Executive Summaries

Purchase Loyalty is Polarised into either *Repertoire* or *Subscription* Patterns

Byron Sharp, Malcolm Wright & Gerald Goodhardt

There are many consumer behaviour generalisations for fast moving consumer goods markets, but hardly any for markets such as banking, insurance, electricity, and telecommunications. Defection analysis and reduction programs are seen as important, but benchmarks are needed to assess these programs. This article reports a fundamental discovery that provides such benchmarks. It turns out that brand loyalty is polarised between *repertoire markets,* such as fmcg markets, and *subscription markets,* such as banking, insurance, electricity and telecommunications, and there seem to be no markets occupying the middle ground. Repertoire market consumers show polygamous loyalty and each brand satisfies a low share of its average buyer's category requirements. Subscription market consumers show high brand loyalty with each brand satisfying a high share of its average buyers' category requirements. Surprisingly, the famous Dirichlet model fits both types of markets, with radically different values for its loyalty parameter, S. This enables theory-based benchmarking of subscription market churn rates. So the difference between the two types of markets is not just a new taxonomy – it is a major empirical and theoretical distinction. This is very useful for both practitioners and academics. The distinction leads to many practical suggestions about marketing tactics in each type of market. It also provides a boundary condition under which marketing generalisations or techniques may fail. Consequently, one of the most fundamental questions about any market is whether it is repertoire, or subscription.

The Effect of Organisational Culture on Business-to-Business Relationship Management Practice and Performance

Denise Jarratt & Grant O'Neill

The objective of this research is to identify organisational cultural dimensions and moral integrity values that support successful relationship management practice, and lead to relationship outcomes of equality, satisfaction and performance.

Firstly, a qualitative investigation confirmed the role of culture in shaping business-to-business relationship behaviour, and the emphasis that organisations place on relationship performance and satisfaction.

Secondly, an empirical investigation captured cross-sectional data from business enterprises on cultural and relationship perceptions, practices, processes, controls and outcomes. It is shown that moral integrity values will directly and positively contribute to a communicative, flexible and innovative culture, and indirectly enhance relationship management practice reflecting collaboration, flexibility and constructive conflict resolution. Further, we confirm that relationship management practice will positively influence relationship outcomes of performance satisfaction and perceived equality.

This research highlights the importance of organisations looking inwards and evaluating their own culture(s) as a critical starting point for relationship development. Cultural value dimensions of innovation, flexibility, communication and consultation are shown to be critical to support relationship management practice. Shared assumptions underpinning these cultural value dimensions (such as 'organisational openness will strengthen the potential that can be realised through business-to-business relationships' and 'organisations are dependent on and impacted by their environment and must be willing to adjust to its demands'), are essential to the creation of the basic ingredients of relationship longevity, trust and commitment. Organisations must understand the value dimensions and assumptions driving their own culture, and assess the compatibility of that culture to that necessary to support effective and efficient relationship management practices.

Designing Vignette Studies in Marketing

Kelly D. Wason, Michael J. Polonsky & Michael R. Hyman

Researchers are increasingly undertaking studies in which people are asked to respond to hypothetical vignettes or scenarios of varying complexity. In numerous previous works, these researchers have offered some suggestions for developing or using vignettes. However, there is limited general discussion in the literature of these issues, which should be considered when developing or using vignettes. This article reviews the extensive vignette-based literature with the aim of integrating all of these suggestions into a comprehensive discussion of the critical issues.

Overall, this article identifies thirteen issues that should be considered when designing vignettes. These issues are: (1) select the appropriate vignette approach; (2) tailor questions to the specifics of the vignettes; (3) consider all relevant variables; (4) develop and use an adequate number of vignettes; (5) control for social desirability bias; (6) survey the appropriate respondent population; (7) make vignettes fit the respondent group; (8) apply conjoint analysis techniques when possible; (9) make vignettes believable; (10) make vignettes adequately but not overly detailed; (11) make the tone of the vignettes consistent with the research question(s); (12) make manipulated variable(s) obvious to study participants; and (13) eliminate framing effects.

Service Expectations and Consumer Ethnocentrism

Mark Speece & Krairoek Pinkaeo

The concept of consumer ethnocentrism is examined by looking at departures from the strong price/quality relationship perceived by consumers in many countries. To illustrate the argument, we examine service expectations toward life insurance and university international programs in Thailand. In evaluating country-of-origin for brand, design, and nationality of service contact personnel, consumers rated Thai services well above Thailand's objective place in the country-of-origin hierarchy, which is a common way of detecting ethnocentrism. This in itself, however, is not necessarily evidence of ethnocentrism, as consumers may believe that home country services are higher quality. Then, if they also believe that price relates strongly to quality, they should expect to pay prices consistent with the higher quality. However, Thai services depart from an otherwise strong perceived price/perceived quality relationship. Consumers do not expect prices for Thai services which are consistent with their expected quality.

The biggest impact of ethnocentrism is likely to come in mid-market, where consumers look not necessarily for top, but for good quality, and factor price into the decision (i.e., cases where there is a strong value orientation). For life insurance and education services, middle class consumers expect Thai services to offer fairly good quality, but they also expect low prices. This is exactly what value-oriented people want, which makes it difficult for foreign service providers to compete against Thai companies mid-market.

Purchase Loyalty is Polarised into either *Repertoire* or *Subscription* Patterns

Byron Sharp, Malcolm Wright & Gerald Goodhardt

Abstract

We have observed that competitive repeat purchase markets are polarised into two radically different structures. The first and best known we call *repertoire* markets; these have few solely loyal buyers as most buyers allocate their category requirements across several brands in a steady fashion. The other we call *subscription* markets; these have many solely loyal buyers as most buyers allocate category requirements entirely to one brand. This is an empirical difference rather than a theoretical distinction, and surprisingly there appear to be no markets which occupy the middle ground between these two extremes. The repertoire-subscription distinction turns out to be an important boundary condition for some well-established generalisations about repeat purchase behavior. Despite this, the NBD-Dirichlet model of purchase incidence and brand choice fits both types of markets, and the differences in loyalty are adequately captured by the Dirichlet's switching parameter, S. This represents an important extension of the generalisability of the Dirichlet, allowing the insights gained from repertoire market analysis to be applied to customer churn analysis in subscription markets.

Keywords: Subscription, Repertoire, Churn, Benchmarking, Empirical Generalisations, NBD-Dirichlet

1. Introduction

In this paper we discuss a dramatic empirical and theoretical difference that we have detected in repeat purchase markets. They are polarised between two types, which we call repertoire and subscription markets. This distinction is based on differences in consumers' repeat purchase patterns, so it may well turn out to be more useful than distinctions based on product characteristics, such as 'product' versus 'service', 'high tech' versus 'low tech' and so on.

As we are discussing repeat purchase markets, our analysis does not extend to markets for durable products, first homes, power stations or funeral parlour services. However, most consumer purchases are repeat purchases in established competitive markets, and each day people buy from product categories and groups of brands that are already very familiar to them. As repeat purchase is the source of most brand revenue, it is also the focus of many currently popular marketing initiatives such as customer loyalty programs, defection analysis and customer relationship management. Thus, understanding differences in repeat purchase behaviour is of great practical and theoretical interest.

We proceed by outlining the well known patterns of repeat purchase found in repertoire markets and described by the famous NBD-Dirichlet model. We contrast this with the very different patterns found in subscription markets. We explain the difference in terms of the switching parameter of the Dirichlet model. We then outline three sub-types of subscription markets (free choice, renewal, and tenure markets) and give guidelines for estimating the switching parameter in each of these markets. We discuss the implications of these results, both for aspects of marketing practice (including defection analysis and benchmarking churn rates), and as a potential boundary condition for marketing theories. Finally, we suggest the areas we think would be most productive for future research.

2. Repertoire Market Patterns

Considerable data on repeat purchase has been gathered in many countries from consumer and business panels. The research companies running these panels have developed a range of commonly used, time-based, repeat purchase statistics, including:

- penetration - the proportion who buy a brand or category at least once;
- average purchase frequency of those who do buy;
- share of category requirements (total category purchases);
- solely loyal buyers - the proportion of a brands' buyers who buy only that brand; and
- repeat buying rate from period to period.

Marketers and academics track these statistics and use them to compare both brand performance and the characteristics of product categories. They can also be used for diagnostic purposes, to see if a brand is running the way it should be, or was budgeted to, and to assess the impact of marketing interventions. Fundamental research has provided useful empirical generalisations that aid these practices. For example:

1. Differences in market share are largely due to differences in penetration. Higher share brands are bigger largely because they have more customers than lower share brands.

2. The comparatively small differences between brands in average purchase frequency and other loyalty statistics (eg. share of category requirements, proportion of solely loyal buyers) follow the well known double jeopardy pattern - small brands not only have fewer buyers, but these buyers are slightly less loyal.

3. A brand's customers, on average, buy other brands more often. This is because most customers buy from a repertoire of brands. Hence Andrew Ehrenberg's famous line: "your customers are really other people's customers who occasionally buy from you".

4. Solely loyal buying (the proportion of customers who only buy one brand) is relatively rare and declines over time. Also, solely loyal buyers are lighter buyers of the overall category. By contrast, heavier buyers tend to buy more brands and are less likely to be solely loyal.

5. Brands share their customers with other brands in line with each brand's penetration – this is known as the Duplication of Purchase Law.

These generalisations have long been known in the markets typically covered by panel data (Ehrenberg, Goodhardt and Barwise 1990; Fader and Schmittlein 1993; Uncles, Ehrenberg and Hammond 1995; Battacharya 1997; Ehrenberg 2000; Ehrenberg, Uncles and Goodhardt 2003) and are accurately described by a parsimonious yet comprehensive theory – the NBD-Dirichlet model of purchase incidence and brand choice (Goodhardt, Ehrenberg and Chatfield 1984), commonly known as 'the Dirichlet'.

The Dirichlet model requires only a few inputs; penetration and average purchase frequency for one or more brands and for the overall category, and the market share of any brand to be examined. It theorises that buyers have steady buying propensities, and that these buying propensities vary across the population according to certain statistical distributions. Based on these few inputs and assumptions, the Dirichlet accurately predicts a whole range of commonly used brand performance statistics, such as brand penetration and average purchase frequency, share of category requirements, proportion of solely loyal buyers, repeat buying rate, and purchase duplication across different brands, as well as providing values of these statistics for different time periods. These outputs typically conform to, and model, the generalisations outlined earlier. This makes the model a very useful guide to understanding consumer behaviour, revealing market structure, benchmarking current brand performance, and determining whether brand objectives conform with known patterns of brand behaviour.

The model is highly generalisable; Dirichlet-type patterns have been found to generalize to over 50 varied product or service categories from soap to soup to automobiles, and in different countries and at different points in time. These include probably all fast moving consumer goods markets (Ehrenberg et al. 1990; Uncles et al. 1995; Ehrenberg 2000; Ehrenberg et al 2003), store choice (Keng and Ehrenberg 1984), medical prescriptions (Stern and Hammond 1997), and television channel choice (Goodhardt, Ehrenberg and Collins 1987, Barwise and Ehrenberg 1988).

Such markets have not usually been called repertoire markets (Gordon 1994 is a rare exception), but we have chosen to use this term for two very important reasons. The first is to distinguish repertoire markets from subscription markets. The second is to make the point that in this type of market consumers satisfy their requirements from a repertoire of brands; that is, they are polygamously loyal. Although this last point has been comprehensively demonstrated again and again for nearly 40 years many continue to describe markets as being made up of loyals and their antithesis, switchers

Table 1:
Retail Fuel Purchases (Australia)

Brand	Penetration (%)	Average Purchase Frequency	Share of Requirements (%)	Solely Loyal Buyers (%)
Mobil	50	5.9	40	13
Shell	46	6.3	42	11
BP	43	5.3	35	7.8
Caltex	35	4.6	30	7.5
Ampol	30	4.1	27	6.0
Sth Cross	11	4.0	27	4.7
Average	31	5.0	34	8.3
Any	88	13.5	100	100
Average no. of brands bought (repertoire size) = 2.6				
12 weeks data, n = 385				

(eg. Totten and Block 1994, pp. 66-67). By using the label 'repertoire markets' we hope to undermine this false belief and promote the idea of polygamous loyalty.

Table 1 provides an illustration of the repeat purchase statistics that characterise a repertoire market, in this case retail fuel brand choice in an Australian city.

We see the typical patterns of double jeopardy, with lower penetration brands suffering twice[i]. Not only do fewer people buy them, but those that do so are less loyal, as measured by average purchase frequency, share of category requirements, and the proportion who are solely loyal buyers. In addition, we can see that no brand satisfied more than 50% of its average buyers' category requirements, and most brands had less than 10% of their customers being solely loyal.

3. Subscription Market Patterns

Despite the wide generalisability of the 'Dirichlet-type patterns', there appears to be a whole class of markets, which we call subscription markets, that systematically violate three of the five repeat purchase generalisations noted earlier (numbers 2, 3, and 4). At first, we thought this was a boundary condition for the Dirichlet model itself (our suspicion is on public record: Sharp and Wright 2000). However, on further investigation, we found that the Dirichlet model did hold for these different markets, but the values of one of the key parameters was so different from usual that some of the expected generalisations about purchase behaviour could not be observed. This difference in a parameter value is marked and consistent, and appears to be important from both an empirical and a taxonomical point of view.

Unlike repertoire markets, in subscription markets customers do not usually make regular purchases from a repertoire of competing offerings; rather they typically 'subscribe' to a single provider for long periods of time or tend to allocate most or all of their category requirements to one provider (and have very few others). Thus, for each brand, a large proportion of its buyers are solely loyal. These markets include insurance policies, long distance phone calls, and banking services. They may also include medical and legal services, and utilities such as electricity and gas supply in those instances where the consumer has a choice of provider.

In some of these cases the 'subscription' is literal and involves a contract as a pre-requisite for subsequent transactions; for example, signing up with a long distance telephone supplier, buying a cell-phone, or applying for a credit card. This may preclude purchasing from other providers and thus constrain the polygamous loyalty seen in repertoire markets; for example, most households can use only one supplier of electricity, gas, or household insurance. However, the constraints are by no means total. Some subscription markets still have scope for multi-brand purchasing (ie. multiple contracts). Likewise, polygamous demand in repertoire markets can also be constrained; by the frequency and timing of the main shopping trip, by limited availability due to retailer stocking choices or stockouts, and by pantry "stuffing" from promotional purchases. So there is nothing to stop many consumer goods categories behaving like subscription markets - it just so happens that they do not. Similarly, when there are no constraints on multiple subscriptions, there is nothing to stop multi-brand purchasing in subscription markets. But it just so happens that markets such as insurance and even (we think) hairdressers, doctors, and dentists, show very high (subscription market) levels of loyalty.

Table 2 illustrates the pattern of repeat purchase statistics that characterise subscription markets, in this case use of bank credit cards in New Zealand. To maintain transparency, minor brands have been included, although the

Table 2:
Use of Bank Credit Cards (New Zealand)

Brand	Penetration (%)	Average Usage Frequency	Share of Requirements (%)	Solely Loyal Buyers (%)
BNZ	15	8.1	88	79
ANZ	13	8.1	76	75
Westpac	11	8.5	88	83
Trust Bank	9	8.5	90	81
National Bank	9	7.4	85	81
ASB	4	6.4	77	73
Countrywide	2	4.1	63	83
Average	9	7.3	81	79
Any	57	8.8	100	100

Average size of repertoire = 1.2

10 weeks data, n = 592

Table 3:
Use of Bank Credit and Charge Cards (Australia)

Brand	Penetration (%)	Average Usage Frequency	Share of Requirements (%)	Solely Loyal Buyers (%)
BankSA	13	7.6	86	78
NAB	10	9.6	87	79
ANZ	9	5.9	68	66
CBA	8	5.7	74	73
Adelaide	6	7.8	63	54
Westpac	6	7.3	74	44
Diners	3	7.0	41	9
AmEx	1	10.6	84	60
Average	7	7.7	72	58
Any	52	9.0	100	100
Average size of repertoire = 1.2				
12 weeks data, n = 385				

smaller a brand the more susceptible it is to random sampling variation (error).

These results are remarkably different from the repertoire market illustration (Table 1) in that here each brand satisfied on average 81% of its customers' category requirements, and on average had 79% of buyers being solely loyal. Also, there appear to be many deviations from the expected double jeopardy pattern. The category average purchase frequency of 8.8 ('Any') demonstrates that these patterns are not merely due to a limited number of usage occasions within the time period.

Table 3 shows a similar market in an Australian city, though this time including charge cards (AMEX and Diners). The patterns are similar; high share of category requirements, high numbers of solely loyal customers, and a number of deviations from the double jeopardy pattern.

These examples rely on usage frequency rather than purchase occasion. Conceptually, it is not immediately obvious what behaviour is the correct unit of analysis. In repertoire markets, a clear market transaction or store visit is involved. In subscription markets it is not always so clear. For example, what is the corresponding market transaction for credit cards? Is it the annual credit card subscription? The monthly statement? Each use of the credit card, which involves a purchase of an item and also generates credit card interest costs? We have relied on card usage for our credit card analysis as it is associated with a major market transaction. Consumers can have multiple credit cards, or can change their credit cards during the analysis period, so usage can still be split between brands in the same way that purchases are in a repertoire market. This also allows share of requirements and sole loyalty to be compared more meaningfully between subscription and repertoire markets. However, we outline methods for analysing other types of subscription markets, including the card subscription itself, in Section 5.

Table 4 provides another example from the same panel reported in Table 2. This market, long distance phone calls, was a duopoly at the time of data collection. One brand was overwhelmingly dominant, with almost four times the number of buyers compared to the other brand. As with credit cards the unit of analysis is use of the service. However, in this case, each use of the service directly corresponds to the familiar market transaction (or purchase) seen in repertoire markets.

Despite the drastic difference in market position between the brands, the minor brand still satisfies almost 80% of its customers' category requirements, and still has over 50% of buyers being solely loyal. In fact, the number of solely loyal buyers is lower than usually observed in subscription markets, but this is due to the vast discrepancy in size between the brands and the fact that there were an average of 20 usage occasions by Clear customers during the period of the data collection. Having over 50% of buyers being solely loyal over 20 purchase occasions for such a dominated brand is unheard of in repertoire markets.

4. The Fit of the Dirichlet Model

The examples given in Tables 2, 3 and 4 do not show the well-established patterns of multi-brand purchasing and low levels of solely loyal buying seen in repertoire markets. As mentioned earlier, we initially thought that they might represent a boundary condition for the Dirichlet model. However, on fitting the model to subscription market data, it became apparent that the model's estimates of market statistics were substantially the same as the subscription market observations. By way of example, Tables 5 and 6 demonstrate this for Bank Credit Cards with market observations marked 'Obs' and Dirichlet estimates marked *'Est'*.

Clearly the Dirichlet model reproduces the market statistics for this subscription market very accurately indeed. Although deviations between the observations and estimates are greater for smaller brands, this is to be expected as smaller brands have fewer respondents and thus greater sampling error. Sole loyalty for brands in subscription markets is not just high but is predictably high according to the Dirichlet model. This is the result of the estimate for the S parameter, which is lower than ever seen in repertoire markets; in fact it is lower than any previously reported S parameter.

Table 6 shows that model estimation using the Australian data has also closely reproduced the subscription market statistics, although again the deviations are greater for smaller brands. Interestingly, a major deviation for solely loyal users can be seen for Diners, which concurs with

Table 4:
Long Distance Phone Calls (New Zealand)

Brand	Penetration (%)	Average Usage Frequency	Share of Requirements (%)	Solely Loyal Buyers (%)
Telecom	86	25	93	88
Clear	22	20	76	53
Any	97	26	100	100

Average size of repertoire = 1.2

10 weeks data, n = 592

Table 5:
Dirichlet Fit for Bank Credit Cards (New Zealand)

Brand	Penetration (%)		Average Usage Frequency		Share of Requirements (%)		Solely Loyal Buyers (%)	
	Obs	*Est*	Obs	*Est*	Obs	*Est*	Obs	*Est*
BNZ	15	*16*	8.1	*7.9*	88	*84*	79	*80*
ANZ	13	*13*	8.1	*7.9*	76	*83*	75	*79*
Westpac	11	*12*	8.5	*7.8*	88	*82*	83	*78*
Trust Bank	9	*10*	8.5	*7.8*	90	*82*	81	*77*
National Bank	9	*8*	7.4	*7.7*	85	*81*	81	*77*
ASB	4	*4*	6.4	*7.7*	77	*80*	73	*75*
Countrywide	2	*11*	4.1	*7.6*	63	*79*	83	*74*
Average	9	*9*	7.3	*7.8*	81	*82*	79	*77*

"Any" has been omitted as this was used to fit the model. S = .086

its positioning as a card to use for managing business expenses (and thus as an additional rather than a sole card). However, average purchase frequency is still as expected for a card with Diners' level of penetration.

The only issue of concern is the fact that, while a double jeopardy pattern is present in the Dirichlet estimates, it is not very clear in the subscription market observations. For example, the second and third ranked brands have higher observed average usage frequency than the two leading brands in both data sets, and the deviations for smaller brands in the Australian data also undermine the double jeopardy pattern. This problem turns out to be due to sampling error[ii] and the fact that the double jeopardy pattern is very slight at low levels of S – as theoretically low levels of S will result in near-identical measures of loyalty for brands of differing market share (and at S = 0 there should be no differences in loyalty whatsoever and so no double jeopardy pattern). The very slight remaining double jeopardy pattern is then much more easily obscured by random 'wobble'.

4.1 Time and Defection

In repertoire markets sole loyalty is largely due to light buying and short time periods; if the average customer buys the category only twice in the period, then the lowest possible share of category requirements for any brand is still 50%. The Australian Retail Fuel data provides a good example of this. When a 12-week analysis period is considered (as in Table 1) the average category purchase rate is 13.5 and an average sole loyalty is 8.3%. When a 4-week analysis period is considered, the average category purchase rate falls to about 5, and the average level of sole loyalty is over 30%.

So over very short time periods repertoire markets look more like subscription markets, and over very long time periods subscription markets look more like repertoire markets, due to ongoing churn in the customer base[iii]. Could the differences between the two types of markets just be due to difference in inter-purchase time? Will subscription markets look 'repertoire' in the long term? In fact there are good reasons to discount this.

The first is the likely effect of a brand switch on underlying purchase probabilities. In repertoire markets brand switching happens frequently, generally with no change in underlying purchase propensities. In fact the term 'switching' is inappropriate as buyers are really just shuffling around within their repertoires. By contrast, in a subscription market brand switching generally reflects a defection, where the probability of buying the old brand is likely to be substantially downgraded as a result. Consequently, the set of brands that a consumer buys over a long period of time in a subscription market is quite different from the repertoire that a consumer buys from in a repertoire market over a short to medium period. The similarities are superficial. Defection does occur in repertoire markets when buyers drop/add or downgrade/upgrade brands in their repertoire, but this means that the lifetime list of brands bought in a subscription market is more appropriately compared to the lifetime list of repertoires (not brands) a buyer has in a repertoire market.

The second reason, explored in detail in the next subsection, is that the differences in loyalty between the two types of markets are explained by the S parameter of the Dirichlet model. This is a time invariant measure of loyalty, and thus is not subject to confusion arising from very short or very long time periods. Thus, we can be assured that the differences in loyalty between repertoire and subscription markets are real.

For practical purposes the issue of time is of little consequence. Managers and researchers do not look at panel data covering only a few purchases, and nor does anyone seem to have subscription panel data covering decades.

4.2 Modeling Loyalty

As noted above, the differences between repertoire and subscription markets can be explained by the different values of the Dirichlet model's S parameter. S ranges from zero to infinity, and can be seen as a measure of heterogeneity in choice probabilities. For any particular level of average choice probability, the greatest heterogeneity between buyers' choice probabilities is found when S is zero; that is when each individual always makes the same choice (although the choices vary between individuals). Heterogeneity in choice probabilities decreases as S increases, as individuals' choice probabilities are spread out more and more evenly amongst the available choices. This also means that consumers' brand repertoires increase as S increases.

Subscription markets have S parameters of less than 0.2, while repertoire markets have S parameters of greater than 0.6, and almost always greater than 0.8. The difference may not seem important, but it actually accounts for most of the possible variation in category specific brand loyalty.

Figure 1 demonstrates this using the data for the highest share brand from Table 1. These results were obtained using the BUYER software (Uncles 1989), which allows users to supply their own S parameter after initial model estimation, but before brand specific outputs are gener-

Table 6:
Dirichlet Fit for Bank Credit Cards & Charge Cards (Australia)

Brand	Penetration (%)		Average Usage Frequency		Share of Requirements (%)		Solely Loyal Buyers (%)	
	Obs	*Est*	Obs	*Est*	Obs	*Est*	Obs	*Est*
BankSA	13	*13*	7.6	*7.2*	86	*71*	78	*63*
NAB	10	*13*	9.6	*7.2*	87	*70*	79	*63*
ANZ	9	*8*	5.9	*7.1*	68	*68*	66	*60*
CBA	8	*6*	5.7	*7.0*	74	*67*	73	*59*
Adelaide	6	*7*	7.8	*7.0*	63	*67*	54	*60*
Westpac	6	*6*	7.3	*7.0*	74	*67*	44	*59*
Diners	3	*3*	7.0	*6.9*	41	*66*	9	*57*
AmEx	1	*2*	10.6	*6.9*	84	*65*	60	*57*
Average	7	*7*	7.7	*7.0*	72	*68*	58	*60*

"Any" has been omitted as this was used to fit the model. S = .18

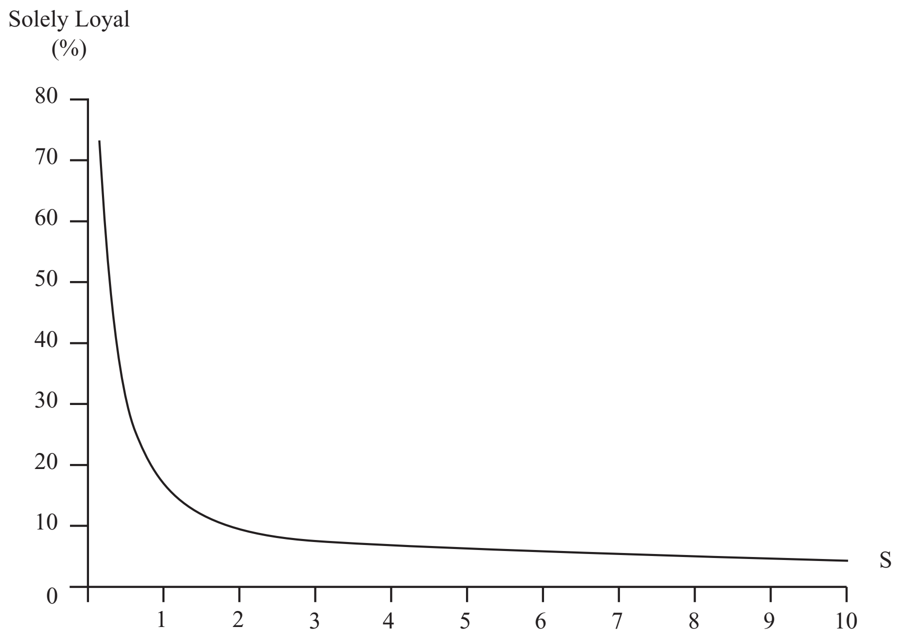

Figure 1: Effect of S on Sole Loyalty Amongst Mobil's Buyers

ated. Figure 1 therefore shows how the Dirichlet estimate of sole brand loyalty varies for different values of S, other things being equal.

First, note that the curve is very steep when S < 1, and very flat when S > 2. This shows that most of the variation in loyalty occurs for low values of S, and that large values of S are all more or less the same, from a practical point of view. Second, note that, while sole loyalty noticeably increases as S falls below 2, it really accelerates when S falls below about 0.5. Between our claimed lower bound for repertoire markets (0.6) and upper bound for subscription markets (0.2) sole loyalty more than doubles from 25% to 54%. This demonstrates and supports the claim that repertoire and subscription markets show very different patterns of loyalty. It also highlights the dramatic empirical and taxonomical importance of the lack of S values between 0.6 and 0.2.

As a result of this analysis we can see that several famous generalisations about repeat purchase are not inherent to the Dirichlet model, but rather are only manifested for the values of S usually seen in repertoire markets. When the value of S is much lower than this, as it is in subscription markets, the model still fits but the pattern of outputs may look rather different. Double jeopardy patterns become much less obvious, and are easily overwhelmed by random sampling variation (error). However, while this turns out to be a boundary condition for several well-known repeat purchase generalisations, the generalisability of the Dirichlet model itself is impressively enhanced. It fits not only the familiar repertoire markets, but also the massively different subscription markets.

5. Three Types of Subscription Markets

Subscription markets differ from each other, presumably due to differing structural constraints on multi-brand purchasing. Sometimes there is no obvious constraint on multi-brand purchasing (eg. hairdressers). In other cases, even though a subscription is required, there may be nothing to prevent multiple subscriptions, as with bank credit cards. Sometimes subscription to one provider will preclude the use of other providers, as with household effects insurance, but results in a fixed renewal period that gives an opportunity to switch brands. Finally, a subscription may run indefinitely until the consumer takes action to cancel it, as with many household utilities such as power, gas, and internet connections.

These constraints are important, as they affect not only the ease of switching, but also the type of behaviour that can be analysed. While purchases or usage can be used to analyse loyalty for bank credit cards or long distance telephone calls, this is clearly nonsensical for household utilities - we do not regard each flip of a light switch as a further demonstration of loyalty. Consequently we also make a distinction between three types of subscription markets, for which data collection and modeling approaches will vary slightly.

- *Free choice.* The ability to use competing brands is largely unconstrained and thus repertoire buying is possible, and yet very high levels of sole loyalty are the norm. If a subscription is required to access a brand or service, multiple subscriptions are possible, but atypical; bank credit cards and savings accounts are examples. Subscription market loyalty is exhibited through high share of category requirements and high levels of solely loyal buying. Predicting, without repeat purchase data, whether such markets are subscription or repertoire is difficult. Doctors and hairdresser visits are probably free choice subscription markets.
- *Renewal.* One and only one subscription is possible for the product or service, but this subscription is subject to renewal at regular, pre-determined, intervals. Home insurance is an example. Loyalty is exhibited through renewal and switching rates, and the pattern of defection - which brands gain/lose from which others - should match the duplication of purchase patterns seen in repertoire markets.
- *Tenure.* The subscription continues until actively terminated. Multiple subscriptions may be possible. The concept of tenure markets may be extended to business-to-business markets (e.g., appointment of advertising agency). Loyalty is exhibited through share of category requirements within a fixed time period or annual churn rates. Practically speaking, most analyses will be identical to those carried out for annual renewal markets.

These distinctions are important because the assumptions and data collection methods will vary for each type of subscription market. In tenure and renewal subscription markets, data is usually not on usage but on renewals, and the brand switches probably include a substantial number of defections (changes in underlying preferences). This creates a problem for estimation of the Dirichlet model which assumes a fixed vector of purchase probabilities; when a consumer switches brand in a renewal or tenure market, these probabilities are likely to be revised. Consequently, the model can only be applied to the next renewal, or to switching tenure within a fixed time period within which each consumer makes no more than one switch. In effect, this means that analysis of renewal and tenure markets is restricted to brand switching within the next year (or other specified shorter period). As it happens, this is exactly the sort of analysis that managers in these markets are interested in (ie. annual renewal and churn rates).

For the case of 2 purchase brand switching, procedures are available which allow a switching constant, K, to be estimated from data on brand switching and market share (Kalwani and Morrison 1977). S is then simply K/(1-K), and Bass (1974) also previously described an equivalent statistic as a measure of “product class brand loyalty”, which is effectively what S measures[iv]. The estimate of K, and thus S, can be obtained at either the brand level, or for the total market (Kalwani and Morrison 1977, Rubinson, Vahonacker, and Bass 1980). The total market method should be used where possible, as this effectively pools the brand estimates as is done with the S parameter in Dirichlet modeling.

By way of example, customer numbers for each company in the New Zealand residential electricity market, a tenure subscription market, were reported in a national newspaper (Robson 2001). Together with knowledge that the churn rate was about 10%, this was sufficient information to allow estimation of S = 0.14. This is well within the expected range for subscription markets. Of course this assumes the market is stationary, which has not been the case as new entrants have sought to establish themselves. Nonetheless, a stationary market benchmark is still useful as it allows managers of non-stationary brands to see if their growth is due to excess acquisition or less defection than expected (and vice-versa for decline). The benchmarks can also be used to make future estimates; once aggressive customer acquisition attempts reduce in the New Zealand market the churn rate may drop to the international residential electricity standard of about 6%. Given the current distribution of market shares this would imply S = 0.08 under stationary market conditions. This is a useful result, as it can be applied to yield benchmarks of the expected rates of ongoing churn for each market participant. For example, the expected churn rate for the market leader (27% share) turns out to be 5.5% of their customer base, while the expected churn rate for the smallest brand (3% share) is 7.3% of their customer base. This also shows the familiar pattern of double jeopardy being reflected in the churn rates for subscription markets.

6. Summary and Implications

Repeat purchase markets come in two radically different types, repertoire and subscription, the latter of which is a boundary condition for some of the well-known generalisations about repeat purchase and brand loyalty. This is the first time (in scores of applications under many diverse conditions) that these empirical generalisations have been found to fail. However, we also found that the underlying model of purchase incidence and brand choice, the Dirichlet model, continued to hold. This indicates that (i) subscription markets could still be treated as zero order markets, at least in the short term, and that (ii) some of the empirical generalisations about consumer markets depend not just on the assumptions about market processes, but also on particular parameter values or particular degrees of loyalty.

6.1 Implications for Marketing Theory

The distinction between repertoire and subscription markets may turn out to be a boundary condition for many marketing theories. This is important; knowing where our theories do not hold is a good solution to the confirmation trap which plagues science (Greenwald et al. 1986, Wright and Kearns 1998). We have already seen that it is a boundary condition for many standard repeat purchase generalisations. Could it also be a boundary condition for other marketing theories? For example, as with repeat purchase modeling, diffusion modeling relies on stochastic elements of consumer behaviour; therefore we should ask, does diffusion modeling apply equally well to both subscription and repertoire markets?

