

# International Journal of economic behavior

## Call for papers

The International Journal of Economic Behavior aims to publish research articles (both quantitative and qualitative), reports from the field, critical review paper, discussions concerning the main characteristics of the economic behavior and, consequently, decision and organization. Moreover, the journal seeks to discuss the manner in which some of the classical theoretical statements, practices and policy making in Economics, Business and Management are influenced by factors which are not proven to fit the well / known hypothesis of economic rationality. The interdisciplinary approach is required, as economics, management, organization, psychology, sociology, anthropology are domains that help in understanding the complex economic behavior and provide the researchers with complete tools for analysis.

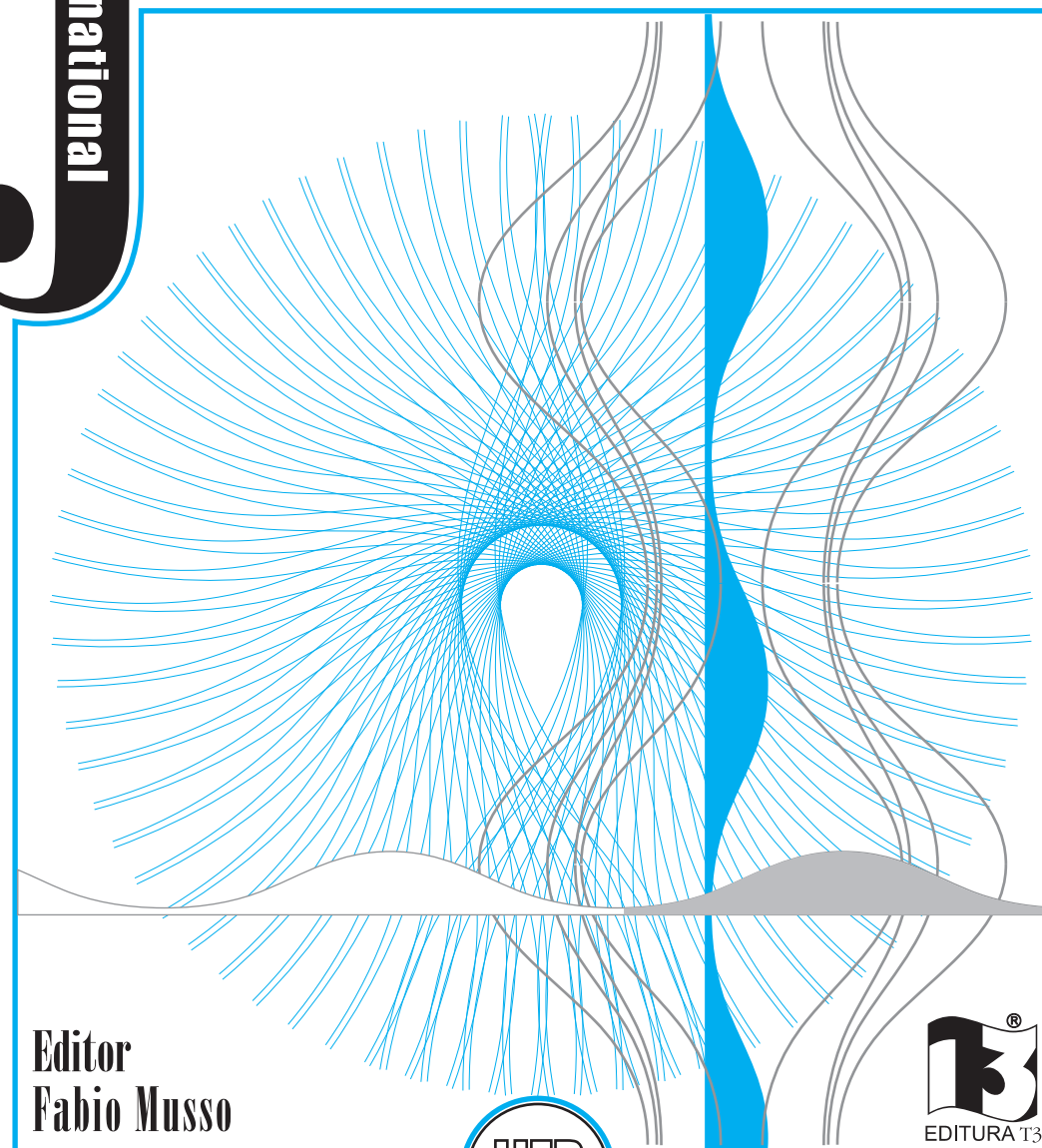
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**Frequency of publication: Once a year, in June**

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## EDITORIAL

This issue of the International Journal of Economic Behavior comprehend several topics that provide a special stimulus for future research on economic behavior and management.

