, with the result being a lack of marketing focus. Two authors, Oxenfeldt and Moore (1978) make a compelling argument for specific firms to engage in competitor-watching instead of consumer-watching:

Competitor orientation seeks markets as struggles among individual firms for valuable marketing prizes, of which customers are the ultimate prizes. ... In other words, market competition is often a zero-sum contest. There need not be a single winner or loser, but what one firm gains come mainly from its rivals. To prevail in the battle, firms must identify their closest rivals, learn their significant strengths and weaknesses, and forecast their behavior.

Such an orientation, which concentrates on competition instead of consumers as indicators of market success, appears to lead to OM. In actuality, however, such a response might be a perfectly natural or pragmatic response to the increasing complexities of the marketplace. It is impossible to accurately "monitor" consumer wants and needs, and foolish to ignore competitive activity. Which is more important, though, versus which is more powerful?

Another important influence here is that of capacity. Much of the recent literature across many of the business disciplines seems to be focused upon competitive advantages realized through production. The fallout from all of this, basically, seems to be that production capabilities are increasing due to both productivity and physical plant increases. As a result, inventories are increasing, as well as the potential to overproduce. One problem resulting from this condition has been a lack of harmony between production and marketing (Shapiro, 1977) with the result being the sacrifice of marketing in the name of inventory reduction or capacity justification. Capacity is inevitably linked to market share. Some of the marketing management literature (Bloom & Kotler, 1975; Porter, 1980) recognizes the advantages (and risks) of having a relatively high percentage of market shares. The long-term implications of capacity, however, are neglected often times in the push for large market shares. Long-term, it is difficult to successfully maintain such large market shares, and seemingly the tendency to engage in OM is the result. As a reflection of these dangers, compelling arguments have recently been made in favor of smaller market shares (Hamermesh, Anderson & Harris, 1978; Woo & Cooper, 1982). Overall, the increasing importance of capacity can be interpreted as a strong contributor to OM.

Capacity seems to be a central factor behind OM. One reason why might relate to the lack of harvesting or demarketing strategies which are implemented in the marketplace (Kotler, 1978). Indeed, a stigma seems to exist when it comes to the harvesting of a product\service, the aura of failure. The only recent advent of harvesting in the strategic marketing literature may also have contributed to the slowness with which such strategies are used.

As a result of excessive capacity, firms may need to engage in OM in order to survive. The end result appears to be a tendency for firms to view marketing as a panacea to correct for products or services, which, for a number of reasons including over-supply, may not be entirely appropriate

for the marketplace. This trend is evident throughout the marketing channel, and is especially evident in retail practices. Consumers have come to expect continual sales events, special promotions, rebates, coupons, in-store specials as the "normal" way retailers do business (Mason, 1986); it seems that consumers have responded to and become accustomed to OM, as have businesses. Specialized firms, such as the Minneapolis-based C.O.M.B. have even emerged to fill the function of inventory liquidation (in the event that all other OM tactics do not work).

Due to the increased complexities of markets, an additional influence has emerged, which we label as rules-driven marketing. The general argument is that certain rules or heuristics evolve within a market. Thus, decision-making on the part of the marketer is non-existent at times, since reactions are predictable and homogeneous. As a result, such decision making, within the context of a system where OM is pervasive serves to preserve the integrity of the OM cycle. For example, widely- publicized and regarded studies such as the PIMS research, and strategic tools such as the BCG Matrix serve to establish relationships and create and foster rules-based thinking and action. Within a system riddled with OM, the result is a continuation of the status quo. In support of this general conclusion, Bonoma (1986) recently cited examples of what he called "marketing subversives", or individuals\organizations, which did not engage in rules-based marketing, and "broke-out of the mold" of relative contemporary strategic thinking.

A factor contributing to the existence of rules-based marketing, and related to Bonoma's (1986) "marketing subversives" is that of inappropriate reward structures. If rules-based marketing exists, then conversely it is rewarded within organizations. Risk exists if one deviates from the rules, which are established (and recognized for "working"). Individuals who deviate from the established normative rules must succeed, or they run the risk of being eliminated. In a sense, this scenario rewards failure, as long as the failure was realized by "sticking to the system" which has already been established. The result contributes to OM.

A final subcomponent of supply-side marketing practices is something known as value-added rigidity, or VAR. Using the classic Alderson and Martin (1965) framework of transactions, transvections, and sorting, each product or service can be thought of as carrying a certain VAR score or rating. The VAR score is, among other things, an indicator of the transferability or usability of a good or service. Specifically, the higher the degree of processing specialization which a product or service has, the higher the VAR rating. Products or services with high VAR ratings do not have a high degree of transferability or interchangeability, and therefore have a very specific place in the market. Alternatively, products or services low in VAR do not have a high degree of processing specialization, and therefore can be used for a number of different applications in the marketplace. The argument, therefore, is that due to factors such as increased capacity and a general increase in technical sophistication, high VAR products and services exist in abundance and are stockpiled (versus just-in-time produced). Subsequently, the potential for OM with such high VAR items is great.

As an example of this, think about your car, and the car your grandparents drove (if they had one). Clearly, the number and degree of technical sophistication (and the interchangeability) has increased dramatically, even though the basic product attribute, transportation, is virtually the same. This trend of complexity is the case for nearly all types of goods, industrial and consumer. As a

result, firms may have capacity\inventory problems, and then may have to "bend" the marketing concept a bit (i.e. use marketing as a panacea), and the result is OM.

The existence of OM appears to be well-founded, although it doesn't seem to be a most recent phenomenon. Has OM been reflected in some of the well-known frameworks in marketing? The next section will explore several examples.

THEORETICAL HINTS OF OM

The profession of marketing has always been "concerned" about both the positive and negative aspects of its activities. With respect to several theoretical arguments, this concern has also been reflected in the literature. The first of these is probably the most famous piece of marketing literature published to date -- Levitt's notion of Marketing Myopia (1960). Clearly, Levitt warns of the dangers of capacity and high VAR (i.e., buggy-whips are not easily interchanged with other products) and of not realizing the core of the marketing concept.

Many other authors have seemingly hinted of the dangers of OM. In much of the same way, Gailbriath (1958) and Drucker (1958) express concern over the implications of marketing in contemporary society. Although an indirect indication of OM, these authors warn of materialistic values and the role of the marketing concept in society. A natural extension of these concerns is reflected in the macro-externalities presented earlier, namely that consumers and firms have become addicted to marketing.

A potentially interesting example of a widely-regarded theoretical framework, which has applications to OM, is that of Hollander's wheel of retailing (1960). The progression of a firm from the low-end to high-end has implications for capacity, high VAR goods\services, rules-based marketing, supply-side marketing, growth orientations, over competition, and OM in general. It seems that Hollander had some unique insights relative to a cycle, which firms pass through, within their respective markets. By the end of the cycle, the firm seems to be in a mode very similar to the OM cycle suggested previously.

Although the factors contributing to OM presented to this point are all integral components of the process, we also believe that a number of established traditions or revolutions have set the stage. The next section will feature a discussion of these trends, and their implications for OM.

THE ROOTS OF OM

OM is the result of the co-evolutionary process of a number of interrelated factors. The identification of the contributing factors in the last section has led to a further exploration of the "roots" of overmarketing. Seven "revolutions" have been identified which have partially contributed to the state of marketing and the phenomenon of overmarketing. As with the case of the components and sub-components of OM, these revolutions are inter-related and have a certain degree of commonality. Each "revolution" will be discussed in terms of its implications to OM. The revolutions represent major changes in the areas of production, marketing, economics (Keynesian

revolution), scientific management, competition, financial management, global economics, and finally consumption.

THE PRODUCTION REVOLUTION

The industrial revolution, and advent of mass production, has been credited and cited for a number of modern day successes and failures. In terms of economic history, such a period serves to establish a production\capacity base. In terms of this discussion, the production revolution established a tradition of production\capacity orientations as well as the actual capacity itself. The well-established business-orientation framework cited earlier starts with the revolution in production. This initial revolution may have had a lasting impact, however, in that a number of marketing-related decisions continue to be capacity-driven, and in a sense this means that the production- orientation has yet to end. The OM-orientation described earlier may in effect be cumulative. In other words, the OM-orientation may be the result of a number of firms simultaneous existing at virtually all-3 orientations.

THE MARKETING REVOLUTION

Although much of the marketing revolution has been previously discussed in terms of the evolution through various business orientations and the debate over the broadened concept of marketing, the existence of OM and the notion of the "marketing of marketing" is strong evidence that the marketing revolution existed or is even still taking place. The marketing revolution has implications for nature and scope of consumption also, in that consumers "should" get what they want and need. This is a very powerful assumption, and holds that consumers do know what they want, and also know what is good and not good for them. It represents a shift in preference from self-production to mass-production. By relinquishing control to marketers, consumers have endorsed the widespread application of marketing. This general trend has contributed significantly to the current state of OM.

THE KEYNESIAN REVOLUTION

The zenith of Keynesian economics for the time being has passed, and is historically depicted as a period of time leading up to the Kennedy era of the 1960's. It was during this time that the consensus among economists was that it was the role of the government to fine-tune the economy, and that growth was something which just had to be managed, or at best directed or helped in the right direction. This myopic view of economics has been replaced with the accelerationist hypothesis, slower levels (or no predicted level) of growth, misdirected and dysfunctional economic policies, and a growing body of economists who believe in rule-based (the opposite of the intervention or fine-tuning approach of the 1960's) policy mechanisms. A critical outcome of this

change in the nature of our economy is that growth is no longer a common denominator. This lack of an ability to "outgrow mistakes" has had serious implications on business. The end result has been an unknown lag effect in an economy, which can be at best "nudged" at times, and a lack of cooperation between business and government, all of which contributes a significant history to OM phenomenon.

One additional outgrowth or response to the "hands-on" economic management policy has been a commensurate growth in the regulations, which directly affect marketing. In a three-part series of articles, Carman and Harris (1986) and Harris and Carman (1983, 1986) delineate and discuss the various regulatory reactions, which have taken place in the recent past. This smaller trend can be interpreted in several ways, as an extension of the macroeconomics "fine-tuning" philosophy, as a reaction to OM itself, or as an independent trend by itself. The general result is added layers of well-intended policy, which once enacted stays in place and eventually outgrows its initial purpose.

THE SCIENTIFIC MANAGEMENT REVOLUTION

The computer age, in terms of both hardware and software, has enabled firms of all types to use sophisticated techniques to predict and control. Even prior to the advent of computers, inroads in scientific techniques as applied to production and control created tremendous efficiency potentials. In both a direct and indirect manner, the ability and desire to increase production efficiency contributed to the capacity phenomenon. Not only were businesses able to produce more because of their new, large plants, but also they were also able to be more efficient.

As a latent effect of the production and scientific management revolutions, working satisfaction was found to be a concern. Indeed, the management literature reflected the need to motivate workers who did not find satisfaction in their work. Consistent with earlier-cited Benton (1985) hypothesis, this lack of satisfaction in the workplace (due to the production and scientific revolutions) impacted the worker via life-style and consumption values. Clearly, the scientific management revolution impacted OM, and is related to several others of the cited revolutions.

THE COMPETITIVE REVOLUTION

The emphasis on competitive analysis, both in practice and in the literature, has been increasing. Examples of widely-read and recognized works in this area include the following: "Diagnosing The Product Portfolio" (Day, 1977), "Strategic Windows" (Bell, 1978), "Industrial Structure and Competitive Strategy: Keys To Profitability" (Porter, 1980), "Learning From Your Competitors" (Leaf, 1978), "Marketing Warfare", (Kotler & Singh, 1980). All of these recent and very contemporary readings focus on the competitive aspect of business activity, and seemingly fail to incorporate the competitive factor within the full context of the marketing concept. The result has been a glut of strategic thinking which either glosses-over the importance of the consumer, or simplifies the consumers' role as being a quiet "third-party". Additionally, it is now being

recognized that implementation is as critical as strategy development. The role of competition and how strategic marketing viewed competition has contributed significantly to OM.

THE FINANCIAL MANAGEMENT REVOLUTION

The advent of financial portfolio management, in conjunction with the competitive revolution, has set the stage for rules- based marketing decision-making. The practice of treating complex decision-making processes as an exercise in quantification lends itself to similar management practices. For example, if a specific division must maintain a 10% relative market share, then a threshold such as this will be established at lower levels within the division. It also seems that such practices diminish the importance of qualitative factors in decision-making. In conjunction with other revolutions, the financial management revolution has contributed to OM.

THE GLOBAL ECONOMY REVOLUTION

One of the more recent trends, which have contributed greatly to OM, is that of the globalization of economies. In its simplest terms, the trend is an exercise in complexity. Already complicated and intricate economic systems have now become impossible to understand if not bewildering. The impact has been to burden already overtaxed systems, and impose a "new set of rules" for economic survival. If we assume that a large national economy by itself is difficult if not impossible to manage, then the quantum leap to a global mega-economy makes the assumption of non-manageability even more plausible, and thus contributes to OM.

THE CONSUMPTION REVOLUTION

A final revolution, which has contributed significantly to OM, is the increasingly important notion of consumption. Labeled as "The Disposable Society", consumers many times now "seek their meaning" in the marketplace of products and services. The result has been a sometimes-insatiable appetite for goods and services, and subsequently for marketing. Although this importance of consumption, materialism, and the notion of the "marketing of marketing" were presented beforehand, collected as a revolution they have created conditions, which encourage OM.

In the final section, the implications of OM to the consumer, firm, society, and marketing profession are discussed, as well as a presentation of potential solutions to some of the OM-related problems presented earlier.

THE PRAGMATIC SIDE OF OM: WHO CAUSED OM AND WHAT CAN BE DONE

The impact of OM is felt by everyone in society: consumers engage in overconsumption, businesses revert to OM-related tactics, the government is unable to properly control economic functions (due in part to the OM cycle), and the role of marketers in society is misconstrued. From the evidence presented here, OM is a deeply-rooted phenomenon. The OM-cycle essentially

embodies the way business, government, and consumers behave and interact. The result is OM. Everyone participates and everyone is responsible.

Does this mean that OM is the inescapable eventuality of exchange within our economic system? The answer is both "yes" and "no". The logic for the "yes" response has been presented Here, and despite a small number of system corrections, it seems apparent that OM is here to stay for some time to come. Additionally, the issues surrounding the consumption of products and services versus the consumption of marketing seem difficult to address. In a sense this is the question "what is the correct level of marketing"? It seems appropriate to say that consumers should not be "addicted" to marketing. Alternatively, the marketing of various products and services provides critical and valuable utilities, and at times the actual product or service may legitimately not be the intended focus of the exchange act. Overall, marketers have some kind of ethical responsibility to their consumers regarding both products and services and marketing activities.

The logic behind the corresponding "no" response to the eventuality of OM question can also be referred to as prescriptions for the future. Additionally, a few small trends have emerged which indicates that some change has already emerged.

One such trend is the increasing number of consumers who seriously question consumption-based and materialistic values. Although we are said to live in the age of "yuppism", another movement afoot seems to focus their attention on worldwide concerns via helping-behaviors, and in general a concern for the fellow man. Typically, these consumers do not overconsume, recognize alternatives to marketing, and avoid OM.

Another trend is for businesses to stick to the marketing concept, almost to the point of a minimalist-marketing perspective. Such a viewpoint provides the consumer with straightforward and honest information along with value-based products and services. Clearly, these firms recognize that some consumers do not favor the "marketing of marketing", and would rather buy their tuna at a fair price instead of wondering what the impact of a 15-cent coupon has on the "real" price they are paying. The ability of firms to correct their actions suggests that the system may have a built-in correction factor.

Overmarketing may be a temporary business orientation, resulting from a series of interrelated factors similar to those presented here. Whether it is temporary or relatively permanent, marketing practitioners and academics in the future need to further examine and analyze the role and practice of marketing, in both a normative and positive sense, within contemporary society.

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A NEW SEVEN-DIMENSIONAL APPROACH TO MEASURING THE RETAIL IMAGE CONSTRUCT

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ABSTRACT

For more than forty years, academics have assessed the influences and antecedents, of retail image. Among the many areas of consideration is the conceptualization and operationalization of the construct's measurement. Studies have assessed and developed measures based on multi-attribute, multi-dimensional definitions, as well open-ended and observational designs. Through in depth literature review, the authors identify seven reoccurring dimensions that have been hypothesized to represent different facets of the image construct. Further, it is demonstrated that no conceptualization to date has incorporated all of these dimensions into an operationally defined measure. This study proposes a new, seven-dimensional definition for retail image that is both consistent in concept and operation.