A recent example demonstrates the value of the repertoire/subscription distinction as a boundary condition outside the area of repeat purchase modeling. Chakraborty et al. (2002) examined the ability of ratings and choice conjoint to predict market shares using a Monte Carlo simulation. They found that ratings conjoint performed as well as or better than choice conjoint, except when there was low heterogeneity in consumer preferences and consumers used a probabilistic choice (rather than first choice) decision rule. As explained earlier, consumers in repertoire markets have low heterogeneity in preferences and their polygamous loyalty reflects a probabilistic choice rule; by contrast, consumers in subscription markets have high heterogeneity in preferences, and the preferred brand becomes so dominant in the repertoire that the probabilistic choice rule effectively becomes a first choice rule. Thus, ratings based conjoint should perform poorly in repertoire markets, but perform well in subscription markets. This is worth knowing.

6.2 Implications for Marketing Practice

For managers, one of the most important applications of this new knowledge is in benchmarking rates of sole brand loyalty and share of category requirements. The normal values of these loyalty measures will vary greatly between repertoire and subscription markets, and it is important for managers to understand what type of market they are operating in to determine whether their brand is behaving abnormally well or abnormally badly. For example, managers in subscription markets should realize that it is normal to have about 80% of buyers being solely loyal; if they expect consumer behaviour to follow repertoire market patterns they could be tempted into inappropriate marketing efforts. Likewise, managers in repertoire markets seeking to achieve very high levels of loyalty might be disappointed with all the repeat purchase statistics for their brand; rather than assuming that something is wrong they should appreciate that polygamous loyalty is a natural characteristic of a repertoire market.

The difference between markets also implies different approaches to marketing programs. Repertoire market brands tend to share their customers with other brands, while subscription market brands do not. This implies different objectives for loyalty initiatives; increasing share of category requirements or first brand loyalty in repertoire markets, as opposed to minimising/maximising customer switching loss/gain in subscription markets (eg. see Reichheld and Sasser 1990). Furthermore, repertoire market brands can reach competitors' customers much more easily (because they are also their own customers), while subscription market brands are better able to insulate themselves from competitive offerings. Loss of a customer will also be much easier to measure in subscription markets.

This difference has implications for customer relationship management programs. Working towards goals such as customer retention or zero defections implies the existence of the type of loyalty seen in subscription markets. It does not occur in repertoire markets, and it seems impossible for managers to convert a repertoire market into a subscription market by degrees. The gap between the two types of markets is too dramatic, and the absence of any empirical observations in the middle ground suggests that it is not the type of gap that could be bridged by incremental improvements in retention.

The fit of the Dirichlet model to subscription markets justifies the entailed assumptions of the model, allowing brand switching methodologies to be applied to benchmarking churn rates in subscription markets – just as the Dirichlet model has in the past provided a useful benchmark for evaluating the effect of marketing programs in repertoire markets (Battacharya 1997, Sharp and Sharp 1997). This is of tremendous interest in utilities, financial services and other renewal and tenure markets. It also means that the effectiveness of customer relationship programs in these markets can finally be compared against a theoretically meaningful benchmark.

It is thus very important for managers to know whether their market is a repertoire market or a subscription market. This, we think, is extraordinarily easy (for instance by using summary repeat purchase statistics from panel data such as shown in Tables 1, 2, and 3), although more sophisticated benchmarking procedures will require some modeling using the Dirichlet or other estimators or S.

6.3 Future Research

Much remains to be done in this area. We have provided data from several product categories to illustrate the differences between the two types of markets, but further replication in other markets is required. Indeed, analysis of many more markets is required to determine whether they are subscription or repertoire. For subscription markets, publication of S parameter values will provide a basis for benchmarking in these markets, and industry associations may find it worthwhile to sponsor research to achieve this.

More generally, it would be helpful if S could be estimated using a simple survey methodology. The key requirements are accurate estimates of the market share of all participants, and of the overall rate of churn in the market. The first of these can now be estimated from Juster scale questions (Wright, Sharp and Sharp 2002), but more research is needed to determine how best to estimate total churn rate when this is not available from secondary data or panel data.

Although the Dirichlet assumes market stationarity, it can still provide benchmarks against which non-stationarity can be evaluated. For example, if a brand is growing, is that because acquisition is higher than expected, or is it because defection is lower than expected? This question can be answered on an individual basis by comparison with benchmark churn rates. Future research could investigate the generalisability of such individual answers, with potentially important implications for the conduct of marketing programmes.

The theoretical arguments for purchase probability revision after a brand switch in a subscription market are strong; however, it would be useful to know more about the effect. Does the prior brand remain in the repertoire at a relatively high probability? Or is it thoroughly rejected with little chance of purchase at the next brand switch? As well as being theoretically interesting, the answer to this question clearly has practical importance for post-switch marketing efforts.

Perhaps the biggest unanswered question about the two types of markets is why are they so different? The difference is marked, and the empirical absence of intervening values of S suggests that there is some strong mechanism that acts to force consumer behaviour to one extreme or the other. What is that polarising mechanism? Basic research is required to address this point.

We hope that our observations of the polarisation of loyalty between repertoire and subscription markets will stimulate the conduct of more work in this area, and especially further thinking and research on the reasons for the differences between these types of markets.

Endnotes

[i]Shell shows up as one deviation from this pattern, having lower penetration than Mobil but higher purchase frequency. This brand had just launched a major loyalty program, and this is the expected 'excess loyalty' pattern (Sharp and Sharp 1997).

[ii]In order to test the significance of the differences between the observed and predicted values of the average usage frequencies (w) we needed to estimate the sampling error of w. We approximated this by the following method.

The average usage frequency w is the mean of the truncated distribution of purchase occasions, excluding the class of zero buyers. The un-truncated distribution is known to closely follow the NBD, which has variance equal to m(1+a) where m is the mean, and a is a parameter which can be estimated from the mean and the proportion of zero buyers. From this it is easy to calculate the uncorrected sum of squares as m(1+a) +m*m. Since the zero buyers contribute nothing to the sum of squares, this is the same for the truncated distribution too. Adjusting for the smaller sample size (dividing by the penetration of the brand) and subtracting w*w (to give the corrected sum of squares) provides a good estimate for the variance of the truncated distribution. This allows calculation of t-statistics for the difference between observed and predicted w for each brand. These ranged from .973 to -.899 with one outlier at 2.324 (Countrywide). While one out of 15 t-statistics was significant, we would expect one out of 20 to be significant due to chance alone. This demonstrates that the deviations from theoretical average purchase frequencies are adequately accounted for by sampling error.

[iii]Though as Keynes pointed out in the long run we are all dead.

[iv]Despite these prior theoretical results for brand switching, neither Bass (1974) nor Kalwani and Morrison (1977) reported the non-linear pattern of loyalty seen in Figure 1, or the polarisation of loyalty empirically found between repertoire and subscription markets.

References

Barwise, P., Ehrenberg, A.S.C., 1988. Television and Its Audience. London: Sage Publications.

Bass, F.M., 1974. The Theory of Stochastic Preference and Brand Switching. Journal of Marketing Research, 11 (February), 1-20.

Battacharya, C.B., 1997. Is Your Brand's Loyalty Too Much, Too Little, or Just Right? Explaining Deviations in Loyalty From the Dirichlet Norm. International Journal of Research in Marketing, 14 (5), 421-435.

Charkraborty, G., Ball, D., Gaeth, G.J., Jun, S., 2002. The Ability of Ratings and Choice Conjoint to Predict Market Share: A Monte Carlo Simulation. Journal of Business Research, 55, 237-249.

Ehrenberg, A.S.C., 2000. Repeat Buying - Facts, Theory and Applications. Journal of Empirical Generalisations in Marketing Science, 5, 392-770.

Ehrenberg, A.S.C., Goodhardt, G.J., Barwise, T.P., 1990. Double Jeopardy Revisited. Journal of Marketing, 54 (July), 82-91.

Ehrenberg, A. S.C., Uncles, M.D., Goodhardt, G.J., 2003. Understanding Brand Performance Measures: Using Dirichlet Benchmarks. Journal of Business Research (forthcoming).

Fader, P.S., Schmittlein D.C., 1993. Excess Behavioural Loyalty for High-Share Brands: Deviations From the Dirichlet Model for Repeat Purchasing. Journal of Marketing Research, 30 (November), 478-493.

Goodhardt, G.J., Ehrenberg, A.S.C., Collins, M.A., 1987. The Television Audience - Patterns of Viewing: An Update (Second ed.). Hants, England: Gower Publishing Company Limited.

Goodhardt, G.J., A.S.C. Ehrenberg, Chatfield, C., 1984. The Dirichlet: A Comprehensive Model of Buying Behaviour. Journal of the Royal Statistical Society A, 147 (part 5), 621-55.

Gordon, W., 1994. Taking Brand Repertoires Seriously. The Journal of Brand Management, 2 (1), 25-30.

Greenwald, A.G., Pratkanis, A.R., Leippe, M.R., Baumgardner, M.H., 1986. Under What Conditions Does Theory Obstruct Research Progress? Psychological Review, 93 (2), 216-29.

Kalwani, M.U., Morrison, D.G., 1977. A Parsimonious Description of the Hendry System. Management Science, 23 (5, January), 467-77.

Keng, K.A., Ehrenberg, A.S.C., 1984. Patterns of Store Choice. Journal of Marketing Research, 21 (November), 399-409.

Reichheld, F. F., Sasser, W.E., 1990. Zero Defections: Quality Comes to Services. Harvard Business Review, (September-October), 105-11.

Robson,T., 2001. The New Corridors of Power. Evening Post, 19 October, Edition 3, page 13, Wellington Newspapers Limited.

Rubinson, J.R., Vanhonacker, W.R., Bass, F.M., 1980. On 'A Parsimonious Description of the Hendry System'. Management Science, 26 (2, February), 215-26.

Sharp, B., Sharp, A., 1997. Loyalty Programs and Their Impact on Repeat Purchase Loyalty Patterns. International Journal of Research in Marketing, 14 (5), 473-86.

Sharp, B., Wright, M., 2000, Do Subscription Markets Show Dirichlet Patterns? In the Proceedings of the Australian and New Zealand Marketing Academy Conference, edited by A. O'Cass & G. Wolfe, Griffith University (CD-Rom).

Stern, P., Hammond, K., 1997. Long Run Loyalty - An Exploratory Study. In the Proceedings of the 26th European Marketing Academy Conference, edited by D. Arnott, et.al. Vol. 4. Warwick Business School, U.K.: The University of Warwick.

Totten, J.C., Block, M.P., 1994. Analyzing Sales Promotion 2nd edition. Chicago: Dartnell.

Uncles, M., 1989. Buyer Behaviour Software: A Manual for Version 89.1. London Business School, Centre for Marketing and Communication.

Uncles, M., Ehrenberg, A.S.C., Hammond, K., 1995. Patterns of Buyer Behavior: Regularities, Models, and Extensions. Marketing Science, 14 (3, Part 2 of 2), G71-G78.

Wright, M., Kearns, Z., 1998. Progress in Marketing Knowledge. Journal of Empirical Generalisations in Marketing Science, 3, 1-21.

Wright, M. Sharp, A., Sharp, B., 2002. Market Statistics for the Dirichlet Model; Using the Juster Scale to Replace Panel Data. International Journal of Research in Marketing, 19 (1), 81-90.

Biographies

Byron Sharp is Associate Professor of Marketing at the University of South Australia where he is Director of the Marketing Science Centre. He is also Director of the R&D Initiative for Marketing, a multi-million dollar programme of fundamental research sponsored by corporations around the world such as Procter & Gamble, Coca-Cola and General Motors. The R&D Initiative is a joint programme of South Bank University and the University of South Australia. Dr Sharp is Visiting Research Professor to the Doctoral Programme of Thamassat University, Thailand, he is editor of the Journal of Empirical Generalisations in Marketing Science and is on the editorial boards of four other journals.

Malcolm Wright is a Senior Lecturer in the Department of Marketing at Massey University. He has long standing interests in empirical generalisations, research methodology and the Dirichlet model. He is on the editorial boards of the Journal of Empirical Generalisations in Marketing Science and the Marketing Bulletin, and his academic work has appeared in a variety of international journals including the International Journal of Research in Marketing, the European Journal of Marketing and the Journal of the Market Research Society.

Gerald Goodhardt is Adjunct Professor at the University of South Australia and Visiting Professor at South Bank University and Kingston University. Previously he was the Sir John E Cohen Professor of Consumer Studies at City University London. He is a Fellow of the Royal Statistical Society and of the Market Research Society (awarded the gold medal "for an exceptional contribution to market research"). Gerald Goodhardt has published more than 50 articles in journals such Nature, the Journal of Marketing, and the Journal of Marketing Research.

Note: the first two authors have made an equal contribution to this work.

Correspondence Addresses

Dr Byron Sharp, University of South Australia, North Terrace, Adelaide, Australia. Telephone: +61 (8) 8302 0715, Facsimile: +61 (8) 8302 0442, Email: Byron.Sharp@MarketingScienceCentre.com, Dr Malcolm Wright, Department of Marketing, Massey University, Private Bag 11-222, Palmerston North, New Zealand. Telephone: +64 (6) 356 9099 x2868, Facsimile: +64 (6) 350 2260, Email: M.J.Wright@massey.ac.nz, Professor Gerald Goodhardt, University of South Australia, North Terrace, Adelaide, Australia. Telephone: +61 (8) 8302 0111, Facsimile: +61 (8) 8302 0442, Email: prof.goodhardt@oneteldsl.net

The Effect of Organisational Culture on Business-to-Business Relationship Management Practice and Performance

Denise Jarratt & Grant O'Neill

Abstract

While an individual at an organisational interface can display effective supportive, normative relationship behaviour, it is the shared presence of this normative behaviour within organisations that will support effective relationship management practice and performance outcomes. Organisational culture, and its underpinning values, influences behaviour and expectations of individual managers within a business. Further, it shapes the employees' shared perceptions of how other organisations should be treated, correct modes of behaviour and basic attitudes towards activities of the business.

This research identifies organisational cultural dimensions that underpin successful relationship management practice, and that lead to relationship outcomes of equality, satisfaction and performance. The importance of organisations looking inwards and evaluating their own culture as a critical starting point for relationship development is highlighted.

Keywords: Organisational culture, relationship management, relationship outcomes

1. Introduction

Organisational culture has been a major area of academic research and theoretical debate by organisational behaviourists over the last two decades, and has captured the interest of practitioners through a number of popular management publications (for example, Jelninek, Smircich and Hirsch 1983; Ouchi 1985; Peters and Waterman 1982). While it has become an important area of research in management, prominent marketing scholars have noted the scant attention given to organisational culture in the marketing literature (Deshpandé and Webster Jr 1989). More recently, 'market orientation' has been described as a 'culture' (Narver and Slater 1990; Slater and Narver 1995), providing employees with norms for learning about the market, critical for the creation of superior value and leading to organisational performance outcomes.

Although it has been confirmed that an organisation's culture will influence all management practice (Kabanoff 1993), and that shared adherence to standards of honesty and fairness is fundamental to building trust and maintaining long-term business relationships (Morgan and Hunt 1994), no research to date has linked cultural dimensions directly to relationship management practice. Successful business-to-business relationships display characteristics of trust and commitment, measured through constructs such as benevolence, communication openness, investment, control reduction, collaboration and constructive conflict resolution (Morgan and Hunt 1994; Ganesan 1994; Zinn and Parasuraman 1997). This body of research would be enriched through understanding individual manager and organisational cultural dimensions that support trust and commitment behaviours necessary to build successful business relationships.

The objective of this research is to identify organisational cultural dimensions and moral integrity values that support successful relationship management practice, and lead to relationship outcomes of equality, satisfaction and performance. It is postulated that when individual standards of honesty and fairness underpin an organisational culture that supports information and knowledge exchange processes, more efficient and effective relationships with other organisations will emerge. Thus, hypotheses will be tested to support the relationships in Figure 1.

This paper will first examine organisational culture and moral integrity within a relationship context (i.e. in terms

Figure 1: Relationships Investigated in this Paper

of assumptions, values, norms and other relationship relevant dimensions). Evidence will be presented, linking culture to relationship management practice and organisational performance, and the contribution of moral integrity values to a 'collaborative' culture supporting relationship management practice will be established. Secondly, relationship management practice will be examined within an organisation-wide context, and linked to outcomes of relationship equality, satisfaction and performance.

2. Organisational Culture and Moral Integrity: Definitions and Relationships

There is little consensus regarding the meaning of the term organisational culture (for example, Alvesson 1993; Deal and Kennedy 1983; Deshpandé and Webster 1989; Deshpandé, Farley and Webster 1993; Denison 1990; Hatch 1993; Homburg and Pflesser 2000; Kanter 1983; Schein, 1991; and Smircich 1983). This divergence in definition reflects the lack of consensus that exists within the disciplines of anthropology, sociology, and psychology regarding culture (Archer 1988), and the effects that these and other disciplinary and philosophical differences have on the variety of styles and purposes of organisational culture research (Smircich 1983; Deshpandé and Webster 1989).

Considerable agreement does exist on the notion that organisational culture refers to a shared and learned realm of assumptions, values, beliefs, ideas, and practices (Alvesson 1993), a collective self-awareness within the organisation that provides norms for behaviour (Deshpandé and Webster 1989). This perspective involves viewing organisations as social entities to which people belong, and in which they are socialised. It is also generally accepted that the constituent elements of organisational culture are not equally observable nor do they have equal effect (Alvesson 1993; Denison 1990; Homburg and Pflesser 2000; and Schein 1991). Assumptions and values tend to be less readily visible but are more enduring than beliefs and behavioural norms. Indeed, shared assumptions and values tend to ground organisational beliefs and norms (Schein 1991).

Harris (1998) provides examples of organisational values; orientations towards teams, outcomes and details and cultural artifacts of structure, strategies and systems that shape employee behaviour. He also refers to the assumptions about the interaction between an organisation and its environment contained in mental models that managers embrace to make sense of their environment (Day and Nedungadi 1994). Assumptions, Harris argues, 'are the most cerebral level of culture…. which determine the more explicit systems of meaning' (p. 356).

While it would be wrong to assume the existence of cultural uniformity within an organisation (i.e. uniformity in: assumptions, values, beliefs, perceptions, practices, norms, roles, rituals, symbols, structures, and priorities; the meanings people attach to the elements of organisational culture; and the effects these elements have on them), we can appropriately speak of the presence and effects of an organisational culture, just as we can speak of 'national cultures' and their effects despite the presence of notable 'sub-cultures' (Hofstede 1980).

In the qualitative phase of this research, managers described relationships between their organisation and other organisations, identifying cultural aspects of behaviour (e.g. 'risk adverse', 'technology driven') and intra-organisational shared assumptions ('quality', 'integrity of solution', 'moving from a product to a service mentality') that shaped the nature of those relationships. Importantly, they implied that their perception of these behavioral norms and values in client organisations determined the level of effort they were willing to invest in a relationship.

They illustrated this point by highlighting the difference between relationships formed by their organisation and the relationships formed between their competitors and competitors' client organisations. In this sense "culture is defining customers and strategic initiatives" (case 1).

Certainly, relationships for some were 'a weapon of war', with 'aggressive' organisations forming relationships that fell far short of the trusting, committed, interactive dyads and networks, frequently described in the literature. Yet, the interactions between these organisations were regarded as 'relationships', moving beyond the state of multiple transactions.

In some industries, however, "more and more interactions with clients are being established through intermediaries who establish the tender procedures and negotiations. This process eliminates initial opportunities to establish personal relationships and feel out management styles and value options" (case 2). Thus, relationships may be formed with 'culturally distant' organisations. Having invested time and effort in a negotiated contract with another organisation, a firm may "compromise its own position in a relationship in its determination to service the customer at all cost" (case 1).

2.1 Relationship between Organisational Culture and Performance Outcomes

The effects of organisational culture are not reducible to the presence or absence of clear behavioural norms and the application of associated favourable or negative sanctions. Assumptions, values and beliefs can have pervasive effects even where norms are not explicit (Alvesson 1993; and Schein 1992). They 'underpin' organisational processes, practices, systems and structures through their influence on the behaviour of people within the particular organisation (Hofstede 1980; Kabanoff 1993; and Smircich 1983).

Individually, but all the more-so collectively, when their effects are mutually re-enforcing and are not at variance, elements of organisational culture can have a powerful influence on the perceptions, thinking and action of members (Alvesson 1993; Homburg and Pflesser 2000; and Schein 1992). This is especially so in relation to their organisation, its structure, practices (specifically in the case of this research, relationship management practices), purpose, and environment.

While organisational culture is not the only determinant of organisational performance and success, considerable argument and empirical evidence has been produced to support a relationship between organisational culture and performance, particularly through its effects on management practices, processes and structures (Deal and Kennedy 1982; Barney 1986; Calori and Sarnin 1991; Despandé, Farley and Webster 1993; Gagliardi 1986; Han, Kim, and Srivastava 1998; Kotter and Heskett 1992; Peters and Waterman 1982; Reynolds 1986; Webster 1988; and Weiner 1988). Further, it has even been argued that organisational culture can be a key source of enduring competitive advantage (Pfeffer and Veiga 1999), and that organisations exhibiting ongoing superior financial performance exhibit strong core values that direct organisational conduct (Barney 1986).

In some contexts, shared assumptions, values, beliefs, and even norms, can become so deeply internalised by members of an organisation that they seem 'natural', and alternatives may appear to be unthinkable. When this is so, these elements of organisational culture are particularly influential with regard to thinking and social action. Indeed, this partly explains why so-called 'strong cultures' , with norms deemed beneficial with regard to organisational performance, have long been linked with organisational success (for example, Deal and Kennedy 1982; and Peters and Waterman 1982).

2.2 Moral Integrity Values, Organisational Culture and Relationship Management Practice

Although there is no universal agreement about what constitutes an 'ethical' or 'moral' employee, Porter (1998) proposes that they reflect honesty, trustworthiness, tolerance, high self-esteem and organisational commitment. Individuals classified as having an external locus of control, place responsibility for outcomes on forces outside their control (e.g. place responsibility on the organisation). Those described as having an internal locus of control, take responsibility for their actions, are more likely to have a higher order of moral reasoning and find questionable work practices unacceptable (Reiss and Mitra 1998).

All employees have access to 'directional instruments' such as reward systems and examples of management decision-making and behaviour that shape their behaviour and achieve desired outcomes. These directional instruments build employee moral resistance and empower them to fulfil their responsibilities (Kaptein and Wempe 1998).

An organisation's culture is critically important to relationship management practice because it significantly influences the attitudes and commitment of all members towards relationship establishment and ongoing practice.

Organisational openness and integrity, transparency, regard and caring for the client, and confidence in the stated focus of the organisation are necessary prerequisites for successful relationships (Bennett 1996). The presence, development and/or management of such supportive values, ideas, beliefs and practices can contribute to the realisation of relationship satisfaction and performance (Mohr, Fisher and Nevin 1996; and Morgan and Hunt 1994).

Among the dimensions of organisational culture, practices founded on moral integrity values are especially influential in shaping the nature of the interaction between organisations. Shared adherence to standards of honesty and fairness build trust and are fundamental to effective communication and the maintenance of long-term business relationships. Relationship commitment and trust have been linked to forbearance from opportunism, effective cooperation and treatment of uncertainty and disagreements (Sheth and Parvatiyar 1992), and, in turn, relationship satisfaction and performance (Morgan and Hunt 1994). Clearly, this points to the importance of the presence of relationship-supportive shared assumptions, values, beliefs, and behavioural norms to the development of effective relationship management systems and processes. It is argued that where individual values are in conflict with organisational values, commitment to the organisation and to its partners will be low.

Viewed in terms of a typology of cultural types (i.e. market, adhocracy, clan and hierarchy) that are grounded in the existence of clusters of values relating to dominant organisational attributes including rules, structures, management and leadership styles, practices and strategic orientation (i.e., what the organisation is and does), we can identify links between these different ‘culture types’ and relationship performance (Quinn and Cameron 1983). These ‘types’ have been described by Deshpandé, Farley and Webster (1993) as 'dominant' or 'modal' and are not mutually exclusive. Indeed, elements of these 'types' will be present in most organisations but some will eventually dominate, and have been linked to varying levels of business performance through their effects on business practice (Deshpandé, Farley and Webster Jr 1993).

It is posited that cultures typified by the dominance of values associated with market relatedness (competitiveness and goal achievement) and adhocracy (entrepreneurship, creativity and adaptability) will be linked to effective relationship management. These organisational types are associated with flexibility, innovation and change, whereas organisations dominated by values associated with clan cultures (cohesiveness, participation and teamwork) and hierarchy cultures (order, rules and regulations) tend towards rigidity and order (Deshpandé, Farley and Webster Jr 1993; and Quinn and Cameron 1983).

Notable commonalties exist between the values that dominate market and adhocracy cultures and those evident in effective learning organisations. Such learning organisations have effective processes in place that facilitate knowledge capture, generation, storage and distribution with the aim being to use this knowledge to improve organisational practice, processes and output (Fiol and Lyles 1985; Kim 1993; Senge 1990; Argyris 1997). The values, and associated practices, present in these learning organisations are conducive to effective relationship performance and have been linked with flexibility, change, collaborative decision-making, typical of close and extensive relationships with customers, suppliers, and other key constituencies (Slater and Narver 1994, 1995).

As has been argued, organisational culture is especially significant for relationship management practice, as shared assumptions, values, beliefs, perceptions and norms impact upon relationship commitment, communication, collaboration, innovation, flexibility and conflict resolution. Shared ethical and moral integrity values are held to be critically important to effective relationship performance. It is hypothesised that:

H1 An organisation’s relationship management practice will be a direct and indirect function of the moral integrity values of senior managers involved in managing major relationships;

H2 An organisation’s culture will be a function of the moral integrity values of senior managers; and

H3 An organisation’s relationship management practice will be a function of its culture.

3. A Framework of Relationship Management Practice

Although Gruen, Summers and Acito (2000) make reference to relationship marketing as ‘customer asset management’, the notion of relationship marketing, defined as ‘all marketing activities directed toward establishing, developing and maintaining successful relational exchanges’ (Morgan and Hunt 1994 p. 22), can be applied to strategic relationships along the entire value chain. Particularly in a business-to-business context and, taking an organisation wide perspective, Gruen, Summers and Acito’s definition is expanded to include the organisational initiation, development and management of strategic, mutually rewarding, exchanges, supported by inter-organisational systems, and shaped by an agreed code of business conduct and performance outcomes. This broader, management focused, definition recognises the organisation wide support and systems' perspective necessary to achieve long-term relationship satisfaction and performance outcomes, and the importance of a shared understanding of relationship management practice. This approach is consistent with Gronroos (1995) and Gummesson (1994) who observed that although marketing has been traditionally described as a function, it is now regarded as being "embedded in the whole management process". Recognising this embeddedness, both Gronroos and Gummesson were encouraged to re-define marketing management as market-oriented management, with a focus around relationships rather than transactions. Indeed, Gronroos' definition of relationship marketing: "to identify and establish, maintain, and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met" (1990) supports this broader stakeholder perspective.

We argue that relationship management is a more appropriate term for the concept 'relationship marketing' in the business-to-business context as the process must be implemented at the organisational level, rather than a self-contained activity within the marketing area of the organisation. Further, the term relationship management identifies relationships as not only having marketing functionality, but highlights the importance of management systems and processes underpinning effective relationships.

It was noted earlier that organisational culture influences management practice (Kabanoff 1993). Key dimensions of relationship management practice that have been identified as encouraging strategic integration between organisations and influencing positively relationship outcomes are: collaboration, flexibility and conflict resolution (Anderson and Narus 1990; Johnson 1999; Lusch and Brown 1996; Mohr, Fisher and Nevin 1996; Morgan and Hunt 1994).

3.1 Relationship Collaboration

Relational processes or normative control mechanisms yield highly collaborative behaviours, with relational partners flexibly adjusting to each other's needs and requests (Dahlstrom, McNeilly and Speh 1996). Collaborative behaviour in the form of sharing information and ideas, communication openness and forbearance from opportunism will increase the perception of fairness in terms of relationship inputs, whereas collective decision-making implies joint agreement on operational aspects of the relationship, which will include the distribution of risk and rewards. Collaboration (or co-operation) has been linked positively to relationship satisfaction (Anderson and Narus 1990; Smith and Barclay 1997) and measures of extensive tolerance, mutual goals and group solidarity have been linked positively to fairness (relationship equality) (Gassenheimer, Houston and Davis 1998).

3.2 Relationship Flexibility

Contracts will vary in terms of their explicitness about, for example, tasks to be performed, processes to be followed, outcomes to be achieved, penalties, rewards and divisions of financial gains. In addition to an explicit contract, normative contracts will vary in terms of "how the parties will interact and deal with each other, including the handling of future contingencies" (Lusch and Brown 1996 p. 20). Relationship flexibility is described as a willingness to move beyond the terms and conditions specified in the contractual agreement as circumstances require (Heide and John 1992). Dahlstrom, McNeilly and Speh (1996) determined that the relationship norm, flexibility, enhanced performance in bilateral relationships.

3.3 Conflict Resolution in Relationships

Conflict is not necessarily destructive or disruptive to the relationship's development, nor should its presence be interpreted as meaning that the relationship lacks interdependence (Achrol 1997). However, conflict theorists have noted that ill-timed discussions can intensify, rather than reduce conflict levels in a relationship. Conflict may invoke the use of power to resolve conflict (Hanmer-Lloyd 1996), leading to control and co-ordination of inter-organisational exchange systems (Achrol 1997). Early, joint resolution of conflict will increase perception of fairness through the equal input of both parties, and positively influence relationship performance (Song, Xie and Dyer 2000).

3.4 Direct Effects of Relationship Management Practice: Relationship Outcomes

Evidence has been provided on the positive effect of relationship practices of collaboration, flexibility and constructive conflict resolution on relationship performance, satisfaction and perceived fairness (Dahlstrom, McNeilly and Speh 1996; Smith and Barclay 1997;

Song, Xie and Dyer 2000). Relationship outcomes of performance and satisfaction have been frequently investigated in the literature (for example Johnson 1999; Song, Xie and Dyer 2000; Smith and Barclay 1997). More recently, the outcome of relationship equality (fairness with which rewards, risks and opportunities are distributed) has been considered (Gassenheimer, Houston and Davis 1998).

Although measured from several differing perspectives (e.g. specific, relevant activity ratings of the partner in Dahlstrom, McNeilly and Speth 1996, specific financial performance of responding partner in Johnson 1999, to broader notions of partnership value outputs in Song, Xie and Dyer 2000), relationship performance has been a consistent measure of relationship outcome. The cost efficiency perspective (supported through transaction cost analysis foundations, Williamson 1990) and the focus on building comparative advantage, highlight the value outcomes of the multiple and complex exchanges that occur within major relationships (Wilson 1995).

Relationship satisfaction has also frequently been presented in the literature as an important outcome of relationship management practice (Anderson and Narus 1990; Smith and Barclay 1997). The concept of satisfaction used in this research is aligned to that proposed by Garbarino and Johnson (1999) who distinguished between transaction specific satisfaction (measured through evaluations of familiarity with transaction experience, quality of transaction and quality of the transaction environment) and cumulative satisfaction (Anderson, Fornell and Lehmann 1994).

The notion of relationship equality as an important outcome has only recently been considered (Gassenheimer, Houston and Davis 1998). These authors grounded their concept of relationship equality on the theory of distributive justice, presented as: “perceptions of fairness are a consequence of each party’s intent for engaging in the exchange relationship, the contribution each party brings to the relationship and the value each party receives from the relationship” (p. 324). Relationship equality is high when rewards distributed from participation are proportional to the resources, time and management skills brought to the exchanges. It reflects the equitable division of outputs as a function of inputs, and embraces the notion of sharing, proportionally, opportunity, risk and reward. Of all the relationship ‘outcome’ measures, relationship equality captures the idea of relationship co-production (Gummesson 1987) through the inclusion of the measure ‘opportunity’. As commitment and trust build within a business relationship, opportunities for new value creation are captured that neither firm, individually, can embrace.

Therefore, it is hypothesised that:

H4 Relationship outcomes (equality, satisfaction and performance) will be a function of relationship management practice (collaboration, flexibility and constructive conflict resolution).

4. Research Method

The research objective, to determine the impact of relationship managers’ moral integrity values and organisational culture on relationship management practice and relationship outcomes encouraged both qualitative and quantitative investigation. Firstly, a qualitative investigation confirmed the role of culture in shaping business-to-business relationship behaviour, and the emphasis that organisations place on relationship performance and satisfaction. Secondly, an empirical investigation captured cross-sectional data from business enterprises on cultural and relationship perceptions, practices, processes, controls and outcomes.

In the qualitative phase, interviews were held with three senior executives and industry specialists from the information technology industry, financial services industry, and business consulting services. Respondents were responsible for the management of several important relationships for their organisation, and had worked in their respective industries for a minimum of seven years. Each interview lasted approximately two hours and explored relationships with organisational clients and, where appropriate, suppliers or other channel or horizontal relationships. In addition, they were asked to draw comparisons between relationships they had established and the nature of relationships formed between their competitors and competitor client organisations. The interviews adopted an experiential approach, exploring the process of forming the relationship and probing for key aspects important to them and their organisation. From these interviews, and theoretical constructs from the literature, a research model in the form of a multiple indicator structural equation model was developed (see Figure 2 represented by H1 to H4).

A questionnaire was developed from the interviews and measures described in the literature, and was tested prior to implementation. Detailed feedback on the initial form of the questionnaire was obtained from five senior executives representing both service and manufacturing industries prior to mail out. The final form of the questionnaire was mailed to a random sample of 1,250 senior marketing directors or managing directors (where no marketing director was nominated) from the top 2,000 business services and manufacturing organisations (sourced from Dunn and Bradstreet). It is argued that successful organisations are more likely to place greater emphasis on the management of relationships, and understand the contribution of those relationships to the creation of customer value and performance. The method of data capture provides a subjective opinion of only one participant in the business relationship. However, it is argued that the opinion of a manager responsible for the continued operation of the relationship is in itself important. Those opinions about the level of collaboration, forbearance from opportunism and fairness with which they believe rewards, risks and opportunities are distributed will strongly influence the longevity of the relationship. The key informant technique (Mitchell 1994; Phillips 1981) has been widely used in similar studies.

A response rate of 12% was achieved after sending a reminder mailing and phoning every fourth organisation on the database. Although the low response rate is a limiting factor of this study, it is consistent with that of other similar surveys. Hult, Hurley, Guinipero and Nichols Jr (2000) experienced a response rate of 11% in collecting data from external purchasing organisations located in different multinational corporations, in comparison with an internal SBU response rate of 85%; Grewal, Comer and Mehta (2001) reported a response rate of approximately 14%, while Farrell (2000) and Homberg and Pflesser (2000) a response rate of approximately 15%. Homberg and Pflesser proposed that the length of the questionnaire required to investigate complex organisational phenomena and the level of respondent targeted limits the response rate – factors also noted by Diamantopoulos and Schlegelmilch (1996) and Harzing (1997).

Descriptive statistics revealed that the sample contained data on all types of major relationships specified in the questionnaire, with 62% of the data describing marketing business relationships (with client organisations, service providers, co-marketers, competitors and distribution channel members) and 38%, strategic alliances. This percentage reflects the proportion of questionnaires directed to marketing directors compared to managing directors. Further, the data reflected variety in the stage of the relationship. As anticipated, the majority of relationships fell at the mutual dependence stage (56%), with 28% falling at the 'expansion' stage and 16% indicating the relationship had become 'institutionalised'. All categories of Rahim's (1985) approach to conflict resolution were represented with 66% nominating 'collaborative', 19% indicating 'compromise', 7.4%, 'confrontational', 3.4%, 'accommodative' and 4.7%, 'avoidance'. Thus, the data appears to be broadly representative of relationship types, stages and conflict resolution styles that would be anticipated in organisations competing in both the business services and manufacturing sectors.

Non-response bias was tested, comparing the first and last thirty responses (Armstrong and Overton 1977). No significant differences were found across the range of measures. The rationale here is that late respondents are more likely to respond in a similar manner to non-respondents (Homberg and Pflesser 2000). The linkages observed in the qualitative data between culture, relationship management practice and relationship outcomes in each of the three cases, and the high level of reliability observed with the construct 'relationship satisfaction', designed from measures generated through the qualitative interviews, increased overall confidence in the quantitative findings. Thus, it can be reasonably assumed that non-response bias was not a problem in these data.

4.1 Construct Development

Moral integrity has previously been measured through dimensions of compromising personal values, making promises that are difficult to keep and placing personal interests before those of the organisation (McDonald and Gandz 1992; Morgan and Hunt 1994). Measures reflecting the construct, organisational culture, contained elements dominating the various cultural types described by Deshpandé, Farley and Webster Jr (1993). While the presence of market and adhocracy related characteristics such as outcome focused, creativity, flexibility, and adaptability have been linked to strong business performance (Deshpandé, Farley and Webster Jr 1993), in this era of 'network competition' other relationship-critical characteristics that are more strongly associated with 'clan' cultures (such as: mutuality; commitment; participation; communication; consultation; collaboration; and, teamwork) have also been associated with effective business performance (Morgan and Hunt 1994a). As has been previously stated, an important first stage of developing a culture conducive to the facilitation of effective relationships involves learning from others. This includes building understanding of emerging environments and new potential solutions through 'forming joint ventures, networking, making strategic alliances, and working with lead customers, who both recognise strong needs before the rest of the market and are motivated to find solutions to those needs' (Slater and Narver 1994 p. 65). The authors argue that a critical dimension of a learning organisation is its openness with carefully selected learning partners. Internally, the learning organisation is reflected through formal and informal information flows, consultation and shared understanding, and a commitment to changing the organisation in line with learning. As noted earlier, shared organisational focus, openness, transparency and integrity (evidenced in effective communication, consultation, negotiation and problem-solving) are prerequisites for successful relationships. Thus, broad consultation, formal and informal communication, innovation and flexibility are appropriate cultural dimensions that will provide insight into an organisation's relationship management practice.

Relationship management practice was defined through three constructs: relationship collaboration, relationship flexibility and relationship conflict resolution. Relationship collaboration was measured through statements capturing consideration of each other's interests in decision-making (Weitz and Jap 1995), collective decision-making (Dahlstrom, McNeilly and Speh 1996), forbearance from opportunism, and sharing proprietary information and ideas (Dahlstrom, McNeilly and Speh 1996; Morgan and Hunt 1994; Weitz and Jap 1995). Communication exchanges, data exchanges and information flows are components of inter-firm exchange that reflect communication openness, and represent relationship commitment (Mohr, Fisher and Nevin 1996).

The construct 'relationship flexibility' incorporated measures adapted from prior research. It included statements on willingness for change to occur, making adjustments to relationship management policy (Dahlstrom, McNeilly and Speh 1996; Heide and John 1992; Lusch and Brown 1996; Weitz and Jap 1995), and increasing emphasis on control through agreed principles and less on formal controls (Dahlstrom, McNeilly and Speh 1996; Johnson 1999). The construct 'constructive conflict resolution' was measured by openness, joint resolution and immediacy of resolution (Song, Xie, and Dwyer 2000; Weitz and Jap 1995).

Relationship outcomes were measured by three constructs: relationship performance, relationship satisfaction and relationship equity. Relationship performance was measured by financial performance, capability building, competitiveness and innovativeness versus expectations. These measures of performance reflect value outcomes of the complex exchanges (Wilson 1995) and are consistent with the purposes frequently stated for entering major relationships (Jarratt and Fayed 2001, Varadarajan and Cunningham 1995).

The measures reflecting relationship satisfaction were defined through the qualitative interviews, probing why (or why not) organisations were satisfied with their major relationships. This approach was preferred over conventional measures of overall satisfaction (Anderson and Narus 1990; Smith and Barclay 1997) as they provide an understanding of the factors driving satisfaction. In this research, relationship satisfaction is measured through cumulative improvements on items of exceeding expectations (cumulative quality of multiple transaction), development of personal friendships (cumulative familiarity), and improvements in processes, skills, trust and flexibility (cumulative quality of relationship environment) (Garbarino and Johnson 1999; Anderson, Fornell and Lehmann 1994). Measures employed for the construct relationship equality followed Gassenheimer, Houston and Davis (1998), recognising the distribution of rewards, opportunities and risks.

Construct validation was achieved through application of Confirmatory Factor Analysis (CFA). ROBUST was selected to estimate the coefficients, as it performs better than uncorrected statistics where the normal distribution is false. Goodness of Fit measures (Comparative Fit Indices) ranged from 0.95 to 1.00, indicating high levels of model fit (Hair Jr, Anderson, Tatham and Black 1992 p. 468). Table 1 identifies latent constructs tested, items contributing to their measurement, the strength of each item's contribution to the construct, Comparative Fit Indices (CFI's - goodness of fit measures), and chi-square values with degrees of freedom. Reliability coefficients of the latent constructs reported by Cronbach's α coefficients were greater than 0.7, except for moral integrity, flexibility and equality.

5. Results

The first stage of model estimation comprised determination of two second-order factors: Relationship Management Practice and Relationship Outcomes. Path coefficients between these higher-order constructs and each of their three dimensions are all significant at the $\alpha = 0.05$ level. Table 2 identifies these second order

Table 1:
Latent Constructs: Measurement Model

Constructs	Variables	Variable Contribution (standardised solution) **	CFI and reliability coefficient (α)	Independence model Chi-square
Moral integrity values	Compromise values Promises difficult to keep Personal interests more important	0.61 (9.54) 0.71 (6.67) 0.46 (4.61)	CFI = .99 α = .60	50 on 3 degrees of freedom
Organisational culture	Broad consultation Informal and formal communication Innovative Flexibility	0.52 (5.27) 0.73 (5.46) 0.81 (6.70) 0.51 (4.68)	CFI = 0.99 α = .73	138 on 6 degrees of freedom
Relationship collaboration	Consider interests Balanced management Idea exchanges Collaborative decision-making Opportunism Exchange proprietary information	0.67 (7.19) 0.70 (7.44) 0.79 (8.74) 0.82 (10.50) 0.44 (4.16) 0.45 (5.00)	CFI = .96 α = .81	262 on 15 degrees of free-dom
Relationship flexibility	Normative control Willingness to accept change Making adjustments	0.45 (5.27) 0.65 (4.53) 0.73 (5.42)	CFI = 1.00 α = .66	64 on 3 degrees of freedom
Relationship conflict resolution	Debate views Seek solution together Immediacy	0.79 (5.53) 0.81 (7.47) 0.54 (4.74)	CFI = 1.00 α = .75	122 on 3 degrees of freedom
Relationship satisfaction	Personal friendships Improved processes More flexible More trusting New skills Exceeded expectations	0.54 (6.39) 0.72 (7.17) 0.74 (7.14) 0.87 (12.95) 0.66 (6.19) 0.50 (3.78)	CFI = .96 α = .83	327 on 15 degrees of free-dom
Relationship equality	Share opportunities Share risks Share rewards	0.45 (3.79) 0.60 (7.02) 0.85 (7.16)	CFI = .99 α = .67	80 on 3 degrees of freedom
Relationship performance	Financial Competitiveness Non-financial outcomes New business	0.70 (8.13) 0.80 (7.56) 0.65 (7.31) 0.70 (7.67)	CFI = .97 α = .82	199 on 6 degrees of freedom

** T values in parentheses – ROBUST statistics

Table 2:
Second–Order Factors – Measurement Model

Constructs	Variables	Variable Contribution (standardised solution) **	CFI and reliability coefficient (α)	Independence model Chi-square
Relationship Management Practice	Relationship collaboration Relationship flexibility Relationship conflict resolution	0.91 (4.77) 0.76 (5.43) 0.65 (3.82)	CFI = .94 α = .86	605 on 66 degrees of freedom
Relationship Outcomes	Relationship satisfaction Relationship equality Relationship performance	0.95 (6.21) 0.81 (6.99) 0.82 (5.27)	CFI = .94 α = .88	719 on 55 degrees of freedom

** T values in parentheses – ROBUST statistics

factors, CFI's, Chi square's with degrees of freedom and reliability coefficients. Table 3 identifies reliability coefficients and variance extracted for constructs included in the structural model. In using the approach to estimate construct reliability noted in Table 3 footnote b, constructs of moral integrity values, organisational culture, flexibility and equality fall just short of the recommended level of 0.7 and the recommended 50% of variance extracted (Hair Jr Anderson, Tatham and Black 1998 p. 623).

Discriminant validity of measures was assessed through pairwise confirmatory factor analyses (see Table 4 for latent construct intercorrelations). Forcing items of different latent constructs into a single factor decreased model fit when compared to the two construct solution. The Chi-square difference for each pair of latent constructs was significant in each case (see Table 5 for chi-square differences), confirming discriminant validity (Anderson and Gerbing 1988).

A direct link between Moral Integrity Values and Relationship Management Practice was supported when Moral Integrity Values and Organisational Culture were entered separately into the model, however when Moral Integrity Values directly contributed to the variance in organisational culture (H2), the direct association between Moral Integrity Values and Business Relationship Practice was not supported. Thus, H1 was not supported. The model supported all other hypotheses. A CFI of .903 (with independence chi-square of 1799 based on 351 degrees of freedom indicating a high degree of malfit between the hypothesised model and the null model) was achieved. Figure 2 specifies the standardised solutions of the structural model.

Two competing models are compared on a range of goodness of fit indices (See Table 6):

Model 1 contains the two, second-order factors (Relationship Management Practice and Relationship Outcomes) and is the Model represented in Figure 2.

Model 2 contains no second order factors (Figure 2 with both Relationship Management Practice and Relationship Outcomes removed). Organisational Culture links directly to each independent construct measuring relationship management practice, and each of the independent constructs measuring relationship management practice links directly to each independent construct measuring relationship outcome.

CFI's greater than 0.9 indicate a good fitting model (Tabachnick and Fidell 1996 p.749). Thus, only Model 1 is defined as a good fitting model. NFI may underestimate the fit of the model in good fitting models with small sample sizes (Bearden, Sharma and Teel 1982; Tabachnick and Fiddel 1996 p. 749) . NNFI incorporates the degrees of freedom, reducing the problem of underestimating the fit in good fit models, but can also be small in small samples. Even so, here estimates are close to 0.9.

Table 3:
Latent Constructs: Structural Model

Constructs	Variables	Variable Contribution (standardised loadings)[a]	P [b]	Ave [c]
Moral integrity values	Compromise values	0.58	0.61	0.35
	Promises difficult to keep	0.71		
	Personal interests more important	0.46		
Organisational culture	Broad consultation	0.52	0.66	0.43
	Informal and formal communication	0.73		
	Innovative	0.81		
	Flexibility	0.52		
Relationship collaboration	Consider interests	0.65	0.79	0.44
	Balanced management	0.67		
	Idea exchanges	0.76		
	Collaborative decision-making	0.77		
	Opportunism	0.41		
	Exchange proprietary information	*		
Relationship flexibility	Normative control	0.59	0.65	0.39
	Willingness to accept change	0.63		
	Making adjustments	0.64		
Relationship conflict resolution	Debate views	0.72	0.76	0.53
	Seek solution together	0.89		
	Immediacy	0.52		
Relationship satisfaction	Personal friendships	*	0.81	0.59
	Improved processes	0.72		
	More flexible	0.70		
	More trusting	0.86		
	New skills	*		
	Exceeded expectations	*		
Relationship equality	Share opportunities	0.46	0.67	0.41
	Share risks	0.63		
	Share rewards	0.84		
Relationship performance	Financial	0.72	0.78	0.54
	Competitiveness	0.82		
	Non-financial outcomes	*		
	New business	0.67		
Relationship management practice	Relationship collaboration	0.82	0.82	0.61
	Relationship flexibility	0.81		
	Relationship conflict resolution	0.71		
Relationship Outcome	Relationship satisfaction	0.81	0.86	0.68
	Relationship equality	0.95		
	Relationship performance	0.70		

Table 3: *continued*
Latent Constructs: Structural Model

*Removed due to interaction effects

[a]Standardised loading. Squared multiple correlations for each measure can be calculated by squaring the standardized solution for the item

[b]Construct reliability: (Sum of standardised loadings)^2/ {(Sum of standardised loadings)^2 + Sum of indicator measurement error}

[c]Variance extracted: Sum of squared standardised loadings/ {Sum of squared standardised loadings + Sum of indicator measurement error}

Table 6 compares the models on three types of fit measures. For the absolute fit measures Model 1 has the lowest χ^2, however it has the larger number of estimated parameters (represented by the lower degrees of freedom). RMSR and standardised RMSR values are acceptable given the strong correlations, and all the Root Mean Square Error of Approximation (RMSEA) values fall within recommended limits. Goodness of Fit measures recognise Model 1 as the superior fit model. Two of the incremental fit measures (AGFI and NFI) favour Model 1, while one (NNFI) supports Model 2. The Parsimonious Fit measure, the normed χ^2, is acceptable for both models, while the AIC measure indicated Model 1 as the superior model. Thus, Model 1 (represented in Figure 2, containing the two second order factors) is superior on a number of measures, with a CFI >0.9 and a Robust Comparative Fit Index of 0.915. The CFI has been found to be the more appropriate goodness of fit measure when the sample size is small (Hair Jr, Anderson, Tatham and Black 1998 p. 656).

6. Limitations and Directions for Future Research

Although this study provides promising results that add to existing theory on relationship management practice by testing higher-order constructs of relationship management practice and performance, and linking organisational cultural aspects to relationship management practice, it is important to highlight the limitations of the study. Firstly, there is the issue of single informant bias. Ideally, data should be captured from several people in an organisation who are knowledgeable about the specific relationships being evaluated, or captured through a dyadic perspective, from relationship managers in both partner organisations. Both these approaches provide an opportunity to triangulate data and increase confidence in the findings, and this approach is recommended in future studies.

Secondly, the cross-sectional nature of the data provides no understanding of how relationship management practice might change as a relationship moves from an emergent stage to mutual dependence. Capturing time series data would provide insight into this important aspect of evolving relationship management practice. Thirdly, the low response rate following a reminder mailing and follow-up calls was disappointing. Solutions suggested to address the issue of single informant bias by capturing data from matched pairs will most likely depress the response rate further. Finally, from the high number of organisations nominated as adopting a collaborative approach to conflict resolution, there may be a degree of self-selection of those responding to the questionnaire. Those encouraged to respond on the basis of receiving an executive summary of the findings must be regarded as having a strong interest in relationship management, and have, most likely, in the recent past, implemented action to enhance their organisation's relationship management practice. The presence of organisations adopting alternative approaches to collaborative decision-making (28%) and conflict resolution (34%) was encouraging and contributed to the variance in the data. Further studies might increase representation from organisations adopting these alternative approaches, i.e. increasing the representativeness of organisations whose culture reflects higher levels of individualism and lower levels of collaboration, and which adopt accommodative, avoidance or confrontation approaches to conflict resolution (Gross and Guerrero 2000).

Table 4:
Measure Intercorrelations

	Values	Orgcult	Relcollab	Relchang	Relconf	Relsat	Relperf	Relequal	Relpract
Values									
Orgcult	0.52*								
Relcollab	0.34*	0.53*							
Relchang	0.13*	0.59*	0.68*						
Relconf	0.45*	0.55*	0.59*	0.50*					
Relsat	0.22*	0.53*	0.60*	0.71*	0.49*				
Relatperf	0.33*	0.49*	0.43*	0.48*	0.57*	0.66*			
Relatequal	0.33*	0.63*	0.80*	0.73*	0.64*	0.75*	0.64*		
Relpract	0.40*	0.70*				0.76*	0.64*	0.93*	
Relout	0.34*	0.67*	0.78*	0.81*	0.68*				0.96*

All corrrelations are significant at p≥.05

7. Discussion and Conclusion

To achieve the objective of this research, i.e. to identify organisational cultural dimensions that underpin relationship management practice, and lead to relationship satisfaction and performance, higher-order measures of relationship management practice and relationship outcomes were established. Just as market orientation has been explained through the existence of higher order factors, it is reasonable to assume that a higher-order construct of relationship management practice exists and leads to a range of inter-linked relationship outcomes. To develop these constructs we have sought from the literature first-order constructs that provide a meaningful representation of the respective domains. The second-order model demonstrated a high degree of fit with the data. Improvement in the goodness of fit measures in the presence of second order factors confirmed the integration of the three aspects frequently associated with relationship management practice (collaboration, flexibility and constructive conflict resolution) and the three aspects presented separately in previous literature associated with relationship outcomes (performance, satisfaction and equitability). This research confirms the importance of the measure 'relationship equality' as a relationship outcome proposed by Gassenheimer, Houston and Davis (1998). The equitable division of risk, opportunities and resources is linked back through the collaborative behaviours within the relationship, to the moral integrity of those managing these major relationships.

The focus of this research has been on providing the first empirical effort to integrate individual values, organisational cultural aspects and relationship management practice. In attempting to contextualise relationship management practice in an individual's moral integrity and organisational cultural dimensions, this study has not presented a comprehensive model of an individual's value system, nor a model of the complex and keenly contested paradigms of organisational culture (see Smircich 1983). Rather, we have identified those core individual and collective values that interact with relationship management practice.

Testing of the hypotheses supports the conclusion that moral integrity values will directly and positively contribute to a communicative, flexible and innovative culture, and indirectly enhance relationship management

Table 5:
Discriminant Validity: Chi-Square Differences

	Values	Orgcult	Relcollab	Relchang	Relconf	Relsat	Relperf	Relequal	Relpract
Values									
Orgcult	18								
Relcollab	44	23							
Relchang	44	23	17						
Relconf	43	20	38	23					
Relsat	37	21	29	33	53				
Relatperf	38	15	17	19	20	30			
Relatequal	43	27	52	31	26	36	28		
Relpract	10**	33				45	32	70	
Relout	6*	30	52	43	35				79

* p>.05 **p>.01

Note: Chi-square difference between the separate latent constructs or separate latent construct and second order factor measurement model and a one latent construct measurement model
(all tests = 1df); χ^2 >11, p<.001; χ^2 >6.63, p<.01; χ^2 >3.8, p<.05

practice reflecting collaboration, flexibility and constructive conflict resolution. Further, we confirm that relationship management practice, will positively influence relationship outcomes of performance satisfaction and perceived equality.

The relationship marketing/management literature identifies relationship longevity as dependent on trust and commitment behaviours that reflect high levels of integration, normative behaviours, flexibility, and information and creativity exchanges (for example, Lusch and Brown 1996; Mohr, Fisher and Nevin 1996). Frequently, however, such an ideal state cannot be achieved in practice.

This research highlights the importance of organisations looking inwards and evaluating their own culture(s) as a critical starting point for relationship development. Cultural value dimensions of innovation, flexibility, communication and consultation are recognised through this research as critical to support relationship management practice that will enhance relationship performance outcomes. Shared assumptions underpinning these cultural value dimensions (such as 'organisational openness will strengthen the potential that can be realised through business-to-business relationships' and 'organisations are dependent on and impacted by their environment and must be willing to adjust to its demands'), are essential to the creation of the basic ingredients of relationship longevity, trust and commitment. Organisations must understand the value dimensions and assumptions driving their own culture, and assess the compatibility of that culture to that necessary to support effective and efficient relationship management practice. Although the cultural measure of 'employee empowerment' (Jarratt, Ardagh and McLean 1999) was removed to enhance the robustness of the model, the intent of this statement is represented in the model. The notion of 'fairness' flows through each stage of the model: making promises that can be kept, a collaborative approach to conflict resolution and equality in distribution of rewards, risk and opportunities.

This research supports the assertions of Kabanoff (1993) and has detailed the cultural dimensions of an organisation that support effective relationship management practice. In many organisations, relationship managers are empowered with the responsibility of 'making the relationship work'. However, it is generally the case that to evolve to a subsequent stage, relationships need to develop organisation-wide multi-point interactions, and the culture of the organisation is evidenced through the integrity of all its interactions, its internal communication flows, innovativeness, flexibility and management proficiency. While an individual at the organisational interface can display effective relationship supportive, normative behaviour, it is the shared presence of this normative behaviour within organisations that will support effective relationship management practice and performance outcomes.

Organisations for which relationship management is an important element of their overall strategy are advised to review their organisational culture(s), leadership and management approach to ensure the presence of values that are reflective, and productive, of a desirable relationship management philosophy. Where effective relationship management is critical to an organisation's competitive advantage, a shared vision of the organisation may need to be developed that provides clear and persuasive direction to all staff. Clearly this shared

Table 6:
Non-nested Model Comparison using Goodness of Fit Indices

Absolute Fit Measures	Fit Criteria	Model 1 2nd order factors included	Model 2 No 2nd order factors
Satorra-Bentler Scaled χ^2	Low χ^2 with high df	382 (315df)	407 (311df)
RCFI	>0.9	0.92	0.92
CFI	>0.9	0.90	0.88
GFI	Highest	0.83	0.82
RMSR		0.07	0.07
SRMSR		0.07	0.07
RMSEA	>0.05 and< 0.08	0.05	0.06
Incremental Fit Measures			
AGFI	highest	0.80	0.78
NFI	highest	0.75	0.73
NNFI	highest	0.89	0.90
Parsimonious Fit Measures			
χ^2 (/df)	> 1 and <2.0	1.21	1.31
AIC	Lowest	-174	-143

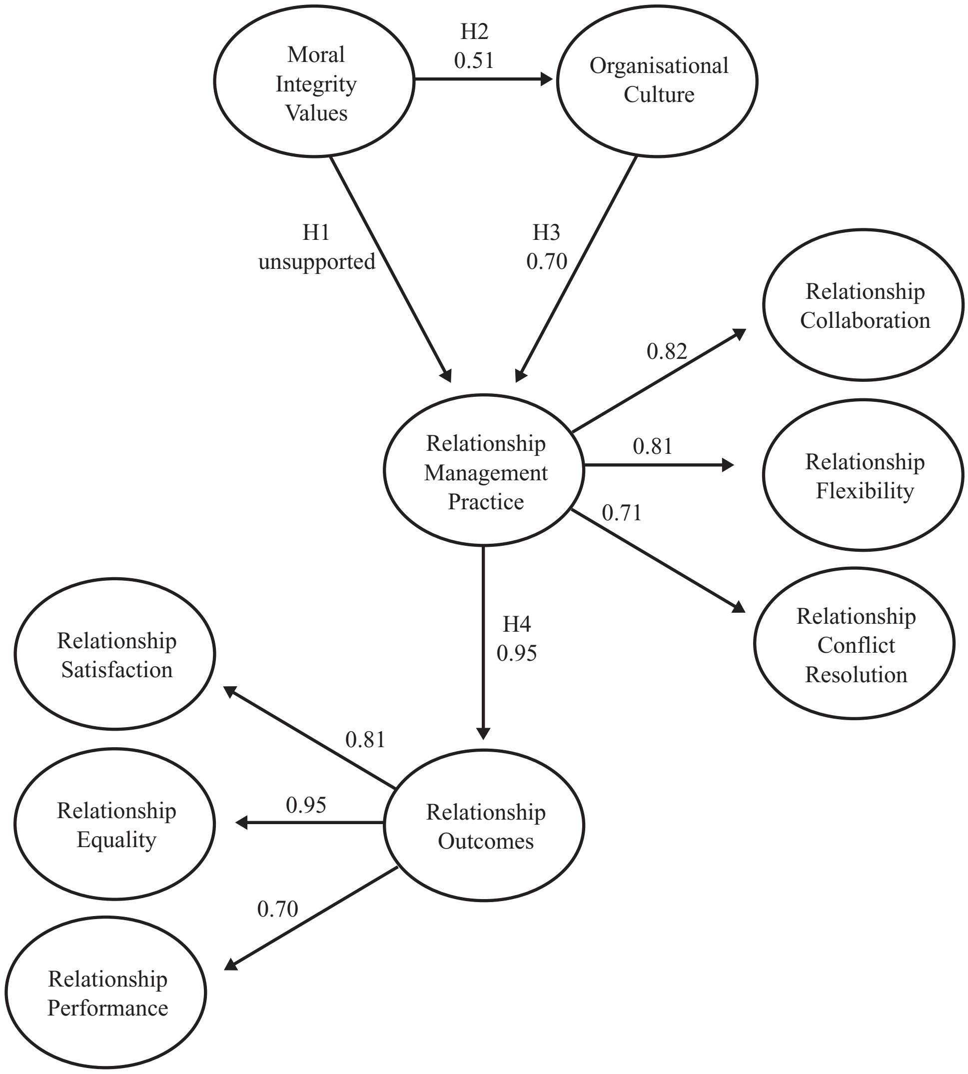

Figure 2: Impact of Culture on Relationship Practice and Relationship Outcomes
(Hypotheses and Standardised Solutions)

vision needs to be consistent with implementing an approach to relationship management practice that leads to high levels of relationship performance and relationship longevity. This vision must be strongly supported by, and reflected in, organisational leadership, management practices, processes, and incentive systems. Where possible, it is also highly desirable for staff to be appointed whose values are consistent with the vision.

References

Achrol, R.S. 1997. Changes in the Theory of Interorganizational Relations in Marketing: Towards a Network Paradigm. Journal of the Academy of Marketing Science, 25 (1), 56-71.

Alvesson, M. 1993. Cultural Perspectives on Organisations. Cambridge, UK: Cambridge University Press.

Anderson, E. W., Fornell C., Lehmann D.R. 1994. Customer Satisfaction, Market Share and Profitability: Findings from Sweden. Journal of Marketing, 58 (July), 53-66.

Anderson, J. C., Gerbing D. W. 1988. Structural Equation Modeling in Practice: A Review and Recommended Two-Step Approach. Psychological Bulletin, 103 (3), 411-423.

Anderson, J. C., Narus, J.A. 1990. A Model of Distributor Firm and Manufacturer Firm Working Partnerships. Journal of Marketing, 54 (1), 42-58.

Archer, M. 1988. Culture and Agency: The Place of Culture in Social Theory. Cambridge, UK: Cambridge University Press.

Argyris, R. S. 1977. Double Loop Learning in Organisations. Harvard Business Review, 55 (September/October), 115-125.

Armstrong, J.S., Overton T.S. 1997. Estimating Nonresponse Bias in Mail Surveys. Journal of Marketing Research, 14, 396-402.

Barney, J. B. 1986. Organisational Culture: Can it be a Source of Sustained Competitive Advantage? The Academy of Management Review, 10 (3), 656-666.

Bennett, R. 1996. Relationship Formation and Governance in Consumer Markets: Transactional Analysis versus the Behaviourist Approach. Journal of Marketing Management, 12, 417-436.

Calori, R., Sarnin, P. 1991. Corporate Culture and Economic Performance: A French Study. Organization Studies, 12 (1), 49-74.

Dahlstrom, R., McNeilly, K.M., Speh, T.W. 1996. Buyer-Seller Relationships in the Procurement of Logistical Services. Journal of the Academy of Marketing Science, 24 (2), 110-124.

Day, G.S., Nedungadi, P. 1994. Managerial Representations of Competitive Advantage. Journal of Marketing, 58 (April), 31-44.

Deal, T. E., Kennedy, A. A. 1982. Corporate Culture. Reading, MA: Addison-Wesley.

Denison, D. R. 1990. Corporate Culture and Organisational Effectiveness. New York: John Wiley and Sons.

Deshpandé, R., Farley, J.U., Webster Jr, F. E. 1993. Corporate Culture, Customer Orientation, and Innovativeness in Japanese Firms. Journal of Marketing, 57 (January), 23-37.

Deshpandé, R., Webster Jr, F.E. 1989. Organisational Culture and Marketing: Defining the Research Agenda. Journal of Marketing, 53 (1), 3-15.

Diamantopoulos, A., Schlegelmilch B.B. 1996. Determinants of Industrial Mail Survey Response: a survey-on-surveys analysis of researchers' and managers' views. Journal of Marketing Management, 12, 505-531.

Farrell, M. A. 2000. Developing a Market-Oriented Learning Organisation. Australian Journal of Management, 25 (2), 201-222.

Fiol, C. M., Lyles, M. 1985. Organisational Learning. Academy of Management Review, 10 (4), 803-813.

Ganesan,S.1994. Determinants of Long-term Orientation in Buyer-seller Relationships. Journal of Marketing, 58 (2), 1-19.

Garbarino, E., Johnson, M.S. 1999. The Different Roles of Satisfaction, Trust and Commitment in Customer Relationships. Journal of Marketing, 63 (2) (April), 70-87.

Gagliardi, P. 1986. The Creation and Change of Organisational Cultures: A Conceptual Framework. Organisational Studies, 7, 117-134.

Gassenheimer, J. B., Houston, F.S., Davis, C.J. 1998. The Role of Economic Value, Social Value, and Perceptions of Fairness in Interorganizational Relationship Retention Decisions. Journal of the Academy of Marketing Science, 26 (4), 322-337.

Grewal, R., Comer, J.M., Mehta, R. 2001. An Investigation into the Organizational Participation in Business-to-Business Electronic Markets. Journal of Marketing, 65 (3), 17-33.

Gronroos, C. 1995. Relationship Marketing: The Strategy Continuum. Journal of the Academy of Marketing Science, 23 (4), 252-4.

Gronroos, C. 1990. Service Management and Marketing. Lexington, MA: Free Press/Lexington Books.

Gummesson, E. 1987. The New Marketing: Developing Long-term Interactive Relationships. Long Range Planning, 20 (4), 10-20.

Gummesson, E. 1994. Making Relationships Marketing Operational. International Journal of Service Industry Management, 5 (5), 5-21.

Gross M.A., Guerrero, L.K. 2000. Managing Conflict Appropriately and Effictively: The Application of the Competence Model to Rahims Organizational Conflict Styles. The International Journal of Conflict Management, 11(3), 200-226.

Gruen, T.W., Summers, J.O., Acito, F. 2000. Relationship Marketing Activities, Commitment, and Membership Behaviors in Professional Associations. Journal of Marketing, 64 (3), 34-49.

Hair Jr, J. F., Anderson, R.E., Tatham, R.L., Black, W.C.

1992. Multivariate Data Analysis. New York: Maxwell MacMillan International.

Han, J. K., Kim, N., .Srivastava, R. K. 1998. Market Orientation and Organizational Performance: Is Innovation a Missing Link? Journal of Marketing, 62 (4), 30-45.

Hanmer-Lloyd, S. 1996. A Relationship Appraisal. Industrial Marketing Management, 25 (3), 173-185.

Harris, L.C. 1998. Cultural Domination: The Key to Market-oriented Culture? European Journal of Marketing, 32 (3/4), 354-373.

Harzing A. 1997. Response Rates in International Mail Surveys: Results of a 22-country Study. International Business Review, 6 (6), 641-665.

Hatch, M. J. 1993. The Dynamics of Organizational Culture. The Academy of Management Review, 18 (4), 657-693.

Heide, J. B., John, G. 1992. Do Norms Matter in Marketing Relationships? Journal of Marketing, 56 (2), 32-44.

Hofstede, G. 1980. Cultures Consequences: International Differences in Work-Related Values. Beverly Hills, CA: Sage.

Homburg, C., Pflesser, C. 2000. A Multiple-layer Model of Market-oriented Organisational Culture: Measurement Issues and Performance Outcomes. Journal of Marketing Research, 37 (4), 449-462.

Hult, G. T. M., Hurley, R.F., Giunipero, L.C., Nichols, E.L. Jr 2000. Organizational Learning in Global Purchasing: A Model and Test on Internal Users and Corporate Buyers. Decision Sciences, 31 (2), 293-325.

Jarratt, D. G., Ardagh, D., McLean, G. 1999. Corporate Ethics, Workplace Empowerment and Stakeholder Relationship Management. Business & Economics for the 21st Century 111, 212-223.

Jarratt, D. G., Fayed F. 2001. The Impact of Market and Organisational Challenges on Marketing Strategy Decision-Making. Journal of Business Research, 51 (1), 61-72.