INTRODUCTION

The importance of retail store image has been widely supported in retail literature. This is evidenced by the fact that the store itself can offer a unique atmosphere, or environment, that may influence the consumer's patronage decision (Kotler, 1973). One of the earliest and most widely used definitions of store image is that of Martineau (1958) who stated, "Clearly there is little in the determination of a store's customer body besides the obvious functional factors of location, price ranges, and merchandise selection… this force is the store's personality or image, it is the way the store is defined in the shoppers' mind." (p. 47)

Since then, store image has been defined in many different ways and has encompassed a variety of criteria. For example, store image has been defined in terms of individual store attributes (Arons, 1961; Lindquist, 1974; Pessemier, 1980); global or overall impression (Keaveney & Hunt, 1992); prototypes and/or exemplars (Weale, 1961; Zimmer & Golden, 1988); and behaviors (Zimmer & Golden, 1988). Further, store image has been stated as being the result of previous reinforced schemata (Kunkel & Berry, 1968) as well as a cognition and/or affective state (Mazursky & Jacoby, 1986).

Studies which purport to explain the antecedents, or influences of store image include considerations of such topics as environment (Mazursky & Jocoby, 1986), marketing mix elements such as pricing and promotion (Dodd, 1991), self-concept and social class (Weale, 1961; Sirgi & Samli, 1985), brand equity (Pettijohn et al., 1992), and symbolic promotions (Arnold, Handelman & Tigert, 1996). Several studies have examined the importance of retail image components in

patronage and satisfaction and their generalizability across markets (Higie, Fieck & Price, 1987). Hirschman, Greenberg, and Robertson (1978) examined the across-market reliability and consistency of ten attributes of retail image identified from previous research. Their findings suggest that the importance of these dimensions is consistent across geographical markets but varies across store types. Other research has investigated primary image dimensions as they relate to sources of consumer satisfaction with retail outlets and store selection (Westbrook, 1981). These studies suggest that consumers make judgments about selection of stores based on subjective ratings of various image dimensions.

Among issues of controversy, when dealing with answers to the theoretical underpinning of the image construct, argument surrounds the conceptualization and the operationalization of the construct (Keaveney & Hunt, 1992). The problem being that the construct is conceptualized from a category-based approach but operationalized from a piecemeal-based approach. This study attempts to offer clarity in this area by proposing a new seven-dimensional definition of retail image based upon the synthesis of this lengthy literature stream. First, a discussion of the theoretical perspectives they have been offered is discussed, and then a review of the different means of measuring this construct is presented. Discussion then turns to conceptualizing a seven-dimensional definition for the construct. The paper then concludes with implications and future research extensions.

THEORETICAL UNDERPINNING

Several theoretical perspectives have been applied within the retail image literature. Among the most prevalent are attribute-based (piecemeal) theory (Keaveney & Hunt, 1992), and category-based theory (Keaveney & Hunt, 1992). Piecemeal-based processing theory (models) assumes that individuals' evaluative impressions are formed on an elemental or "piecemeal" basis (Fiske & Pavelchak, 1984). The piecemeal based processing model posits that (1) attributes are evaluated anew each time they are encountered, (2) evaluations are independent of other attributes present, and (3) overall judgments are formed by combining these isolated elements (Fiske & Pavelchak, 1984). The vast majority of early retail image studies used this concept to determine specific components of the retail image construct (e.g., Hansen & Deutcher, 1977). This method provides an accurate description of retail store image as traditionally measured: (1) store attributes and their importance are identified, (2) the store (and its competitors) are evaluated on each attribute, and (3) attribute ratings are combined into an overall judgment (Keaveney & Hunt, 1992). This theoretical perspective is applicable when processing is effortful under conditions of purchase task completion, deliberations prior to a purchase, risky, stressful, or novel (Fiske & Pavelchak, 1984; Keaveney & Hunt, 1992).

If one were to take a closer look at the definitions presented for retail image, they would note that the image construct is represented by both tangible aspects (e.g., merchandise, price, service etc.) and psychological impressions (e.g., environment, convenience, self-image congruence etc.) (Martineau, 1958; Kunkel & Berry, 1968; Keaveney & Hunt, 1992; Darden & Babin, 1994). Further, it has been proposed that the image construct be represented as a "gestalt" or holistic entity

that cannot be explained merely by its functional attributes (Darden & Babin, 1994; Keaveney & Hunt, 1992).

Table 1: Retail Image Dimensions

Author	Hypothesized Dimensions						
	Atmosphere	Personnel	Convenience	Merchandise	Price	Service	Self-Concept
Martineau (1958)	X	X					
Arons (1961)		X		X		X	X
Rich and Portis (1964)	X		X	X	X		
Kunkel and Berry (1968)	X	X	X	X	X	X	
Lindquist (1975)	X	X	X	X	X	X	X
Pathak et al. (1974)	X	X	X	X			
Habsen and Deutscher (1977)	X			X	X	X	X
Mazursky and Jacoby (1986)		X	X	X		X	
Dickson and MacLaclan (1990)	X			X	X		
Manolis et al. (1994)	X	X				X	
Dardin and Babin (1994)	X	X		X	X		
Reardon et al. (1995)	X		X	X	X	X	X
Chowhbury et al. (1998)	X	X	X	X	X		

Atmosphere consists of store environment, layout, symbols, colors, institutional factors, physical facilities, and crowding
Personnel consists of desciptions of personnel who are courteous and friendly, competent, and appropriately dressed
Convenience relates to convenience in terms of parking, delivery, mail order, and location
Merchandise consists of considerations relative to selection, quality, reputation for reliability, contemporary, and availability of stock
Price concerns the ratio of value to quality, the presence of discounts and promotions
Service consists of adjustments for returns, fast checkout, adherence to questions and general service image
Self-concept is represented by clientele and how they, as well as the store itself, are congruent with one's self image

In order to better explain the "gestalt" nature of the image construct, category-based theory has been proposed. This processing theory recognizes that individuals do not face new stimulus as if it were a completely novel experience, but compare incoming data against information stored in memory. Specifically, category-based processing posits that individuals will first attempt to match stimuli to known categories stored in memory (Fiske & Pavelchak, 1984). Relative to retail image, it is posited that activation of category schema (e.g., the department store schema) cause immediate transfer of all information and affect from the generalized department store schema to the particular store, thus capturing the affective state of image evaluation, not just the tangible (Darden & Babin, 1994; Keaveney & Hunt, 1992).

In summary, the key concept to derive from this discussion is that the piecemeal-based process is primarily applicable for effortful, novel, situations and the category-based process is appropriate for less specific, affective, situations.

MEASUREMENT OF RETAIL IMAGE

As described in the previous section, there appear to be two dominate theories to conceptualize retail image (piecemeal and category). Approaches to measuring store image include the Fishbein model, multidimensional scaling, open-ended questions, Likert scales and stapel scales (Doyle & Fenwick, 1975). Although researchers have suggested that other scaling formats are useful, most image researchers continued to use some version of the semantic differential or horizontal bi-polar adjective rating scale until the 1980s. Keaveney and Hunt (1992) contend that all of the proceeding are attribute-based, piecemeal measures, not category-based.

Some problems associated with the operationalization of the construct include the inability to isolate in an unambiguous and parsimonious fashion the salient dimensions shoppers actually use in evaluating alternative outlets (Hirschman, Greenberg & Robertson, 1978). It is also difficult if not impossible to segment customers meaningfully. Image attributes have been shown to be inconsistent from market-to-market as well as the importance of the image attributes differing across markets (Hirschman et al., 1978). There exist many problems with some of the methods utilized thus far. The Fishbein modeling approach lacks the ability to adequately measure numerous attitudes simultaneously (Keaveney & Hunt, 1992). The semantic-differential format is flawed as well, problems herein include the lack of an obvious way to isolate the dimensions which are most salient, also, it is impossible with factor analysis to compare across different stores, and different consumer goods (Weale, 1961). To combat these problems multidimensional scaling was forwarded as a possible solution (Doyle & Fenwick, 1975). The rationale for this contention being that the method reduces the level of precision ascribed to the respondent. The subject is presented with the opportunity to make unstructured judgments; this increases the likelihood that the dimensions most important to consumers will be discovered. This method purportedly offers a means of segmenting customers (Doyle & Fenwick, 1975).

The debate over appropriate measurement continued when it was shown that multidimensional scaling lacked the ability to capture respondent's true meaning of image in a simultaneous fashion (Pessimer, 1980). To remedy the situation, focus groups were utilized to determine "determinant attributes" of a particular set of competing stores. Exploratory information from focus group findings were utilized to predict shopping behavior with joint space analysis; then discriminant and cluster analysis were incorporated to build predictive store patronage segments (Pessimer, 1980).

More recently, other means of adequately measuring and testing relationships relative to retail image have included the numerical comparative scale (Golden, Albaum & Zimmer, 1987), unstructured measures (Chowdhury, Reardon & Srivastava, 1998), applied measures (Reardon, Miller & Coe, 1990), as well as Likert-type measures and confirmatory factor analysis (Chowdhury et al,. 1998; Manolis, Keep, Joyce & Lambert, 1994; Hidebrandt, 1988).

The numerical comparative scale purports to offer economies of scale over all existing semantic differential type scale formats because it provides comparable response rates, increased questionnaire completion rates, and higher quality data than graphic positioning scales (Golden et al., 1987). The numerical comparative combines the desirable numerical properties of the other horizontal bi-polar adjective/phrase scales with the desirable space economy and cost-efficiency of the graphic positioning scale. This scale application was somewhat disheartening in that the authors reported that the numerical comparative showed no major advantage in terms of quality of findings as compared to other scales (Golden et al., 1987).

A call was also proposed to create a scale that could be utilized in the applied (practitioner) domain (Reardon et al., 1990). The goal being to create a scale that is meaningful to the manager as opposed to academia. The "theory" behind the scale states that only the functional aspect of image as they relate to price, merchandise and service are necessary because they are the only attributes which the manager can control. Affective "gestalt" states, as proposed by Keaveney and Hunt (1992), are ignored because the manager has no control over these dimensions. Though the lack of control issue is pertinent, this application has been included herein merely for completeness sake, it appears to have somewhat limited bearing on the legitimate theoretical underpinning of the image construct.

Because of the theoretical misconceptions noted in the previous section by Keaveney and Hunt (1992), a call was made for the utilization of open-ended, unstructured measurement applications. The literature is replete with exhortations on the value of adopting the open-ended perspective (e.g., Zimmer &Golden, 1988; Keaveney &Hunt, 1992). The underlying rationale for adopting unstructured scales is based on the concept of capturing the "gestalt" of retail image (Keaveney & Hunt, 1992), the respondent's own schema of the measured object and taking care not to sensitize them to specific aspects by offering a set of image dimensions (Zimmer & Golden, 1988). Other researchers contend that the use of Likert-type scales, and the analysis of reliability and validity by way of confirmatory factor analysis provides all the benefits of capturing the overall impression of retail image as well as offering the convenience of quantitative measure utilization (Chowdhury et al., 1998; Hidebrandt, 1988).

In a test to discern which type of measure would be most accurate in capturing the holistic, global nature of retail image, Chowdhury et al. (1998) test both a structured and an unstructured scale. Their findings showed that there exists a very high degree of correspondence between structured store image scales and the measure derived from the coding of the unstructured, open-ended scale. Further, the two measures have similar properties and that the structured scale is more correlated with respect to a set of self-reported behavioral measures, thus the 7-point, multi-item structure proved superior.

Scale Development Process

Churchill (1979) proposed a widely accepted general paradigm for developing measures of marketing constructs. This process included the following steps: 1) specifying the domain of the construct, 2) generating a sample of items, 3) collecting data, 4) purifying the measure, 5) collecting additional data, 6) assessing reliability, 7) assessing validity, and 8) developing norms. The thrust

of this section will be concerned with the first step in this paradigm, namely, domain specification.

As stated previously, Martineau (1958) defined retail image, or personality, as the way in which the store is defined, partly by its functional qualities and partly by an aura of psychological attributes. It is a complex of meanings and relationships serving to characterize the store for people (McDougall & Fry, 1975). Further, retail image has been defined as the discriminative stimuli for an action's expected reinforcement, specifically; the total conceptualized or expected reinforcement that an individual associates with shopping at a particular store (Kunkel & Berry, 1968; Berry, 1969). In terms of meaning, researchers from Arons (1961) to Zimmer and Golden (1988) have conceptualized retail store image as an overall impression of a store as perceived by a consumer. It has been described as a "total impression," a "composite" (Oxenfeldt, 1974-1975), a "gestalt" (Zimmer & Golden, 1988), and an "idiosyncratic cognitive configuration" (Mazursky & Jacoby, 1986). As Oxenfeldt (1974-53) expressed it, a store's image is "less like a photograph and more like an interpretive portrait." The one common factor exemplified within these conceptualizations is that retail image is a holistic construct consisting of many dimensions. A question arises however as to how can one further assimilate a definition for the construct based upon the different dimensions that is represents. Specifically, what are the dimensions of retail image and are these dimensions transferable to one, holistic measure.

Functional and Affective Components

A logical first step in determining specific dimensions for retail image can be found by examining the definition originally imposed by Martineau (1958), namely, the statement that image is "defined partly by its functional qualities and partly by the aura of physiological attributes." Other researchers have also identified two separate components of retail image. Lindquist (1974-75) quotes Martineau (1958), Arons (1961), and Kunkel and Berry (1968) to stress the idea that store image is complex by nature and consists of a combination of tangible or functional factors and intangible psychological factors that a consumer perceives to be present. These two components are outlined as the difference between symbolic and functional store image attributes (Lindquist, 1974-75). Symbolic image refers to the stereotypic-images which shoppers have of a specific retail store, these include traditional versus modern, classy versus folksy, friendly versus formal, high-status versus low-status (Sirgi & Samli, 1985). The image construct has also been conceptualized as being defined by a set of cognitions and or affective states (Mazursky &Jacoby, 1986; Chowdhury et al., 1998). Other conceptualizations have dealt with the separation of functional (cognitive) meanings and affective (gestalt) meanings (Darden & Babin, 1994; Chowdhury et al., 1998). Functional (cognitive) qualities of retail image have been characterized as the more tangible aspects of the retailer, (Darden &Babin, 1994), these include pricing (Darden & Babin, 1994), merchandise quality and assortment (Chowdhury et al., 1998), store personnel, and service (Darden & Babin, 1994). The affective, (gestalt) qualities have been characterized by the pleasantness of the shopping experience (Darden &Babin, 1994), atmospheric attributes (Chowdhury et al., 1998), convenience (Chowdhury et al., 1998), and the self-concept [congruence] one perceives in patronizing a given retailer (Arons, 1961; Lindquist, 1974-1975; Reardon et al., 1995). Based upon these conceptualizations, there exists substantial support to posit that when

defining retail image, there exist two broad categories (components), those being the affective and the functional. Attention now turns to identification of what dimensions represent each component.

Dimensions of Retail Image

Since the dawn of retail image literature, researchers have struggled to determine the appropriate means of conceptualizing and operationalizing the retail image construct (Keaveney & Hunt, 1992). Numerous dimensions and attributes have been identified. Based upon an exhaustive review of this literature stream, seven reoccurring dimensions of the construct have been identified. These dimensions consist of atmosphere, personnel, convenience, merchandise, price, service, and self-concept. Atmosphere consists of the store environment, layout, symbols, colors, institutional factors, physical facilities, and crowding (Martineau, 1958; Dickson & MacLachlan, 1990; Darden & Babin, 1994). Personnel consists of descriptions of personnel who are courteous and friendly, competent, and appropriately dressed (Arons, 1961; Kunkel & Berry, 1968; Hansen & Deutcher, 1977; Darden & Babin, 1994). Convenience relates to parking, delivery, mail order, and location (Lindquist, 1974; Mazursky & Jacoby, 1986; Chowdhury et al., 1998). Merchandise consists of considerations relative to selection, quality, reputation, assortment, and availability (Arons, 1961; Kunkel & Berry, 1968; Hansen & Deutcher, 1977; Darden & Babin, 1994). Price concerns the ratio of value to quality and the presence of discounts and promotions (Lindquist, 1974; Chowdhury et al., 1998). Service consists of adjustments for returns, fast checkout, adherence to questions, and general service image (Arons, 1961; Kunkel & Berry, 1968; Rearden et al., 1995). The final dimension, self-concept, is represented by the clientele and how they, as well as the store as a whole are congruent with one's self image. A summary of the hypothesized dimensions of retail image and the authors who have utilized them in representative empirical studies, is presented in TABLE 1. Based upon the previously developed conceptual background, the following is posited,

P1: The retail image construct is a seven dimensional construct represented by the affective dimensions of atmosphere, convenience and self/store image congruence and by the functional dimensions of price, merchandise, personnel and service.

The conceptualization of the newly defined, seven dimensional retail image construct is illustrated in FIGURE 1.

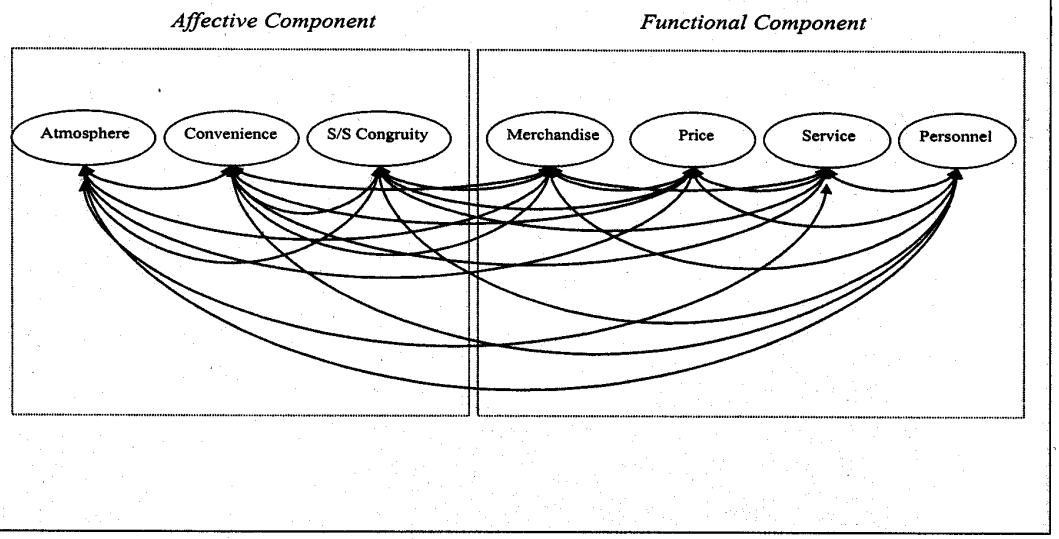
IMPLICATIONS AND FUTURE RESEARCH

In terms of implications, this study provides a new definition that is based on all holistic aspects of the image construct. Its' value lies in the fact that, by conceptualizing both the affective and functional components, both the category based and attribute based theoretical perspectives are addressed. It is possible to state that individual attribute or "gestalt" impression of image evaluation differs across consumer shopping motive (Keaveney &Hunt, 1992), meaning that the purchase situation serves to regulate the processing perspectives taken. The proposed conceptualization takes

this into account and provides a means of assessing both concepts simultaneously. This relates to further research extension in that, by item pool generation and validation assessment, multi-shopping situations, across multiple types of retailers can be assessed simultaneously. The obvious first step is to proceed through the Churchill (1979) scale development process and test the scale for unidimensionality, reliability and validity, and to then test its' value within the nomological net. This would entail assessment of the hypothesized dimensional impact on consumer satisfaction, repeat patronage, word-of-mouth, and purchase intention.

FIGURE 1

Seven-Dimensional Retail Image Construct



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A COMPARATIVE STUDY OF TWO APPROACHES TO MODELING CONSUMER PREFERENCES

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ABSTRACT

Two competing multiattribute approaches to predicting consumer preferences are the hybrid conjoint analysis and the maximum likelihood hierarchical elimination of unacceptable alternatives. Consumer researchers have proposed these approaches to coping with large numbers of product attributes and scenarios in choice modeling. This study compares and contrasts the theory and application of the exemplary models of the two approaches. An experiment was conducted to investigate the relative predictive performance of the models.

INTRODUCTION

Consumer researchers have proposed various approaches to coping with large numbers of product attributes and scenarios in multiattribute choice modeling (e.g., Green & Srinivasan, 1990; Oppewal, Louviere & Timmermans, 1994). The most notable development is the hybrid conjoint analysis (HC), which reduces task sizes for a compensatory approach to decision making (Green & Srinivasan, 1990). This hybrid approach plays an important role in designing new products entailing large amounts of product information (e.g., Wind et al., 1989).

In contrast, consumer behaviorists have suggested that decision makers tend to use simplifying tactics when considering large amounts of product information (e.g., Johnson, 1988; Johnson & Meyer, 1984; Meyer & Kahn, 1991; Wright, 1975). Consequently, researchers have suggested using non-compensatory hierarchical models purported to be better representations of consumer decision processes (Currim, Meyer & Le, 1988; Fader & McAlister, 1990; Gensch & Ghose, 1992; Gensch & Javalgi, 1987). A study shows that consumers use both approaches in making choice decisions (Lee & Geistfeld, 1998). The issue: Which of these two approaches provides a more accurate prediction of consumer preferences?

The two approaches to preference modeling differ in assumptions, theories of decision-making strategies, and choice processes. This paper discusses these differences and reports an empirical test of their predictive performance. We examine the predictive accuracy of selected models in both approaches at the individual consumer level. We compare model performance in predicting product versus service choices of the same individuals for two different choice sets.

MAXIMUM LIKELIHOOD HIERARCHICAL MODEL

Applications of most hierarchical models have been limited because of their assumptions about product attributes. For instance, applications of the Elimination-By-Aspects (EBA) model

(Tversky, 1972) have been inhibited because the model assumes only a few attributes common to all alternatives. The EBA model creates further difficulties by requiring a large number of parameters common to only subsets of the choice set (hence, for N alternatives, EBA requires 2n -3 parameters or attributes)(Batsell & Polking, 1985). A recent successful application of EBA handled only a single product attribute common to all alternatives (Fader & McAlister, 1990).

Similarly, the Preference Tree (also known as PRETREE or Elimination-By-Tree) model reduces the number of parameters required by the EBA by imposing a strict inclusion rule on product attributes (Tversky & Sattath, 1982). Another tree-structured model proposed by Currim, Meyer, and Le (1988) does not accommodate monotonicity of attribute levels and forces product attributes into dichotomous variables (Green, Kim & Shandler, 1988).

On the other hand, the Maximum Likelihood Hierarchical Model(MLH)is a probabilistic version of its predecessor HIARC, which is also a multiattribute disaggregate lexicographic model (Gensch & Svestka, 1979). As a probabilistic model, the MLH derives maximum likelihood estimates of attribute cut-offs in order to reduce the sensitivity to sampling errors found in its predecessor (Gensch & Svestka, 1984).

Both models handle a large number of product attributes in their prototype applications (i.e., 10 attributes in HIARC [Gensch & Svestka, 1979]; 16, 21 and 24 attributes in MLH [Gensch & Svestka, 1984]). Both models simulate the hierarchical elimination approach to choice processes proposed by Tversky (1972); yet, they differ from Tversky's models such as Elimination-By-Aspects (Tversky, 1972) and Preference Tree (Tversky & Sattath, 1979) by assuming common attributes for alternatives in a choice set. This assumption of the MLH is shared by the hybrid conjoint models, thus enabling inter-class model comparisons based on the same data.

The MLH model also differs from other elimination models such as Elimination-By-Cutoffs (EBC). The EBC derives choice probabilities from the locations of product alternatives in a perceptual space (Manrai & Sinha, 1989). The EBC model thus requires that the many product attributes be reduced to a few by multidimensional scaling technique.

Furthermore, the MLH as a disaggregate model is comparable to hybrid conjoint models in that it estimates individual choice probabilities. This contrasts with those hierarchical models that estimate aggregate partitions of the market structure (Grover & Dillion, 1985; Kalwani & Morrison, 1977; Urban, Johnson & Hauser, 1984).

Unlike other hierarchical and tree models, the MLH's lexicographic nature processes alternatives in the order of decreasing attribute importance as determined by an individual decision maker (Gensch & Svestka, 1984). An approximation of the consumer decision making process eliminates unsatisfactory alternatives.

Empirical evidence of the MLH's predictive performance has been encouraging: The model has shown a higher predictive accuracy than either pure chance or its predecessor HIARC (Gensch & Svestka, 1979). One interesting finding was that for decision makers less knowledgeable about the product in consideration, the MLH model has higher predictive accuracy than the logit model (Gensch, 1987).

HYBRID CONJOINT MODEL

Using only five and nine attributes but a large national sample, Huber et al(1993)compared the popular Sawtooth's Adaptive Conjoint Analysis (ACA) with the traditional full profile conjoint analysis. Contrary to some previous findings about ACA (Agarwal & Green, 1991; Green et al., 1993), they provided favorable evidence for the Sawtooth software. Nevertheless, the most important point was that they confirmed that a combination of self-explicated and full-profile method of conjoint analysis outperformed either method of preference elicitation. This finding further supported the desirability of the hybrid model which combines both the self-explicated and full-profile components.

Schaffer (1990) tested 33 variations of conjoint and related models on a design with 24 attribute levels and showed that metric hybrid conjoint models rendered the best predictive accuracy of consumer choices. Among the models, those estimating main-effects-only performed as well as those estimating main-and selected-interaction effects. Similarly, single beta models performed as well as those estimating multiple betas. Hence, for our study, hybrid models estimating single beta, multiple betas, main effect and/or interaction effect should show no difference in predictive accuracy when compared to the MLH model.

Not tested in Shaffer's study was an individual hybrid model with different intercept term and beta. An early version of this individual model has been applied in choice simulation and product design optimization algorithm (Green, Carroll & Goldberg, 1981), and the idea of an individual hybrid model has been further developed by Green and Krieger. For the present study, where predictive performances of choice models were validated by the same subjects, the performance of the individual beta model was expected to be promising because it was a customized model. This study also included an Individual-Beta-Main-Effect model that estimated each subject's intercept and beta for self-explicated utility.

MODEL COMPARISON

Figure 1 compares and contrasts the hybrid conjoint (HC) versus maximum likelihood hierarchical (MLH) models. These models require the same data for model calibration and produce probability predictions of an individual's choices, which provide comparable evaluation measures of performance. In the MLH model, these probability predictions, therefore, could provide information for market share simulation, a strength of the conjoint analysis. Furthermore, the MLH model estimates the threshold level of a product attribute, below which consumers would not consider a product. This cut-off point of an attribute is valuable in providing insight to product design.

At the same time, these models show the contrasting nature of the two classes of multiattribute models. First, they differ in the assumption of independence from irrelevant alternatives (IIA). Briefly stated, the IIA property assumes that the ratio between choice probabilities of any two products is not affected by competition in the market. Assuming sequential elimination of unsatisfactory alternatives, the maximum likelihood hierarchical model (MLH) gets around the

independence restriction. To relax this assumption, the hybrid model requires the construction of non-IIA experimental designs.

FIGURE 1 MODEL COMPARISON

Hybrid Conjoint Model	Maximum Likelihood Hierarchical
Originator:	
Green, Goldberg, and Montemayor (1981)	Gensch and Svestka (1984)
Assumptions:	
Independence of irrelevant alternatives (IIA)	non IIA
Theory of Choice:	
Maximization of utility	Satisfying important criteria
Decision Strategy implied:	
Optimizing consumption benefits	Simplifying the decision task
Choice Process:	
Simultaneous evaluation of attributes	Hierarchical structure of attributes Sequential elimination of alternatives
Compensatory/trade-off benefits among attributes	Non-compensatory relationship among attributes
Individuals choose only one alternative	Individuals may retain more than one alternative or may not retain any alternative
Data Collection:	
Requires experimental design	Uses survey data
Self-reported judgment plus derived utility value of attributes	Self-reported judgment of attributes
Algorithm:	
Alternative processing approach	Attribute processing approach
Estimates individual utility functions	Estimates aggregate threshold tolerance
Measures interaction effects of attribute levels	Assumes independence of attribute
Estimates judgment of attributes, which is independent of the other alternatives in the choice set	Estimates judgment of relative threshold, a function of the alternatives under consideration
Estimation model:	
Least squares estimation	Maximum likelihood estimation
Estimates a model for each respondent and adjusted by group-level estimation same individual	Estimates a model for a group; Can estimate a model for individual based on repeated purchase decisions by the

The models also differ in their theories of decision-making strategies and choice processes. The HC model simulates the consumer's objective of optimizing consumption benefit by seeking a product with the maximum utility; the MLH model, on the other hand, simulates the consumer's behavior to eliminate products with unacceptable attributes.

The HC model assumes that a decision maker simultaneously trades off benefits among attributes in the choice process; the MLH model, however, assumes the consumer follows his/her hierarchy of attribute importance and sequentially eliminates products that do not meet his/her expectations.

When a researcher collects data for model estimations, the HC model requires an experimental design in constructing product profiles, whereas studies applying the MLH model use survey data. The algorithm of the HC model can estimate part-worths of attribute levels for an individual as well as a group of respondents, whereas the algorithm of the MLH model estimates only a group-level cut-offs or threshold for each attribute. The HC model can estimate interaction effects among product attributes, whereas the MLH model cannot. Finally, the HC model uses the least squares method of estimation, whereas the MLH model uses the maximum likelihood method.

MODEL PERFORMANCE

The increasing use of smulators for market share predictions has put a premium on the utility estimations of a large number of product attributes and levels (Wittink & Cattin, 1989). However, only a few studies have directly examined the effects of increasing numbers of product attributes on model performance. After reviewing some 30 studies applying conjoint analysis, Bateson, Reibstein and Boulding (1987) conjectured that the reliability and validity of the traditional conjoint analysis decreased when the number of attributes and levels increased. A subsequent study by Moore and Semenik (1988) showed that self-explicated, traditional conjoint, and hybrid conjoint models yielded decreasing predictive accuracy as the number of considered product attributes increased to 12.

Javalgi (1988) compared the predictive performance of the logit model and the MLH model over the number of product attributes included in the model. He found that the logit model increased the percentage of correct predictions when the number of included attributes increased from 2 to 4, then 4 to 6, and then 6 to 9. The internal validity or goodness of the model fit improved as the number of attributes increased. The MLH model, on the other hand, showed a decreasing model fit beyond 3 attributes. However, there were no significant differences in the percentage of correct predictions with respect to 3,4,6, and 9 attributes.

Based on these studies on the related models, we do not have strong expectations as to which of the two models will have better predictive performance when the number of attributes and levels becomes large. Nevertheless, we have at least two arguments for the better predictive performance of the hybrid conjoint model.

First, the HC model is based on the additive model akin to the logit model, and should share, therefore, the robustness nature of the logit model in accommodating any non-compensatory choice process. Second, the MLH model estimates a common threshold level for each attribute. As the number of attributes become large, it is less likely that the attributes are independent, as assumed in the model. Thus, increasing the number of attributes might result in larger variations in consumers' emphasis (weight) and tolerance (cut-off) of the attribute quality. Hence, a larger number of attributes and levels might undermine the reliability of the common threshold.

STUDY DESIGN

We designed an experiment to examine the within-subject predictive accuracy of the HC and MLH models for two product categories and two choice sets. Based on a pretest for decision criteria, two types of products, apartments and restaurants, were selected for the study. An apartment is a

tangible product, and a restaurant provides services, representing infrequently and frequently made purchase decisions. We used questionnaires and focus groups to develop 13 attributes and 33 levels for both apartments and restaurants (Appendix A).

The first phase of the experiment provided data for model calibrations, which allowed estimation of the parameters of the mathematical models. In this phase, subjects evaluated the desirability of attribute levels, the importance of attributes, and the likelihood of choosing a given scenario.

We then presented a subset of eight product profiles (from a master plan of 32) to each subject for evaluation. Subjects rated on a 0-to-100 scale (11 points) for the likelihood of choosing a product profile. To estimate attribute interaction effect, the master design of these profiles followed a compromise design to estimate all main effects and two sets of two-factor interactions orthogonally (Carmone & Green, 1981). In addition, subjects rated attribute levels on a 0-to-10 desirability scale, and assigned a total of 100 points to show the relative importance of product attributes.

Data collected in the second and third phases provided the basis for evaluations of model predictions for two different choice sets. At each phase, conducted two weeks apart, we presented a subset of 16 profiles of apartments/restaurants to each subject for evaluation (Appendix B). These profiles followed a different conjoint design (orthogonal factorial) than did the first phase in order to create a new choice set. The choice set in the second phase included a dominant product option with the scenario that has a decisive advantage over all other scenarios in the experiment (represented by profile no. 4 in Appendix B).

Frequent as well as infrequent users of these products were recruited to evaluate these six sets of product scenarios (i.e., three phases by two products) at three different times over a five-week period (two weeks between each phase of the experiment).

Subjects were randomly assigned to groups, each with a different order of experimental tasks. Nearly 300 subjects were approached on the city campus of a private university and 195 completed the entire experiment. The experiment was administered by different assistants in groups of 10 to 30 subjects, who were rewarded with the chance to win a cash raffle.