Jelinek, M., Smirich, L., Hirsch, P. 1983 Introduction: A Code of Many Colors. Administrateve Science Quarterly, 28 (September), 331-338.

Johnson, J. L. 1999. Strategic Integration in Industrial Distribution Channels: Managing the Interfirm Relationship as a Strategic Asset. Journal of the Academy of Marketing Science, 27 (1), 4-18.

Kabanoff, B. 1993. An Exploration of Espoused Culture in Australian Organisations (with a closer look at the banking sector). Asia Pacific Journal of Human Resources, 31, 1-29.

Kanter, R. M 1983. The Change Masters. London: Unwin-Hyman.

Kaptein, M., Wempe, J. 1998 Twelve Gordian Knots when Developing an Organizational Code of Ethics. Journal of Business Ethics, 17 (8), 853-869.

Kim, D. 1993. The Link between Individual and Organisational Learning. Sloan Management Review, Fall, 37-50.

Kotter, J. P., Heskett, J. L. 1992. Corporate Culture and Performance. New York: The Free Press.

Lusch, R. F., Brown, J.R. 1996. Interdependency, Contracting, and Relational Behaviour in Marketing Channels. Journal of Marketing, 60 (October), 19-38.

McDonald, P., Gandz J. 1992. Getting Value from Shared Values. Organisational Dynamics, 20 (3), 64-77.

Mitchell, V.W. 1994. Using Industrial Key Informants; Some Guidelines. Journal of the Marketing Research Society, 36 (2), 139-144.

Mohr, J. J., Fisher, R., Nevin, J.R. 1996. Collaborative Communication in Interfirm Relationships: Moderating Effects of Integration and Control. Journal of Marketing, 60 (3), 103-115.

Morgan, R. M., Hunt S. 1994. The Commitment-Trust Theory of Relationship Marketing. Journal of Marketing, 58 (July), 20-38.

Morgan, R. M., Hunt S. 1994a. Relationship Marketing in the Era of Network Competition. Marketing Management, 3 (1), 18-28.

Narver, J.C., Slater, S.F. 1990. The Effect of a Market Orientation on Business Profitability. Journal of Marketing, 54 (October), 20-35.

Ouchi, W.G., Wilkins, A.L. 1985. Organizational Culture. Annual Review of Sociology, 11, 457-483.

Peters, T. J., Waterman, R. H. 1982. In Search of Excellence. New York: Random House.

Pfeffer, J., Veiga, J. F. 1999. Putting People First for Organisational Success. Academy of Management Executive, 13 (2), 37-48.

Phillips, L. W. 1981. Assessing Measurement Error in

Key Informant Reports: A Methodological Note on Organisational Analysis in Marketing. Journal of Marketing Research, 18 (Nov), 395-415.

Porter, G. 1998. Will the Collapse of the American Dream Lead to a Decline in Ethical Business Behaviour? Journal of Business Ethics, 17 (15), 1669-1679

Quinn, R.E., Cameron, K.S. 1983. Organisational Lifecycles and Shifting Criteria of Effectiveness: Some Preliminary Evidence. Management Science, 29, 33-51.

Rahim, M. 1985. A Strategy for Managing Conflict in Complex Organisations. Human Relations, 38, 368-376.

Reiss, M.C., Mitra, K. 1998 The Effects of Individual Difference Factors on the Acceptability of Ethical and Unethical Workplace Behaviors. Journal of Business Ethics, 17 (14), 1581-1593.

Reynolds, P. D. 1986. Organisational Culture as Related to Industry, Position and Performance: A Preliminary Report. Journal of Management Studies, 23 (3), 333-346.

Schein, E. H. 1991. What is Culture? Chapter 17 in Frost, P. J., Moore, L. F., Louis, M. R. Reframing Organisational Culture. Newbury Park: Sage.

Schein, E. H. 1992. Organisational Culture and Leadership, 2nd Edition. San Francisco: Jossey-Bass.

Senge, P. M. 1990. The Fifth Discipline. New York: Doubleday.

Sheth, J., Parvatiyar A. 1992. Towards a Theory of Business Alliance Formation. Scandinavian International Business Review, 1(3), 71-87.

Slater, S. F., Narver, J.C. 1994. Does Competitive Environment Moderate the Market Orientation-Performance Relationship? Journal of Marketing, 58, 46-54.

Slater, S. F., Narver, J.C. 1995. Market Orientation and the Learning Organisation. Journal of Marketing, 59 (3), 63-74.

Smircich, L. 1983. Concepts of Culture and Organisational Analysis. Administrative Science Quarterly, 28 (3), 339-358.

Smith, J B., Barclay, D.W. 1997. The Effects of Organisational Differenced and Trust on the Effectiveness of Selling Partner Relationships. Journal of Marketing, 61 (January), 3-21.

Song, X M., Xie, J., Dyer, B. 2000. Antecedents and Consequences of Marketing Managers Conflict-handling Behaviors. Journal of Marketing, 64 (1), 50-66.

Tabachnick, B.G., Fidell, L.S. 1996. Using Multivariate Stratistics, 3rd edition. New York: HarperCollins College Publishers.

Varadarajan, P.R., Cunningham, M.H. 1995. Strategic Alliances: A Synthesis of Conceptual Foundations. Journal of the Academy of Marketing Science, 23 (4), 282-296.

Webster, F. E. Jnr 1988. The Rediscovery of the Marketing Concept. Business Horizons, 31 (May-June), 29-39.

Weiner, Y. 1988. Forms of Value Systems: A Focus on Organisational Effectiveness and Cultural Change and Maintenance. Academy of Management Review, 13, 534-545.

Weitz, B. A., Jap S.D. 1995. Relationship Marketing and Distribution Channels. Journal of the Academy of Marketing Science, 23 (4), 305-320.

Williamson, O. E. 1990. Transaction Cost Economics. pp 135-82 in Schmalensee, R., Willig, R. D. (Eds.), Handbook of Industrial Organization. New York: Elsevier.

Wilson, D.T. 1995. An Integrated Model of Buyer-Seller Relationships. Journal of the Academy of Marketing Science, 23 (4), 335-345.

Zinn, W., Parasuraman, A. 1997. A Scope and Intensity of Logistics-based Strategic Alliances: A Conceptual Classification and Managerial Implications. Industrial Marketing Management, 26 (2),137-147.

Biographies

Denise Jarratt, PhD, Sub Dean Research and Sub Dean Graduate Studies, Faculty of Commerce, Charles Sturt University, Bathurst. Prior to entering a career in tertiary education, business experience was gained in both large corporations and the retail sector. She supervises PhD and DBA candidates in the areas of Organisational Entrepreneurship, Marketing Strategy, and Customer Relationship Management. Dr Jarratt acts as a reviewer for a number of academic journals in Europe and the UK and is on the Editorial Boards of Qualitative Market Research and the Australasian Marketing Journal. She has published in a broad range of journals including the Journal of Business Research, International Review of Retail, Distribution and Consumer Research, Australian Accounting Review, and the European Journal of

Marketing in the areas of research methods, marketing strategy, retailing, corporate ethics, relationship marketing and strategic alliances.

Grant O'Neill, PhD, Senior Lecturer in Management with the School of Marketing and Management at Charles Sturt University. He is DBA Program Director and teaches Strategic Management and Management Theory and Practice. Prior to joining the School of Marketing and Management, Dr O'Neill lectured at the Australian Graduate School of Police Management and at the University of New South Wales. He has expertise in a number of areas of management and sociology, and his current research interests centre on culture and management, strategy formulation, and professional doctorates.

Correspondence Addresses

Professor Denise Jarratt, School of Marketing and Management, Charles Sturt University, Bathurst 2795, Australia. Telephone: +61 (2) 6338 4293, Facsimile: +61 (2) 6338 4769, Email: djarratt@csu.edu.au, Dr Grant O'Neill, School of Marketing and Management, Charles Sturt University, Bathurst 2795, Australia. Telephone: +61 (2) 6338 4274, Facsimile: +61 (2) 6338 4769, Email: goneill@csu.edu.au

Designing Vignette Studies in Marketing

Kelly D. Wason, Michael J. Polonsky & Michael R. Hyman

Abstract

In empirical marketing studies, vignettes are increasingly used to develop measurement scales, assess public/organizational policy, and study key variables in judging the decisions or actions of a protagonist. Despite their frequent use, integrated recommendations for creating vignettes are limited. A brief introduction to vignette methods and their previous applications in marketing is provided. This is followed by suggestions for designing vignettes and vignette-based studies based on a review of the literature. The suggestions form a checklist that should help researchers who conduct vignette-based studies to consider all relevant issues and thus obtain valid data.

Keywords: Vignettes, scenarios, organizational policy, public policy, ethics research

1. Introduction

Consumer and business decision-making is studied in different ways. For example, conjoint analysis can be used to study respondents' part-worth valuations of product attributes and their likely future purchases. When respondents lack product experience, or when moderating variables are important, vignettes are used to ease product evaluation. Nonetheless, vignette design is not well understood despite its widespread use.

Basic market research often examines which of multiple options consumers prefer. This type of research assumes that consumers can predict their own preferences and/or consumption patterns. Unfortunately, consumers' stated preferences are often inconsistent with their eventual behavior. For instance, taste testers indicated the sweeter New Coke tasted better than the traditional Classic Coke, yet they strongly rejected New Coke as a replacement for Classic Coke (Hartley 1992). In this case, either (1) testers did not or could not accurately assess their preferences, or (2) researchers conflated taste preference with purchase preference. Because one key fact--replacing the original Coke formula--was not revealed, testers answered the wrong question, i.e., Does this new formula taste better? rather than Do you want Classic Coke reformulated?

The goal of this illustration is not to disparage the Coca-Cola Company, but to illustrate a research limitation: the more levels of inference between the question asked and the question to be answered, the more potential validity problems. Thus asking people about hypothetical situations is problematic when multiple factors, that should or could be considered, are omitted.

Although scholars have previously examined the use of vignettes in academic research, and have made useful recommendations (Cavanagh et al. 1985; Weber 1992), they typically ignore the design process (Wason and Cox 1996) or describe non-generalizable approaches (Chonko, Tanner and Weeks 1996; Fredrickson 1986). Thus, while there are a range of recommendations within the literature for the development and use of vignettes, there have been few attempts to synthesize these various suggestions. We attempt to address this fragmentation within the literature by delineating a set of issues that should be considered and recommendations for marketing researchers who conduct vignette-based studies.

2. Vignette Methods

Scenarios have been defined as "stories which present hypothetical situations requiring action or judgment from respondents" (Wason and Cox 1996, p.155). In contrast, vignettes have been defined as "short descriptions of a person or social situation that contain precise references to what are thought to be the most important factors in the decision-making or judgement-making processes of respondents" (Alexander and Becker 1978, p.94). Given this similarity of definitions, the term vignette will be used throughout.

Vignettes "can be particularly illuminating with respect to managerial implications; an appropriately constructed and relevant [vignette] can help management discern where specific action is necessary" (Dubinsky, Jolson, Kotabe, and Lim 1991, p.658). They can be used to evaluate ethical judgments and behavioral intentions (Dubinsky and Loken 1989), to test theories (Hunt and Vasquez-Parraga 1993; Mason and Mudrack 1996), to illustrate general themes in ethnographic research (Sherry 1990), and to develop survey measures (Hyman 1996; Kuo and Hsu 2001; Reidenbach, Robin, and Dawson 1991). Topics addressed in vignette-based marketing studies include salesforce supervision (DeConinck, Stephens, and Foster 1995), problematic selling practices (Dabholkar and Kellaris 1992), service recovery (Swanson and Kelly 2001), delay in service delivery (Marquis and Filiatraut 2002), deceptive marketing research practices (Schneider and Holm 1982), questionable retailing practices (Piron and Fernandez 1995), companion selling of complementary products (Polonsky et al. 2000), bribery (Tsalikis and LaTour 1995), ad claim efficacy (Koslow 2000), and cheating by marketing students (Haley 1991) (see Table).

Many business researchers argue that vignette-based studies are superior to direct-question-based studies because vignettes:

1. provide greater realism (Cavanagh and Fritzsche 1985; Haley 1991; Wason and Cox 1996) by offering "a range of situational or contextual factors" (Robertson 1993, p.592) that "approximate real-life decision making situations" (Barnett, Bass, and Brown 1994, p.473);

2. supply standardized stimuli to all respondents, which enhances internal validity, measurement reliability, and ease of replication (Alexander and Becker 1978; Cavanagh and Fritzsche 1985; Dubinsky, Jolson, Kotobe, and Lim 1991; Hyman and Steiner 1996; Lysonski and Gaidis 1991; Weber 1992);

3. improve construct validity by focusing "respondent attention upon specific features of the research question" (Cavanagh and Fritzsche 1985, p.283; Weber 1992);

4. bypass difficulties (e.g., time, expense) of studying real business decisions (Cavanagh and Fritzsche 1985; Fritzsche 1988);

5. reduce yea-saying/social desirability bias (Burstin, Doughtie, and Raphaeli 1980; Dabholkar and Kellaris 1992; Kennedy and Lawton 1996), especially if behavioral intentions questions are phrased in the third rather than first person (Choong, Ho, and McDonald 2002), and

6. enhance respondent involvement and dramatize issues (Cavanagh and Fritzsche 1985; Fredrickson 1986; Kiselius and Sternthal 1984).

Most vignette-based studies rely on what Cavanagh and Fritzsche (1985) called the constant-variable-value vignette (CVVV) method (i.e., all respondents read identical vignettes), which is a correlational method for assessing intergroup differences in judgments (Hyman and Steiner 1996). Respondents in such studies typically reveal their judgments about identical sets of vignettes through their answers to multiple, forced-choice questions. Unfortunately, CVVV-based studies suffer from the following limitations.

1. Uncontrolled Respondent Projections. CVVVs do not provide a common reference because respondents "may differ in their perceptions of the available alternatives, the factual consequences of those alternatives to different groups and the probability that the consequences will occur" (Hunt and Vitell 1986, p.13). For typical, low-detail CVVVs, "if respondents must have a fact before they can reach a judgment . . ., they must invent that fact . . . . [and] every fact that is left to the respondent's invention is a variable that is outside the researcher's control" (Skipper and Hyman 1993, p.538). In other words,"[t]he problem situation is described so briefly . . . that it is difficult . . . to evaluate" (Randall and Gibson 1990).

2. Evaluation Process Unmeasured. Closed-ended responses to CVVVs can only summarize peoples' judgments. For example, responses to a closed-ended ethics scale may suggest that many people use utilitarian criteria to evaluate an ethically problematic behavior, but such responses cannot reveal the sequence of thoughts used to evaluate this behavior (Hyman and Steiner 1996).

3. Demand Artifacts. Respondents use vignette-specific rationales when they make judgments; thus, a general summary measure (i.e., a fixed set of scale items) will always omit important, vignette-specific rationales. Because a fixed set of items suggests the proper evaluative criteria, summary measures may disguise respondents' assessment criteria (Skipper and Hyman 1993).

4. Social Desirability Bias. Self-reports of either prosocial or unethical behaviors are susceptible because "[i]t may be easier for subjects to misrepresent their attitudes than to misrepresent what behavior they have or have not engaged

in" (Fernandes and Randall 1992, p.191). Even the promise of anonymity may fail to reduce such bias (Fernandes and Randall 1992; Randall and Fernandes 1991).

The CVVV method is a special case of the general vignette method described by Alexander and Becker (1978). Also known as the factorial survey method (Hox, Kreft, and Hermkens 1991; Rossi and Anderson 1982) or the contrastive vignette technique (Burstin, Doughtie, and Raphaeli 1980), this method "combine[s] ideas from balanced multivariate experimental designs with sample survey procedures" (Rossi and Anderson 1982, p.15). The general vignette method requires that "different versions of the same basic vignette are randomly allocated to different respondents" (Alexander and Becker 1978, p.94). "Vignettes can be altered by the insertion or removal of sentences designed to manipulate factors which previous research suggests can impact on individuals' choice" (Lysonski and Gaidis1991, p.143). Because each vignette version serves as a control for the other versions, this method allows researchers to assess differences in judgments caused by facts that differ across vignette versions (e.g., ceteris paribus, young male protagonists may be judged differently from elderly female protagonists). Thus, the general vignette method provides a causal method for assessing both intergroup differences in judgments about situations and the contingencies that influence such judgments.

3. Marketing Applications of Factorial Surveys

Factorial scenario-type surveys are often used in scholarly marketing studies. A full text search of the ProQuest bibliographic database from 1980 to 2002 (using the keywords {consumer, product, market?, brand, advertis?, price, ethic?} and [{study or survey} and {vignette or scenario}]) plus cross-referencing the bibliographies of articles identified by this search yielded 33 studies that used this method. The keywords consumer, product, and the like, are the six most frequent non-methodological words in the abstracts of ProQuest-listed marketing articles published in the most prestigious U.S.-based marketing journals (Hyman 2003). Many vignette-based studies explore ethical issues (Hyman and Steiner 1996) and thus the keyword ethic? was also included.

The Table, which summarizes these 33 studies, shows the following:

1. Journal of Business Ethics published the most studies (39%); no other journal contained more than 10% of published studies.

2. The mean vignettes per study was 2.6 (std. dev.=1.6); 38% of studies included only one vignette.

3. Almost all vignettes were author-only inspired (70%) or adapted/borrowed from previous studies (24%). Only 6% of studies included vignettes developed from insights/examples provided by people like the ultimate respondents.

4. Most studies (85%) focused on ethical issues, especially problematic selling practices (64%)

5. The most frequently manipulated variables in the vignettes were actor's appearance (e.g., age, weight), product type, actor's job performance, consequence of action, and motivation for the unethical behavior.

6. Respondents were typically asked to role play (33%) or judge the person responsible for the action in question (30%).

7. Questionnaires were either distributed in a controlled setting (61%) or by mail (39%). For mail questions, the mean response rate was 29% (std. dev.=18%), which is somewhat lower than the 43% for business ethics studies reported by Randall and Gibson (1990).

8. The mean sample size was 310 (std. dev.=212).

9. Only 24% of studies included non-U.S. respondents.

10. Respondents were typically undergraduate students (42%) or sales managers (27%).

As the summary suggests, vignette research has been used in divergent ways to address a range of marketing issues and will most likely increase in use as software for evaluating alternative choices (for example, conjoint analysis) becomes more readily available. The existing literature clearly shows that vignettes offer a robust approach for studying many aspects of marketing. As will now be discussed, the literature has highlighted some potential deficiencies or problems that should be considered when using vignettes.

4. Designing Vignette Studies

Although some of these issues are important to empirical research in general, all are either unique or especially critical to vignette-based studies in marketing.

4.1 Overall Study Issues

Select Appropriate Vignette Method

Vignette-based research in marketing has taken three directions: survey scale development (e.g., Hyman 1996),

Table 1:
Vignette/Factorial Survey Studies in Marketing, 1980-2002

		Vignettes Used			
Article	Journal	#	Source	Content	Manipulation
Bellizzi (1995)	JPSSM	1	author	salesperson with chance to 'make quota'	(1) victim gender (2) victim status (3) compensation scheme (i.e., intra-firm competition vs. personal sales quota)
Bellizzi and Hasty (1998)	JPSSM	1	authors	sales manager with decision about hiring a new salesperson	(1) type of product (2) face-to-face versus telephone contact by salesforce (3) hiree's gender (4) hiree's physical accommodation needs
Bellizzi and Hite (1989)	JM	4	authors	salesperson lying by commission and omission	(1) performance (top vs. poor salesperson) (2) gender (3) consequence to firm (none or negative)
Bellizzi and Norvell (1991)	JAMS	1	authors	subordinate sales-person oversells customers	(1) salesperson's gender (2) salesperson's height/weight (3) account level (no account, customers are unethical, competing reps act similarly
Boyle (2000)	JBE	1	author	real estate agent fails to disclose flooding problem	(1) customer gender (2) customer income (high/low) (3) likelihood customer will buy house
Boyle, Dahlstrom, and Kellaris (1998)	JBE	1	adapted from previ-ous study	salesperson gives customers gifts to encourage sales	priming vignettes about salesperson (1) distorting truth or favoring liked customer (2) ignoring company channels or asking customers about competitors
Dabholkar and Kellaris (1992)	JBR	1	authors	problematic sell-ing practice	(1) nature of a sales practice (does/does not involve money directly) (2) party toward whom practice directed (customer, employer, competitor)
DeConinck (1992)	JBE	2	detailed examples provided by sales mgrs	deceiving and lying to clients	(1) salesperson's performance (2) consequences of salesperson's actions

Data				Respondents	
Task	Coll.	n	RR%	Place	Type
role play	Mail	510	20.8	US	sales managers from commercial mailing list
role play	Mail	755	7.3	US	sales managers from commercial mailing list
role play	Mail	452	31.4	US	sales executives and sales managers listed in AMA directory
role play	Mail	888	21.1	US	sales managers from commercial mailing list
judge other	Mail	80	7.7	US	midwest real estate agents
judge other	Ad.	165	na	US	undergraduates at large midwest university
judge other	Ad.	198	na	US	students in marketing classes at large urban university and small state college
role play	Mail	246	27.3	US	sales managers from national mailing list

Article	Journal	Vignettes Used #	Source	Content	Manipulation
DeConinck, Stephens, and Foster (1995)	ABR	2	authors	salesforce supervision	(1) salesperson's performance (2) consequence of salesperson's action (3) nature of behavior (ethical/unethical)
DeConinck and Thistlethwaite (1995)	JABR	2	authors	salesperson offers excessive gift and lies to client about order status	(1) salesperson's performance (2) consequences of salesperson's actions
Fritzsche (1988)	JMac	4	adapted from previous study	bribe to enter market; lying by omission; pricing conflict-of-interest; faulty product	(1) amount of bribe (vignette #1) (2) severity of lie (vignette #2) (3) severity of consequences for conflict of interest (vignette #3) (4) severity of consequences for whistle-blowing (vignette #4)
Haley (1991)	JPSSM	1	author	student cheating	(1) gender of cheater (2) age of cheater (23 vs. 33)
Hunt and Vasquez-Parraga (1993)	JMR	4	adapted from previous study	salesperson lying by commission and omission	positive vs. negative consequences for action taken
Kellaris, Boyle, and Dahlstrom (1994)	ML	1	authors	backdoor selling	(1) consequences of choice expressed as gains or losses (2) consequences of selecting less ethical alternative (3) reference point: good vs. bad sales month
Kennedy and Lawton (1996)	JBE	3	adapted from previous study	bribe to enter market; pollute air; faulty product	level of reward associated with unethical behavior
Koslow (2000)	JCA	1	author	ad claims vs. purchase and consumption experience	(1) product performance outcome (positive vs. negative) (2) repetition of the advertising/buying experience (3) involvement with product category

Data				Respondents	
Task	Coll.	n	RR%	Place	Type
role play	Mail	398	18.1	US	sales managers from national mailing list
role play	Mail	212	26.5	US	sales managers from national list
behav. intent	Mail	717	54.0	US	marketing managers from a mailing-house list
role play	Ad.	55; 47	na	US	undergraduates in sales management class; members of local marketing association
role play	Mail	747	54.0	US	sales and marketing managers from commercial list
behav. intent	Ad.	81	na	US	marketing MBA students
judge other	Ad.	145; 170	na	US; Ukraine	undergraduates and business students
third person	Ad.	165	na	US	undergraduate and graduate business students from large urban university

Article	Journal	Vignettes Used #	Source	Content	Manipulation
Laczniak and Inderrieden (1987)	JBE	4	authors	formal company concern about ethical behavior	president's letter, letter plus code of ethics, letter plus code plus sanctions for unethical behavior
Laczniak, Lusch, and Strang (1981)	JMac	1	authors	ethicality of marketing product successfully	economic (dishwasher or hot lather machine) or social (political candidate or drug education program) product
Maher and Bailey (1999)	JBE	4	adapted from previous study	bribe to enter market; disclose trade secrets; pollute air; faulty product	transgressor's sex
Marquis and Filiatrault (2002)	PM	1	authors	delay in service delivery	(1) cause of waiting (intruder or service provider) (2) proximity of event (in front of subject or away from subject)
Mengüç (1998)	JBE	4	previous study	salesforce supervision (from Bellizi and Hite 1989)	positive vs. negative consequences for action taken
Piron and Fernandez (1995)	JEP	6	authors	business practices of local retailers	(1) firm's price (2) distance to nearest alternative supplier (3) price charged by alternative supplier
Pitts, Wong, and Whalen (1991)	JBR	1	authors	local butcher who overcharged customers	respondent personally affected or others are affected
Polonsky et al. (2000)	IJRDM	2	authors	companion selling of complementary products	purchase of product at pharmacy (cold/flu medication) or cosmetics counter in department store (foundation)
Schneider and Holm (1982)	CMR	5	authors	deceptive research practices	reason for using or conditions surrounding the use of a practice
Swanson and Kelly (2001)	JMTP	3	CIT and other qualitative methods	service recovery process for airline, cable TV, and credit card	(1) service recovery stability (stable or unstable) (2) service recovery locus (customer or service employee or service firm)
Tsalikis and LaTour (1995)	JBE	6	adapted from previous study	bribery to access new international market	(1) businessman convinces official to take bribe or reluctantly pays bribe (2) native or foreign businessman

Data				Respondents	
Task	Coll.	n	RR%	Place	Type
judge other	Ad.	113	na	US	MBA students from urban university in midwest
judge action	Ad.	259	na	US	MBA students from three universities
judge other	Mail	178	18.2	US	undergraduate marketing alumni from two large universities
judge other	Ad.	159	na	Canada	undergraduates
role play	Mail	450	27.8	Turkey	sales and marketing managers from commercial list
judge action	Ad.	141	na	US	students and staff randomly selected from college phone book
behav. intent; judge other	Ad.	257	na	US	undergraduate students at large, urban university
behav. intent; judge other	Ad.	200	na	Australia	female university students age 18-25
judge action	Mail	256	64.0	US	random sample of residents in St. Cloud, MN SMSA
behav. intent; judge action	Ad.	183	27.6	US	convenience sample of day-care-center customers in large southeastern city
judge other	Ad.; Ad.	240;204	na; na	US; Greece	business students at major universities

		Vignettes Used			
Article	Journal	#	Source	Content	Manipulation
Tsalikis and Nwachukwu (1991)	JBE	6	authors	bribery to access new international market	(1) businessman convinces official to take bribe or reluctantly pays bribe (2) native or foreign businessman
Tsalikis, Seaton, and Shepherd (2001)	JBE	2	authors	selling worthless annual membership; overcharging customer	(1) gender of transgressor (2) organizational status of transgressor (3) dollar magnitude of consequences
Tsalikis, Seaton, and Tomaras (2002)	JBE	2	authors	selling worthless annual membership; overcharging customer	(1) gender of transgressor (2) organizational status of transgressor (3) dollar magnitude of consequences
Turner, Taylor, and Hartley (1995)	JBE	3	authors	purchasing agents accepting gratuities	accepting gratuities is or is not common practice
Vásquez-Párraga and Kara (1995)	JEuro	4	previous study	salesperson lying by commission and omission	positive vs. negative consequences for action taken
Whalen, Pitts, and Wong (1991)	JBE	2	authors	unethical sales behavior	whether seller’s behavior had vicarious or personal effect on respondent
Mean		2.6			
Std. Dev.		1.6			

public/organizational policy assessment (e.g., Levy and Dubinsky 1983), and the study of key variables in judging the decisions or actions of a protagonist (e.g., Dabholkar and Kellaris 1992). CVVVs are acceptable for the first two applications, although adequately detailed and unambiguous vignettes are more critical to the second application. Specifically, projections into sketchy CVVVs should produce consistent intra-respondent answers to different generic scale items, which should not distort the resulting scale(s) (i.e., within-subject errors similar in direction and magnitude should cancel in this context). In contrast, inconsistent between-respondent projections to sketchy public/organizational policy CVVVs should reduce the likelihood of statistically significant results (i.e., larger effect sizes are needed to overcome increased between-subject error variance). For previously discussed reasons–such as ignoring the evaluation process, demand artifacts, and social desirability bias–CVVVs are ill-suited for assessment of key variables in judging the decisions or actions of a protagonist. Thus, the decision to use a CVVV or factorial survey design depends on the broad purpose of the study.

Tailor Questions to the Vignettes

Previously developed and validated scales are preferred to new scales and this approach also holds for the use of

Data				Respondents	
Task	Coll.	n	RR%	Place	Type
judge other	Ad.; Ad.	240; 194	na; na	US; Nigeria	business and non-business students
judge action	Ad.	146	na	US	convenience sample of non-students in major southern city
judge action	Ad.	143; 309	na	US; Greece	convenience sample of adults
judge action	Ad.	263	na	US	undergraduates enrolled in a marketing course
role play	Ad.	114	22.6	Turkey	sales and marketing managers from large companies
judge action/other	Ad.	163	na	US	university students
		311 218	28.6 18.2		

Abbreviations:

Ad. = Administered survey	JABR = Journal of Applied Business Research	JMac = Journal of Macromarketing
CIT = Critical incident technique	JAMS = Journal of the Academy of Marketing Science	JM = Journal of Marketing
RR% = Response rate in percent	JBE = Journal of Business Ethics	JMR = Journal of Marketing Research
ABR = American Business Review	JBR = Journal of Business Research	JMTP = Journal of Marketing Theory & Practice
CMR = California Management Review	JCA = Journal of Consumer Affairs	JPSSM = Journal of Personal Selling & Sales Management
IJRDM = International Journal of Retail & Distribution Management	JEP = Journal of Economic Psychology	ML = Marketing Letters
	JEuro = Journal of Euromarketing	PM = Psychology and Marketing

vignette-based studies. Unfortunately, generic semantic differential items like 'violates/does not violate an unspoken promise' are problematic when considered in a scenario because "the salience of any item may be a function of the [vignette . . . for example] promptness is ethically relevant in some [vignettes] and for some people, yet 'prompt/not prompt' is not an item of the MES" (Skipper and Hyman 1993, p.537). Thus, researchers cannot blindly rely on extant vignettes. To truly understand respondents' beliefs, researchers must ensure that their questions exhaustively address all relevant issues broached by their vignettes.

Ensure All Relevant Variables are Covered

Understanding how all key variables interrelate is essential for controlling and measuring relevant variance in responses to vignettes. For example, in the context of gender research, Porter (2001) suggests that: "First, the researcher identifies dimensions (i.e., behaviors, actor characteristics, etc.) and the various levels included in each dimension (such as sex or marital status) that might affect the particular judgment (i.e., level of commitment). The interaction of all possible permutations of each dimension with the judgement being researched forms the factorial object universe. Either all of the elements of a relatively small factorial object universe, or a subset thereof, can be given to respondents for evaluation" (p.382-3).

Researchers should map their variables to ensure that all key combinations are included. The omission of a key combination could preclude examination of complex interactions; furthermore, if only a few vignettes are used, then examination of first-order direct effects may also be precluded. To avoid this problem, researchers should create a table to verify all key combinations.

Ignoring a key variable can be as problematic as omitting a key combination. For example, ethics researchers suggest that who is harmed (e.g., a faceless organization or an identifiable person) may affect evaluations of ethical vignettes (Mason and Mudrack 1996). If true, then much of the ambiguity in empirical ethics studies may be attributable to uncontrolled or unmeasured variables (Weber 1992; Hyman and Steiner 1996). Thus, researchers must carefully consider all relevant theory to avoid omission of key variables.

Use Adequate Number of Vignettes

Researchers must use an optimal number of different vignettes. "Too few [vignettes] could limit the researcher's ability to manipulate critical variables and could result in responses biased by the few issues contained in the [vignettes]. . . . [T]oo many [vignettes] could lead to information overload and fatigue for the respondent" (Weber 1992, p.142-143).

The number of manipulated variables and levels determines the necessary number of vignettes. For example, if three variables are manipulated on two levels (i.e., 2 x 2 x 2 design), then eight vignettes are needed for a full factorial design. Fortunately, a fractional design may provide an acceptable alternative. "Whenever the number of vignette versions is smaller than the number contained in a full factorial design . . ., some partial or complete confounding of effects occurs. . . . The fractional replication design provides an algorithm or procedure for selecting a subset of the complete list of vignette versions that minimizes the analytical errors. . . . In particular, effects caused by the simple factors of greatest interest are allowed to be confounded with the highest order (more complex) statistical interaction terms, whose true effects on the dependent variables are likely to be quite small" (Alexander and Becker 1978, p.96). Regardless, if multiple vignettes are administered, then they should be counterbalanced to control for sequence effects (Burstin, Doughtie, and Raphaeli 1980).

Intra-subject assessment required multiple vignettes. "[A]n individual is never exposed to both contrastive halves of any vignettes. Therefore, an assessment of either bias towards or bias against a given attitude-object, but not both, could be made for an individual. The manifestation of extreme performance over several related vignettes would serve to make an interpretation of individual bias more supportable than determinations made on the basis of a single situation" (Burstin, Doughtie, and Raphaeli 1980, p.162).

Control and Account for Social Desirability Bias

Social desirability bias is typically ignored in vignette studies. For example, of the 26 ethics studies reviewed by Weber (1992), only one included a scale to measure tendency toward social desirability (i.e., the Crowne-Marlowe Social Desirability Scale).

Although use of third-person vignettes–in which people project themselves into another person's situation–can reduce social desirability bias (Havlena and Holbrook 1986), vignette-based studies occasionally focus on respondents' propertied behaviors (i.e., what would you do in this situation). In such cases, first person vignettes, which may introduce attribution error because people often believe that they have more control over their situation that they do, may be used (Ross 1977).

Survey the Appropriate Population(s)

Researchers must select respondents who can reply meaningfully to all vignettes, i.e., the manipulated variables and associated situations must be salient to respondents. In this vein, some researchers argue that student samples are unacceptable because such samples are non-representative. For example, vignette-based studies suggest that undergraduate students hold less ethical perceptions–especially in a retailing context--and are willing to act unethically for gain (Lane 1995; Norris and Gifford 1988). Other researchers argue that carefully crafted vignettes can be targeted toward students' work and consumer experiences, and that today's students are tomorrow's business professionals (Stevenson and Bodkin1998). Regardless, student samples may limit the validity of results unless future managers' perceptions are of interest. Pragmatically, this means that researchers may need to modify their vignettes for selected population(s).