ANALYSIS

This section describes the functional forms of the models being examined and how these were applied to the data.

Maximum Likelihood Hierarchical Model

In brief, the algorithm of the MLH model first derives a common threshold level for each attribute from the sample of subjects. The method of maximum likelihood then improves the estimation of these threshold levels until the subjects as a group eliminate the largest number of alternatives and retain their choices. The mathematical model (Gensch & Svestka, 1984) is expressed as follows:

$$\text{Maximize } L(T_1, T_2, T_3) = \prod_{k=1}^{k} P_k^{x_k} \ (1 - P_k)^{1-Xk} \qquad (1)$$

$$\text{Subject to: } 0 <= T_i <= 1,\ i = 1, \ldots, I$$

$$C_{ij}^{k} = \frac{\max_{m \in J(k,d)}(A_{im}^{k}) - A_{ij}^{k}}{\max_{m \in J(k,d)}(A_{im}^{k})} \qquad (2)$$

Where:

$$J(k,d) = \{j \mid Ti - C_{ij}^{k} \geq 0;\ g_i^k = d;\ j \in J(k,d-1)0)\} \qquad (3)$$

For:

i = *attribute 1 to I*

j = *alternative 1 to J*

k = *subject 1 to k*

d = *decreasing importance rank of attribute 1 to d*

A_{ij}^{k} = *perceived value of alternative j, with respect to attribute i, given by subject k*

C_{ij}^{k} = *standardized individual tolerance of alternative j with respect to attribute i, for subject k*

g_i^k = *importance rank of attribute i, given by subject k*

T_i = *aggregate threshold tolerance for attribute I*

P_k = *the probability of subject k retaining his choice*

The following paragraphs explain the above formulation of the model. The model assumes that a subject (k) considers the set of alternatives (J) with respect to the first-ranked important attribute (d=1). S/he then eliminates alternatives that fall below the aggregate threshold tolerance for his/her first-ranked attribute. The set of remaining alternatives after the first round is denoted by J(k,1) in equation (3).

The MLH model computes, for each individual k, the C_{ij}^{k} (in equation 2), which is a standardized value for the minimum level of acceptable satisfaction, or threshold tolerance for each alternative j with respect to attribute i. The tolerance is the difference between the two scores of value (A_{ij}^{k}). They are the attribute score of a given alternative and the maximum attribute score of the alternatives (max A) not yet eliminated from the set of alternatives (J(k,d)). The value of C_{ij}^{k} ranges from 0 to 1 and remains fixed when the set J (k,d) is reduced to a single choice.

At the group level of prediction, X_k is a random variable associated with subject k. Given an aggregate threshold tolerance for an attribute (Ti), X_k equals 1 if k retains his choice; and X_k equals 0 if k does not retain his choice. The probability of k retaining his choice is expressed as P_k and the probability of k not retaining his choice is $(1-P_k)$. Then the probability function of X_k is as follows:

$$P(X_k) = P_k^{X_k}(1-P_k)^{1-X_k} \quad (4)$$

If X_k = *0, 1*
= *0 otherwise*

The following four formulae are applied to find P_k, the probability of subject k retaining his choice. Individual retention with respect to each attribute (r_{ij}^k) is defined as the difference between the aggregate threshold tolerances (ti) and the individual standardized tolerance (C_{ij}^k):

$$r_{ij}^k = t_i - C_{ij}^k \quad \text{if } t_i \geq C_{ij}^k \geq 0, \quad (5)$$

$$r_{ij}^k = 0 \text{ otherwise.}$$

For the retained alternative(s) of a subject, the term r_{ij}^k is positive for all attributes. The value of the choice ($^* v_j^k$) is defined as the product of r_{ij}^k as follows:

$$^*v_j^k = \prod_{i=1}^{I} r_{ij}^k = \prod_{i=1}^{I} \max(t_i - C_{ij}^k ; 0) \quad (6)$$

The subject, though, may retain more than a single choice that satisfies the aggregate threshold tolerance. These retained alternatives will have a positive value of v_j^k . The sum of the retention value of these alternatives, including the choice, is expressed as μk. That is:

$$\mu_k = \sum_{j=1}^{J} v_j^k \quad (7)$$

Finally, the probability of the subject k retaining his/her choice, P_k, is regarded as a ratio of the value of the choice to the total value of the alternatives that exceed the threshold. This probability equals one when the model retains only the correct choice made by the subject. The equation of the probability follows:

$$P_k = {}^*v_j^k / \mu k \quad (8)$$

When $\mu k > 0$,
$= 0$, *otherwise*

The MLH model was formulated as an unconstrained maximization problem via an outside penalty function. This formulation was subsequently optimized by Powell's Conjugate Directions Algorithm (Svestka & Javalgi, 1990). Finally, the model applies Luce's Choice Axiom (Luce, 1959) to estimate the individual retention probabilities.

Hybrid Conjoint Model

Calibrations of hybrid models required three types of data:(1) desirability ratings (μ_{ij} k), (2) importance ratings (W_{jk}), and (3) profile evaluations (Y_h). These data were applied to the following mathematical forms of hybrid conjoint model. Single-Beta-Main-Effect Model (Akaah & Korgaonkar, 1983):

$$Y_h \cong a + bU_h + \sum_{j=1}^{J} \sum_{i=1}^{I} V_{ij} X_{ij} \qquad (9)$$

$$U_h = \sum_{j=1}^{J} W_j \mu_i \qquad (10)$$

where:

$\cong$ = *least squares approximation*

i = *attribute levels 1 to I*

j = *attributes 1 to J (J = 1, 2,...,13)*

h = *alternatives 1 to H (H = 1, 2,..., 32)*

a = *intercept*

b = *regression coefficient*

U_h = *self-explicated utility for alternative h*

Y_h = *overall ratings of alternative h in the profile evaluation task*

W_j = *importance weight for attribute j*

μ_{ij} = *desirability rating for level i of attribute j that corresponds to alternative h*

v_{ij} = *part-worth associated with level i of attribute j*

X_{ij} = *zero-one variable representing level i of attribute j that corresponds to alternative h*

Single-Beta-Main-And-Interaction-Effect Model (Akaah & Korgaonkar, 1983):

$$Y_h \cong a + b\,U_h + \sum_{j=1}^{J}\sum_{i=1}^{I} V_j\,X_{ij} + \sum_{j=1}^{J}\sum_{j'}^{J'}\sum_{i=1}^{I} V_{ijj'}X_{ijj'} \qquad (11)$$

where:
j' = j +1
$V_{ijj'}$ = part-worth associated with j x j' interaction term
$X_{ijj'}$ = zero-one dummy variable representing the j x j' interaction term that corresponds to alternative h
All other terms are the same as defined in model (1).

Multiple-Beta-Main-Effect Model (Green, 1984):

$$Y_h \cong a + \sum_{j=1}^{J} b_j\,(W_j\,\mu_{ij}) + \sum_{j=1}^{J}\sum_{i=1}^{I} V_j\,X_{ij} \qquad (12)$$

where:
b_j = regression coefficient for attribute j
All other terms are the same as defined in model (1)

Individual-Beta-Main-Effect Model (Green, Carroll & Goldberg, 1981):

$$Y_h \cong a_k + b_k \sum_{j=1}^{J} W_{jk}\,\mu_{ijk} + \sum_{j=1}^{J}\sum_{i=1}^{I} V_j\,X_{ij} \qquad (13)$$

where:
a_k = intercept for individual subject k
b_k = regression coefficient for individual k
All other terms are the same as defined in model (1)

Predictive Accuracy

Three measures of predictive accuracy for model comparison are computed: (1) the percentage of correct first-choice predictions, (2) the correlation between the intended and predicted likelihood of choice, and (3) the mean squared errors (MSE) of predictions.

RESULTS

Percentage of Correct Predictions

Table 1 shows a summary of the percentages of correct predictions of the subjects' first choices. Both the tie-adjusted percentage (Green & Schaffer, 1989) and raw-hit percentage are reported. Note that the pure chance for each model to hit the first choice is 6.25%. All models attained correct predictions that are greater than chance.

Table 1: Summary of Correct Predictions

Ties Adjusted % (Raw Hits %)	Percentages of Correct First-Choice Predictions					
	Apartment		Restaurant		Overall	
Model	Set 1	Set 2	Set 1	Set 2	Mean	Rank
Maximum Likelihood Hierarchical (MLH)	54.43 (71.8)	11.88 (21.0)	62.98 (77.4)	32.65 (49.2)	41% (55%)	3
Individual Beta Main Effect (IBM)	49.22 (63.1)	19.48 (30.3)	65.19[*1] (80.8)	24.52[*1] (33.7)	40%[*2] (52%)	4
Multiple Beta Main Effect (MBM)	64.43 (81.0)	4.62 (7.2)	66.65 (81.0)	2.73 (7.2)	35% (44%)	5
Single Beta Main Effect (SBM)	64.09 (80.5)	18.11 (28.7)	66.65 (81.0)	30.68 (40.0)	45% (58%)	2
Single Beta Main and Interaction Effect (SBMX)	64.09 (80.5)	13.67 (24.1)	66.48 (81.0)	33.59 (49.8)	45% (59%)	1
Mean (ties adjusted)	59%	14%	66%	25%		
(raw hits)	(75%)	(22%)	(80%)	(36%)		
Number of observations	975	975	973	973	3896	
Subjects	195	195	195	195	780	

[*1] N = 193 [*2] N = 776

Note: Set 1 refers to the results from the validation task with the first choice set.
Set 2 refers to the results from the validation task with the second choice set.

In general, the models provide higher predictive accuracy for the choice of restaurants than apartments. All models have higher percentages of correct predictions in the first validation choice set than in the second. This difference in the percentage of correct predictions as shown in Table 1 is substantial.

Overall, the Single-Beta-Main-and-Interaction-Effect (SBMX) model has the highest percentage of correct prediction, showing an overall mean of 45% after adjustment for ties and 59% if raw numbers of hit are considered. Different hybrid models have the highest hit percentage for different choice sets. For instance, the Multiple Beta Main Effect Model (MBM) shows the highest hit percentage in the first choice set of apartments, the Individual Beta Main Effect Model(IBM) in the second choice set, the Single Beta Main Effect (SBM) and the Multiple Beta Main Effect Model (MBM) in the first choice set of restaurant service and the Single Beta Main and Interaction Effect (SBMX) in the second set. These observations provided evidence in favor of the class of hybrid conjoint models, even though their hit percentage is not consistent.

2. The Correlation Measure

Table 2 summarizes the predictive accuracy of models as measured by the mean value of Fisher's Zs, the transformed product moment correlation (Fisher, 1921). In general, the results of Table 2 are comparable to those of Table 1. That is, the hybrid models show the best and the worst correlation performance.

Further, all models have higher predictive accuracy for the choice of restaurants than for apartments, and for the first validation choice set than the second. Again, there is a significant decline in correlation between the predicted preference and the self-reported preference for all alternatives in the second choice set.

Even so, the percentage and correlation measures yield slightly different rank orderings of model performance. This finding supports Green and Schaffer's concern (1989) about the difference between the two measures.

Table 2: Summary of the Agreements Between Model Predictions and Profile Evaluations

	Mean Product Moment Correlation (Z) Between Observed and Predicted Profile Evaluations					
	Apartment		Restaurant		Overall	
Model	Set 1	Set 2	Set 1	Set 2	Mean (std.dev.)	Rank
Maximum Likelihood Hierarchical (MLH)	0.49 (0.28)	0.24 (0.30)	0.55 (0.34)	0.38 (0.36)	0.41 (0.34)	4
Individual Beta Main Effect (IBM)	0.45 (0.39)	0.34 (0.33)	0.62[*1] (0.31)	0.36[*1] (0.28)	0.44[*2] (0.35)	3
Multiple Beta Main Effect (MBM)	0.34 (0.16)	0.10 (0.11)	0.40 (0.19)	0.10 (0.14)	0.24 (0.20)	5
Single Beta Main Effect (SBM)	0.60 (0.27)	0.39 (0.24)	0.67 (0.30)	0.39 (0.27)	0.51 (0.30)	2
Single Beta Main and Interaction Effect (SBMX)	0.68 (0.28)	0.36 (0.26)	0.74 (0.34)	0.45 (0.29)	0.56 (0.34)	1
Mean	0.51	0.29	0.60	0.33	0.43	
(std. dev.)	(0.31)	(0.28)	(0.33)	(0.30)		
Number of observations	975	975	973	973	3896	
Subjects	195	195	195	195	780	

[*1] N = 193 [*2] N = 776

The Mean Squared Error

Table 3 shows the magnitude of prediction errors. The SBM model has the smallest overall MSE, whereas the MLH model has a huge overall MSE. The huge discrepancy between the observed and the predicted probability of the MLH is due to its assumption and method of probability assignment. Specifically, the MLH tends to assign the total probability of 1.0 to a single alternative in a choice set, and assumes zero probability of selecting options that do not meet the thresholds of major attributes. Therefore, the MSE measures of predictive accuracy do not favor the MLH model.

Table 3: Summary of the Magnitude of Errors Between Model Predictions and Profile Evaluations

	Average Mean Square Errors (MSE) Between Observed and Predicted Profile Evaluations					
	Apartment		Restaurant		Overall	
Model	Set 1	Set 2	Set 1	Set 2	Mean (std.dev.)	Rank
Maximum Likelihood Hierarchical (MLH)	421.28 (209.51)	390.57 (130.08)	436.29 (202.41)	420.45 (174.34)	5	
Individual Beta Main Effect (IBM)	22.42 (61.48)	19.07 (42.10)	32.37[*1] (121.20)	26.24[*1] (74.25)	25.02[*2] (80.12)	3
Multiple Beta Main Effect (MBM)	13.91 (18.45)	13.90 (20.09)	20.10 (28.33)	18.22 (26.18)	16.53 (23.73)	2
Single Beta Main Effect (SBM)	12.43 (15.28)	12.61 (18.25)	20.63 (22.78)	18.02 (22.53)	15.92 (20.23)	1
Single Beta Main and Interaction Effect (SBMX)	15.34 (16.85)	14.88 (18.49)	45.07 (33.81)	37.72 (30.45)	28.25 (29.17)	4
Mean	99.52	96.37	101.68	107.24	101.20	
(std. dev.)	(180.68)	(189.03)	(166.51)	(191.88)		
Number of observations	975	975	973	973	3896	
Subjects	195	195	195	195	780	

[*1] N = 193 [*2] N = 776

DISCUSSION

We conclude that the hybrid conjoint models provide more accurate predictions of consumer preferences than the hierarchical model provides. Among the hybrid models, the single beta models provide the highest hit percentage as well as correlation with the consumer responses. The Single-Beta-Main-Effect model, in particular, consistently ranked among the first two models in the three measures of predictive accuracy (Please refer to Tables 1, 2, and 3). The Single-Beta-Main-and-Interaction-Effect model ranked first in the overall first-choice prediction and correlation measure, yet its overall MSE ranked last in its class.

By all measures, the Maximum Likelihood Hierarchical model did not do as well. This finding is reassuring to the hybrid conjoint users. However, the results did not fully support the robustness theory of the conjoint approach. Among the hybrid models, there is a wide discrepancy of performance as measured by the percentages of correct first choice predictions (Table 1) and mean product moment correlation (Table 2). The Multiple Beta Model showed a poor performance especially when the choice sets did not present a clearly superior option. The MBM model estimates a beta weight for each attribute, in contrast to the single beta models that estimate a single beta weight for the total self-explicated utility. The MBM model was formulated to adjust for bias: that

respondents tend to overestimate the importance of the less important attributes in the self-explicated task (Green, 1984).

A previous study with fewer attributes and levels showed no significant difference in correlation performance between multiple beta and single beta models (Schaffer, 1990). With a larger number of attributes and levels, our study found that all models have significantly higher correlation performance than the Multiple Beta Model (Bonferroni Multiple Comparisons: $p < 0.05$). This leads us to believe that as the number of attribute increases, the multiple beta model becomes less attractive because it is overparameterized. The many additional parameters introduced to estimate weights of the self-explicated attribute data probably led to higher correlation between the compositional data and the decompositional part of the model.

Because our experiment did not monitor the subjects' thought processes to reveal the kind of decision rules they applied, our findings do not lend descriptive validity to the strategies or the choice processes implied by the models. To follow through with the investigation, the list of incorrect predictions by the SBM model was compared to that of the MLH model. The two lists were inspected for common membership. The extent to which there is no overlapping in the two lists may suggest the degree of their complement, that is, the ability of one model to correctly predict for observations where the other model has failed.

Only 13% of the incorrect predictions by the SBM model were correctly predicted by the MLH model in the first validation task for apartments selection, 8% for restaurants selection, 17% in the second validation task for apartments, and 31% for restaurants. Therefore, it is safe to conclude that the strengths of the two classes of choice models are not complementary to each other. The models made similar incorrect predictions despite using different estimation methods and simulating different choice processes that stemmed from different theories of choice.

All models show better predictive performance on consumer preferences for restaurants than for apartments. The decisions for restaurants differ from those for apartments in many aspects. For instance, subjects chose restaurants more frequently and so are more familiar with the decision process. Furthermore, selecting an apartment and some occasions of selecting a restaurant can be very involving.

The frequency of product usage could provide a plausible explanation for the higher predictive accuracy in restaurants. As the data in this study indicate, consumers select restaurants much more often than apartments. That is, 66% of the subjects ate out at least once a week; 72% of the subjects rented an apartment only a few times.

While marketing researchers are rapidly extending the conjoint methods to new application areas (e.g., Green & Krieger, 1993, 481), our findings raise a practical concern. Model performance may not be consistent across product types. The extent of success in using a model for one product may not be replicated in others.

The reliability of models for different choice sets is another important issue. The results show a significant decline of predictive accuracy of both hybrid conjoint and hierarchical models in the second validation task, where a dominant option is not presented. The dominant options "facilitate choice by clarifying evaluations" (Klein & Yadav, 1989, 418). In other words, it is easier for the respondents to decide when there exists an option obviously superior to the rest of the choice set.

Similar unexpected findings in applying the Hierarchical Elimination Method (HEM) also suggested that changes in the relative attractiveness of alternatives in a choice set affect choice probabilities (Kahn, Moore & Glazer, 1987). Another unexpected and unexplained observation that might relate to the current findings was made by Reibstein, Bateson and Boulding (1988). They reported that conjoint analysis showed low "reliability over stimulus set."

For model users, business managers and service organizations who design products and base their decisions on model predictions, reliability of choice models for different choice sets is a practical concern. From a managerial point of view, a model is of little use if its estimations do not remain stable over a reasonable range of circumstances. Models with robust predictive performance have thus been highly sought after by researchers. A potential problem for model application, then, is the reliability of model predictions for consumer preferences in a dynamic marketplace. How can we adjust model predictions for the ever-changing marketplace where the structure of consumer choice sets differ from place to place and from time to time? Can this fact be adequately addressed using our current methods of market simulation? We believe this should be a direction for future research.

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APPENDIX A		
Attribute Levels	Mean (N=195)	Std. Dev.
A. Attribute Levels of Apartments and Desirability Rating Summary		
1. Spaciousness of apartment:		
very spacious with a large bedroom	8.86	1.46
small, cramped with a small bedroom	1.38	1.78
2. Neighborhood and security of apartment:		
very safe and nice neighborhood	9.15	1.38
moderately safe and nice neighborhood	6.60	1.70
relatively unsafe	1.13	1.75
3. Distance to school/job:		
less than 10 minute walk	9.03	1.77
20 minute walk	5.63	2.76
15 minute drive/public transportation	4.61	3.34
more than 30 minute drive/ public transportation	2.10	2.48
4. Rent per month (utilities included):		
below $250 per month	8.81	2.23
about $350 per month	6.46	2.47
more than $500 per month	2.30	2.59
5. Condition of apartment:		
very clean and newly renovated	9.22	1.23
good condition	7.77	1.77
needs cleaning and repairs	2.37	2.26
6. Amenities within the apartment:		
washer, dryer, cable TV, carpeting,	9.11	1.59
air conditioning, dishwasher		
carpeted, washer and dryer	7.73	1.89
no amenities	1.21	1.85
7. Accessible to stores, supermarket and entertainment:		
stores and supermarket within walking distance	8.66	1.76
stores and supermarket are not within walking distance	3.45	2.60
8. Familiarity with apartment :		
have previous experience with a similar apartment	6.58	2.73
no previous experience with the apartment	4.62	2.58
9. Tenants' ethnic composition:		
mixed/ fully integrated	6.54	2.61
predominantly Caucasian	6.89	2.46
predominantly African American/Oriental	3.78	2.64
10. View:		
plenty of windows with good view	8.55	1.95
small windows with limited view	3.00	2.50
11. Atmosphere of apartment:		
quiet	8.80	1.73
noisy	2.49	2.57

APPENDIX A		
Attribute Levels	Mean (N=195)	Std. Dev.
12. Pets:		
pets allowed	6.39	3.65
pets not allowed	4.78	3.50
13. Parking facilities:		
parking on street	7.41	2.89
paid parking	4.16	3.48
B. Attribute Levels of Restaurants and Desirability Rating Summary		
1. Quality of food:		
tasty, fresh, and delicious	9.66	0.67
greasy, bland and fried food	1.62	2.15
2. Types of food:		
specialty food	7.99	2.03
ordinary everyday food	6.44	2.03
fast food	3.63	2.62
3. Atmosphere and ambiance of restaurant:		
quiet and relaxing	8.28	1.65
fun and upbeat	7.94	1.77
loud, hurried, and crowded	2.77	2.46
formal and reserved	6.04	2.64
4. Average price of entree:		
less than $8	7.37	2.39
$8 to $20	7.87	1.73
over $20	4.49	2.91
5.Entertainment:		
soft/background music	7.79	2.13
live music	6.59	2.68
big screen TV	4.43	3.23
6. Accessibility: distance or travel time to restaurant:		
walking distance from home	6.35	2.95
15 minute drive/public transportation	7.45	2.25
more than 30 minutes drive/ public transportation	4.61	2.67
7. Waiting time:		
prompt seating	9.04	1.39
more than 30 minute wait	1.43	2.25
8. Familiarity with restaurant:		
familiar with the restaurant from past experience	7.88	1.78
no experience dining at the restaurant	5.79	2.30
9. Service and attitude of employees:		
polite, cheerful, and friendly	9.27	1.04
meticulous, prompt, and efficient	8.12	1.88
impersonal, slow, and indifferent	0.82	1.44
10. Cleanliness of restaurant and rest rooms:		

APPENDIX A		
Attribute Levels	Mean (N=195)	Std. Dev.
very clean	9.69	0.74
dirty	0.41	0.96
11. Safety of restaurant location:		
very safe	9.06	1.35
unsafe	1.63	2.17
12. Liquor and bar service:		
serves alcoholic beverages	8.11	2.28
does not serve alcohol	4.12	2.77
13. Parking facilities:		
free parking/with validation	9.07	1.73
paid parking	3.05	2.66

APPENDIX B: Designs of Choice Sets

Profile Descriptions for the First Choice Set

Profile	Attributes												
No.	1	2	3	4	5	6	7	8	9	10	11	12	13
1	0	1	1	2	1	1	0	1	0	1	0	1	1
2	1	2	0	1	2	1	0	1	1	0	1	1	0
3	1	1	2	1	0	1	1	1	2	1	0	1	0
4	0	0	0	0	0	0	0	0	0	0	0	0	0
5	1	0	3	1	1	2	1	0	2	0	0	0	1
6	0	2	3	0	1	1	1	1	1	0	1	1	1
7	0	1	2	2	2	0	1	0	1	1	1	0	0
8	1	1	1	1	1	2	0	0	1	1	1	0	1
9	1	0	0	2	2	1	1	0	2	1	1	1	1
10	1	1	1	0	1	0	1	1	2	0	1	0	0
11	0	1	1	1	1	1	1	0	1	0	0	1	0
12	0	2	0	1	0	2	1	1	1	1	0	0	1
13	0	0	3	1	1	1	0	0	0	1	1	1	0
14	1	2	3	2	1	0	0	1	1	1	0	0	0
15	1	1	2	0	0	1	0	0	1	0	0	1	1
16	0	1	2	1	2	2	0	1	0	0	1	0	1

Profile Descriptions for the Second Choice Set

Profile	Attributes												
No.	1	2	3	4	5	6	7	8	9	10	11	12	13
17	0	2	2	2	1	2	0	0	2	0	0	1	0
18	1	0	2	1	1	1	0	1	1	0	1	0	0
19	0	1	0	0	1	2	1	0	1	1	1	1	0
20	1	1	0	1	1	1	1	1	0	1	0	0	0
21	0	1	3	0	2	1	0	1	2	1	0	0	1
22	1	2	1	1	2	0	1	0	0	0	0	1	1
23	1	1	3	1	0	0	0	0	1	1	1	1	1
24	0	0	1	2	0	1	1	1	1	0	1	0	1
25	1	0	1	0	2	2	0	1	1	1	0	1	0
26	0	2	1	1	0	1	0	0	2	1	1	0	0
27	0	1	0	1	1	0	0	1	2	0	1	1	1
28	1	2	2	0	1	1	1	0	0	1	1	0	1
29	1	1	0	2	1	1	0	0	1	0	0	0	1
30	1	1	3	2	0	2	1	1	0	0	1	1	0
31	0	0	2	1	1	0	1	1	1	1	0	1	1
32	0	1	3	1	2	1	1	0	1	0	0	0	0

FAMILY DURABLE GOODS DECISION MAKING BEHAVIOR: IMPLICATIONS FOR MARKETING STRATEGY

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ABSTRACT

Over fifty percent of all United States households are composed of married couples. Joint purchase decisions occur in over 70 million households yearly. Changes in women's employment, education, and gender role norms have had a profound impact on household purchasing patterns. This study investigates married household durable goods purchase behavior. Over 200 couples took part in the research. The results indicate a shift to more equal participation by both spouses in durable goods purchases. The educational and income levels of each spouse were found significant in influencing purchase influence. Strategic marketing implications are discussed.

INTRODUCTION

Although joint decisions are more dynamic and complex than individual decisions, the role of each spouse in decision making should not be ignored. Many changes have occurred within the last four decades that have had a profound effect on the roles of husbands and wives in household purchase decisions. Economic and social changes in women's employment, income, education, and gender role norms have changed the influence of females in purchase decisions within the family context. With regard to women in workforce, there has been a more than 100% increase since 1960. According to the Bureau of Labor Statistics over 25% of working women are employed in professional, executive, and managerial positions (Folse, 1985). Additionally the National Center for Educational Statistics reports that females outnumber males in obtainment of undergraduate and graduate degrees.

Today the population of the United States consists of more than 100 million households, seventy percent families (American Demographics 1998). Married couples comprise approximately 53% of all American households (U.S. Census, 2000) and are the dominant purchasing unit in the United States (Shiffman & Kausch, 2001). In the United States, the involvement of husbands and wives varies widely by product category. Although women have been traditionally seen as primarily purchasing agents for household goods, wives are becoming increasingly involved in expensive durable goods purchases (Kotler, 2001). Women are gaining more purchasing power in households in the United States (Wall Street Journal, 1997). Market research has shown that women (wives) make or greatly influence most family purchase decisions (Peters, 1997). The increased power of women in (American Demographics, 1995, 1996; Burns, 1992) purchase decisions is often linked to the wives' earning power. Currently approximately 22% of working wives out earn their

husband's salaries (Peters, 1997), and women as a group attribute for nearly 50% of the population of United States citizens with $500,000 or more in net worth (Peters, 1997). Research also indicates that traditional roles in family purchase behavior are shifting; married women are becoming more involved in major purchases. Current research also indicates that baby boomer couples frequently shop together, rather than autonomously for many products (Lavin, 1993). Automobile manufacturers have reported that women now compose 34% of the luxury automobile market, and numerous design charges have been implemented to reach the needs of the female consumer (Alder, 1996).

The focus of this paper is to investigate the roles of husbands and wives in durable goods purchases. The significance of education and income of each spouse will be investigated. Automobiles and furniture were chosen as the major products to assess the roles of each spouse. Previous research, including durable goods purchase have been published and provided a springboard for the study; however, the importance of education and income of each spouse has not been thoroughly investigated.

PREVIOUS HUSBAND-WIFE DURABLE GOODS PURCHASING STUDIES

The earliest work in the husband-wife durable goods purchasing process area was completed by Davis (1976). A multi-trait-multimethod approach was used to assess the reliability and validity of the husband and wife responses. Earlier studies had relied primarily on data collected from one spouse (usually wives). Davis' study included 97 couples. Couples were surveyed about automobile and furniture purchases; questions included decision processes for both functional and aesthetic attributes. In general, husbands dominated functional (price, when to buy) decisions. With regard to furniture decisions, wives were the more influential spouse. The couples reported the highest levels of equal influence (syncratic decision style) with furniture decisions of the amount to spend and where to buy the furniture. Syncratic style automobile decisions were most prevalent in make, model, and color choices for automobiles.

In a follow-up study by Shurptrine and Samuelson (1976) a replication of the Davis (1974) study was undertaken with a sample of 350 couples. The data were gathered in South Carolina through a consumer panel. Questions were the same as previously asked in the Davis study. With an emerging change in women's occupational and lifestyle roles, the researchers expected to find more influence by wives in the 1976 study. The results of the study confirmed product specific influence. Husbands tended to dominate automobile decisions, while wives had the highest level of influence in furniture decisions. Overall good agreement in the husbands and wives perceptions of the influence of each spouse was found. The study did not indicate (as expected) a significantly higher level of decision making with equal participation by both spouses. The data indicated that purchase decisions regarding model and color of automobiles and furniture decisions about how much to spend and when to buy were the most syncratic decisions reported by couples. Patterns of husband-dominated functional automobile decisions and wife-dominated aesthetic furniture decisions were also reported.

Preference conflict in family automobile purchasing was researched by Burns and Grandios (1980). The study included data collected from 101 couples. Decisions including many functional

aspects such as brakes, transmission, and radio were surveyed as well as more aesthetic decisions about color, body style, and upholstery. The results indicated a high level of agreement on the role of each spouse in automobile decision making. Husbands displayed considerable influence in the functional/mechanical decisions. Joint decision making with equal participation by husbands and wives were reported in financing, price range, size, and automobile color decisions. The study also indicated that many product feature decisions represent greater potential for designated influence areas and agreement by couples.

The objectives of the analysis were to:

1.	Determine the family decision making styles of husbands and wives in durable goods (automobile and furniture) decisions;
2.	Assess the relative influence of husbands and wives in durable goods purchase decisions;
3.	Investigate the significance of educational background of each spouse's durable goods decisions.
4.	Investigate the significance of the income level of each spouse in the durable goods decision process.

METHODOLOGY

The data reported were collected from 220 husband-wife couples in the southeast United States. Data were collected through the use of self-report questionnaires. Survey instruments were administered to each spouse independently in their homes in the presence of an interviewer. The instrument included measurements of the influence of each spouse in automobile and furniture decisions. Questions regarding automobile decisions included: what price to pay, where to buy, make, model, how to pay, and when to buy the automobile. Furniture decisions regarding a purchase of family room furniture included: price to pay, where to buy, brand, style, how to pay, and when to buy the furniture. Respondents were asked to allocate 100 points between themselves and their spouse on a constant sum for each type of decision. Respondents indicated between 45-55% for the husband and between 45-55% for the wife were categorized as equal influence (syncratic). Subjects that indicated more than 56% influence of the husband were classified as husband dominant, and responses of 55% or greater wife influence were determined to be wife-dominant.

Before analyzing the data, a determination of the reliability and validity of the data was undertaken. Cronbach's alpha was used to determine the reliability of the data. The alpha coefficients ranged from .87-.93 for automobile decisions and .75-.90 for furniture decisions. Thus, the surveyed decisions were considered reliable and were examined for convergent validity in a multi-trait multimethod matrix. The Campbell and Fiske (1959) multi-trait-multi-method matrix was used to assess construct validity and convergent validity. The convergent diagonal of the husband-wife scored responses ranged from .49-.64 (this range is similar to data reported by Davis (1974). The data was determined to be reliable and valid and suitable for further analysis.

AUTOMOBILE PURCHASE DECISION PATTERNS

The role of husbands in automobile decisions is clearly more dominant than the role of wives. In the majority of the couples surveyed, husbands dominate all of the decisions surveyed. However, over one-third of the families indicate a syncratic decision-making styles of the couples in the sample. The resource decisions of when to buy (45%) and how to finance (41%) displayed the highest level of syncratic (equal influence) decision-making. Decisions regarding how much to spend, where to buy the automobile, and make of automobile were the most husband-dominated decisions. Results are displayed in Table 1.