Fit Vignettes to Respondents

One way to ensure that the scope and variables fit the respondents (Weber 1992) is to ask people like the eventual respondents to describe relevant situations (Levy and Dubinsky 1983). Moderated qualitative research methods like focus groups and Nominal Group Techniques can be used for this purpose (Schoemaker 1993). For policy-related vignettes, a researcher can ask group members if they believe their firm should/does have a formal policy that addresses this situation (Levy and Dubinsky 1983).

Apply Conjoint Analysis within a 'Theory and Practice' Framework

Conjoint analysis has been applied to several recent vignette-based studies. Relative to vignette design, the key issue in such studies is setting the attributes and their levels. As per all conjoint studies, attributes must be (1) determinant, (2) easily measured and communicated, (3) realistic, (4) compensatory, (5) such that some levels are preferred to other levels, (6) as a set, sufficient in defining the choice situation, and (7) non-redundant (Malhotra 1999). Unfortunately, such generic advice does not help to identify the attributes and their levels; theory and practice are needed.

The following two examples illustrate this point. In the context of ethics research, the Jones (1991) issue-contingent model of ethical decision making in organizations has been applied to vignette-based conjoint analysis studies (Tsalikis, Seaton and Shepherd 2001; Tsalikis, Seaton and Tomaras, 2002). Consistent with this model, vignettes indicated (1) the transgressor/moral agent, (2) the issue and its intensity, and (3) the victim. Conjoint analysis was used to estimate the part-worths of different levels in these three variables (e.g., the gender or organizational status of the transgressor/moral agent) on judgments about the ethicality of an action.

In a medical context, Ryynänen, Myllykangas, Vaskilampi, and Takala (1996) showed respondents paired vignettes with varied patient profile variables (e.g., young or old, poor or rich, good or poor prognosis) and asked them which of the "pair they would choose if only one could be subsidised by society" (p.239). Via a somewhat primitive conjoint analysis procedure, cross tabulation and multivariate logistic regression was used to estimate how each variable affected care prioritization assessments.

4.2 Vignette Design Issues

Beyond conventional methods for ensuring reliable and valid surveys, like pre-testing (Levy and Dubinsky 1983) and validation by a panel of experts (Cavanagh and Fritzsche 1985; Fredrickson 1986), the following issues pertain specifically to vignette-based studies.

Make Believable

Researchers should assess and adjust vignettes for internal consistency and plausibility. By pre-testing their vignettes, they can ensure that respondents believe the situations are realistic and consistent (Finch 1987; Levy and Dubinsky 1983). Varying multiple vignettes in complex ways increases the possibility that some combination of variable levels will be omitted or unrealistic. Although a factorial design permits a subset of all possible combinations, respondents must only consider reasonable ones. Unreasonable vignettes must be removed and replaced with alternatives that do not compromise a balanced study design. Even if beyond respondents' experiences, a vignette must be believable.

Make Adequately but Not Overly Detailed

More detailed vignettes facilitate control of moderating variables. Vignettes should be sufficiently detailed to control as much as possible for respondents' idiosyncratic projections (Hyman and Steiner 1996), but not so detailed as to overburden respondents (Cavanagh and Fritzsche 1985; Hox, Kreft and Hermkens 1991).

Make Tone Consistent with Research Question(s)

The tone of the vignette should be consistent with the issue under investigation. For example, "[o]ne would not want to develop a highly emotional vignette to investigate the gardening habits of suburbanites" (Cavanagh and Fritzsche 1985, p.284).

Make Manipulated Variable(s) Obvious

If a manipulated variable is subtle, i.e., it may go unnoticed by respondents, then the vignette should be "creatively structured" to highlight it (Burstin, Doughtie and Raphaeli 1980, p.161). For example, instead of indicating sex differences merely by giving actors different names (e.g., Jane versus Jack), the actors could be described in greater detail (e.g., 'Jane, a 32-year-old mother and daughter of Bill Smith' versus 'Jack, a 32-year-old father and son of Bill Smith').

Guard Against Framing Effects

Empirical studies of mental accounting by consumers (e.g., Thaler 1985) suggest that the framing (i.e., the precise wording) of a vignette influences a respondent's answers; thus, wording vignettes precisely is important. Different versions of a vignette should be formally equivalent, which "ensures that any variation in wording has not changed the objective information in the [vignette] or the subject's perception thereof" (Bateman, Fraedrich and Iyer 2001, p.123). Formal equivalency is more difficult to achieve in low to moderate perceived ethicality (Bateman, Fraedrich and Iyer 2001).

5. Conclusion

Vignettes allow examination of complex situations while controlling for moderating variables. Although often used, the extant literature offers little guidance for constructing them. The preceding review indicates that researchers who use vignettes should consider the following thirteen issues:

1. select the appropriate method (i.e., CVVVs versus factorial survey) ,
2. tailor their questions to their vignettes,
3. ensure that all relevant variables are covered,
4. develop and use an adequate number of vignettes,
5. control and account for social desirability bias,
6. survey the appropriate respondent population,
7. fit vignettes to respondents,
8. apply conjoint analysis techniques within a 'theory and practice' framework,
9. make vignettes believable,
10. make vignettes adequately but not overly detailed,
11. make the tone of the vignettes consistent with their research question(s),
12. make the manipulated variable(s) obvious, and
13. guard against framing effects.

Although the vignette approach has many advantages, the potential problems are substantial and should be systematically considered. Vignettes are simply stimuli used to collect survey data, and like all research tools, they must be appropriately designed; otherwise, they will yield invalid data. To ensure valid data, a researcher who uses vignettes should carefully consider how they are designed. Simply adapting previously published scenarios may be problematic, especially if the original researchers failed to consider all the development issues discussed here. Adapting an existing scenario may, in fact, be more complex than adapting an existing set of scales, as changing the context of the scenario may have multiple effects on the variables under study. Thus, researchers who wish to use existing scenarios are advised to consider the issues highlighted here. Such advice is comparable to the advice that researchers who adapt existing scales should check the reliability and validity of their "new" scales.

References

Alexander, C. S., Becker, H. J., 1978. The Use of Vignettes in Survey Research. Public Opinion Quarterly, 42 (1), 93-104.

Barnett, T., Bass, K., Brown, G., 1994. Ethical Ideology and Ethical Judgment Regarding Ethical Issues in Business. Journal of Business Ethics, 13 (6), 469-480.

Bateman, C. R., Fraedrich, J. P., Iyer, R., 2001. Framing Effects Within the Ethical Decision Making Process of Consumers. Journal of Business Ethics, 36 (1/2), 119-140.

Burstin, K. D., Doughtie, E. B., Raphaeli, A., 1980. Contrastive Vignette Technique: An Indirect Methodology Designed to Address Reactive Social Attitude Measurement. Journal of Applied Social Psychology, 10 (2), 147-165.

Cavanagh, G.F., Fritzsche, D. J., 1985. Using Vignettes in Business Ethics Research. In: Preston, L. E. (Ed.), Research in Corporate Social Performance and Policy, Volume 7, JAI Press, Inc., Greenwich, CT, pp.279-293.

Chonko, L. B., Tanner, Jr., J. F., Weeks, W. A., 1996. Ethics in Salesperson Decision Making: A Synthesis of Research Approaches and an Extension of the Scenario Method. Journal of Personal Selling and Sales Management, 16 (1), 35-52.

Choong, P., Ho, S., McDonald, R. A., 2002. An Examination of the Effects of Social Desirability Bias on Business Ethics: Research Results. International Journal of Management, 19 (1), 3-9.

Dabholkar, P. A., Kellaris, J. J., 1992. Toward Understanding Marketing Students' Ethical Judgment of Controversial Personal Selling Practices. Journal of Business Research, 24 (4), 313-329.

DeConinck, J., Stephens, R., Foster, R., 1995. Variables that Influence Intentions to Discipline and Reward Ethical and Unethical Sales Force Behavior. American Business Review, 13 (1), 99-105.

Dubinsky, A. J., Jolson, M. A., Kotobe, M., Lim, C. U., 1991. A Cross-National Investigation of Industrial Salespeople's Ethical Perceptions. Journal of International Business Studies, 22 (4), 651-670.

Dubinsky, A. J., Loken, B., 1989. Analyzing Ethical Decision Making in Marketing. Journal of Business Research, 19 (2), 83-107.

Fernandes, M. F., Randall, D. M., 1992. The Nature of Social Desirability Response Effects in Ethics Research. Business Ethics Quarterly, 2 (2), 183-205.

Finch, J., 1987. The Vignette Study in Survey Research. Sociology, 21(1), 105-114.

Fredrickson, J. W., 1986. An Exploratory Approach to Measuring Perceptions of Strategic Decision Process Constructs. Strategic Management Journal, 7 (5), 473-483.

Fritzsche, D. J., 1988. An Examination of Marketing Ethics: Role of the Decision Maker, Consequences of the Decision, Management Position, and Sex of the Respondent. Journal of Macromarketing, 8 (2), 29-39.

Haley, D. A., 1991, Sales Management Students vs. Business Practitioners: Ethical Dilemmas and Perceptual Differences. Journal of Personal Selling & Sales Management, 11 (2), 59-63.

Hartley, R., 1992. Marketing Mistakes, John Wiley & Son, New York, NY.

Havlena, W. J., Holbrook, M. C., 1986. The Varieties of Consumption Experience: Comparing Two Typologies of Emotion in Consumer Behavior. Journal of Consumer Research, 13 (3), 394-404.

Hox, J. J., Kreft, I. G. G., Hermkens, P. L. J., 1991. The Analysis of Factorial Surveys. Sociological Methods & Research, 19 (4), 493-510.

Hunt, S. D., Vasquez-Parraga, A. Z., 1993. Organizational Consequences, Marketing Ethics, and Salesforce Supervision. Journal of Marketing Research, 30 (1), 78-90.

Hunt, S. D., Vitell, S. J., 1986. A General Theory of Marketing Ethics. Journal of Macromarketing, 6 (1), 5-16.

Hyman, M. R., 2003. Revising the Structural Framework for Marketing Management. Journal of Business Research (forthcoming).

Hyman, M. R., 1996. A Critique and Revision of the Multidimensional Ethics Scale. Journal of Empirical Generalisations in Marketing Science, 1, 1-35.

Hyman, M. R., Steiner, S. D., 1996. The Vignette Method in Business Research: Current Uses, Limitations and Recommendations. In: Stuart, E. W., Ortinau, D. J., Moore, E. M. (Eds.), Marketing: Moving Toward the 21st Century. Winthrop University School of Business Administration, Rock Hill, SC, pp.261-265.

Jones, T. M., 1991. Ethical Decision Making by Individuals in Organizations: An Issue-Contingent Model. Academy of Management Review, 16 (2), 366-395.

Kennedy, E. J., Lawton, L., 1996. The Effects of Social and Moral Integration on Ethical Standards: A Comparison of American and Ukranian Students. Journal of Business Ethics, 15 (8), 901-911.

Kiselius, J., Sternthal, B., 1984. Detecting and Explaining Vividness Effects in Attitudinal Judgements. Journal of Marketing Research, 21 (1), 54-64.

Koslow, S., 2000. Can the Truth Hurt? How Honest and Persuasive Advertising Can Unintentionally Lead to Increased Consumer Skepticism. The Journal of Consumer Affairs, 34 (2), 245-268.

Kuo, F., Hsu, M., 2001. Development and Validation of Ethical Computer Self-efficacy Measure: The Case of Softlifting. Journal of Business Ethics, 32 (4), 299-315.

Lane, J. C., 1995. Ethics of Business Students: Some Marketing Perspectives. Journal of Business Ethics, 14 (7), 571-580.

Levy, M., Dubinsky, A. J., 1983. Identifying and Addressing Retail Salespeople's Ethical Problems: A Method and Application. Journal of Retailing, 59 (1), 46-66.

Lysonski, S., Gaidis, W., 1991. A Cross-cultural Comparison of the Ethics of Business Students. Journal of Business Ethics, 10 (2),141-150.

Malhotra, N. K., 1999. Marketing Research: An Applied Orientation, 3rd edition. Englewood Clffs, NJ: Prentice Hall.

Marquis, M., Filiatrault, P., 2002. Understanding Complaining Responses Through Consumer's Self-consciousness Disposition. Psychology & Marketing, 19 (3), 267-292.

Mason, E. S.. Mudrack, P. E., 1996. Gender and Ethical Orientation: A Test of Gender and Occupational Socialization Theories. Journal of Business Ethics, 15 (6), 599-604.

Norris, D. G., Gifford, J. B., 1988. Retail Store Managers' and Students' Perceptions of Ethical Retail Practices: A Comparative and Longitudinal Analysis (1976-1986). Journal of Business Ethics, 7 (7), 515-524.

Piron, R., Fernandez, L., 1995. Are Fairness Constraints on Profit-seeking Important? Journal of Economic Psychology, 16 (1), 73-96.

Polonsky, M. J., Cameron, H., Halstead, S., Ratcliffe, A., Stilo, P., Watt, G., 2000. Exploring Companion Selling: Does the Situation Affect Customers' Perceptions? International Journal of Retail & Distribution Management, 28 (1), 37-45.

Porter Jr., D. M., 2001. Gender Differences in Managers' Conceptions and Perceptions of Commitment to the Organization. Sex Roles, 45 (5/6), 375-398.

Randall, D. M., Fernandes, M. F., 1991. The Social Desirability Bias in Ethics Research. Journal of Business Ethics, 10 (11), 805-817.

Randall, D. M., Gibson, A. M., 1990. Methodology in Business Ethics Research: A Review and Critical Assessment. Journal of Business Ethics, 9 (6), 457-471.

Reidenbach, R. E., Robin, D. P., Dawson, L., 1991. An Application and Extension of a Multidimensional Ethics Scale to Selected Marketing Practices and Marketing Groups. Journal of the Academy of Marketing Science, 19 (2), 83-92.

Robertson, D. C., 1993. Empiricism in Business Ethics: Suggested Research Directions. Journal of Business Ethics, 12 (8), 585-599.

Ross, L., 1977. The Intuitive Scientist and his Shortcomings: Distortions in the Attribution Process. In: Berkowitz, L. (Ed.), Advances in Experimental Social Psychology, Volume 10. New York, NY: Academic Press. pp.173-220.

Rossi, P. H., Anderson, A. B., 1982. The Factorial Survey Approach: An Introduction. In Rossi, P. H., Nock, S. L. (Eds.), Measuring Social Judgments: The Factorial Survey Approach. Beverly Hills, CA: Sage Publications. pp.15-67.

Ryynänen, O., Myllykangas, M., Vaskilampi, T., Takala, J., 1996. Random Paired Scenarios – A Method for Investigating Attitudes to Prioritisation in Medicine. Journal of Medical Ethics, 22 (4), 238-242.

Schneider, K. C., Holm, C. K., 1982. Deceptive Practices in Marketing Research: The Consumer's Viewpoint. California Management Review, 24 (3), 89-96.

Schoemaker, P. J. H., 1993. Multiple Scenario Development: Its Conceptual and Behavioral Foundation. Strategic Management Journal, 14 (3), 193-213.

Sherry Jr., J. F., 1990. Dealers and Dealing in a Periodic Market: Informal Retailing in Ethnographic Perspective. Journal of Retailing, 66 (2), 174-200.

Skipper, R., Hyman, M. R., 1993. On Measuring Ethical Judgments. Journal of Business Ethics, 12 (7), 535-545.

Stevenson, T. H., Bodkin, C. D., 1998. A Cross-national Comparison of University Students' Perceptions Regarding the Ethics and Acceptability of Sales Practices. Journal of Business Ethics, 17 (1), 45-55.

Swanson, S. R., Kelley, S. W., 2001. Attributions and Outcomes of the Service Recovery Process. Journal of Marketing Theory and Practice, 9 (4), 50-65.

Thaler, R. H., 1985. Mental Accounting and Consumer Choice. Marketing Science, 4 (3), 199-214.

Tsalikis, J., LaTour, M. S., 1995. Bribery and Extortion in International Business: Ethical Perceptions of Greeks Compared to Americans. Journal of Business Ethics, 14 (4), 249-264.

Tsalikis, J., Seaton, B., Shepherd, P. L., 2001. Relativism in Ethical Research: A Proposed Model and Mode of Inquiry. Journal of Business Ethics, 32 (3), 231-246.

Tsalikis, J., Seaton, B., Tomaras, P., 2002. A New Perspective on Cross-cultural Ethical Evaluations: The Use of Conjoint Analysis. Journal of Business Ethics, 35 (4), 281-292.

Wason, K. D., Cox, K. C., 1996. Scenario Utilization in Marketing Research. In: Strutton, D., Pelton, L. E., Shipp, S. (Eds.), Advances in Marketing. Texas:

Southwestern Marketing Association. pp.155-162.

Weber, J., 1992. Scenarios in Business Ethics Research: Review, Critical Assessment and Recommendations. Business Ethics Quarterly, 2 (2), 137-160.

Vignette-based marketing articles included in the Table but not cited elsewhere

Bellizzi, J. A., 1995. Committing and Supervising Unethical Sales Force Behavior: The Effects of Victim Gender, Victim Status, and Sales Force Motivational Techniques. Journal of Personal Selling & Sales Management, 15 (2), 1-15.

Bellizzi, J. A., Hasty, R. W., 1998. Territory Assignment Decisions and Supervising Unethical Selling Behavior: The Effects of Obesity and Gender as Moderated by Job-related Factors. Journal of Personal Selling & Sales Management, 18 (2), 35-49.

Bellizzi, J. A., Hite, R. E., 1989. Supervising Unethical Salesforce Behavior. Journal of Marketing, 53 (2), 46-47.

Bellizzi, J. A., Norvell, D. W., 1991. Personal Characteristics and Salesperson's Justifications as Moderators of Supervisory Discipline in Cases Involving Unethical Salesforce Behavior. Journal of the Academy of Marketing Science, 19 (1), 11-16.

Boyle, B. A., 2000. The Impact of Customer Characteristics on Ethical Judgments of Salespeople. Journal of Business Ethics, 23 (3), 249-267.

Boyle, B. A., Dahlstrom, R. F., Kellaris, J. J., 1998. Points of Reference and Individual Differences as Sources of Bias in Ethical Judgments. Journal of Business Ethics, 17 (5), 517-525.

DeConinck, J. B., 1992. How Sales Managers Control Unethical Sales Force Behavior. Journal of Business Ethics, 11 (11), 789-798.

DeConinck, J. B., Thistlethwaite, P. C., 1995. Sales Managers' Perceptions of the Appropriate Response to Unethical Sales Force Behavior. Journal of Applied Business Research, 8 (1), 118-123.

Laczniak, G. R., Inderrieden, E. J., 1987. The Influence of Stated Organizational Concern Upon Ethical Decision Making. Journal of Business Ethics, 6 (4), 297-307.

Laczniak, G. R., Lusch, R. F., Strang, W. A., 1981. Ethical Marketing: Perceptions of Economic Goods and Social Problems. Journal of Macromarketing, 1 (1), 49-57.

Maher, K. J., Bailey, J. J., 1999. The Effects of Transgressor Sex on Judgments of Unethical Behavior. Journal of Business Ethics, 18 (2), 157-171.

Mengüç, B., 1998. Organizational Consequences, Marketing Ethics and Salesforce Supervision: Further Empirical Evidence. Journal of Business Ethics, 17 (4), 333-352.

Pitts, R. E., Wong, J. K., Whalen, D. J., 1991. Consumers' Evaluative Structures in Two Ethical Situations: A Means-end Approach. Journal of Business Research, 22 (2), 119-130.

Tsalikis, J., Nwachukwu, O., 1991. A Comparison of Nigerian to American Views of Bribery and Extortion in International Commerce. Journal of Business Ethics, 10 (2), 85-98.

Turner, G. B., Taylor, G. S., Harley, M. F., 1995. Ethics, Gratuities, and Professionalization of the Purchasing Function. Journal of Business Ethics, 14 (9), 751-760.

Vásquez-Párraga, A. Z., Kara, A., 1995. Ethical Decision Making in Turkish Sales Management. Journal of Euromarketing, 4 (2), 61-86.

Whalen, J., Pitts, R. E., Wong, J. K., 1991. Exploring the Structure of Ethical Attributions as a Component of the Consumer Decision Model: The Vicarious versus Personal Perspective. Journal of Business Ethics, 10 (4), 285-293.

Biographies

Kelly D. Wason (deceased) was the President of Viaclear Consulting Group. He had an M.B.A. from the University of Texas and a Ph.D. from Texas Tech University. Prior to focusing on his consulting activities he was an Assistant Professor of Marketing.

Michael Jay Polonsky is the Melbourne Airport Chair in the School of Tourism, Hospitality and Marketing at Victoria University in Melbourne. Michael's areas of research include environmental marketing/management, stakeholder theory, ethical and social issues in marketing, cross-cultural studies and marketing education. He has published extensively across these areas including; co-edited 4 books; 12 book chapters; 70 journal articles and presented more than 80 presentations at national and international conferences. He also serves on a range of editorial boards of international journals.

Michael R. Hyman is a Professor of Marketing at New Mexico State University. He received his Ph.D. from Purdue University. Dr. Hyman is co-editor of Journal of Business and Entrepreneurship and serves on the editorial review boards of Journal of the Academy of Marketing Science, Academy of Marketing Science Review, Journal of Empirical Generalisations in Marketing, Journal of Advertising, Journal of Current Issues and Research in Advertising, Academy of Marketing Science Review, and Journal of Marketing History. His articles have been published in journals such as the Journal of Marketing, Journal of the Academy of Marketing Science, Journal of Retailing, Journal of Advertising, Journal of Business Research, Journal of Personal Selling and Sales Management, Journal of Business Ethics, Business Horizons, International Marketing Review, International Journal of Advertising, Current Issues and Research in Advertising, Business and Society Review, Business Ethics: A European Review, and Marketing Education Review. His research interests include advertising appeals, marketing theory, marketing ethics, marketing models, and research methodology.

Correspondence Addresses

Dr. Michael Jay Polonsky, Melbourne Airport Professor of Marketing, School of Hospitality, Tourism & Marketing, Victoria University, P.O. Box 14428, Melbourne City, MAC 8001, Australia. Telephone: +61 (3) 9688 4625, Facsimile: +61 (3) 9688 4931, Email: Michael.Polonsky@vu.edu.au, Dr. Michael R. Hyman, Professor of Marketing, College of Business Administration and Economics, New Mexico State University, Box 30001, Dept. 5280, Las Cruces, NM 88003-8001 U.S.A., Telephone: (505) 646-5238, Facsimile: (505) 646-1498, Email: mhyman@nmsu.edu

Service Expectations and Consumer Ethnocentrism

Mark Speece & Krairoek Pinkaeo

Abstract

This paper proposes that the concept of consumer ethnocentrism can be examined by looking at departures from the strong price/quality relationship perceived by consumers in many countries. To illustrate the argument, we examine service expectations toward life insurance and university international programs in Thailand. In evaluating country-of-origin for brand, design, and nationality of service contact personnel, consumers rated Thai services well above Thailand's objective place in the country-of-origin hierarchy, which is a common way of detecting ethnocentrism. This in itself, however, is not necessarily evidence of ethnocentrism, as consumers may believe that home country services are higher quality. Then, if they also believe that price relates strongly to quality, they should expect to pay prices consistent with the higher quality. However, Thai services depart from an otherwise strong perceived price/perceived quality relationship. Consumers do not expect prices for Thai services which are consistent with their expected quality.

Keywords: Country-of-origin, ethnocentrism, services marketing, life insurance, education, Thailand

1. Introduction

Trade in services is expanding rapidly, especially with the growing influence of the World Trade Organization and the General Agreement on Trade in Services. However, even with more open service markets, foreign service providers may face subtle barriers, including consumer ethnocentrism, which is part of the broader issue of country-of-origin (COO). Foreign services bring their own country images with them, and consumers may use these images in initial evaluation, especially for new entrants to markets where experience cannot provide much guide. COO perceptions are distorted by ethnocentrism, which can make domestic products or services seem more attractive than foreign ones, or make consumers feel more obligated to buy domestic ones.

However, consumer ethnocentrism is not always very carefully defined, and even when it is, there is no agreement on exactly how to define it. Some researchers view ethnocentrism as related to nationalism or patriotism - a belief that one should buy home country products because it is best for the country. There is ample evidence that this definition is valid in some cases, but it does not seem to completely explain ethnocentrism. During the economic crisis, for example, the Thai government and many Thai companies tried campaigns built around "buy Thai" because it is loyal to the country, but they largely failed. Companies which stressed "buy Thai" because Thai is quite good quality had far more success. This anecdotal evidence illustrates the point that ethnocentrism may not always be related directly to nationalism, but can more subtly involve perceptions of product/service quality.

Thus, others relate ethnocentrism to beliefs about quality, examining whether home country products move up the perceived quality hierarchy. Ethnocentrism is usually examined in developed countries, where home country products start high, so that sometimes ethnocentrism is simply defined as a belief that "my own country's products are best." In developing countries, consumers may not believe domestic services are better than those from advanced industrial countries, but they may perceive domestic services belong at a higher level of the COO hierarchy. However, even this does not necessarily indicate ethnocentrism. Rather, we should examine whether consumers expect to pay prices consistent with the domestic service's perceived higher relative quality.

If they perceive a strong correlation between quality and price, departure from the price/quality relationship is a better indicator of ethnocentrism, i.e., quality perceptions are unrealistic given price expectations.

This study specifically examines COO perceptions among potential customers of life insurance and BBA international programs in Thailand. These two services are high level, infrequently purchased services for which COO can influence quality expectations. Currently, the government is implementing reforms allowing foreigners to hold more equity in Thai life insurance firms, and ultimately foreign insurers will be able to freely operate their own subsidiaries. The educational market is already opening rapidly, even without final WTO decisions. International programs have expanded rapidly, and foreign universities, including Australian ones, already have a strong presence. Foreign personnel are very common even in the international programs of Thai universities. Thus, COO and consumer ethnocentrism issues have important practical implications in Thailand today. It is an excellent context in which to examine ethnocentrism, where we can demonstrate the conceptual issues, and also see the practical impact.

2. Country-of-Origin and Consumer Ethnocentrism

Image is partly determined by country-of-origin perceptions. There is ample evidence for this. Recent reviews (Peterson & Jolibert 1995; Al-Sulaiti & Baker 1998) confirm that COO plays an important role in quality perceptions, and thus brand image, as well as a somewhat smaller, but still real role in purchase intentions. To examine how ethnocentrism can distort COO perceptions for home country services, we must address several COO issues. The structure of the hierarchy of country image must be established for the services used here in order to see whether home country shifts relative to where it would normally be placed. The structure of COO itself must be examined – there are many aspects of service to which COO image and ethnocentrism could attach. Further, country image and consumer ethnocentrism may be service specific. This research examines these issues by looking at several COO dimensions and two high level services.

2.1 Ethnocentrism and the Hierarchy of Country Image

Liefeld's (1993) literature review summarizes the hierarchy of country image which has emerged from extensive research. Image is highest for products made in major Western industrial countries or Japan (depending on product category), then other West European countries, newly industrialized countries (NICs), and developing countries. Ethnocentrism can distort the position of home country products/services in the hierarchy, and/or it can distort likelihood to buy, but we believe that discussion on ethnocentrism often mixes two separate issues in trying to explain this.

Many definitions of ethnocentrism include elements of nationalism, even animosity toward foreign products. This is certainly a real phenomenon, illustrated in numerous studies. For example, Shimp and Sharma (1987) discuss consumer beliefs about the appropriateness of purchasing foreign products. Wall and Heslop (1986) found that US consumers are willing to buy American products to help the economy and increase employment. In a developing country context, Kucukemiroglu (1999) showed that many Turkish consumers dislike buying foreign products because it hurts the economy and causes unemployment. Marcoux, Filiatrault and Cheron (1997) similarly show that the patriotism aspect of ethnocentrism leads some Polish consumers to prefer Polish products. The most commonly used scale of ethnocentrism (CETSCALE; Shimp and Sharma 1987) contains 17 questions which mostly address these nationalistic ideas (e.g., Sharma, Shimp and Shin 1995; Kucukemiroglu 1999; Watson and Wright 2000).

However, other definitions focus on overestimation of the quality of domestic products, and the ethnocentrism concept was originally proposed "to represent consumers' beliefs in the superiority of their own countries' products" (Shimp 1984, p. 285). Thus, consumers may choose domestic products because of nationalism, or they may prefer them because of higher perceived quality (or both). There is some evidence suggesting that the two issues must be viewed separately. For example, Keillor and Hult (1999) use essentially a simpler CETSCALE version to measure preference for domestic products based on nationalistic considerations. However, they show that consumer ethnocentrism differs across countries, and does not necessarily correspond with strength of national identity. Klein, Ettenson and Morris (1998) show that animosity toward foreign products in China is a distinct concept from consumer ethnocentrism based on perceptions of product quality.

In the perceived quality definition of ethnocentrism, consumers may evaluate domestic products/services more favorably than others might. For example, Japanese consumers evaluate Japanese products more favorably regardless of objective superiority (Gurhan-

Canli and Maheswaran 2000). Canadian consumers with strong ethnocentric tendencies preferred their national air carrier to foreign ones (Bruning 1997). Watson and Wright (2000) show that ethnocentrism can even extend to products from countries of similar culture, as in New Zealand where consumers may evaluate Australian products more favorably.

On the surface, COO studies in developing countries seem to show that preference for domestic products may be weaker (Cordell 1992). Nigerians have a negative image of Nigerian made products (Okechuku and Onyemah 1999). Chinese consumers rate Chinese products worst on several aspects of product image, compared to those from developed countries (Li, Fu and Murray 1997). Hong Kong consumers have stronger purchase intention toward TVs from Japan and Germany than from newly industrialized South Korea and Hong Kong (Tse et al. 1996). However, the essence of the concept is about moving home country products up the hierarchy, but not necessarily to the top. Pinkaeo and Speece (2000) show that Thai consumers have higher expectations toward Thai life insurance than is consistent with Thailand's position in the economic development hierarchy and in COO rankings in other research.

2.2 Partitioned and Product Specific COO Image

COO, and associated ethnocentrism, has separate dimensions. Country of brand and country of manufacture are now well recognized as distinct concepts (e.g., Tse and Gorn 1992; Okechuku 1994). Country of design has more recently been established as a separate concept (e.g., Chao 1993, 1998). Services do have a CO brand, and a CO design. They do not exactly have a distinct country of manufacture, as most are "manufactured" at the location where they are delivered. Services do, however, have a "manufacturer", i.e., the service provider, or contact person with whom the customer interacts during delivery of the service. Thus, nationality of the service representative (sales rep, or instructor for our two services) is likely to play a role in COO perceptions.

COO image can also be product specific. One explanation may be fit between country image and product categories (Roth and Romeo 1992). Countries are sometimes perceived as being good at some products, but poor at others, or have one general image, but also some specific product images (Lee and Ganesh 1999). Similarly, consumer ethnocentrism may vary by product. For example, US consumers are more ethnocentric on more complex products, but Koreans are more ethnocentric for less complex ones (Ha 1998). Also, the necessity and importance of the product can moderate ethnocentricity (Sharma, Shimp and Shin 1995).

3. Price-Quality Relationships

In general, consumers tend to believe that higher quality costs more, and that lower prices indicate lower quality. The evidence is not completely unambiguous; especially when objective measures of quality are used. The review in Ratchford et al. (1996), for example, indicates that evidence for the price/quality relationship is somewhat stronger when applied specifically to durables and higher cost items. They attribute this to the tendency for greater information search when consumers have more at risk. Using published, objective quality rankings, Finlay, Hackmann and Schwarz (1996) show price/quality relationships in the UK across more than 3,000 brands in 143 product categories, and find that the relationship is stronger for higher value durables. They suggest that the strength of the relationship improves where consumers have additional knowledge, especially brand information.

Revisiting many previous studies, Hanf and von Wersebe (1994) show that the price/objective quality relationship is indeed stronger when product information is easily visible, when search costs are lower, when prices and use periods are higher. They also suggest that expected price and quality play a role, because consumers make decisions based on expectations, which do not necessarily come entirely from objective product criteria published in quality rankings. "The quality of a commodity depends upon the subjective valuation of the consumers who may recognise certain properties as valuable even when they are not easily technically measured" (Hanf and von Wersebe 1994, p. 339). Thus, the published rankings would not fully capture "quality", preventing good estimation of the price/quality relationship as consumers perceive it.

Furthermore, perceived quality does not always correspond well with actual objective measures (Lichtenstein and Burton 1989). Thus, to examine the price/quality relationship as consumers see it, we must look at perceived or expected quality, not objective quality. Studies based on consumer evaluations of quality (i.e., perceptions) more consistently show strong price/quality relationships. Earlier work has been reconfirmed by several very recent studies (e.g., Grewal, Monroe and Krishnan 1998; Sinha and Batra 1999). Dawar and Parker (1994) argue that use of price as one signal of product quality is universal across cultures.

3.1 Country of Origin and Price Perceptions

Teas and Agarwal (2000) show that COO affects both perceived quality and perceived price separately, without an interaction to disrupt the price/perceived quality relationship. In both Russia and Poland, Huddleston and Good (1998) found a relationship between expected price and perceived quality for apparel from the USA, Germany, China, and home country. Hulland, Todino and Lecraw (1996) show that the COO effect on expected prices is stronger when product risk is high. The strength of the relationship does, however, depend somewhat on who the consumers are; Ahmed and d'Astous (1999) show that Chinese consumers associate price with quality more strongly than do Canadians. Thus, to use the relationship as a basis for identifying ethnocentrism, we would need to demonstrate that it holds well in the country where ethnocentrism is being measured.

Cordell (1991) shows that some consumer segments will buy lower quality products from developing countries, but they expect reduced prices to compensate for lower expected quality. Similarly, Speece, Kawahara and Miller (1996) found that a Japanese brand would have had to discount from 20 to 25 percent to counter the perceived drop in calculator quality due to Korean manufacture, according to respondents in three countries. Tse et al. (1996) showed that Hong Kong consumers expect to pay less for TVs from Hong Kong or Korea, and many prefer to pay less rather than buy higher quality TVs from Germany or Japan.