TABLE 1: Automobile Purchases Influence Patterns

Decisions	Husband Dominant	Joint	Wife Dominant
Price to Pay	56%	43%	1%
How to Pay	52%	41%	7%
Where to Buy	55%	43%	2%
When to Buy	35%	64%	1%
Male/Model	42%	53%	5%
Exterior and Interior Color	7%	62%	31%

FURNITURE PURCHASE DECISION PATTERNS

In general, furniture decisions displayed a somewhat joint level of decision-making. Table 2 displays the influence structure in furniture purchase related decisions. In over 50% of the couples surveyed, the decisions regarding furniture were jointly shared by the couples. The highest level of wife-dominance occurred in variant decisions of where to buy and brand and style of furniture. The highest level of husband-dominated decisions-making occurred in decisions regarding financing the purchase of furniture. Although furniture has traditionally been viewed as a wife-dominant purchase, the findings suggest a considerable amount of male participation in furniture decisions.

TABLE 2: Furniture Purchases Influence Patterns

Decisions	Husband Dominant	Joint	Wife Dominant
How to Pay	37%	55%	8%
When to Buy	13%	71%	16%
How Much to Pay	24%	60%	16%
Where to Buy	13%	57%	30%
Style/Color	1%	29%	70%
Brand	7%	51%	42%

CHI-SQUARE ANALYSES OF EDUCATION AND INCOME EFFECTS IN DURABLE GOODS PURCHASES

The relationship between the income and educational level outlined by each spouse and his/her influence in automobile purchases was examined through chi-square analyses. The hypotheses tested were:

H1:	*There is no significant relationship between the educational levels of each spouse (husbands and wives) and their influence in automobile purchase decisions.*
H2:	*There is no significant relationship between the income levels of each spouse (husbands and wives) and their influence in automobile purchase decisions.*

With regard to the wives' educational levels, significant differences were noted in the wives' participation in where to buy the automobile and price to pay. The income levels of the wives were significant in the decisions of price to pay and how to pay for the automobile. There were no significant differences found among the husbands' educational and income levels in automobile purchase decision behavior. Table 3 indicates the significance of the wives' education and income in automobile decisions.

TABLE 3: Automobile Decisions
Effects of Wife's Education and Income Chi-Square Analysis

Decision	Wife's Education	Wife's Income
Price to Pay	.00*	.00*
Make/Model	.17	.74
Exterior Color	.13	.94
How to Pay	.18	.00*
Where to Buy	.00*	.81
When to Buy	.13	.75

The relationship between the income and educational level obtained by each spouse and his/her influence in furniture purchases were also examined through chi-square analyses. Results are displayed in Table 4. The hypotheses tested were:

H1:	*There is no significant relationship between the educational level of each spouse (wives and husbands) and their influence in furniture purchase decisions.*
H2:	*There is no significant relationship between the income levels of each spouse (husbands and wives) and their influence in furniture purchase decisions.*

A number of significant findings appeared in the relationship of the wives' educational levels and furniture purchase decisions. The wife's education was a significant variable in each furniture decision, with the exception of when to buy. The income levels of the wives were significant in how to pay for the furniture and aesthetic decisions of fabric and color.

The husbands' education level was significant in the decision of how to pay for the furniture. Income levels of the husbands were also significant in the aesthetic decisions regarding brand, color, fabric, and where to purchase the furniture.

An in-depth review of the chi-square analyses indicates that as expected college educated women and higher income earning women have the greatest influence among the female respondents. Also, families that have college educated dual-income spouses are more syncratic (equal) in the distribution of influence in durable goods purchase.

TABLE 4: Furniture Decisions
Effects of Wife's Education and Income Chi-Square Analysis

Decision	Wife's Education	Wife's Income
Price to Pay	.01*	.62
Where to Buy	.00*	.71
Brand to Buy	.00*	.37
Color/Fabric	.02*	.06*
How to Pay	.08	.00*
When to Buy	.97	.16

STRATEGIC IMPLICATIONS AND RECOMMENDATIONS

The findings of the study indicate that married women, particularly women with higher income and educational levels, should be considered in the development of target market strategy by marketers in the durable goods industries. Thus, it is imperative that women, as well as men, be surveyed in determining the composition of target market and the attributes sought by each spouse. A clearer picture of the demographic, psychographic and product usage of both wives and husbands should result in improvements in product development and marketing communication strategy. From the results of the study it may be implied that women will continue to increase in participation in durable goods purchase. Manufacturers, as well as marketers, should consider married females as well as males in their strategic and marketing management decisions. Specific messages that incorporate both males and females should be designed. Additionally, media selection should include general interest magazines that would be appealing to both male and female audiences.

Results of the study, although limited to the sample studied, indicate the need for specific target marketing strategy in husband-wife durable goods purchases. Additional research replicating the study should result in greater convergent validity and generalizability.

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VALUE BASED MARKETING: A NEW PERSPECTIVE

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NEW ECONOMY: NEW EXPECTATIONS

The International Herald Tribune recently (20 December 2000) asked a number of CEOs of "new economy" companies for their visions of the future. Geoffrey Baehr, chief network officer for Sun Microsystems offered:

> *"I can't wait for the day when there are tools to sift, analyze and adapt the data to my job, my function, my life ... ...when there is a relevancy test on the data I get. I think 5 percent of the data floating around the world is valuable, and the rest is junk"*

Judy Neuman, chief operating partner of Maveron LLC, a venture capital firm commented:

> *" I can't wait for the day when have one device that is fully voice-enabled so I never have to look at a phone number to make a call--a machine that could provide real-time e-mail, wireless access to the Web, be a cell phone and come with all the accoutrements of a Palm Pilot or Blackberry. Clearly, people are trying to get there. But in the meantime, my purse--and my life--is complicated because I have all these technology accoutrements."*

Cyrus Harmon, general manager of Affymetrix, a genomics company contributed:

> *" I am waiting for the day when we recognize as a society what a destructive force traffic is and build a transportation system that deals with it."*

And, Jonathan Rothberg, chairman and chief executive of CuraGen, another genomics company said that he could not wait for the development of drugs that would wipe out a number of deadly diseases.

Four visions with three underlying forces driving these and other changes that have occurred in the 1990s. There has been considerable social, economic and technological change in recent years such that old structures have been challenged, concepts revisited and revised. New concepts such as smokeless factories, screwdriver assembly plants and corporations without tangible assets have become realities. Knowledge management, technology management and relationship management are three concepts, or disciplines underlying theses changes.

The segmentation of markets in the 1970s and 1980s was followed by fragmentation during the 1990s. It was fragmentation that required a flexible response if customer expectations were to

be met. There have been two responses. One has been an increase in alliances and partnerships and the other has been from manufacturing technology which offers the ability to meet customer expectations for variety without the accompanying increases in product cost.

These arguments suggest alternative organisational structures with which to take full advantage of the market place opportunities should develop. At the beginning of the 1990s, Davidow and Malone (1992) suggested:

> *"The complex product-markets of the twenty first century will demand the ability to deliver, quickly and globally a high variety of customised products. These products will be differentiated not only by form and function, but also by the services provided with the product, including the ability for the customer to be involved in the design of the product....a manufacturing company, will not; be an isolated facility in production, but rather a node , in the complex network of suppliers, customers; engineering and other 'service' functions".*
>
> *".....profound changes are expected for the company's distribution system and its internal organisation, as they, evolve to become more customer driven, and customer managed. On the upstream side of the firm, supplier networks will have to be integrated with those of customers often to the point where the customer will share its equipment, designs, trade secrets and confidences with those suppliers. Obviously, suppliers will become very dependent upon their downstream customers; but by the same token customers will be, equally trapped by their suppliers. In the end, unlike its contemporary predecessors, the virtual corporation will appear, less a discrete enterprise and more an ever-varying cluster of common activities in the midst of a vast fabric of relationships".*
>
> *"The challenge posed by this business revolution argues that, corporations that expect to remain competitive must achieve mastery of both, information and relationships".*

And Byrne and Brandt (1992) identified the characteristics of the "new corporate model":

> *"Today's joint ventures and strategic alliances may be an early glimpse of the business organisation of the future: the Virtual Corporation. It's a temporary network of companies that come together quickly to exploit fast-changing opportunities. In a Virtual Corporation, companies can share costs, skills, and access to global markets, with each partner contributing what it is best at ....the key attributes of such an organisation (include): EXCELLENCE ....each partner brings its core competence to the effort ....TECHNOLOGY...informational networks....partnerships based on electronic contracts ....to speed the linkups....OPPORTUNISM....partnerships will be less permanent, less formal and more opportunistic ....to meet a specific market opportunity ....TRUST....these relationships make companies far more reliant on each other and require far more trust than ever before ....NO BORDERS ....this new corporate model redefines the traditional boundaries of the company. More cooperation among competitors, suppliers, and customers makes it harder to determine where one company ends and another begins".*

In other words an integrated and coordinated approach towards knowledge, technology and relationship management is becoming essential. Indeed Byrne and Brandt are suggesting that one of the key success factors for all businesses is the ability to identify one's own core competencies, decide where in the value chain these are to be most cost effectively deployed, and to complement these with partnership opportunities.

The basic elements of knowledge, technology and relationship management have been identified as being the building blocks for these new economy organisations. However to reinforce their impact the role of marketing, and how its contribution may be measured is an interesting issue and which, when addressed, may make the entire value creation system both more effective (a

strategic concern) and more efficient (an operational concern). There is another important consideration to be made. Given that both market expectations and market responses are changing frequently the interface areas offer the opportunity to form alliances which are more responsive, more rapidly. If managed responsibly (and responsively) they can help avoid the high levels of investment, which often occur in vertically integrated organisations. They can also encourage ongoing customer focused R and D throughout the value chain because of the interdepecies that develop. Furthermore as product-applications and end-user profiles shift the structure of the value offer, can be adjusted by agreeing changes in the tasks of the value chain members, or changing the structure of the value chain.

There can be very little doubt the world is becoming a very different place. However, it is worthwhile to pause and ask some questions concerning both the rate and direction of change but perhaps more importantly to question the building blocks for the launch pad. The proliferatin of "e-commerce solutions" may be leading business towards "mass seduction" rather than towards mass customisation (Pines cause). It would be more sensible to consider "e-commerce" as a facilitator - or a means by which we can add flexibility, reduce operating times, increase accuracy, relevance and control to, our business--rather than be the 'end' in itself. In other words how will the building blocks; knowledge management, technology management and relationship management influence the role of marketing in the "new economy".

A basic requirement is for an organisation structure, or model, capable of identifying the relevant components of the knowledge management, technology management, relationship management characteristics of the 'market' and to understand the potential power in each. It follows that a different emphasis may be required if the model is to operate across all sectors and dominance may need to be given to one of the components to ensure that a dominant competitive position results.

Knowledge management has been variously defined but the following is a synthesis of the many located:

> *The organisational capability which identifies, locates, (creates or acquires), transfers, converts and distributes knowledge into competitive advantage.*

For example, knowledge management influences strategy through R and D investment, and the application of experience based knowledge to become a learning organisation.

Knowledge management continues to experience rapid development. To capitalise on this current growth, organisations should adopt a ‘make or buy’ approach towards investment in knowledge resources. The basic criteria to be used by any organisation for any investment in resources is: what are the aspects of knowledge that will make decision making more effective, and what are the most cost effective means of acquiring them? To do this requires an audit of the ‘decision making/knowledge available’ relationship within an organisation (and here the term "organisation" is used to include the whole value production/delivery system). Such an audit will assist in developing clear requirements for qualitative and quantitative knowledge inputs. An audit should establish stocks and flows of knowledge in order that a knowledge-based infrastructure can

be built. Given that an organisation can establish what it is it knows, and what it is it should know, the next step is to build a `learning organisation' based upon the identified requirements.

The second 'underlying force', or building block, is *technology management*. Technology management is a much broader concept than manufacturing/operations strategy but clearly has a close connection. Noon (1990) uses the definition derived by the *Task Force on Management of Technology* sponsored by the *National Research Council*:

> *"Management of (new) technology links engineering, science and management disciplines to address the planning, development and implementation of technological capabilities to shape and accomplish the strategic and operational objectives of an organisation."*

A more succinct definition can be offered:

> *The integration of process and product technology to address the planning, development and implementation of technological capabilities and capacities to meet the strategic and operational objectives of an organisation and its partners.*

Technology management can influence the value delivered by planning manufacturing responses that match market volume and product characteristics with costs and plant utilisation; it may also be used to meet identified customer problems and resolve them through product design and manufacturing processes. Technology management has become more embracing in its application, one that marketing must understand. Accordingly it requires a technology management philosophy. To be effective technology management should identify the most cost-effective role that can be achieved through developing ongoing relationships with marketing, R and D and manufacturing/operations management using the notion of `leveraged assets'. Michael Dell has been widely quoted for his conviction in minimal ownership of assets and maximising the utilisation of suppliers' dedicated capabilities and capacities. This is the first step in developing an R and D strategy that will take its direction towards favouring product or process technology, the role of customers and of suppliers in the R and D process from the technology management philosophy. The economies of integration are important in this respect. Noori (1990) commented:

> *"The challenge is to devise an "organisational structure" to match the flexibility and complexity of the new technology, a structure that meshes all the necessary technical and non-technical elements and blends the functional expertise as needed ... "*

Relationship management is the third building block. A working definition is proposed:

> *Identify, establish, maintain and reinforce economic relationships with customers, suppliers and other partners with complimentary (and supplementary) capabilities and capacities so that the objectives of the organisation and those of all other partners may be met by agreeing and implementing mutually acceptable strategies.*

In other words relationship management can influence positioning and strategy by identifying, developing and maintaining partnerships which ensure that product service objectives to meet customer expectations are met. Relationship management prescribes the organisation structure within which the firm operates. Payne's (1995) description of the 'market' environment in which a firm operates determines the role of relationship management that extends the scope of relationship marketing into one in which a broad range of processes can be coordinated. Relationship management includes 'co-production' (the 'transfer' of production processes both upstream and downstream) and in which 'managed' co-destiny becomes essential for success. Effective relationship management requires management to adopt the view that collaboration, not conflict, or necessarily competition, is an essential feature of the "new economy. There are a number of issues to contributing towards success.

That knowledge, technology and relationship management was, and remain, important can be deduced from a quotation from Piore and Sabel (1984) concerning flexible specialisation that they consider to be a:

> *"... to those favouring innovation: accommodation to ceaseless change, rather than an effort to control it. This strategy is based on flexible-multi use-equipment [technology management]; skilled workers [knowledge management]; and the creation, through politics of an industrial community that restricts the forms of competition to those favouring innovation [relationship management]. For these reasons the spread of flexible specialisation amounts to a revival of craft forms of production." Comments in brackets are the authors'.*

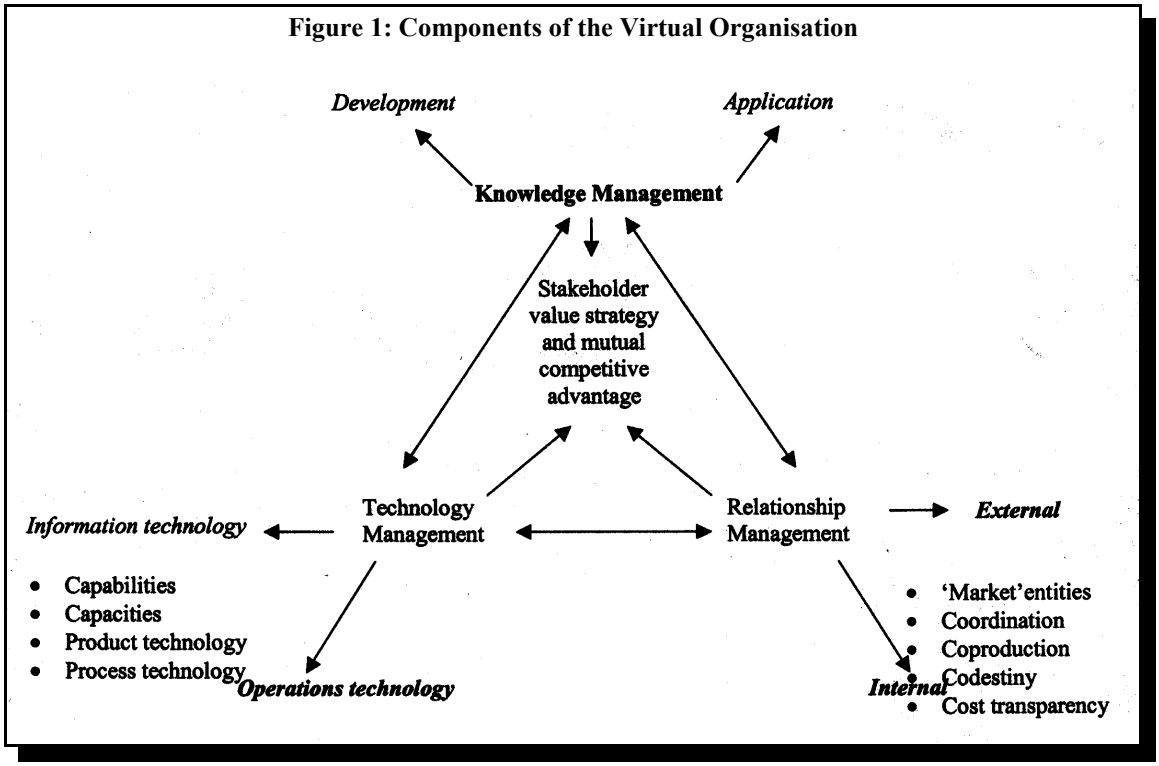
What is emerging is a basic structure of the virtual organisation. The expectations of marketing clearly are shifting and are likely to become more qualitative and to incorporate far more inter-organisational measures. Figure one proposes a basic structure. There are a number of issues for marketing to consider in terms of role and performance structures.

To explore this proposition further figure two suggests some of the fundamental changes taking place. The new business model is one that is built around time and flexibility responses as the primary utility functions that are expected to offer competitive advantage. There are clear implications for marketing contribution and the way in which this may be valued. A shift from a product-market stance towards a market product stance suggests that the current perspective of marketing based upon product-led target marketing is being replaced by what Day (1999) calls market orientation or what we might label as a market led strategy and which Pine (1993) proposed as mass customisation.

Day (1999) identifies five "transitions" that are having (or will have) disruptive effects. These include more supply and less differentiation (or excess capacity for commodity type products) resulting in product-service imitation. Day cites the athletic shoe market as an example for which imitation reaches well beyond products and into delivery methods. The 'net' based shopping offers of the major UK food retailers are another example. Globalisation, more global and less local trends are another important transition. Globalisation is being fuelled by the convergence, or homogenisation, of customer needs, trade liberalisation and the opportunities offered by international trends in deregulation. Day refers to the move from a "marketplace" to a "marketspace" perspective (a concept introduced by Rayport and Sviokla). Day suggests this is a new emphasis not

only on marketing communications, but also on product-service characteristics and transaction payment systems. The marketspace removes the need for dominant location; "...customers can shop across the globe or country, dramatically cutting the advantage of local presence that is the mainstay of many retailers." *More competition and more collaboration* imply a shift away from self-damaging behaviour (such as that inflicted by price competition) towards a more collaborative approach to customer satisfaction. Day identifies an arrangement between Sony and Phillips who are working together to develop common optical media standards and supplying components for one another. Collaboration in the European automotive industry has resulted in shared diesel engine developments. As Day comments: " There are many markets in which a firm can be a customer, supplier and rival at the same time."

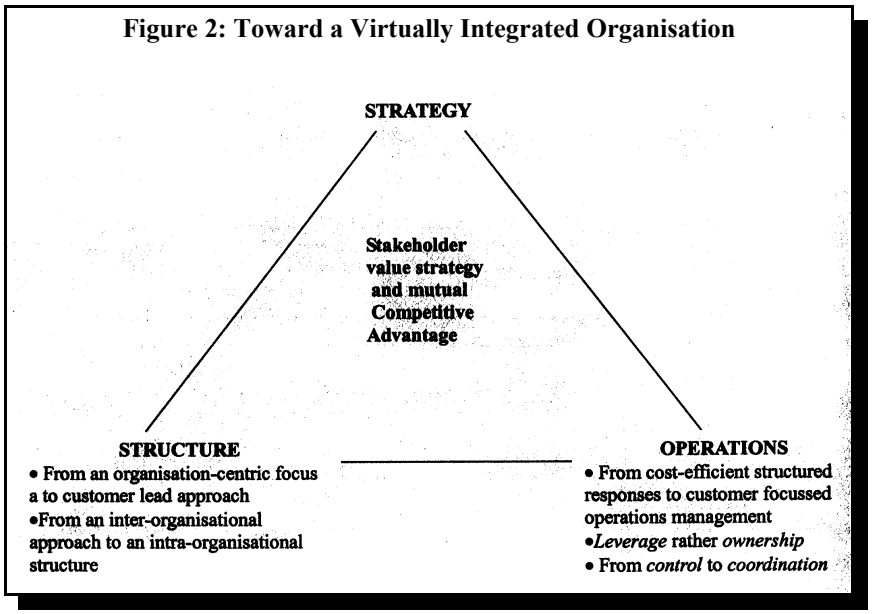
Figure 1: Components of the Virtual Organisation



The preference among most organisations for long term customer relationships rather than expanding the "new customer base" is identified by Day as; *more relating and less transacting* reflecting the move towards customer retention and points to the organisational changes occurring in many companies whereby they organise around customers rather than products or sales districts. The adoption of customer profitability and retention are becoming important as performance measures. Day's final "transition" concerns response to customer requirements. Again this considers both strategic and operational aspects. *More sense-and-respond and less make-and-sell* suggests an increasing application of computer aided design and manufacturing systems and a departure from traditional make-to-forecast manufacturing and response based logistics systems based upon

economies of scale and vertical control structures. *Economies of integration,* the coordination of capacities and capabilities on an inter-organisational basis are rapidly replacing economies of scale in manufacturing strategy.

Figure 2: Toward a Virtually Integrated Organisation



Day offers *market orientation* (or being market driven) as a means of dealing with market turbulence and propose a model in which there are "three elements of successful market driven organisations." These are:

- An *externally oriented culture* with dominant beliefs, values and behaviour emphasising superior customer value and a continual quest for new sources of advantage. (Porter (1996) has suggested that this often results in operational/short term benefits which are soon imitated by competitors). The external orientation includes the ability to be able to *participate* in strategy decisions, not only to dominate them.
- *Distinctive capabilities* in market sensing, market relating and anticipatory strategic thinking. In other words market driven organisations are better educated about their markets and better able to form close relationships with valued customers. Clear strategic thinking enables them to devise proactive marketing strategies that *involve* suppliers and customers, thereby increasing the value obtained by all participants in the value creation, production and delivery process.
- A *configuration* that enables the entire organisation to anticipate and respond to changing customer requirements and market conditions. This includes all the other capabilities for delivering customer value-from product design to order fulfillment, plus an adaptive organisation design together with a supporting infrastructure. All of these aspects of the configuration are aligned with the development of a superior value proposition and a corporate culture/philosophy that accepts the role of other more cost-effective and cost-efficient structures.

There are a number of interesting responses reported by companies to these demand and structural changes identified by these and other authors. However, before reviewing these we should explore one aspect of the changes in more detail, the characteristics of customer value expectations. Traditionally we have considered form, possession, and time and place utilities as drivers of consumer utility satisfaction. *Form utility* has been provided by a company's production function. This was centralised and finished product reaches the market through a distribution process which provides *possession utility* created by marketing activities, creating awareness of a product or service and facilitating transactions. Logistics creates *time and place utilities*. However, as Rayport and Sviokla (1996) suggest the move towards digital products changes the entire value creation, production, communication, and delivery and service process. Furthermore, customer expectations themselves have created new aspects of utility such as *convenience, choice, information, communication and "experience"*. In a recent comment on the *Tomorrow Project,* a view of the future of relationships in the UK, Worsley (2000) identifies another dimension of value, that of *fit*. Worsley argues that if the consumer can now purchase clothes to meet an individual specification, can buy CDs with "individualised" tracks, there is good reason to believe that the view: "It must fit me exactly" will become the defining outlook and expectation of the next few decades." Evidence already exists to this effect. Tofer (1980) coined the term *prosumer* to identify consumer involvement in product design and manufacture and, if we consider the IKEA approach, we can include logistics. Nike offers customers the facility to design their own shoes using the Nike website. Customers in the US can choose between a cross trainer or a runner, select their shoe size, desired colour combinations and add personalised identification. The customer can view their `creation' in three dimensions and when satisfied consummate the transaction by providing credit card details. A fee of US$10 is charged for this customised service, together with a delivery charge, both of which are added to the retail price. Delivery takes two to three weeks and if they are not satisfactory can be returned to a Nike store. (BRW, 1999). Levi-Strauss (Day op cit.) offers a similar service.

Personal Pair is a service in which jeans for women are made to their exact specifications. Day also cites *Custom Foot*, who offer to make shoes to order from a choice of 10,000 variations for women and 7800 for men. Dell Computer's build-to-order approach is well documented and requires no detailed comment but does offer a customised product with short delivery time. Service products are included. Communications products are available in a range of `lifestyle' formats to meet specific needs. The traditional `carriers' are finding difficulties in matching niche offers by competitors in international tele-communications and their responses to the mobile operators often lag well behind in flexibility and cost. Financial services have also met the need for flexibility. Banking has embraced technology and offers a range of alternatives to traditional services. In addition the range of home financing options and retirement planning products is now extensive and is aimed at meeting an expanding number of market segments.

A NEW ROLE FOR MARKETING: A NEW PERSPECTIVE OF ADDED VALUE

With such dramatic and rapid change occurring it is not surprising that traditional structures are slow to respond. The role of marketing in the age of the *virtual organisation* is not difficult to derive. Day and Pine both infer the need for collaboration and cooperation (even competition) in the

new economy market place. If marketing is to play a major role in the strategic direction of the organisation it should consider where best the company can maximise its returns. The first is to understand the key characteristics of relationships within an industry, market or market segment. A useful method for achieving this is to identify the profit pools within the value creation system and then to explore the characteristics of the 'actors and the processes' involved. Gadiesh and Gilbert (1998) offer a model based upon the notion that: "Successful companies understand that profit share is more important than market share". A profit pool is defined as the total profits earned in an industry at all points along the industry's value chain. The pool may be 'deeper' in some segments of the value chain, than in others and variations may be due to customer, product, and distribution channel differences, or perhaps there may be geographical reasons. Often the pattern of profit concentration differs markedly from revenue concentration. Gadiesh and Gilbert use the US automotive industry to demonstrate the variations of revenue and profit distribution. They use it to provide an approach to mapping profit pools.

Kay (1993) introduces the concept of added value as "the key measure of corporate success" and defines this as:

> "*Added value is the difference between the (comprehensively accounted) value of a firm's output and the (comprehensively accounted) cost of the firm's inputs. In this specific sense, adding value is both proper motivation of corporate activity and the measurement of its achievement".*

Kay calculates added value by subtracting from the market value of an organisation's output the cost of its inputs:

Revenues
Less (wages and salaries, materials, capital costs)
Equals
Added Value

He suggests that added value is a measure of the loss that would result to national income and to the international economy if the organisation ceased to exist:

> *"Adding value in this sense, is the central purpose of business activity. A commercial organisation which adds no value - whose output is worth no more than the value of its inputs in alternative uses - has no long-term rationale for its existence".*

Figure 3: Kay's Added Value Perspective
(Adapted from Kay)

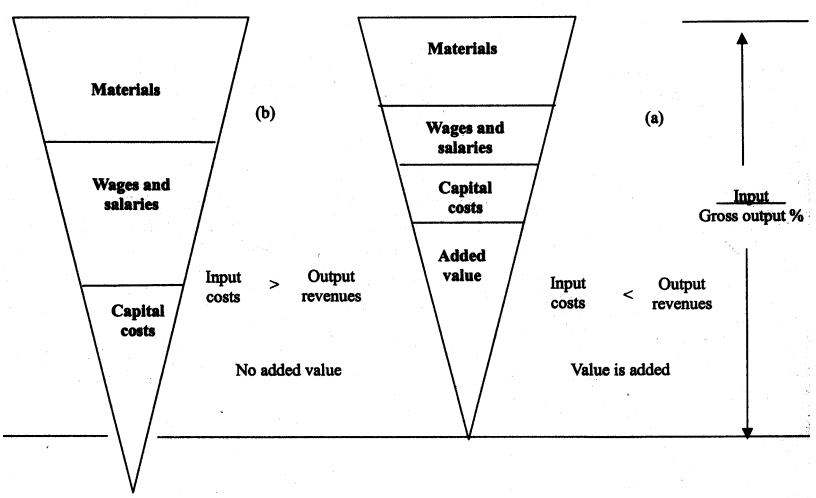


Figure three illustrates the concept. In figure 3a input costs exceed output costs and no added value is generated. By contrast in figure 3b, output revenues exceed the input costs and added value is generated.

Added value in this context includes depreciation of capital assets and also provides for a 'reasonable' return on invested capital. Calculated this way added value is *less than* operating profit, the difference between the value of the output and the value of materials and labour inputs and capital costs. It also differs from the net output of the firm: the difference between the value of its sales and material costs (not labour or capital costs). Kay's measure of competitive advantage is the ratio of added value to the organisation's gross or net output:

$$\textit{Competitive Advantage} = \frac{\textit{Revenues - (Wages + Salaries + Materials + Capital Costs)}}{\textit{Wages + Salaries + Materials + Capital Costs}}$$

Kay uses the model to explore corporate strategy issues on the basis that

> *"Corporate success derives from a competitive advantage which is based on distinctive capabilities, which is most often derived from the unique character of a firm's relationships. with its suppliers; customers; or employees and which is precisely identified and applied to relevant markets."*

He asks:

"Did it make sense for Benetton ..... to move into retailing, and was it right to decide to franchise most of its shops to individual franchises? ...What segment of the motor car market was most appropriate for BMW?"

He questions the measurement of success arid performance, suggesting size, a firm's sales, its market share, and its value on the stock market as options typically used together with rate of return. This can be measured as return on equity, on investment or on sales. Other measures commonly used include growth, productivity, increased earnings per share or the price earnings ratio. Kay argues that while these measures are aspects of successful performance the *key measure of corporate performance is added value,* i.e.; the difference between the (comprehensively accounted) value of a firm's output and the (comprehensively accounted) cost of the firm's inputs.

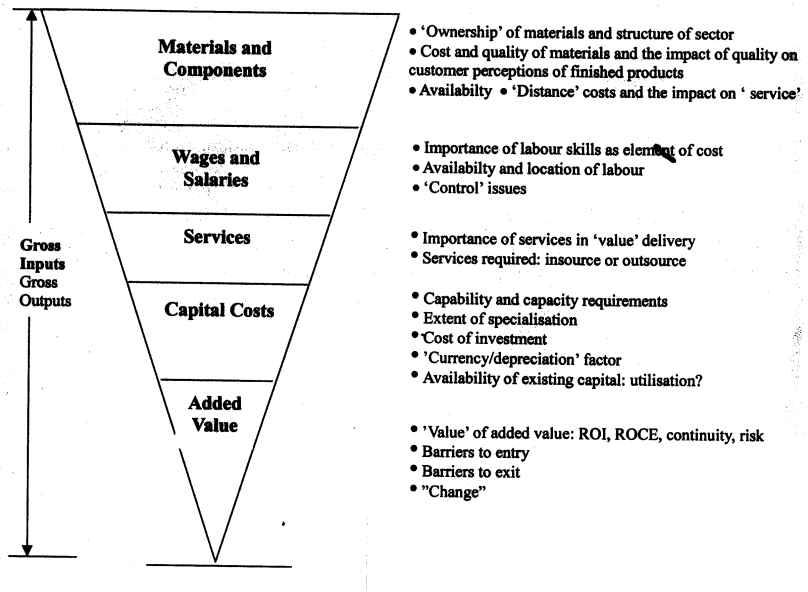
Business relationships are crucial and Kay argues that the added value statement is not simply a means of looking at financial consequences. It describes the set of relationships which constitute the firm. In the *virtual organisation model* its role can be extended beyond *relationship management* to include both *knowledge management* and *technology management.* The flexibility of the model enables any options to be considered. In particular a model of the industry, or the sector, that explores these components from the perspective of alternative formats can result in identifying the preferable location of the firm within the industry or sector value chain. The analysis, suggests Kay, is based upon

"... a careful appreciation of the strengths of the firm and the economic environment it faces"

Kay uses the added value model to explore the added value perspectives of stages in the value chain. Primary (extraction) industries have materials and capital costs as dominant inputs. Secondary organisations (those engaged in consumer durable manufacturing) are suggested to have a predominance of materials and wages and salaries as input costs. Tertiary businesses are typically dominated by materials costs, some labour costs, and depending upon management's view of infrastructure ownership (typically retail outlets and distribution networks) capital inputs may, or may not, be significant.

The scope of marketing within the context of the *new economy* and the *virtual organisation* is of particular interest. As many organisations question their future structure and begin to review competencies within the context of the virtual operations model there is a vital need for the organisation to map the input/output profiles of its value chain partners and to engage at a point where its strengths and weaknesses can be matched with opportunities and threats such that stakeholder value (i.e; the value accruing to shareholders, customers, suppliers, employees and the community) is optimised. Increasingly as the virtual organisation model is experimented with and expanded it becomes increasingly likely that marketing offers the means by which answers to many of the emerging questions concerning the available options may be obtained. Increasingly the analytical, communication and conduit characteristics of marketing are becoming important.