Agrawal and Kamakura (1999) argue that "in a competitive market, consumers will be willing to pay only prices that reflect their perception of quality for the available products" (p. 265). They found that COO has no significant impact on price, once quality and the price/quality relationships are accounted for. Thus, while it influences perceived quality and perceived price, COO by itself does not cause departures from the perceived price/perceived quality relationship. Our study builds upon this result – we assume that consumers will expect to pay prices consistent with their quality expectations. We use hedonic price computations, i.e., assume that price is a function of consumer willingness to pay for quality.

3. 2 Hedonic Price Models

Much price/quality research examines how price influences quality perceptions. However, Erickson and Johansson (1985) indicated that the price/quality relationship is reciprocal; i.e., higher priced products are perceived to have higher quality, but higher quality products are also perceived to cost more. This reverse direction is the basis for hedonic price/quality relationships. Asher (1992) regards a strong relationship as evidence that the market is functioning efficiently. Deviations from the hedonic price relationship are one element which can indicate departures from efficiently operating markets (Ratchford et al. 1996), i.e., distortions such as we propose occur with ethnocentrism.

Essentially, prices can be computed as a linear combination of quality attributes, weighted by the importance of each attribute. Ioannidis and Silver (1997) call these weights the "worth" that consumers assign to the quality of various attributes. Murray and Sarantis (1999) show the simple equation:

$$P_i = \beta_o + \beta_1 Q_{1,\,j} + \beta_2 Q_{2,\,j} + \ldots + \beta_j Q_{j,\,i}$$

where the terms (translated into our service context) are:

P_i = (expected) price of the service from the ith country;

$Q_{j,\,i}$ = (expected) performance on the j^{th} service attribute from the i^{th} country;

β_j = parameter for the j^{th} service attribute, i.e., the worth consumers assign to it.

Ioannidis and Silver (1997) and Asher (1992) add sets of dummy variables and corresponding coefficients to account for dichotomous features (present or not present) which do not have specific quality evaluations, and for various brands:

$P_i = \beta_0 + \beta_1 Q_{1,\,j}$ + additional quality attributes $+ \delta_1 D_1 + \ldots + \delta_k D_k$ + similar dummies;

where

D_k = the k^{th} dichotomous feature, or the κ^{th} specific brand (where one brand is not represented and acts as the base);

δ_k = parameter estimate, i.e., the price differential for having the k^{th} feature over not having it (or, the price differential a brand commands over the base brand).

Murray and Sarantis (1999) use these dummy variables to represent COO (UK, Japan, vs. unspecified other as the base). They also summarize the debate on whether to model prices by the log transform, or directly. However, if perceived or expected prices are measured on a horizontal scale, rather than by a cash amount, the price scale must be modeled directly (e.g., Chen, Gupta and Rom 1994). Our study uses a horizontal scale (very inexpensive/very expensive) for expected prices. Consumers who have not yet tried a high level service must base their thinking on general expectations, they will not know specific prices.

The use of hedonic prices has been proposed for services, but not researched much. Voss, Parasuraman and Grewal (1998) include the relationship between pre-purchase price expectations and expected service performance in their model (p. 48), but they do not test it because it is outside the scope of their problem. Chen, Gupta and Rom (1994) modeled hedonic prices for several services, but were unable to show any strong relationship. This may be because they measured price on a scale comparing with another brand (strongly agree or disagree that brandX price is higher than brandY), while service quality was not comparative.

4. Research Objectives and Hypotheses

As noted, to examine departures from the price/quality relationship, we must first establish the COO hierarchy for these specific services across several service dimensions. Consumer ethnocentrism may shift the home country higher in perceived quality relative to others, and this shift may not be the same on all COO dimensions. Thus, one key element of ethnocentrism is:

H1: For all three COO dimensions, services associated with Thailand would have higher expectations than Thailand's objective place (similar to Malaysia) in the economic development hierarchy.

Defining ethnocentrism as a departure from the price/quality relationship implies that the relationship exists in a specific country. Thus, Thai consumers should expect to pay higher prices for services from countries which they associate with higher expected quality:

H2: Services from countries for which consumers have high quality expectations also have high price expectation, i.e., the hedonic price relationship holds.

H3 is the key issue in our research. If Agrawal and Kamakura (1999) are correct, coefficients on country dummies in the hedonic price equation should all be zero, i.e., COO itself should not add (or detract) from prices which consumers expect to pay, once quality is accounted for. However, consumer ethnocentrism brings a departure from the price/quality relationship. COO of home country would raise quality perceptions, but not price perceptions, which are still fixed at local levels. Thus, the home country should be an outlier on the price/quality line. Alternatively, this would be indicated by a strong negative coefficient on the home country dummy.

H3: Because we define ethnocentrism as divergence of home country from the hedonic price/quality relationship, Thailand will be an outlier in this relationship.

This hypothesis can be measured either by looking at the country residual in a pure equation (only price and quality attributes), or by adding a dummy variable for Thailand, which should be negative. In an equation containing a full set of country dummy variables, assuming Agrawal and Kamakura (1999) are correct, only the one for Thailand should be significant.

5. Methodology

Data on quality and price expectations were collected using a survey. The COO dimensions used on the questionnaires were country of brand, country of design (policy terms or curriculum), and nationality of service provider (sales representative or instructor). There are many aspects of service, but this was not a key issue in the research, so only three descriptors were used (expected quality, expected pride of buying, expected reliability), as well as expected price. Their use is well established; e.g., reliability, pride of buying (adapted from pride of ownership) and price follow scales in Nagashima (1970, 1977). Quality follows the COO scale in Parameswaran and Pisharodi (1994). All were measured on a 7-point scale. Fourteen countries were included after consultation with industry executives and administrators about what countries realistically might enter the market. (Some are already in these markets.) To reduce the task of answering a lengthy questionnaire, a mostly between-subjects design was used, with six versions of the questionnaire. Each version covered a single COO dimension, two descriptors (or one descriptor and price), and all fourteen countries. Brief definitions of dimension and descriptor were included in the instructions to make sure everyone understood them similarly.

5.1 Sample and data collection

We use potential customers in this research, not actual customers. COO often plays a stronger role where consumers do not have much objective information or experience; i.e., COO becomes a proxy to fill in their gaps in knowledge (e.g., Eroglu and Machleit 1989). Lee and Ganesh (1999) show that COO is more important when consumers are not very familiar with the service, not very important for moderate familiarity, then higher again with strong familiarity, where consumers use COO as a summary of their knowledge, not a substitute for it. These two services are infrequently bought and must be first purchased without direct experience, so that non-buyers who are likely to buy in the future seem to be a good target for investigation; they are quite likely to use COO information in their initial thinking about the services.

Each service has a different potential customer profile. Respondents for life insurance were in BBA and MBA evening programs at seven Bangkok universities. Most are full-time employees in their late 20s and 30s, middle income and up. These part-time students fit the target profile for life insurance as identified by sales reps in the industry. Data for BBA international programs was collected from senior high school students with an English and Maths major at five high schools suggested by international programs administrators. This major is the main source of university international program applicants in Thailand, and the five schools send a high proportion of their English and Maths students to international programs. Parents usually play a role in decisions about choice of college, but it is well established that students are important decision influencers, thus, their expectations are relevant (this point is argued in more detail in Pinkaeo and Speece 2001).

Each version of the questionnaire was assigned randomly to each class in the university and high school classes. The researcher went to the class and noted the instructions of COO dimensions, quality, reliability, pride of buying, and price, depending on questionnaire version and type of service. Then students were asked to evaluate their expectations for service on the listed dimension/descriptor combination for each country. The data from all questionnaire versions were combined for further analysis.

For life insurance, 223 out of 600 respondents had never yet bought life insurance and are included in this analysis. Women accounted for 52 percent. Over half are 20–30, about one-third between 31 and 40 years old. All retained respondents had monthly personal income over Baht 25,000 (about US$ 660). Four-fifths were employed in private sector firms, while the rest identified themselves as professionals, civil servants, or simply other. For BBA international programs, the 240 respondents were senior high school students with a major in English and Maths. About 61 percent of respondents were women. Almost all students were below 20 years. Eighty-four percent indicated parents' monthly household incomes of at least US$ 400, which places them in the middle class or up, and thus likely prospects for this service.

6. Results and Discussion

Mean responses across respondents were computed for each country on each descriptor and price, across the three COO dimensions. These means form the data set for this discussion. The aggregate data thus contains 84 observations (14 countries x 3 COO dimensions x 2 services). Each observation has a mean measure for each of the three descriptors (quality, pride of buying, reliability) and price. The three descriptors were highly correlated, so they were factor analyzed, and the factor scores are used in further analysis. The single factor accounts for 95 percent of variance, and all three descriptors have communalities over .93, indicating that the factor captures the information in all of them very well (Table 1).

The image hierarchy shows some differences by COO

Table 1:
Factor Loadings of the Single Quality Factor

	loading	communality
Quality	.98	.97
Pride of buying	.97	.93
Reliability	.97	.94
Variance extracted	95%	

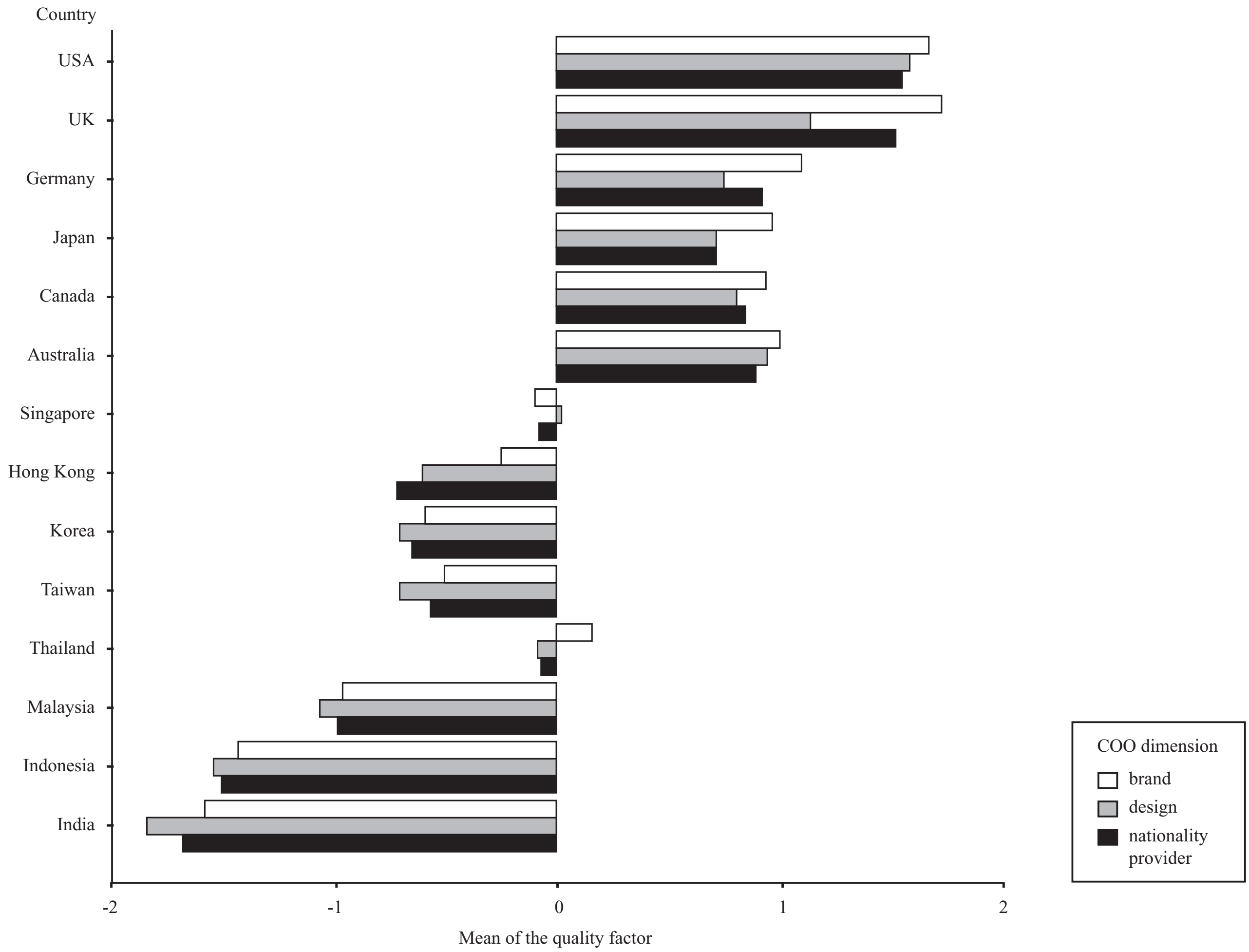

Figure 1: Mean of the Quality Factor by Country and COO Dimension

Note: The groupings as discussed in the text are:

1. USA, UK
2. Germany, Japan, Canada, Australia
3. Singapore, Thailand
4. Hong Kong, Korea, Taiwan
5. Malaysia, Indonesia, India

There are no significant differences (at either p = .05 or p = .10) in the mean factor score across three COO dimensions and two services between the countries within any group, except for group 5, where Malaysia is significantly different from Indonesia.

All pairwise differences between any country within a group and any country outside that group are significant (at p = .05), except for the case of Singapore – Hong Kong. Singapore and Hong Kong would be considered different at 90 percent confidence (i.e., p = .056 in this case).

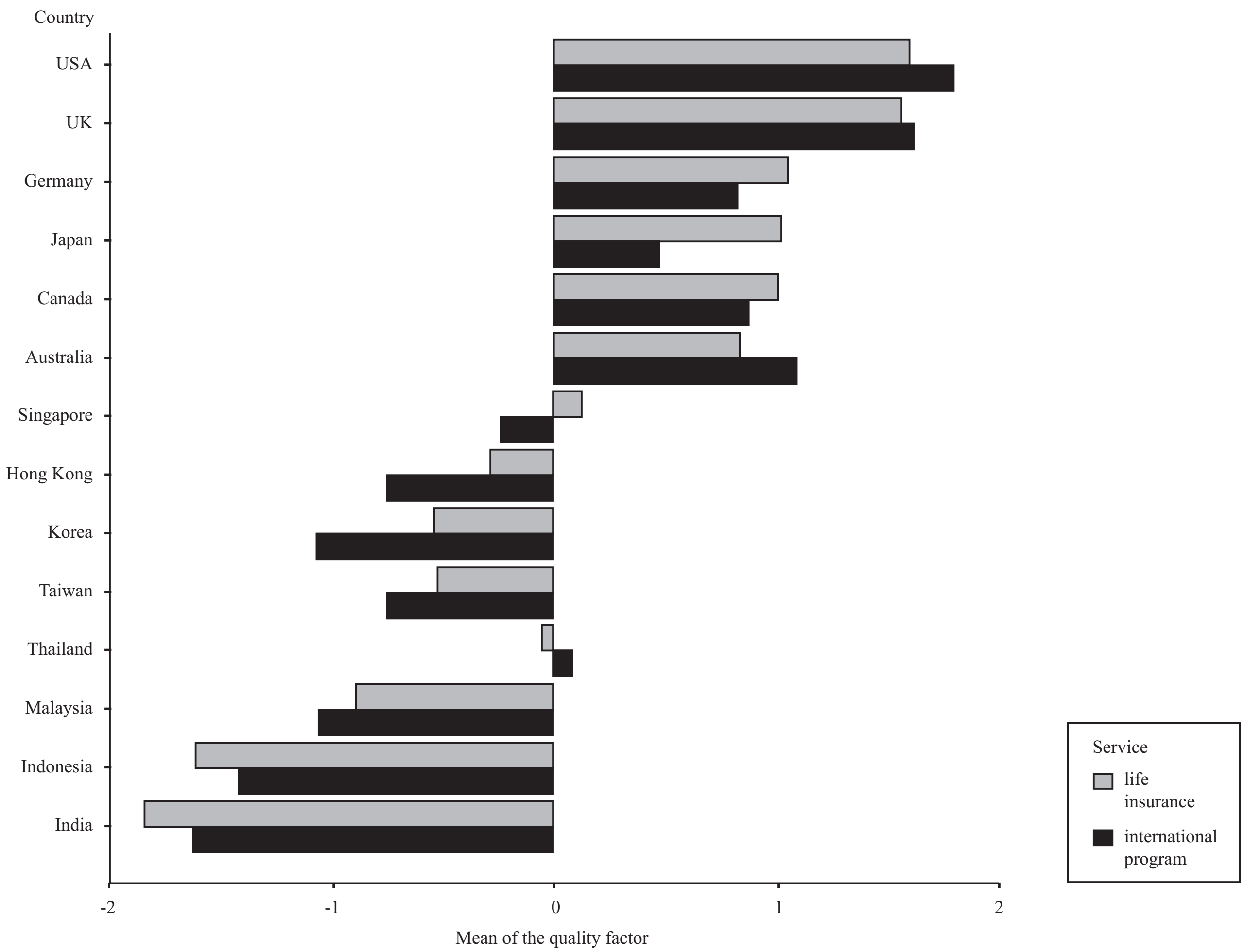

Figure 2: Mean of the Quality Factor by Country and Service

dimension, indicating that partitioned COO might be relevant in understanding details of COO image. In general, though, the hierarchy follows developed/NIC/developing country ordering. The USA and UK stand out among developed countries, while Germany, Japan, Canada, and Australia form a second level. Within NICs, Singapore has a much higher image, though not at the level of any developed country, and the other NICs are a distinct group. Malaysia scores highest among developing countries (other than Thailand), but does not match any NIC (Figure 1). The data broken down by service shows some evidence of service specific COO, but again, generally the same hierarchy holds (Figure 2).

However, Thailand stands out from this general pattern. Although its level of economic development is similar to that of Malaysia, its quality perceptions stand at a level similar to Singapore, which is rated as the best among the NICs. This is fairly strong evidence for H1, according to some of the standard research on consumer ethnocentrism. Thai consumers clearly rate the quality of these two Thai services above the level that Thailand might objectively be placed, given its level of development. This upward bias holds true for all three COO dimensions. It does not, however, hold for price expectations. Thailand falls roughly into the slot between Taiwan, perceived as the least expensive NIC, and Malaysia, perceived as the most expensive other developing country (Figure 3), which is roughly consistent with its actual position.

The hedonic price relationship is quite strong, as measured by regressing expected price on the factor score representing expected quality across the three descriptors. (We also tested a version of the equation with dummy variables for service and COO dimension. None of the dummies were close to significance, so COO dimension and service do not have a distinct impact on price perceptions.) The R-square value is over .86, and the quality factor is significant with a positive coefficient, indicating that higher quality expectations lead to higher price expectations (Table 2). Thus, H2 holds; Thai consumers (in aggregate) see a strong relationship between price and quality. H1 and H2, then, are confirmed, and the basis for talking about H3 is established.

Thailand itself, however, departs from the price/quality relationship. Figure 4 shows Thailand as an outlier on all three COO dimensions, and on CO design and nationality of service provider, the mean standardized residual is more than two standard deviations in the negative direction. Thailand's mean residual is –2.23, while the mean residuals for all other countries are less than 1 in absolute value. The mean rank of residuals for Thailand (from most negative) is 6.83. No other country has residuals so negative and so consistent in rank, i.e., for other countries, the standard deviation of the mean rank shows that residual ranks are more scattered (Table 3). Thus, Thailand certainly looks like it departs from the generally strong perceived relationship between price and quality. This supports H3.

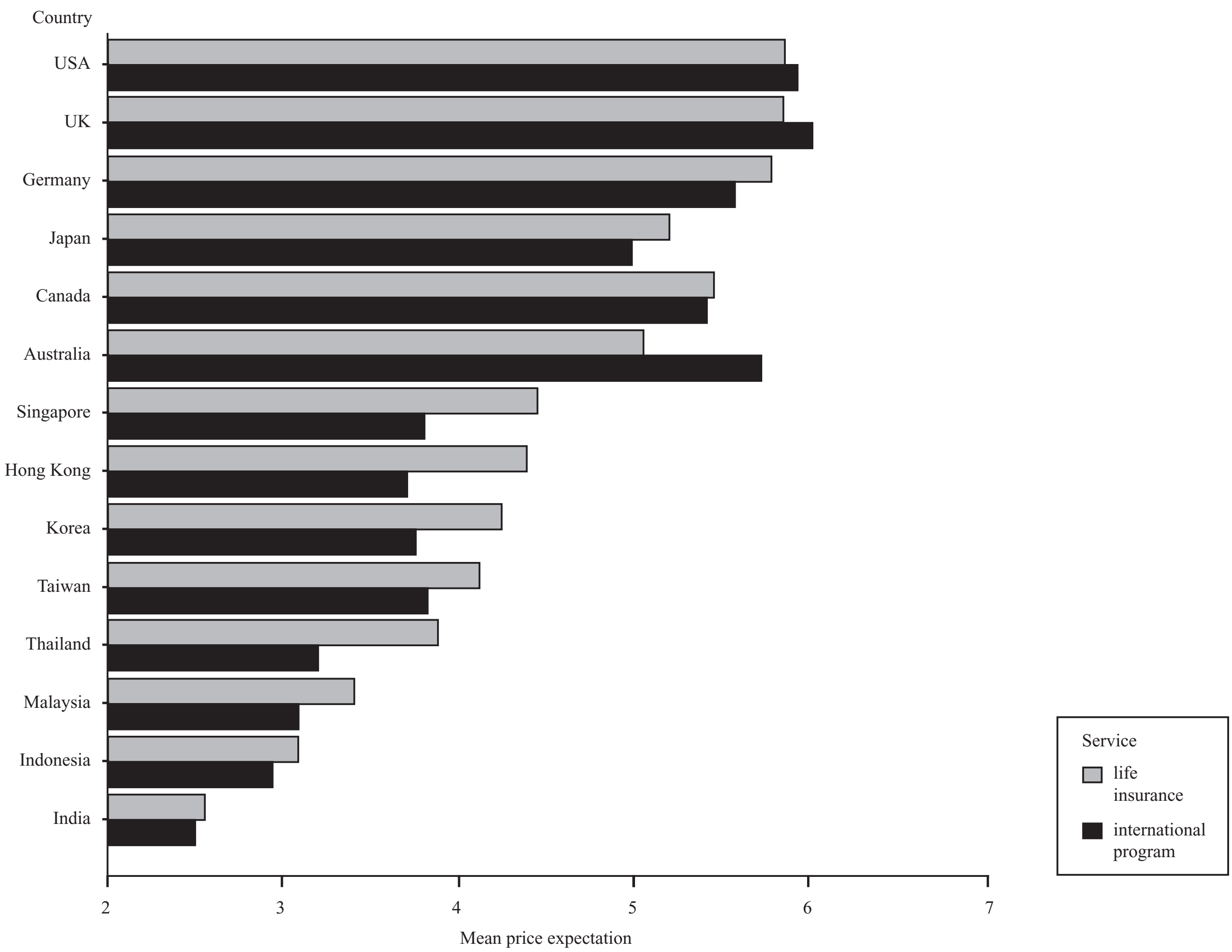

Figure 3: Mean Price Expectation by Country and Service

Note: 1 = very inexpensive; 7 = very expensive

Table 2:
Regression of Price on the Quality Factor

model	multiple R	R-square	adjusted R-square	F	sig.
	.93	.87	.87	540.71	.00
	B	std. error B	Beta	t	sig.
(constant)	4.39	.05		97.82	.00
quality factor	1.05	.05	.93	23.25	.00

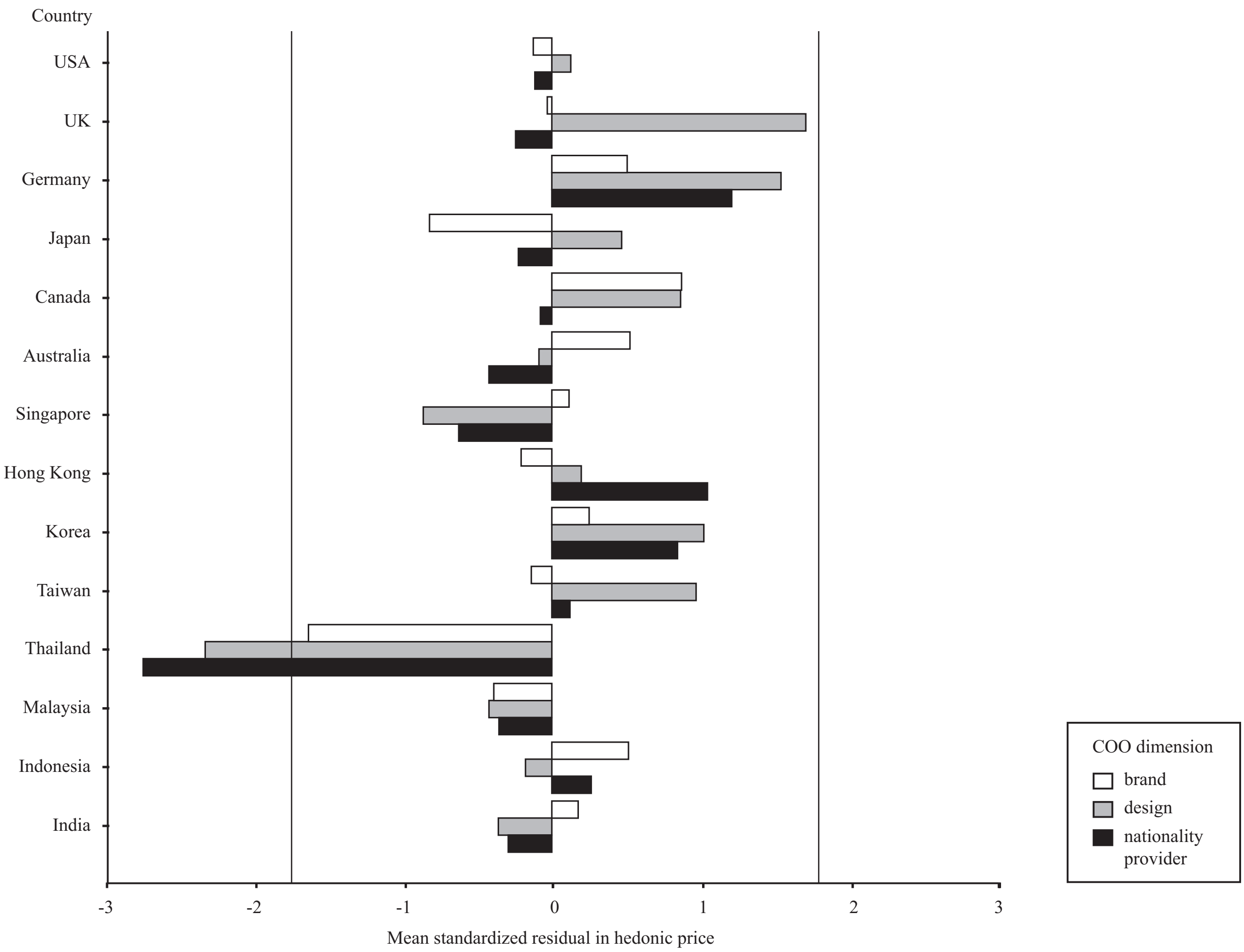

Figure 4: Mean Standardized Residual by Country and COO Dimension
(hedonic price equation includes only the quality factor).
Note: the vertical grid lines are set at –1.645 and 1.646.

Table 3:
Mean Standardized Residuals and Mean Rank of Residuals from Fitting the Hedonic Price Equation

	mean standardized residual	standard deviation	mean rank of residual (1 = most negative)	standard deviation
USA	0.00	0.35	39.3	15.7
UK	0.46	1.12	49.0	27.1
Germany	0.91	0.44	69.7	10.5
Japan	-0.18	1.06	38.5	29.5
Canada	0.50	0.55	56.8	18.2
Australia	-0.02	0.59	39.3	19.9
Singapore	-0.41	0.48	25.7	16.8
Hong Kong	0.34	0.64	51.8	21.9
Korea	0.64	0.49	63.3	14.4
Taiwan	0.29	0.82	50.0	24.5
Thailand	**-2.23**	**1.29**	**6.8**	**9.1**
Malaysia	-0.34	0.55	28.5	18.2
Indonesia	0.19	0.65	44.2	23.3
India	-0.13	0.66	32.0	22.7

Table 4:
Regression of Price on the Quality Factor with a Dummy Variable for Thailand

	multiple R	R-square	adjusted R-square	F	sig.
model	.96	.92	.92	465.25	.00
	B	std. error B	beta	T	sig.
(constant)	4.46	.04		122.06	.00
quality factor	1.05	.04	.93	29.67	.00
Thai dummy	-.99	.14	-.23	-7.23	.00

The alternative measure of Thailand's departure from the price/quality relationship would be a significant negative coefficient when Thailand is included as a dummy variable in the hedonic price equation. In the regression of price on the quality factor which includes a dummy variable for Thailand, the quality factor remains positive and significant, the Thailand dummy coefficient is significant, and the R-square improves slightly to 92 percent (Table 4). Of course, the residuals for Thailand are no longer outliers (Figure 5). We also checked a version of

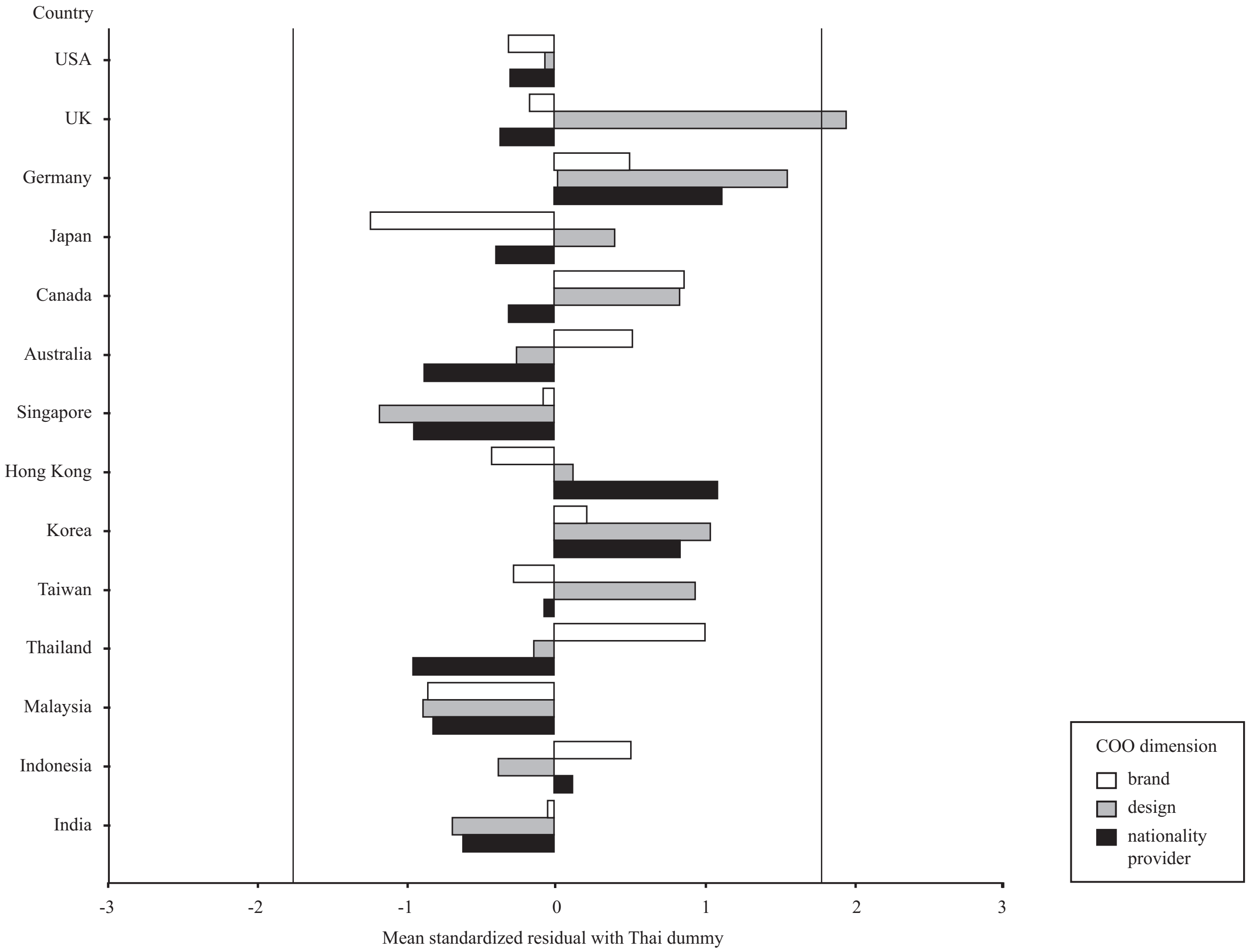

Figure 5: Mean Standardized Residual by Country and COO Dimension
(hedonic price equation includes a Thai dummy variable).
Note: the vertical grid lines are set at –1.645 and 1.646.

the equation with the Thai dummy interacting with the quality factor, to see if Thailand as a COO changed the nature of the price/quality relationship. The interaction term was not significant (at $p = .10$). Thus, Thailand is an outlier on the general price/quality relationship, it is not in a separate relationship.

To check whether Agrawal and Kamakura (1999) are correct, a stepwise regression was done using thirteen dummy variables. The USA was the baseline, since its mean residual ranks in the middle (7th out of 14 from most negative; Table 3). Thailand enters the stepwise equation second, after the quality factor, with a negative coefficient. Germany had a significant and positive coefficient, and no other country entered (Table 5). Thus, our data shows that Agrawal and Kamakura (1999) are mostly correct; usually COO itself does not command a price premium beyond what can be accounted for by the perceived quality of services from particular countries (i.e., there are no other positive coefficients). However, German COO does seem to command a price premium among Thai consumers for these services. For our purposes, though, the strong negative coefficient on Thailand is relevant, supporting H3.