Figure 4: Adding Detail to Kay's Approach for Calculating Added Value



Kay's model, modified a little to explore the concept within the context of marketing, is illustrated as figure five.

Figure five explores the role of marketing in exploring the response options to *Added Value Drivers*. For example, a number of questions should be raised concerning the procurement and or manufacture of *materials and components.* The ownership structure of materials or component manufacturing may be concentrated in which case the ability to differentiate a product by incorporating an outsourced component will be limited. Marketing, by maintaining an ongoing `dialogue' with customers, is in a position to identify the costs and benefits of outsourcing or insourcing the item and the impact on added value. From this analysis it follows that alternatives may be sought and evaluated.

A similar argument may be made with regard to *wages and salaries.* Here the concern is that *knowledge* (management expertise and specialist labour skills) may not be available 'in-house'. The reality is that with a virtual organisation it is of no consequence because the virtual organisation structure encourages the leverage of both management expertise and specialist labour. The concept of the *economics of integration* is one that utilises knowledge management to identify the precise combination of *technology* that will provide, competitive advantage, together with the necessary *relationship management* expertise to coordinate the extensive cooperation and co-productivity among value organisation partnerships. Distance is no longer a constraint. The example given by Li

and Fung, who act for major brand owners from their Hong Kong base providing a range of service processes for their global principals, is one of an increasing number of such partnerships. Li and Fung provide an extensive range of processes, from developing product prototypes from their principal's specifications to managing the logistics of delivering specific consignments to designated locations throughout the world. Meanwhile the brand owner continues with what they are particularly good at--managing the marketing of their brand portfolio. But the basic issue is one of understanding the market place, of understanding customer expectations and deriving specifications of the product and service that will deliver the customer value specifications.

Figure 5: Added Value Drivers and their Marketing Considerations

	Added Value 'Drivers'	Marketing Considerations
Materials and Components	Ownership of materials and structure of sector Cost and quality of materials Availability Distance costs Impact of quality on finished product	Identify customer product applications and derive price/ performance expectations Provide *design* with competitive comparisons Identify alternative *procurement, manufacturing* and logistics alternatives and their cost/benefit implications using alternate materials and manufacturing and customer locations Establish impact/issues analysis using customer expectations and price/performance/cost profiles Explore options/implications with selected customers
Wages and Salaries	Importance of labor skills as element of cost Availability and location of labor Control issues	
Services	Importance of services in value delivery Services required: insource or outsource	Establish customer product-service expectations Evaluate implications on *manufacturing* options Explore availability of insource/outsource options Explore implications for customer response
Capital Costs	Capability and capacity requirements Extent of specialisation Cost of investment Currency/depreciation factor Availability of existing capital: utilization?	Identify suppliers and competitors Explore competitive scenarios With *finance* explore risk/return profiles of capital ownership options
Added Value	Value of added value: ROI, ROCE, continuity, risk Barriers to entry Barriers to exit Change	Project alternative market scenarios Project gross input/gross output profiles for each scenario using expected customer responses and capital and operating costs Project profitability/productivity and cash flow options

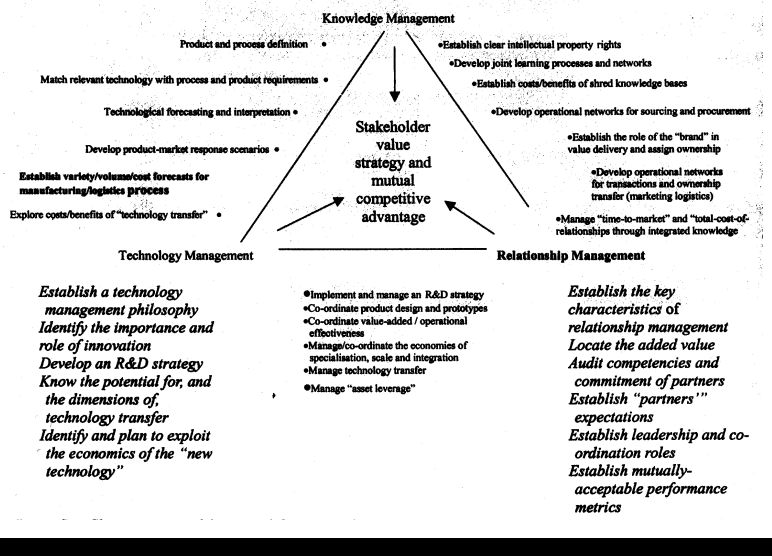
In a time in which almost any manufacturing advantage can be imitated quickly, and at low cost, it often falls to the use of customised *service* packages to provide the differentiation sought in the marketplace. Once again the decision issue concerns the extent to which insourced services are preferable to outsourced service providers. Marketing is well placed to extend the customer dialogue to ascertain the importance of service to the customer and to interpret this into cost and benefit implications for the organisation.

The point that flexibility is an issue in developing competitive advantage was made earlier. When the advantages of specialisation are added, the emphasis on managing capability and capacity through leveraged assets rather than ownership, become a significant decision issue. The success of the computer company Dell is an excellent example of managing through leveraging suppliers'

assets. Michael Dell made very clear the decision that faced his organisation from the very beginning: there can be little or no advantage to anyone in the sector if large capital sums are competing with each other. The perceptive solution is one that identifies where the maximum advantage can be obtained; the investment that offers greatest return. This raises the issue of tangible and intangible assets and their role in creating competitive advantage. The examples set by Dell, Nike Coca-Cola and others suggest that investment in intangible assets such as R and D and the brand and developing management is capable of realising major returns on capital costs.

If the purpose of the analysis is to identify and to evaluate the alternative structures by which *added value* may be generated, then some constraints should be established. The virtual organisation implies that any added value generated is likely to be an optimum value rather than a maximum value based upon the objectives of any one individual company. It follows that some additional topics of risk should be explored. One such topic concerns the distribution of assets and the risk of reduced access that any concentrated distribution of assets introduces. It also follows that disproportionate risk requires adequate compensation and therefore margins or returns be structured to recognise the risk being undertaken. There is a task here that possibly can only be undertaken by marketing, involving the identification of roles and tasks being undertaken within the value chain and structuring the returns accordingly. The channel management literature deals with this concern in its value based compensation models. There are other aspects of risk. For example barriers to entry and to exit may be such that entry into the sector is relatively easy but once established the capital commitment makes exit difficult. Furthermore in a dynamic market the rate of change within processes may be accompanied with major write off problems. The pharmaceutical and high technology based industries are examples of such problems. *The disciplines of marketing are such that a major role can be played in exploring the likely scenarios that will optimise competitive advantage.*

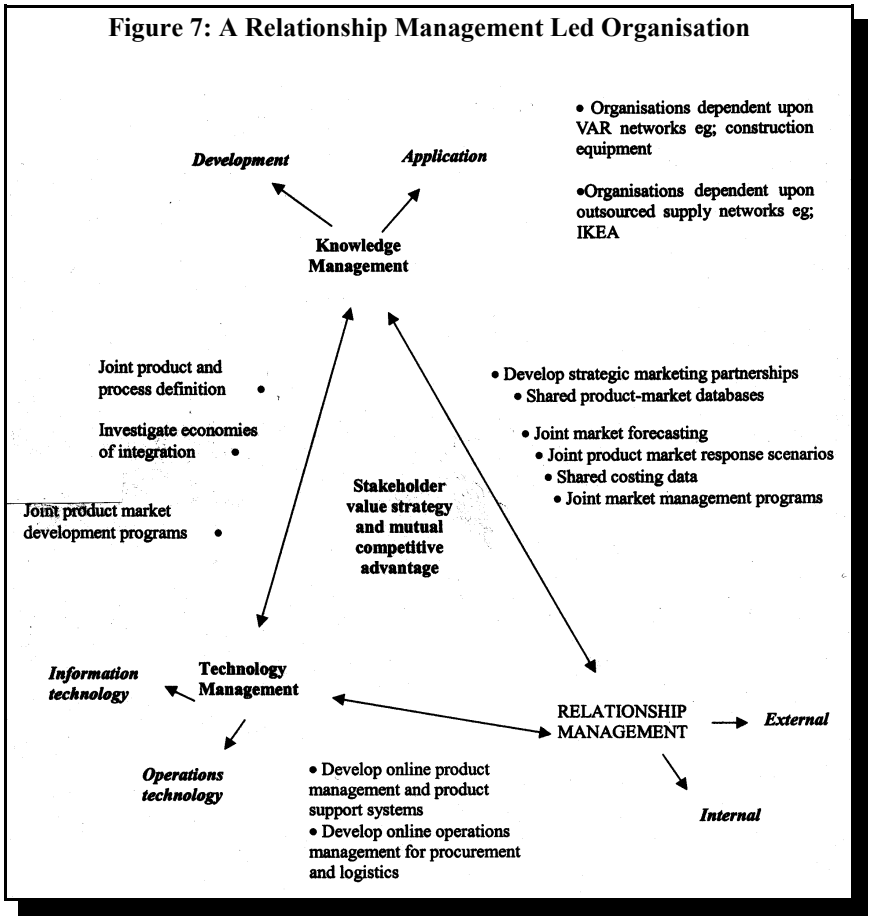
Figure 6: Characteristics of the Virtual Organisation



PUTTING THE MODEL TO WORK

The 'new economy' and the 'virtual approaches' it has spawned suggests that process management, rather than functional management is an essential feature of the 'new competition'...Figure six expands the virtual organisation model and offers examples of a number of processes.

Figure 7: A Relationship Management Led Organisation



These assume integrated activities if processes are to be successful in creating mutual competitive advantage for the virtual organisation. Beech (1998) argues that the departmental silos built into the traditional functional business organisation structure only serve to inhibit customer satisfaction and, therefore, added value. He discusses planning process within the context of demand and supply chains. *Demand chain processes* include product development, "trade marketing" selling, `customer services' management, category management and "consumer marketing". Supply *chain processes* include raw materials procurement and management, manufacturing, "logistics", finished goods procurement and "retail operations". Note the parentheses suggest the extent to which these processes have become influenced by e-business applications and are the views of the authors

not Beech. In Beech's model demand chain and supply chain are integrated, the result is an optimised value chain delivery model.. (For a detailed review of the development of value chain management see Walters, detail below) Figure six addresses the same issues but starts with the three foundation concepts i.e., knowledge, technology and relationship management and uses these to establish 'benchmarks' for the structure of a virtual organisation. From the benchrnarks emerge a number of interface relationships between each of the foundation concepts. Figure six's treatment of these is, of necessity, generic, but an example (based upon ongoing in-company research) for a *relationship management* led virtual organisation is shown as figure seven.

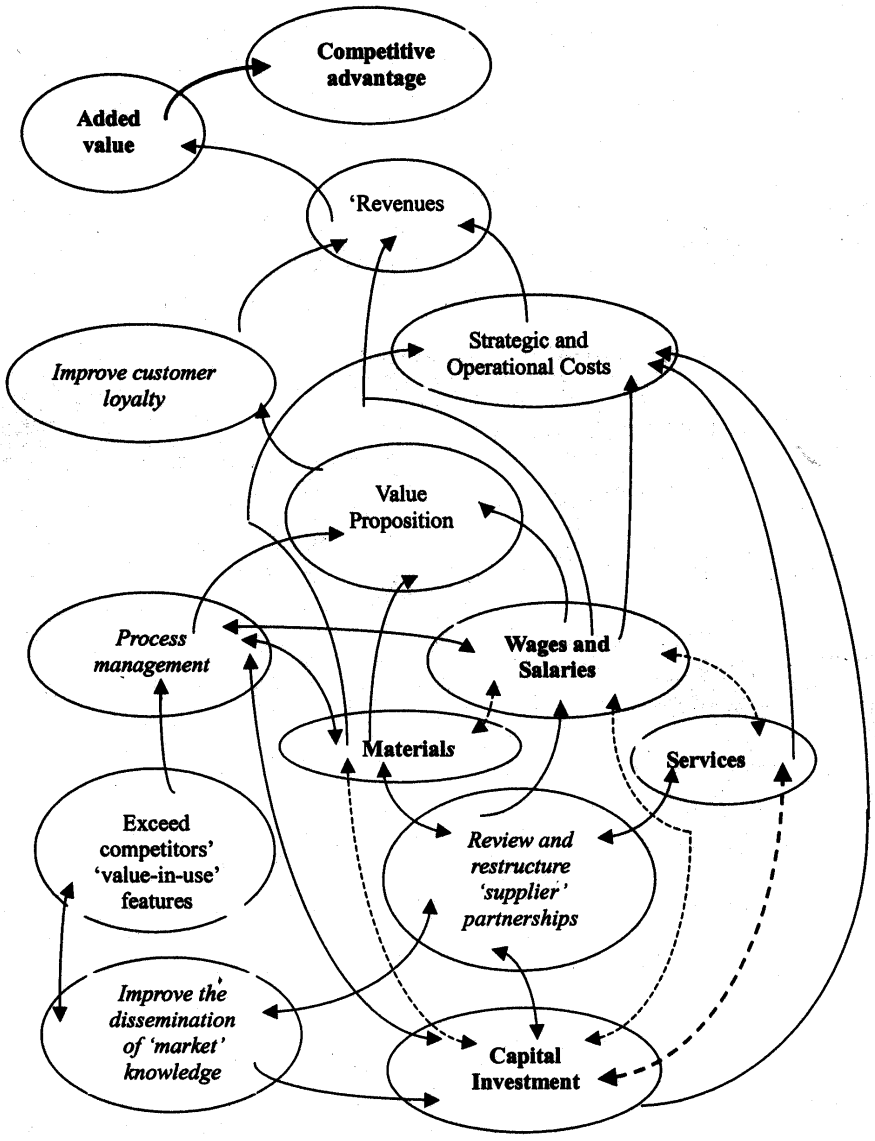
It is intuitively obvious that if sustainable competitive advantage is sought, then the structure of the virtual organisation should reflect the dominant competitive feature of the sector. The involvement of marketing in creating competitive advantage becomes quite clear. The *relationship management* interface requires robust strategic marketing partnerships with a range of characteristics that will ensure their effectiveness.

Relationship/technology management requires direct marketing involvement if IT driven product development and management and product support systems are to be developed and possibly a large involvement in the development of joint procurement and logistics programs. To a similar extent the marketing influence can be seen in the *knowledge/technology management* interface where product development processes are an important feature.

The contribution made to enhance added value and competitive advantage by marketing can be illustrated by the model presented in figure eight.

The *added value chain* components viz, materials, wages and salaries, services and capital costs (together with added value and competitive advantage) are shown as bold items. The virtual organisation characteristics are shown in italics, for example, *process management* is an aspect of technology management and possibly relationship management, while *review and restructure 'supplier' partnerships* pertains to relationship management (and in this context `suppliers' includes owners of other inputs such as employees). Knowledge management has an influence through the *improvement and dissemination of 'market' knowledge:* bold lines represent decision influences and broken lines are linkages between the 'added value' components and suggest the potential for performance improvement through trade-off opportunities. For example, capital investment decisions should be made by first identifying and considering between alternative combinations of process management, materials, wages and salaries and services. Such an approach will evaluate the cost/benefit characteristics of insourcing and outsourcing processes (including the possible, combinations of fixed and variable cost operations), of product designs that eliminate frequent maintenance intervals but are accompanied by higher acquisition (purchase) *costs* for customers; *versus* lower priced products with higher maintenance costs due to more frequent downtime. The issue for management is to evaluate the options for delivering and maintaining that value effectively (the strategy/structure design), and efficiently (the operations decision). Numerous other decision situations will emerge. By identifying the major features and processes of the added value model,

Figure 8: Using the Added Value Model to Review Options for Improving Competitive Advantage



an optimal solution can be found. A consideration that can be explored is that between added value (comprising quantitative objectives) versus competitive advantage (comprising qualitative objectives such as market leadership benefits, etc). Marketing acts as an information/decision making conduit. By identifying the linkages and the options and by coordinating their evaluation marketing will be making a vital contribution to added value.

SUMMARY

The marketplace has moved towards a market space concept in which the 'informational' aspects of product-services become more important (Rayport & Sviokla, op. cit.). It is arguable that marketing, as it is conventionally construed, can play a major role in the prosperity of the organisation. Indeed the concept of the organisation itself is debatable as the number of intra-organisational alliances and partnerships expand. A moments reflection within any industry will identify numerous networks and intra-related organisations. It follows that the roles of traditional functions (in this instance marketing) should be critically reviewed and questions asked concerning the viability of departments and functions that continue to operate individually rather than being integrated and operating across a coordinated business structure. It is equally clear that no one function can operate in isolation and that intra, inter and extra organisational cooperation is essential.

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