7. Conclusions

We believe that the definition of consumer ethnocen-

Table 5:
Stepwise Regression of Price on the Quality Factor with Dummy Variables for Thirteen Countries (USA Base)

	multiple R	R-square	adjusted R-square	F	sig.
model	.96	.93	.92	332.69	.00
	B	std. error B	Beta	T	sig.
(constant)	4.43	.04		120.10	.00
quality factor	1.03	.04	.92	29.29	.00
Thailand	-.96	.13	-.22	7.23	.00
Germany	.34	.14	.08	2.52	.01

Note: order of entry was quality factor, Thailand, Germany; no others entered.

trism needs to be more carefully thought out, as two separate concepts seem to be confused. Ethnocentrism based on nationalism does not necessarily affect perceptions of product/service quality, and may mainly influence purchase intention, a later stage of the decision process than quality evaluations. Here, we specifically investigate ethnocentrism based on quality perceptions, and clearly show ethnocentrism in expectations toward life insurance and BBA international programs across three COO dimensions. Thai potential customers consistently hold expectations for Thai brand, design, and nationality of service providers which are higher than is consistent with Thailand's objective place in the economic development hierarchy. For some services and in some developing countries, then, consumers certainly might rate home country services higher than outside observers would rate them.

This higher rating, however, could come from actual higher quality; i.e., home country firms may know how to better adapt service details to meet the needs of home country consumers. We argue that such higher ratings in themselves are not necessarily evidence of consumer ethnocentrism, rather, they would indicate that consumers are able to recognize higher quality, or at least perceive some higher quality than non-nationals can see. However, most consumers also perceive a strong price/quality relationship. When they do, true recognition of higher quality should bring correspondingly higher price expectations.

Departure from this expected price/quality relationship is, we propose, what actually constitutes ethnocentrism as we discuss it here. Price expectations in our data closely follow quality expectations on all three COO dimensions for all countries but Thailand. This suggests what Agrawal and Kamakura (1999) assert, that COO itself (usually) does not command a price premium (or a discount), once perceived quality is taken into account. Thailand is consistently a strong negative outlier in the price/quality relationship, which is what we propose as a measure of ethnocentrism.

Of course, in some countries there may be little correspondence between price and quality of service. In such cases, our definition might not work because the perceived price/quality relationship would break down. But the relationship is likely to hold in countries with relatively open markets, where consumers have choice and information for making those choices. It is even more likely to hold in aggregate, which is how we measured it here. Different levels of price/quality behavior, of course, and different levels of ethnocentrism, mean that not all individual consumers are likely to fit this measure exactly.

This sort of ethnocentrism in a developing country is unlikely to affect service providers operating at the top end of the market. Strong quality-oriented consumers will still not perceive Thai insurance or education as top quality, and are more likely to prefer some of the developed country service providers which score near the top. A foreign firm from a developed country can still take advantage of favorable images toward brand origin, design origin, or nationality of service provider. Other service providers, including Thai, can also attach some of the developed country image to themselves by hiring developed country nationals to work for them. Because services have this strong interpersonal delivery component, it is difficult for firms from a specific country to monopolize their COO image advantages.

By contrast, the biggest impact of ethnocentrism is likely to come in mid-market, where consumers look not necessarily for top, but for good quality, and factor price into the decision (i.e., cases where there is a strong value-orientation). McGowan and Sternquist (1998) maintain that value orientation is common in at least one Asian country, Japan. Speece (1998) shows its broad application among Asia's middle class in several other countries, including Thailand. For life insurance and education services, middle class consumers expect Thai services to offer fairly good quality, but they also expect low prices. This is exactly what value-oriented people want, which makes it difficult for foreign service providers to compete against Thai companies mid-market.

Thailand stands out strongly when a set of quality/price ratios are computed (Grewal, Monroe and Krishnan, 1998, briefly review computing a perceived value measure from the ratio of perceived quality and perceived price). For overall quality (the mean of quality, pride of buying, and reliability), the ratio is well above any other country, indicating that on average, these respondents consider Thai life insurance and BBA international programs to be much better value than any other country (Table 6). Further, BBA international programs show a much stronger ratio score on price-quality than life insurance. It is likely that these respondents consider Thai life insurance and BBA international programs a very good buy.

Some limitations in this study should be mentioned. First, it was conducted in Thailand; thus, the results might not generalize to respondents from other countries, since the strength of consumer ethnocentrism is quite likely to differ across countries. The literature already suggests this, but does not use the method of showing ethnocentrism that is proposed here. Second, only life insurance and BBA international programs were used in the study, while other types of service may yield different results. Our data already suggests that there may be slight service-specific ethnocentrism, as well as service specific COO effects.

Third, only ethnocentrism on expectations toward individual COO dimensions was investigated. It is possible that combinations or interaction of partitioned COO dimensions could affect ethnocentrism. Nor does this research show which of the dimensions is more important in forming overall image, although this is partially controlled for by using factor scores of the dimensions in the analysis. Finally, we used aggregate data to show

Table 6:
Value as Ratios of Expected Service Descriptors to Expected Price

Life insurance	Overall	BBA international programs	Overall
Thailand	1.17	Thailand	1.44
Malaysia	1.05	Singapore	1.06
Singapore	1.04	USA	1.04
Japan	1.04	UK	1.03
Australia	1.00	India	1.02
USA	1.00	Japan	1.01
UK	0.99	Australia	1.01
Canada	0.98	HK	1.01
Taiwan	0.97	Malaysia	1.01
HK	0.97	Indonesia	0.99
Germany	0.95	Canada	0.98
Korea	0.93	Taiwan	0.96
Indonesia	0.93	Germany	0.93
India	0.92	Korea	0.92

consumer ethnocentrism among potential customers for these services. The between-subjects nature of our survey did not allow us to estimate the hedonic price relationship on an individual consumer level. Future work should look at whether this method can similarly be used to determine how individual consumers may have a range of ethnocentrism in their service expectations.

Also, two specific limitations related to international programs should be noted. Students have some influence over the purchase decision, but parents also play a major role. These results do not show how parent ethnocentrism might affect expectations toward international programs. Second, we should be careful about interpreting the price expectations for international programs. Students of this age rarely have a realistic idea about the cost of major expenditures, and price expectations may not be reliable. Again, we should also investigate the pattern with data from parents. But the aggregate data from students does show the close relationship between price and quality which the hedonic price equation posits. Further research should help clarify how applicable all of these results are in other countries, for specific types of services, and with different combination COO dimensions.

References

Agrawal, J., Kamakura, W.A., 1999. Country of Origin: A Competitive Advantage? International Journal of Research in Marketing, 16 (4), 255-267.

Ahmed, S.A., D'Astous, A, 1999. Product-Country Images in Canada and the People's Republic of China. Journal of International Consumer Marketing, 11 (1), 5-22.

Al-Sulaiti, K.I., Baker, M.J., 1998. Country of Origin Effects: A Literature Review. Marketing Intelligence & Planning, 16 (3), 150-199.

Asher, C.C., 1992. Hedonic Analysis of Reliability and Safety for New Automobiles. Journal of Consumer Affairs, 26 (2), 377-396.

Bruning, E.R., 1997. Country of Origin, National Loyalty and Product Choice: The Case of International Air Travel. International Marketing Review, 14 (1), 59-74.

Chao, P., 1993. Partitioning Country of Origin Effects: Consumer Evaluations of Hybrid Product. Journal of International Business Studies, 24 (1), 291-306.

Chao, P., 1998. Impact of Country of Origin Dimensions on Product Quality and Design Quality Perceptions. Journal of Business Research, 42: 1-6.

Chen, I.J., Gupta, A., Rom, W., 1994. A Study of Price and Quality in Service Operations. International Journal of Service Industry Management, 5 (2), 23-33.

Cordell, V.V., 1991. Competitive Context and Price as Moderators of Country of Origin Preferences. Journal of the Academy of Marketing Science, 19 (2), 123-128.

Cordell, V.V., 1992. Effects of Consumer Preferences for Foreign Sourced Products. Journal of International Business Studies, 23 (2), 251-69.

Dawar, N., Parker, P., 1994. Marketing Universals: Consumers' Use of Brand Name, Price, Physical Appearance, and Retailer Reputation as Signals of Product Quality. Journal of Marketing, 58 (April), 81-95.

Erickson, G.M., Johansson, J.K., 1985. The Role of Price in Multi-attribute Product Evaluations. Journal of Consumer Research, 12 (September), 195-199.

Eroglu, S.A., Machleit, K.A., 1989. Effects of Individual and Product Specific Variables on Utilizing Country of Origin as a Product Quality Cue. International Marketing Review, 6 (6), 27-41.

Finlay, J.L., Hackmann, R., Schwarz, M.E., 1996. Price / Quality Associations within the Consumer Goods Market in the United Kingdom. Multinational Business Review, (Fall), 71-78.

Grewal, D., Monroe, K.B., Krishnan, R., 1998. The Effects of Price-Comparison Advertising on Buyers' Perceptions of Acquisition Value, Transaction Value, and Behavioral Intentions. Journal of Marketing, 62 (April), 45-59.

Gurhan-Canli, Z., Maheswaran, D., 2000. Cultural Variations in Country of Origin Effects. Journal of Marketing Research, 37 (3), 309-17.

Ha, C., 1998. The Influence of Consumer Ethnocentrism and Product Characteristic on Country of Origin Effects: A Comparison Between United States Consumers and Korean Consumers. PhD Dissertation, University of Texas at Arlington.

Hanf, C.H., von Wersebe, B., 1994. Price, Quality, and Consumers' Behavior. Journal of Consumer Policy, 17, 335-348.

Huddleston, P., Good, L.K., 1998. The Price-Quality Relationship: Does it Hold True for Russian and Polish Consumers? International Journal of Retail, Distribution and Consumer Research, 8 (1), 33-51.

Hulland, J., Todino, H.S., Lecraw, D.J., 1996. Country of Origin Effects on Sellers' Price Premium in Competitive Philippine Markets. Journal of International Marketing, 4 (1), 57-79.

Ioannidis, C., Silver, M., 1997. Estimating the Worth of Product Characteristics. Journal of the Market Research Society, 39 (4), 559-570.

Keillor, B., Hult, G.T.M., 1999. A Five-country Study of National Identity: Implications for International Marketing Research and Practice. International Marketing Review, 16 (1), 65-82.

Klein, J.G., Ettenson, R., Morris, M.D., 1998. The Animosity Model of Foreign Product Purchase: An Empirical Test in the People's Republic of China. Journal of Marketing, 62 (January), 89-100.

Kucukemiroglu, O., 1999. Market Segmentation by Using Consumer Lifestyle Dimensions and Ethnocentrism: An Empirical Study. European Journal of Marketing, 33 (5/6), 470-487.

Lee, D., Ganesh, G., 1999. Effects of Partitioned Country Image in the Context of Brand Image and Familiarity. International Marketing Review, 16 (1), 18-39.

Li, Z.G., Fu, S.Z., Murray, L.W., 1997. Country and Product Images: the Perceptions of Consumers in the People's Republic of China. Journal of International Consumer Marketing, 10, 115-137.

Lichtenstein, D.R., Burton, S., 1989. The Relationship between Perceived and Objective Price-Quality. Journal of Marketing Research, 26 (November), 429-443.

Liefeld, J.P., 1993. Experiments on Country-of-Origin Effects: Review and Meta-Analysis of Effect Size. In N. Papadopoulos & L.S. Heslop, editors, Product-Country Images: Impact and Role in International Marketing. Binghamton, NY: International Business Press, pp. 117-156

Marcoux, J.S., Filiatrault, P., Cheron, E., 1997. The Attitudes Underlying Preferences of Young Urban Educated Polish Consumers towards Products Made in Western Countries. Journal of International Consumer Marketing, 9 (4), 5-29.

McGowan, K.M., Sternquist, B.J., 1998. Dimensions of Price as a Marketing Universal: A Comparison of Japanese and U.S. Consumers. Journal of International Marketing, 6 (4), 49-65.

Murray, J., Sarantis, N., 1999. Price–Quality Relations and Hedonic Price Indexes for Cars in the United Kingdom. International Journal of the Economics of Business, 6 (1), 5-27.

Nagashima, A., 1970. A Comparison of Japanese and U.S. Attitudes toward Foreign Products. Journal of Marketing, 34 (January), 68-74.

Nagashima, A., 1977. A Comparative 'Made In' Product Image Survey among Japanese Businessmen. Journal of Marketing, 41 (July), 95-100.

Okechuku, C., 1994. The Importance of Product Country of Origin: A Conjoint Analysis of the United States, Canada, Germany and the Netherlands. European Journal of Marketing, 28 (4), 5-19.

Okechuku, C., Onyemah, V., 1999. Nigerian Consumer Attitudes toward Foreign and Domestic Products. Journal of International Business Studies, 30 (3), 611-22.

Parameswaran, R., Pisharodi, M.R., 1994. Facets of Country of Origin Image: An Empirical Assessment. Journal of Advertising, 23, 44-56.

Peterson, R.A., Jolibert, A.J.P., 1995. A Meta-Analysis of Country-of-Origin Effects. Journal of International Business Studies, 26 (4), 883-900.

Pinkaeo, K., Speece, M., 2000. Country Image and Expectations toward Life Insurance among Thai Consumers. Journal of Financial Services Marketing, 5 (2), 99-117.

Pinkaeo, K., Speece, M., 2001. Country Image and Expectations toward International Programs in Business Administration among Thai Students. Journal of Marketing for Higher Education, 11 (2), 61-89.

Ratchford, B.T., Agrawal, J., Grimm, P.E., Srinivasan, N. 1996. Toward Understanding the Measurement of Market Efficiency. Journal of Public Policy & Marketing, 15 (2), 167-184.

Roth, M.S., Romeo, J.B., 1992. Matching Product Category and Country Image Perceptions: A Framework for Managing Country-of-Origin Effects. Journal of International Business Studies, 23 (3), 477-497.

Sharma, S., Shrimp, T.A., Shin, J., 1995. Consumer Ethnocentrism: A Test of Antecedents and Moderators. Journal of The Academy of Marketing Science, 23 (1), 26-37.

Shimp, T.A. 1984. Consumer Ethnocentrism: The Concept and a Preliminary Empirical Test. In T.C. Kinnear, editor, Advances in Consumer Research, 11. Provo, UT: Association for Consumer Research, pp. 285-290.

Shrimp, T.A. & S. Sharma. 1987. Consumer Ethnocentrism: Construction and Validation of the CETSCALE. Journal of Marketing Research, 24 (August), 280-289.

Sinha, I., Batra, R., 1999. The Effect of Consumer Price Consciousness on Private Label Purchase. International Journal of Research in Marketing, 16 (3), 237-251.

Speece, M., 1998. Value Orientation among Asian Middle Class Consumers. Marketing and Research Today (ESOMAR), 27 (4), 156-165.

Speece, M., Kawahara, Y., Miller, C.E., 1996. The Impact of Offshore Manufacturing on Quality Perceptions. Asian Academy of Management Journal, 1 (1), 15-29.

Teas, R.K., Agarwal, S., 2000. The Effects of Extrinsic Product Cues on Consumers' Perceptions of Quality, Sacrifice, and Value. Journal of the Academy of Marketing Science, 28 (2), 278-290.

Tse, D.K., Gorn, G.J., 1992. An Experiment on the Salience of Country of Origin in the Era of Global Brands. Journal of International Marketing, 1, 57-76.

Tse, A.C.B., Chan, W.K., Choi, M.Y., Kwai, W., Lam, M., 1996. The Impact of Country of Origin on the Behavior of Hong Kong Consumers. Journal of International Marketing and Marketing Research, 21 (1), 39-44.

Voss, G.B., Parasuraman, A., Grewal, D., 1998. The Roles of Price, Performance, and Expectations in Determining Satisfaction in Service Exchanges. Journal of Marketing, 62 (October), 46-61.

Wall, M., Heslop, L., 1986. Consumer Attitudes toward Canadian-made versus Imported Products. Journal of the Academy of Marketing Science, 14 (2), 27-36.

Watson, J.J., Wright, K., 2000. Consumer Ethnocentrism and Attitudes toward Domestic and Foreign Products. European Journal of Marketing, 34 (9/10), 1149-1166.

Biographies

Mark Speece is Associate Professor of Marketing in the School of Management, Asian Institute of Technology and in the Graduate School, Bangkok University, both in Bangkok, Thailand. He has taught and consulted on marketing in East and Southeast Asia for 14 years, including past positions at Nanyang Technological University in Singapore, Chinese University of Hong Kong, and several years as a free-lance consultant in Hong Kong. Dr. Speece obtained his PhD in marketing from the University of Washington, Seattle, and also holds a PhD in Middle East economic geography from the University of Arizona, Tucson.

Krairoek Pinkaeo is on the faculty of the School of Business, Bangkok University. His current research is mainly on services marketing issues, especially financial and educational services. He received his PhD in marketing from the Asian Institute of Technology in Bangkok, MBA from Ohio University, USA, and BBA (banking and finance) from Chulalongkorn University, Thailand. He has also worked in the finance department of a major multinational company operating in Thailand.

Correspondence Addresses

Dr. Mark Speece, School of Management, Asian Institute of Technology, P.O. Box 4, Klong Luang, Pathumthani 12120, Thailand. Telephone: +66 (2) 524 5657/5652, Facsimile: +66 (2) 524-5667, Email: speece@ait.ac.th, Dr. Krairoek Pinkaeo, Department of Marketing, Bangkok University, 40/4 Rama 4 Road, Bangkok 10110, Thailand. Email: krairoek.P@bu.ac.th

Green International Wine Marketing

Mary Pugh & Richard Fletcher

Abstract

The Banrock Station brand, owned by wine producer BRL Hardy, has been highly successful in the UK and USA, and in the Australian premium wine market. In part, success has arisen from the positive attributes of being a 'new world' wine, but the case study shows that it is branding as a 'green' wine that supports conservation activities that has given Banrock Station a distinctive edge. The experience of BRL Hardy points to a number of key lessons in international marketing that may help other companies break free from the competitive pack.

Keywords: Wine marketing, green brands, international marketing

Introduction

One of the major challenges facing Australian firms in the international marketplace is how to differentiate their products from those of competitors. This case explores the challenges facing BRL Hardy Ltd. of Australia and how they met the challenge in a global wine market that is highly competitive and characterised by multiple players, labels and products.

Although Australia has captured only 5% of the world's wine market, Australian wines are the fastest growing import category in key markets such as the UK and USA, stealing market share from traditional 'old world' wine producers such as France, Italy, Germany and Spain. Australia's success to date stems not only from its comparative advantage of producing quality wines at reasonable prices, but the ability of Australian wine companies to build brands to compete internationally.

This case study demonstrates BRL Hardy has identified a unique global market segment of a wine targeted at the environmentally conscious. The case covers the initial stages of the implementation of the strategy to position its BRL Hardy's Banrock Station brand of wines in the environmentally conscious segment, through to a promotional program of 'green' international wine marketing.

Background

BRL Hardy Ltd. was formed after a 1992 merger of South Australian-based wineries, Berri Renmano Ltd. and Thomas Hardy and Sons Pty Ltd. It is now one of the top four wine producers in Australia and one of the top 10 largest wine groups in the world. Its Banrock Station brand, produced from grapes mostly grown in the Riverland region of South Australia, is the rising star of the company's wine portfolio. The first wine stock was produced as recently as 1995, and now production is 2.4 million cases a year.

In 1994 BRL Hardy acquired Banrock Station with 250 hectares of good soil for producing premium grape varieties. The rest of the property is made up of 900 hectares of wetland and 600 hectares of protected Mallee Woodland eco system. The property was suffering from the impact of prolonged farming and grazing. BRL Hardy, together with Wetland Care Australia undertook a huge revegetation program to remove stock, install fish barriers and reintroduce natural wetting and drying cycles in the wetland. This has resulted in the native birds and fish, water plants, frogs, and insects returning to restore the health of the River Murray.

The 250 hectares of new vineyard is used to produce five major wine varieties. As Figure 1 shows, red wines are more favoured than white wine varieties.

The vineyard's total yield per year is 5,000 tonnes which converts to 3,500,000 litres of wine or 380,000 cases. The additional tonnage required to meet domestic and export

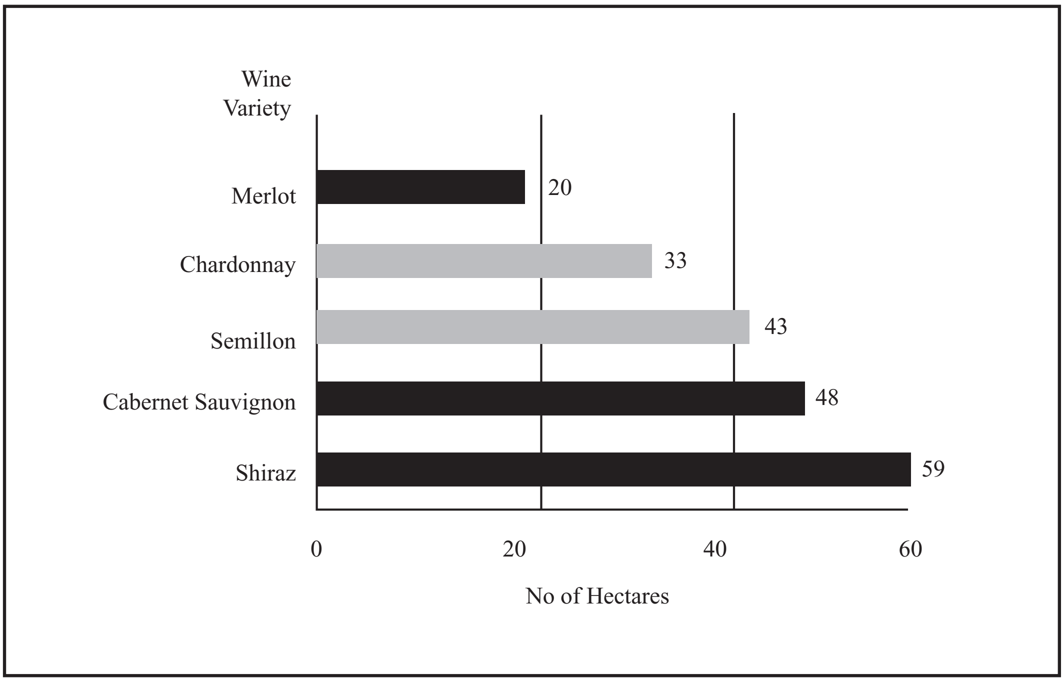

Figure 1: Banrock Station Major Wine Varieties
(Source: BRL's Banrock Station)

demand of over two million cases comes from purchasing other grapes from local producers in the Riverland.

Australia and the Global Wine Market

Market conditions are ripe for Australian wine producers to increase exports. The 'old world' wine producers such as France and Italy, which have historically held a large market share of the global export market, are in decline. In 1997, France held 26% of export volume, Italy 23% and Spain 14%. In total these 'old world' producers represented 67% of the export wine market. However, it is the 'new world' wine producers such as Australia, New Zealand, Chile and South Africa who are experiencing growth. While only holding a relatively small market share of export volume, they are stealing share from the 'old world' producers.

Following centuries of quality wine being associated with 'old world' wine producers, Australian wines are now at the forefront of a new consumer trend led by 'new world' producers – the supply of good quality, good value, ready to drink now, good tasting, fruity wines. As Table 1 shows, Australia is ranked Number 4 on export value and is the market leader in 'new world' wines.

Australia's remarkable success in the UK market is being demonstrated by delivering wine products that are relevant to everyday living and enjoyed by all. The wine brand 'Australia' is leveraging the effect of country of origin image (Abmed & D'Astous 1996) in transferring favourable perceptions of quality fruit and a relaxed lifestyle to its food and wine. This positioning in the UK and USA markets has stimulated demand for 'premium' category wines (i.e., those that are categorised above basic 'good quality/good value' wines).

Australian wine exports have grown substantially since the mid 1980s. At the end of the 2000/01 financial year, Australia exported 339 million litres which was a 17% increase on the previous year. The export market volume for Australian wine is projected to double in size over the next ten years to 676 million litres accounting for 61% of production compared to 47% at present. This is illustrated in Figure 2.

There are five key quality/price segments in the wine industry. The principal driving force behind increased

Table 1:
1997 World Wine Export Value
(Source: Berger, Spahini and Anderson 1999)

Country	Export Value as a % of world wine exports	Old or New World Wines
1. France	41.7	Old
2. Italy	17.2	Old
3. Spain	9.2	Old
4. Australia	**4.8**	**New**
5. Portugal	4.3	Old
6. Germany	3.8	Old
7. Chile	3.6	New
8. USA	3.3	New
9. Fomer Soviet Union	3.2	Old
10. South Africa	1.5	New

export sales is considered to be in the branded premium wine segment estimated to account for 34% of world wine sales. Australian brands in relation to these segments are shown in Figure 3. As the graph shows, Banrock Station falls into the premium category (above 'basic', and below 'super-premium').

Developing an International Strategy

The challenge for BRL Hardy is how to secure additional export sales in an increasingly competitive market. Application of Porter's 'Five Forces Model' (1990) to the global marketplace for Australian wines indicates:

New Entrants: There is a likely threat from new entrants, especially from large global liquor giants such as Diageo and Allied Domecq of the UK and LVMH and Pernod Ricard of France, who see the wine sector as a faster growing business compared to other liquor categories such as spirits, beer and champagne with which they were historically associated. They are aggressively embarking on acquisitions and are interested in Australian wineries.

Suppliers: There is a low threat from suppliers of grapes as these have little bargaining power apart from those supplying Merlot and Verdelho who have more clout due to some shortage of these varieties. Over-planting of red wine grapes has given Australian wineries scope to obtain higher quality product at a competitive price.

Buyers: The threat from buyers is high as securing distribution in a crowded market is difficult, especially when the distribution channels in major overseas markets are largely dominated by supermarket and major liquor chains. There is some evidence that distributors are becoming more favourably disposed towards Australian wines due to their consistent quality and availability.

Substitutes: Although there are other alcoholic products that compete with wine, wine is the fastest growing alcoholic beverage on a global basis. Australia has a comparative advantage in producing innovative, high quality wines which, because they can be consumed without aging, attract new wine consumers and young drinkers in 'old world' countries.

As illustrated in Figure 4, BRL countered the reaction of industry competitors to overseas market entry. BRL differentiated themselves by pursuing a niche market strategy in their target overseas markets. This was achieved by positioning the Banrock Station brand initially in the two major markets of the UK and USA as a 'green' wine that supports conservation activities. This involved looking at the market from a different perspective and looking at areas to create value to differentiate the selected brand from the competitive pack. The key to discovering new value was asking four basic questions, as outlined in the Kim and Mauborgne Model (1999) shown in Table 2.

Addressing these key questions has allowed BRL to create Banrock Station - a wine that can be simply positioned as "good wine, good earth, good living".

Kim and Mauborgne (1999) suggest 'The Value Curve' – a graphic depiction of the way a company or industry configures its offering to customers – is a powerful tool for creating new market space. It is drawn by plotting the performance of the offering relative to other alternatives along the key success factors that define competition in the industry. Identified in Figure 4, the creation of a new value curve would appear to be possible for Banrock Station wine, by adopting a marketing positioning strategy based on a 'green' wine that supports conservation activities.

Creating a 'Green' Brand

Creating a 'green brand' meant tapping into the values and beliefs of wine buyers. As a starting point, BRL Hardy recognised that their investment in and achievement of restoring the magnificent Banrock Station wetlands might be shared with their customers. This strategy has proven to be successful in Australia. With every bottle of Banrock Station wine sold, a portion of the sale proceeds is donated to conservation projects to ensure environmental havens are restored and preserved for future generations. All proceeds in Australia go to Wetland Care Australia and Landcare Australia.

An analysis of the demographics of wine consumption in

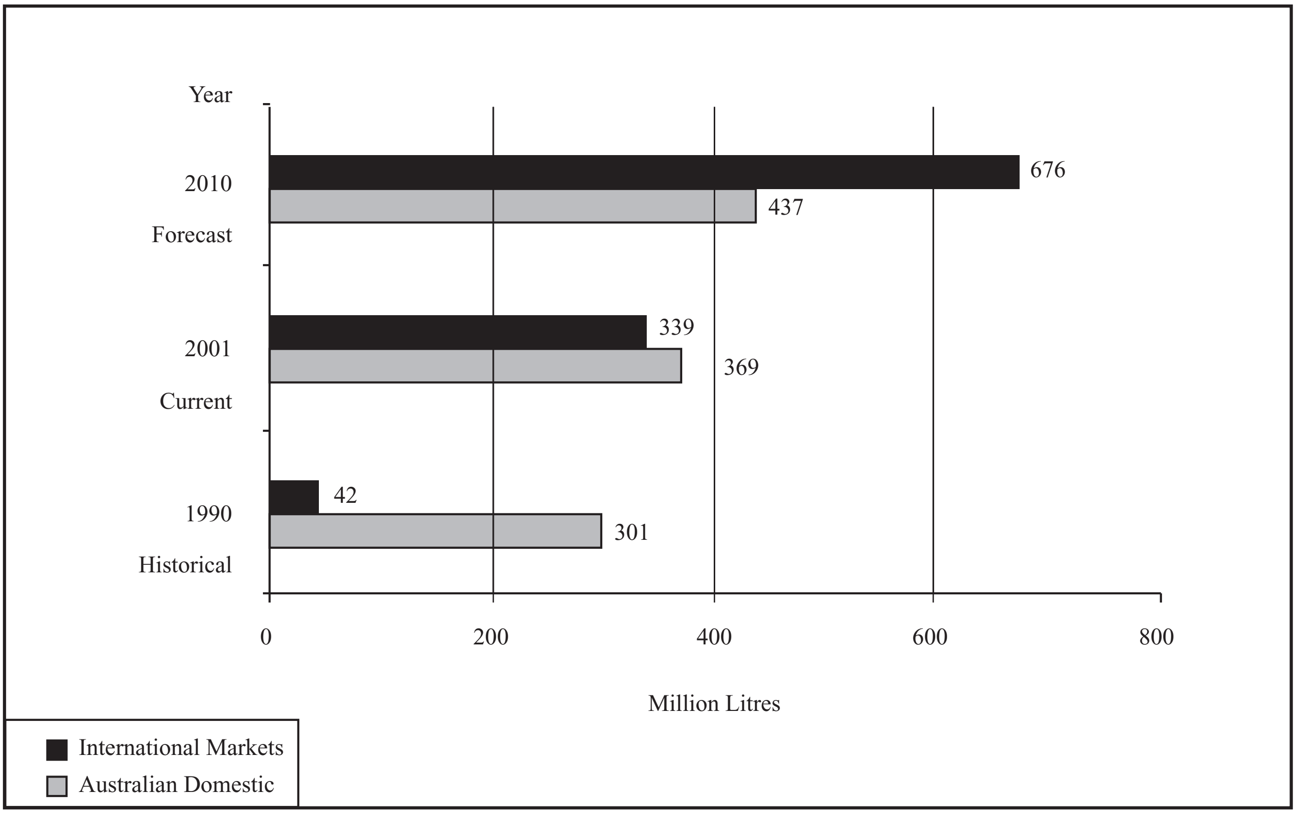

Figure 2: Australian Domestic Market vs International Market Growth
(Data Source: Wine Federation of Australia & Australian Wine and Brandy Corporation, 2000)

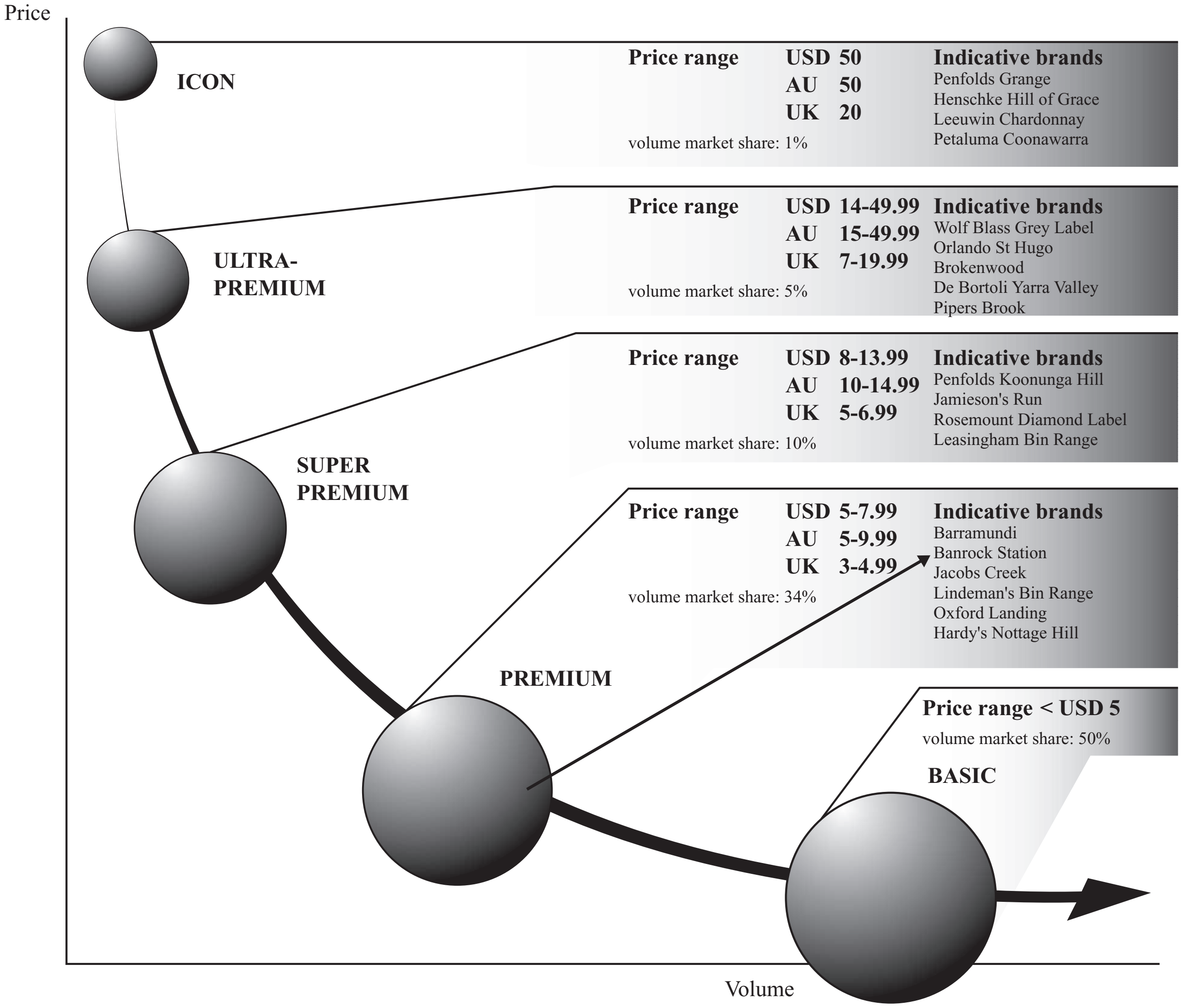

Figure 3: Quality Segments in the Wine Industry
(Source: Wine Federation of Australia & Australian Wine and Brandy Corporation, 2000)

developed country markets such as Australia indicates that the bulk of wine consumers typically fall into the age group 40 and 60 years with a skew towards women. This generation is often referred to as ‘Baby Boomers’ and represents about 24% of the Australian population and around 33% of the US population. It is a group that is sensitive to environmental concerns. They were the original activists and are pro environmentalists. They created the first Earth Day back in 1970. However, the values of this group have not previously been tapped as far as wine marketing is concerned.

For this strategy to be implemented, it must be conveyed to the customer via the brand. The brand is a bond with the customer. Keegan, Moriarty and Duncan (1992, p. 448) defines it as a “perception in the mind of consumers who ascribe beliefs, values and personalities to products” and Kotler (2000, p. 404) as a “seller’s promise to deliver a specific set of features, benefits and services consistently to buyers”. Strategically, it has been brands that have made Australian wine producers successful over other market competitors - not the name of the wine producer. Successful wine, the brand and the attitude it engenders, must relate to the wine consumer’s own sense of individuality and unique style. For a ‘green’ wine, the brand image should appeal to consumer’s who are seek-

Source: Banrock Station Wine postcard

ing a product that fits with their values of good living, being healthy and their desire to act in an environmentally friendly way. Wine buyers are thinking about the quality connection with where the product comes from and what they are purchasing.

Ottman (1992) claimed that while quality, price and convenience are still uppermost in consumers' purchasing decisions, a fourth attribute, environmental compatibility, that is a product's greenness, is fast becoming a tie-breaker at the shelf.

By linking Banrock Station's brand attributes of good value, quality wines, that are ready to drink now, with a conservationist personality it is intended to create a new source of competitive advantage for BRL Hardy's Banrock Station brand. The brand slogan "good earth, fine wine" easily identifies Banrock Station with supporting the environment. Additional in-store promotional material highlights Banrock Station Wines conservation initiatives – for example, a bottle flyer with a pelican. This saves the consumer time in evaluating other

Table 2:
Creating a New Value Curve

Key Questions	Areas for innovation
1. Reduce – What factors should be reduced well below the industry standard?	– Price – Length of time to markets from the vine to the table – Alcohol content
2. Create – What factors should be created that the industry has never offered?	– A representation of healthy living – An environment friendly wine – A relationship with the brand
3. Raise – What factors should be raised well above industry standards?	– Flavour and wine quality – Innovative wine styles – Interesting brands
4. Eliminate – What factors should be eliminated that the industry takes for granted?	– Standard labels/packaging – Snob Factor – Wine speak

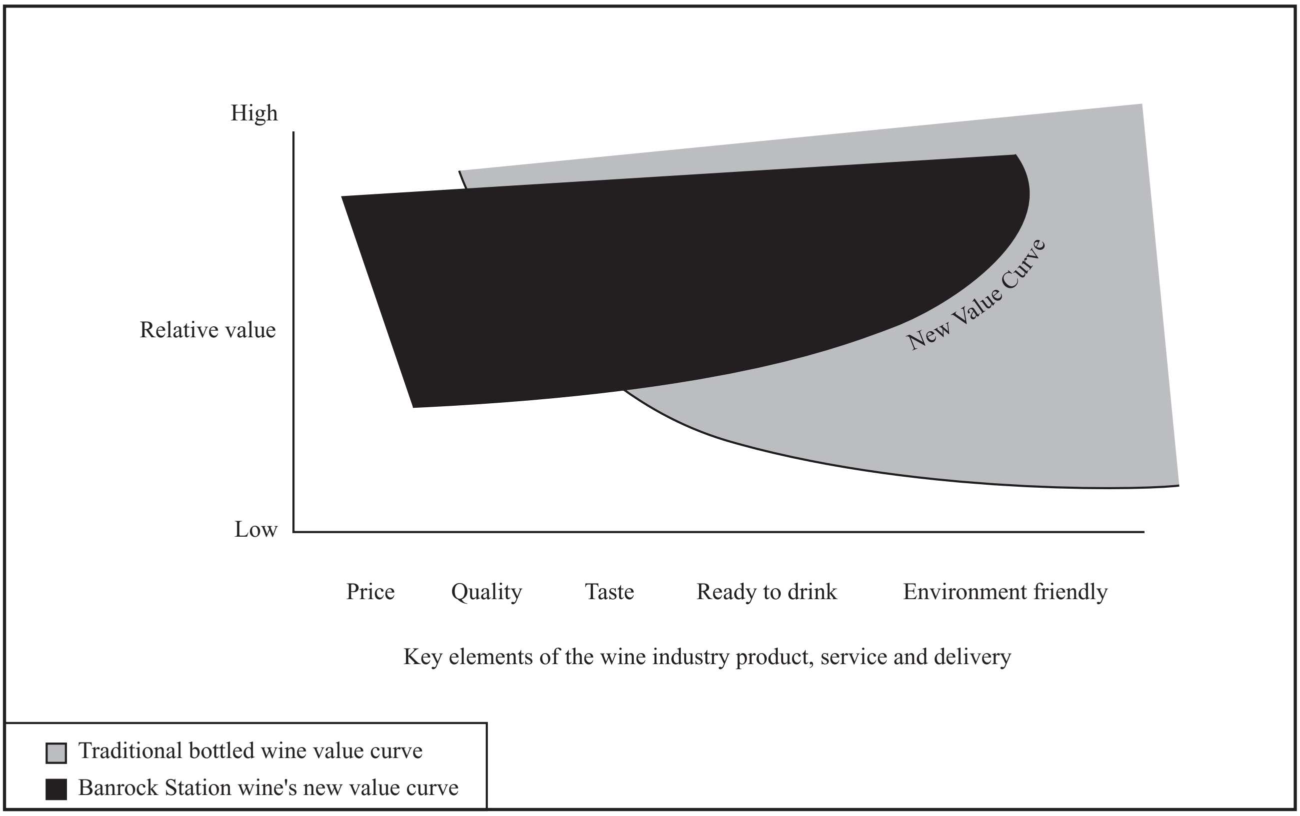

Figure 4: The New Value Curve for Banrock Station Wine

brands and helps them to easily distinguish the point of difference in retail outlets. In addition, Banrock Station's green brand image is reflected in the advertising, good news stories about conservation projects, packaging, point of purchase promotions, wine shows and on the website where consumers can take a virtual tour of Banrock Station (see: www.banrockstation.com.au).

Application of 'Green' Brand Equity to International Markets

As the 'green' marketing approach was successful in Australia, BRL Hardy decided to apply it to selected overseas markets which were considered to offer long-term growth potential. The eight selected international wine markets were the USA, Netherlands, Canada, Sweden, New Zealand, UK, Finland and Denmark. All are developed markets with environmentally sensitive 'Baby Boomers'. In these markets, BRL aimed to build strategic alliances with local conservation groups, as they did in Australia. A key to the market entry strategy was establishing strategic alliances with 'green' groups so as to increase consumer's confidence in and credibility of the brand's environmental claims. In each case, a certain percentage of profit from sales of each bottle of wine would go to the alliance partner to fund environmental projects. Implementation of this international approach was facilitated by hiring an environmental scientist, Tony Sharley, who manages the Banrock Station Wine and Wetland Centre in Australia. In this role, he manages conservation projects with organisations in key international markets and can verify Banrock Station's 'green' credentials.

High on the agenda was Australia's number one wine market, the UK, where BRL sells a number of successful brands. In the UK, Banrock Station wines and the Wildfowl and Wetlands Trust (WWT) are working together to save wetlands and wildlife. Funds from Banrock Station wines are being used to support the continual monitoring and maintenance of 4,000 acres of WWT's wetland reserves and their wildlife.

In Canada, BRL established their own organisation to coordinate environmental projects to help conserve and protect endangered birds and wetlands (the Banrock Station Wine Wetland Foundation, Canada). In the USA, Banrock Station has partnered with the Arthur R Marshall Foundation to champion restoration and preservation of America's Greater Everglades ecosystem and sponsored Cypress Tree Planting Day in an effort to restore the Everglades ancient forest.

In Europe, Banrock Station wines are working with the Swedish Wetland Fund, with proceeds supporting Oster-Malma, Lida and other wetlands in the area; in Finland, with Liminganlahti Bay, a high profile and highly regarded wetland region in the north of Finland; and in Netherlands Banrock Station wines, Staatsbosbeheer and Wetlands International are working together to save wetlands. Recently, Banrock Station commenced a partnership with Danish Nature who will use the funds to restore wetland in the Langelands region.

Closer to home, Banrock Station wines have combined with the environment group, Wetland Care New Zealand to sponsor wetland restoration projects throughout New Zealand. The first year's proceeds under the sponsorship helped to develop a wetland within the widely acclaimed Karori Sanctuary in Wellington and this year a wetland has been created at Masterton in the Wairarapa region.

International Sales Growth

Figure 3 shows that Banrock Station is in the premium wine category offering good value for money. A similar price positioning has been adopted in selected overseas markets. As such, it is priced below some of its major Australian competitors. In the UK, BRL Hardy has had to contend with a distribution system where the retailers are gate-keepers and ten accounts can represent 70% of the market. Here, buyer label wines account for a considerable share of the market. To counter this it is necessary for Banrock Station to create an awareness of their own brand. This is being achieved via the use of cinema and outdoor advertising, including the London Underground. By contrast, in the USA the distribution of wines approximates that of fast moving consumer goods (FMCG) and there is little wine sold under the labels of buyers. The value for money claim is being augmented in all markets with the "support conservation theme" and point-of-sale support that reinforces the conservation image. It is this support that provides the brand with its unique selling proposition (USP).

Table 3:
UK Brands Top Wines 2000 Listing
(Source: Macquarie Bank Research 2001)

Brand	Company	Off Trade % Growth
Ernest & Julio Gallo	E&J Gallo Winery	22%
Jacobs Creek	Orlando Wyndham	24%
Hardys	BRL Hardy Wine	33%
Stowells of Chelsea	Matthew Clark	28%
Rosemount	Rosemount Wine Estates	69%
Lindemans	Southcorp Wines	53%
Penfolds	Southcorp Wines	2%
Blossom Hill	UDV	143%
Le Piat D'or	Piat Pere Et Fils	(-15%)
Banrock Station	**BRL Hardy Wine**	**165%**

This approach has proved to be a deciding factor at the point-of-purchase amongst the growing number of environmentally conscious consumers in the US and the UK. Banrock Station wines are proving to be a stand out performer for BRL Hardy in international markets. They are ranked Number 7 in the Top 10 selling Australian wine brands in the US Market and 3rd in volume of the premium Australian brands exported to the US. In the 13-week period ending 17 May 2001, Banrock Station's overall ranked position in the US market was 189th and it is the fastest growing brand in the BRL portfolio. Banrock Station is the number one fastest growing brand in the UK as shown in Table 3.

There is no doubt that much of this success has been due to the 'green' international wine marketing of Banrock Station wines. Future growth is dependent upon maintaining and building the brand through continued investment in conservation projects and the development of new markets with significant segments of environmentally friendly wine buyers.

Key Lessons

The success of BRL's Banrock station brand in the UK and US markets to date can be explained in part by its being a 'new world' wine, priced in the attractive 'premium' wine category with a country of origin image associated with sunshine, health and wide open spaces – an attractive image consistent with wine production. However, of themselves these 'new world' wine characteristics do not explain the rapid rise in overseas sales, nor its major market share amongst the Australian premium wine segment. Success is also due to the niche marketing strategy pursued by the firm of positioning the brand as a 'green' wine that supports conservation activities. This strategy has positioned the brand in a new marketspace that includes environmentally conscious consumers. This strategy appeals to a different set of values, and values not targeted by other wine producers. Although the magnitude of this segment may differ between countries, environmentally conscious consumers are a global segment that offers considerable potential for the future marketing of the Banrock Station brand.

The experience of BRL Hardy points to a number of other key lessons in international marketing that may help other companies also break free from the competitive pack. The first of these is that innovative marketing approaches are a useful vehicle for companies to create new overseas markets and/or reposition themselves in existing markets. BRL's approach was to look at their market from a new perspective and create new value for stakeholders in those markets. This was achieved by tapping into the values and beliefs of their customers and creating new product attributes to influence the purchasing decisions of customers. In this case it was by creating a brand associated with caring for the environment as illustrated by investing sales receipts back into conservation projects.

The second lesson relates to the need to pursue a strategy in depth rather than superficially if it is to be effective in overseas markets. In this case a company embarking on a 'green' brand strategy needs to realise it has to be more than just a gimmick. The company has to excel in delivering not just the product benefits, but also the green benefits that customers truly desire. BRL's experience shows their 'green' brand has to stay relevant and credible. This was achieved by ongoing restoration of its own wetland, employing an environmental scientist, and consistently communicating the brand's environmental initiatives and project involvement via publication of 'good news' stories, distinctive product packaging and labelling, and through the focus of its sales team. Only in this way can a company continue to grow the market in its chosen segment.

Finally, the application of brand management to overseas markets often requires the building of strategic alliances with local groups if brand equity is to be sustained or further developed in these overseas markets. In the case of BRL Hardy, the strategic alliances were with local conservation groups similar to those with whom alliances had been forged in Australia. The lesson from Australia was in this case applied in overseas markets – that the brand must associate itself with the projects of its alliance partner and should do this by the firm's management maintaining an active interest in the quality of those environmental projects. Banrock Station's environmental scientist developed quality controls to ensure that funds directed to those conservation groups from Banrock Station sales were invested in technically sound and rewarding conservation projects. If 'green' projects are important, well supported and understood by the consumer, the brand will build and increase its 'green' brand equity.

In summary, BRL have shown how important a 'green' brand is to increasing market share and how innovation in marketing can help a company create a point of difference that redefines the attributes on which buyers base their purchasing decision.

References

Ahmed, S.A., D'Astous, A., 1996. Country of Origin and Brand Effects: A Multi-Dimensional and Multi-Attribute

Study. Journal of International Consumer Marketing 9(2), 93-115.

Berger, N., Saphini, P., Anderson, K., 1999. Bilateral Trade Patterns in the World Wine Market 1988 to 1997: A Statistical Compendium. University of Adelaide: Centre for International Economic Studies.

Keegan, W., Moriarty, S., Duncan, T., 1992. Marketing. New Jersey: Prentice Hall.

Kim, C., Mauborgne, R, 1999. Creating New Market Space. Harvard Business Review, January-February, 83-93.

Kotler, P., 2000. Marketing Management: The Millenium Edition. New Jersey: Prentice Hall.

Macquarie Bank Research, 2001. Essentials, March 2001.

Ottman, J A, 1992. Green Marketing: Challenges and Opportunities for the New Marketing Age. Chicago: NTC Business Books.

Porter, M., 1990. The Competitive Advantage of Nations. London: Macmillan.

Wine Federation of Australia & Australian Wine and Brandy Corporation, 2000. The Marketing Decade 2000-2010, November (www.awbc.com.au).

Acknowledgements

The authors of this case are grateful to Mr Stephen Millar (Managing Director, BRL Hardy Ltd); Mr David Woods (International Trading Director, BRL Hardy Ltd) and Mr Tony Sharley (Manager, Banrock Station Wine and Wetland Centre) for agreeing to be interviewed and for their valuable insights.

Biographies

Mary Pugh is a Marketing Project Manager at the NSW Police. She has recently graduated from the Masters of Business (International Marketing) program.

Richard Fletcher, PhD, is an Associate Professor and Director of Post Graduate Programs in the School of Marketing, University of Technology, Sydney.

Correspondence Addresses

Mary Pugh, C/o School of Marketing, University of Technology, City Campus, Quay St, Haymarket, PO Box 123 Broadway, Sydney NSW 2007. Email: marygabrielle @hotmail.com, Richard Fletcher, School of Marketing, University of Technology, City Campus, Quay St, Haymarket, PO Box 123 Broadway, Sydney NSW 2007. Telephone: +61 (2) 9514 3537, Facsimile: +61 (2) 9514 3535, e-mail: Richard.Fletcher@uts.edu.au

Retail Pricing Strategies and Market Power

Melbourne University Press, Australia

Gordon Mills (2002)

Pricing is often viewed as a high "leverage" element of the marketing mix. That is, small improvements in pricing can lead to substantial improvements in profitability. In addition, surveys frequently report pricing as being managers' biggest headache. It's where they feel the most pressure to perform and the least certain that they are doing a good job (Dolan 1995). The first edition of "Retail Pricing Strategies and Market Power" by Gordon Mills provides a thorough and insightful view into this important element of the marketing mix.

Very broadly, the book divides into three sections. The first section examines the conceptual underpinnings of good pricing strategy. The second section examines pricing practices in six sectors – pharmaceuticals, retail foreign exchange, banking, air travel, conveyancing, and medical services. The final section concludes with public policy implications.

Within the first section, Chapters 1 and 2 fix the main ideas. Chapter 1 begins by noting that customers who buy a particular good can differ markedly in "how badly they want the good." This provides a rationale for sellers to charge different prices to different customers, the so-called practice of price discrimination. This chapter also motivates price discrimination with historical examples. Chapter 2 informs us that, even in markets with uniform goods, price dispersion (varying prices) is a frequent occurrence. Chapter 3 provides a formal definition of price discrimination. It does a thorough job of illustrating first-, second-, and third-degree price discrimination. Chapter 3 also examines how price discrimination can affect public welfare.

Next, Chapter 4 examines the role of branding and the pricing of branded goods. A notable feature here is the inclusion of data pertaining to the instant coffee market in Sydney. After a discussion of the role of branding, evidence is presented that clearly shows the superior margins enjoyed by prestigious brands. In addition, this chapter surveys the evidence on the relationship between price and quality. We learn that in many markets, customers often buy high-price brands when they could have obtained better quality in other brands that sell at lower prices.

Chapter 5 reviews the literature on retail price dispersion and offers evidence from food prices in Sydney supermarkets. The discussion reveals that price dispersion is by no means uncommon. Chapter 6 examines the conditions when firms might resort to "bundle" pricing. The leading example is the pricing of hamburgers and side-items. However, other examples are also presented that highlight the applicability of this important pricing concept. Chapter 7 examines how consumers respond to unit prices. It also reviews extant practices on the pricing of multiple units. We learn that while the majority of brands offer quantity discounts, some actually charge premiums for large sizes. In addition, there is discussion of how firms might choose to price multiple units.

Based on the conceptual understanding gained thus far, the next six chapters (Chapters 8–13) analyze pricing practices in various sectors. In general, the treatment is comprehensive and rich in details. For example, in discussing the retail foreign exchange market, we are first informed of the source of margins for the dealer of foreign currency. Then, we learn of the search and processing costs for the consumer. Finally, the chapter concludes by showing the benefits of presenting price in a more natural manner (e.g., when a customer buys Ruritanin dollars, the natural measure is not R$ 0.3742 per Australian dollar but A$ 2.672 per Ruritanin dollar. Then, a higher number denotes a higher price). A similar level of detail is provided for the other sectors.

The last two chapters are concerned with policy implications. Chapter 14 examines government regulation. After a brief review of the history of regulation in the USA, UK, and Australia, the discussion focuses on "when" and "how" government may seek to regulate. The issues and challenges are highlighted with specific examples from various sectors. Finally, Chapter 15 reverts back to consumer information. Oddly, we again learn of several topics discussed earlier, namely, how consumers process information, price dispersion, and complexity in pricing. However, true to the mission of this section, we also learn of the benefits and costs of policy intervention.

Overall, the main strength of the book is the conceptual treatment provided in the first seven chapters. In addition, the treatment of pricing in the various sectors will be of interest to practitioners closely allied to those sectors. A weakness of the book is the lack of a good structure and layout. Although the material divides naturally into conceptual issues, application to various sectors, and policy implications, it is divided into four sections that do not follow such a neat classification scheme. Very surprisingly, the book concludes with a chapter on consumer information. In addition, there is no consistent format for the chapters. Some have a summary, some don't. Moreover, summaries sometimes appear in the middle of a chapter. Finally, although there is a separate section on policy implications, the chapter on pricing in the retail foreign exchange sector concludes with some excellent policy implications.

On balance, however, there are several nuggets to be found in this somewhat disorganized presentation. As such, the patient reader will be amply rewarded with a richer understanding of retail pricing strategies.

References

Dolan, R.J. (1995), "How Do You Know When the Price Is Right?" Harvard Business Review, September-October, 174-183.

Kissan Joseph
Associate Professor
University of Kansas

On the Value of Manuals and Handbooks in Marketing Planning

Marketing is concerned with practical and profitable action. The "-ing" in marketing reminds us of the active character of the discipline. Marketers actively plan, audit, test, launch, track, appraise, assess, etc. When those who are engaged in the craft of marketing clamour for practical and relevant guidance they are looking for improved tools, techniques, hints and tips for planning, auditing, testing, launching, etc. The focus is on how to do something better than before, and to do so in a way that provides a competitive edge. The desire is for diagnostic skills and prescriptive advice.

Manuals and handbooks directly address these needs. Done well, these simply and clearly inform the manager of what to think about, what questions to ask, what information to gather, and what to do. Two such books are considered here:

McDonald, Malcolm (2002). Marketing Plans: How to Prepare Them, How to Use Them (Fifth Edition). Oxford: Butterworth-Heinemann.

Wilson, Aubrey (2002). The Marketing Audit Handbook: Tools, Techniques & Checklists to Exploit Your Marketing Resources. London: Kogan Page.

Marketing Plans

McDonald explains what marketing plans are, how to prepare them and how to use them. A strong focus on process runs throughout the book. There are four parts:

- Chapters 1-3 introduce the processes of marketing and marketing planning.
- Chapters 4-6 and 11 examine the strategic marketing plan, in terms of the marketing audit of customers, markets and products; setting marketing objectives and strategies; and using marketing information and forecasts.
- Chapters 7-10 consider the preparation of tactical, one-year operational plans, with a focus on promotion, pricing, distribution and customer service.
- Chapters 12-13 grapple with implementation – first in quite a general way, then through a step-by-step approach to the preparation of marketing plans.

Readers are expected to differ in their requirements. Some will go straight to the step-by-step guide for preparing a plan – this is by far the most applied section of the book. Those with primary responsibility for strategic marketing planning will skip the tactical material in chapters 7-10. By contrast, those charged with producing a comprehensive plan will need to work through all sections.

Considerable thought has been given to learning features: chapter summaries, key concepts, crucial terms in the margins, examples, marketing insights, headlines, case studies, application questions, chapter reviews and exercises. Skill-based computer software, videos, self-assessment questionnaires and computer-based training packages are also available. This one-stop package of resources is not only intended for study – it is to be used. Marketing planners, students, and instructors will welcome the impressive amount of thought and care that has gone into preparing the package.

Marketing Audits

Wilson concentrates on the auditing component of the marketing planning process. In subject matter this book is closely allied to McDonald's manual. However, the approach is different. Wilson gives us a book of lists. These are mainly lists of questions. A total of 28 lists cover a wide range of themes: marketing strategy and planning, product/service range, the service element in marketing, company performance, export marketing, marketing information, market size and structure, future markets, the salesforce and its management, customer care and support staff's role in marketing, cross-selling and internal marketing, the agency system, non-personal promotion, the distributive system, the buying process, analyzing lost business, introducing new products/services, user industries, key customer marketing, competitive intelligence, physical distribution and packaging, industry contacts, pricing, images and perceptions, quality in marketing, non-differentiated products and commodities, service businesses, and product/service financial information.

The comprehensiveness of these lists is apparent, although Wilson readily acknowledges that: "The lists are not complete – they never will be". Astutely, he notes that deletion of lists and individual items on lists is as important as accretion if the auditing process is to remain manageable. Manageability is a key consideration because these lists are designed for use. The reader is offered a down-to-earth approach that can be explained easily to a novice marketer and serve as a reminder for the more experienced manager. The auditing process starts with the collection of existing documents, irrelevant lists/questions are deleted, initial answers are given for relevant lists/questions, individual/group interviews are conducted, courses of action are recorded, action points are categorized according to urgency, likely cost, ease of implementation, etc., schedules and monitoring processes are agreed.

To facilitate use, helpful learning features are included. Apart from the lists themselves, there are introductory statements, flow-charts, templates and pro forma charts, and a CD-ROM (which can be edited by a manager who is engaged in the process of administering a live audit).

Wilson is recognized for his championing of industrial marketing, and there is appropriate coverage of themes such as key account management, salesforce management, and exhibitions, but the lists are intended to be general, relating to professional services and consumer marketing as much as B2B marketing.

The Value of Manuals and Handbooks

Books of this type are hardly new in management. Noteworthy examples exist in areas such as negotiations (Fisher and Ury 1981), team development (Belbin 1996) and marketing management (Ries and Trout 1993). These books belong to a similar genre, being neither research monographs nor undergraduate textbooks. Many of these books have been immensely successful in management circles, although some are more explicitly popularist in tone than others. McDonald is in fact a best-selling author–*Marketing Plans* is into its fifth edition, the project having started in 1975 and the first edition appeared in 1984. Wilson's text retains the core of previous editions published under the title *Marketing Audit Check Lists,* although he points out that the new work makes previous editions obsolete. Several factors account for these levels of success.

First, the authors recognise a fundamentally important point that far too many textbooks overlook. To quote McDonald (p. viii): "The problem … is not that the *philosophy* of marketing is not believed, rather it is that most companies, particularly industrial goods companies and many service organizations, have difficulty in making it work". These books are concerned with making things work – they are concerned with helping managers gather information, make decisions, agree actions and implement plans. Consequently, practical guidance comes centre-stage.

Second, they provide short-cuts for busy managers. Wilson (p. 1) makes the point that the value of lists is: "not to have to rethink, reorder or rewrite what has perhaps been done many times before". Also, in using a manual or list it is far less likely that something important will be over-looked or forgotten.

Third, they tap into a wealth of experience. In some books this all too easily comes across as a succession of "war-stories", but skillful authors can begin to generalize from their experiences and offer genuine insights. McDonald (p. xii) is at pains to stress the learning that has come from his extensive study of marketing planning. This has shown the importance of having strategic marketing plans with "a clear and simple summary of key market trends, key target segments, the value required by each of them, how we intend to create superior value (to competitors), with a clear prioritization of marketing objectives and strategies, together with the financial consequences". In practice, many plans are not at all like this: "Frequently, they are diffuse, confusing compilations of unconnected sections". Within specific chapters he identifies a number of problems. Here are some of his examples:

- "Market overviews contain substantially more information than is necessary, with no hint of the implications for marketing activity.
- Key segments are rarely identified. 'Segments' are often sectors or products, rather than groups of customers with similar needs.
- The competitive situation is not well analyzed and plans appear to assume no activity or reaction by competitors.
- SWOT analyses rarely pin down convincingly the

value that is required by segments. They are frequently too general to lead to any actionable propositions.

- Our own distinctive competences are rarely isolated and built on.
- SWOTs are rarely summarized clearly and logically in a portfolio which provides a categorization of the relevant potential of each and our relative strengths in each.
- Marketing objectives are frequently confused with marketing strategies and do not follow logically from the portfolio summary.
- The resource implications of effecting the marketing plans are not always clear."

Anyone who has read large numbers of marketing plans will recognize these problems. By following McDonald's advice there is greater chance of avoiding the worst of these problems.

Wilson (p. 283), drawing on his experiences, is also able to isolate a number of principles:

- "All answers to all questions should be examined critically in relation to the sources of information. 'How do we know?' is a vital interrogative. Folklore must be eschewed at all costs.
- The way data are used is more important than acquiring them. The system fails totally and the time investment is wasted if the data gathered are not applied, are used only partially, or are used badly.
- No action will occur as a result of the marketing audit unless every task is clearly allocated, tightly-scheduled and monitored punctiliously."

These principles have a familiar ring about them, but they are no less important for having been repeated.

Fourth, the "hands-on" approach lends itself to a non-nonsense presentation style, making the books accessible. These manuals are ideally suited to marketing managers – whether they are trying to self-administer the advice or use it as a component of a training program. With all the questions, exercises and support packages, the manuals are ideal for in-class discussion and debate on training programs – especially where students have direct experience of marketing planning and are able to reflect on these experiences.

The Dangers of Manuals and Handbooks

Despite the popularity of books of this type, in academic circles there has been something of a sneering attitude to them. In part, this may reflect envy at the popular success of these authors (although, coming from marketers, this is somewhat ironic). But, in addition, there are a number of very real dangers – some of which the authors are only too willing to acknowledge and give warning to readers.

First, there is the issue of evidence. Standard textbooks are preoccupied with descriptions and explanations, and are often perceived as not very practical. But, with the better ones, at least there is an attempt to ground their work. By contrast, the fear with manuals is that the emphasis on practicality overrides any concern for evidence and thorough grounding. The question needs to be asked: is the readiness to prescribe matched by a readiness to find grounded principles, upon which the prescriptions ought to be based? Ideally, we want textbooks that have something useful to say about application and implementation, and manuals that are grounded.

Second, a criticism of much grounded research is that it merely plays back what managers do, rather than offering prescriptions for the improvement of management practice. Manuals are different. They prescribe. They have normative goals. In this respect, the goals of the books under review are not dissimilar from those of the marketing engineers (for example, Wierenga, van Bruggen and Staelin 1999, Wierenga and van Bruggen 2000). Yet there appears to be no realization that these goals are shared; that marketing engineering has something to offer the manager who is reading manuals such as *Marketing Plans* or *The Marketing Audit Handbook,* or that these authors would have anything to contribute to marketing engineering. We have created boxes of knowledge, where perhaps there should be Venn Diagrams.

Third, too prescriptive an approach might result in constrained thinking, an inability to be creative and an unwillingness to think outside of the box. As Wilson (p. 1) states: "It is recognized that checklists can also inhibit original thinking and produce an unconsidered acceptance of what has been revealed". For this reason, Wilson invites the reader to pose questions and be reflective. His approach is a questioning one. Piercy's (2001) handbook on *Market-Led Strategic Change* is presented in a similar way, with a useful blend of prescription and open-ended discourse.

Fourth, a related concern is the tendency to marginalize academic work in the name of a practical no-nonsense style and approach to the subject. The effect may be unintended, but by not having references and the trappings of academic monographs the message is conveyed that the manager does not really have to worry about the underlying research. Which is likely to mean she does not consider the variable quality of the research, nor does she get into the habit of consulting the literature for new insights – something that has been identified as a major problem in keeping managers abreast of new principles and new techniques (Armstrong and Pagell 2003).

Fifth, there is a need to be explicit about contingencies, conditions, and contexts. McDonald argues that his book is equally relevant for consumer, service and industrial goods companies, because the process is universal. Indeed, any book will tell us that the process of marketing planning consists of a situation review, assumptions, objectives, strategies, programs, measurement and review. He also talks of applications to companies ranging from world leaders in their fields to small domestic firms. But he goes on to stress that within this broadly universal process, there are contextual issues to consider. He presents some of these as a set of questions (p. viii):

- "When should it be done, how often, by whom, and how?
- Is it different in a large and a small company?
- Is it different in a diversified and an undiversified company?
- Is it different in an international and a domestic company?
- What is the role of the chief executive?
- What is the role of the planning department?
- Should marketing planning be top-down or bottom-up?
- What is the relationship between operational (one year) and strategic (longer term) planning?"

These are highly pertinent questions to ponder by anyone engaged in the process of marketing planning and they suggest that when it comes to the details of marketing planning one size will not fit all.

Conclusion

What is the verdict? There are dangers with some of the manuals and handbooks on the market, and it is as well to be alert to these dangers. But, for managers in particular, this genre of book has tremendous appeal. There are sound reasons for this. What we need to be able to do is sift the good from the bad, not dismiss the whole genre. There is a need to distinguish the informed and grounded from the opinionated and speculative; the latter may be true, but we have no way of knowing, whereas with the former we should have at least some basis for knowing. Fortunately, it turns out that some manuals and handbooks are very well informed. Back in the 1970s, the popular (if not popularist) *Getting to Yes* (Fisher and Ury 1981) was underpinned by the Harvard Negotiation Project, a serious research endeavour. It is to be hoped the same can be said of the marketing books under review – *Marketing Plans* and *The Marketing Audit Handbook.* Certainly, it is evident that these manuals and handbooks exude professionalism, are written in a down-to-earth and accessible style, and impart learning from vast stores of business experiences. Recommendation: buy for use.

References

Armstrong, J.S., Pagell, R. (2003). "Reaping the Benefits from Management Research: Lessons from the Forecasting Principles Project", Interfaces (forthcoming)

Belbin, R.M. (1996). How to Build Successful Teams … The Belbin Way. Oxford: Butterworth-Heinemann.

Fisher, R., Ury, W. (1981). Getting to Yes: How to Negotiate to Agreement without giving in. London: Arrow.

Piercy, N. (2001). Market-Led Strategic Change: Transforming the Process of Going to Market (3rd edition). Oxford: Butterworth-Heinemann.

Ries, A., Trout, J. (1993). The 22 Immutable Laws of Marketing: Violate them at Your Own Risk. Harper Business.

Wierenga, B., van Bruggen, G., Staelin, R. (1999). "The Success of Marketing Management Support Systems," Marketing Science, 18 (3), 196-207.

Wierenga, B., van Bruggen, G. (2000). Marketing Management Support Systems: Principles, Tools and Implementation. Dordrecht: Kluwer Academic Publishers.

Mark Uncles
School of Marketing
UNSW