The International Journal of Economic Behavior is multidisciplinary in nature and the papers collected in this issue comprehend nine contributes, among which six have been selected from the 8th EuroMed Academy of Business Conference, held in Verona, Italy on September 16-18, 2015. Three more papers followed a submission to the journal and a double blind review.

The first paper by Dimitrios A. Chatzoudes and Prodromos D. Chatzoglou proceeds in developing and testing an original conceptual framework, which explores the impact of CSR practices on various measures of consumer behaviour. The proposed conceptual framework was tested on a sample of 473 Greek consumers. Results underline the significance of CSR practices in an economy under crisis, the effect of gender, and the shift from the classic paradigm of CSR.

The second paper authored by Ulun Akturan explores the consumer-brand love relationship via discourse analysis of 750 entries of consumer statements about their beloved brands. Results propose differences between brand love and interpersonal love, highlighting brand related factors as well as consumer related factors that affect the development of love relationship with brands.

The main objective of the third paper by Maryem Cherni, Hanitra Randrianasolo-Rakotobe and Nalini Rakotonandraina is to propose and test an analytical model of the relevant factors which can help to better understand the adoption of agricultural practices by farmers. Results emphasize a great importance of formal networks in knowledge transfer.

The fourth paper written by Davide Pellegrini and Francesca De Canio investigates the effects of e-WOM (Electronic-Word of Mouth) of individuals through a netnography on 20 worldwide crowd-sourcing platforms. Findings demonstrate that the new overlapping of dialogue and sale can generate a positive loop between companies and individuals responsibility and reduce the distance between market and society.

The fifth paper, written by Shahina Pervin, is focused on consumers transfer in their purchase decision of beauty products (the face concept). Using factor analysis on data collected through a structured questionnaire survey, five factors were extracted. Then, the authors compared the degree of face concept and its impact on decision making process of female consumers in the UK and Bangladesh, finding differences just for one factor labelled as 'brand link to personal satisfaction'.

The sixth paper, written by Giovanni Ossola, Guido Giovando and Chiara Crovini, aims at monitoring the role of Net loans for banks in terms of impact on total assets. At the same time it investigates the correlation between loans and their related Reserves for impaired loans. Based on data extracted from Bankscope during the period 2005 – 2013, findings emphasize a strong concern regarding the steady increase of impaired loans and consequently the increasing possibility of mergers as one solution for pursuing a more efficient risk policy.

Finally, in this issue of the journal, three regular papers have been included.

The seventh paper by Lukman Raimi, Bolaji Cole, Morufu Oladimeji Shokunbi and Moshood Adeniji Bello is based on a qualitative research method aiming at shedding light on indigenous entrepreneurs and their battle for competitive edge with the Multinational Corporations (MNCs) in Nigeria. The authors suggest that indigenous entrepreneurs lost competitive edge because of unequal balance of power with MNCs linked to lack of advanced technologies, poor managerial knowledge, low international social networks and inadequate institutional support from the government.

The eight paper by Tonino Pencarelli and Mauro Dini is based on an empirical analysis aiming at investigating the relationships between travel agencies (TA) and tour operators (TO) in the Italian tourism intermediation system. Results highlight that, although the products supplied by TOs are fundamental to TA turnover, in most cases the channel relationships are of short duration and highly variable.

Finally, the paper by Maria Cecilia Coutinho de Arruda and Mirian Palmeira aims is to describe the customers and street retailers' perceptions related to Fast Fashion. The results, through qualitative and quantitative research, show that one of the major differentials of Fast Fashion (F/F) in Brazil could be credit conditions. It seems that there is a tendency that customers with some F/F knowledge and level of F/F consumption present positive perception of F/F quality, design and price. Retail companies should focus on the timing of the collections. The issue is to show how important is the Business Schools' role in a way to develop contents linked to Fashion and its different categories, such as Fast Fashion Retailing and to prepare the future professionals to deal with such different façades of Fashion.

The managing editors of the Special Section want to thank the Editor-in-Chief of International Journal of Economic Behavior, Fabio Musso, the Managing Editor, Barbara Francioni and all the Reviewers and Authors involved in this journal issue.

***Demetris Vrontis, Alberto Ferraris***

*Guest Editors*

# EXAMINING THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES ON VARIOUS MEASURES OF CONSUMER BEHAVIOR

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## *Abstract*

*Corporate Social Responsibility (CSR) is an extremely interesting research subject with numerous academic and practical implications. Its empirical investigation raises valuable lessons, since the existing literature offers several research gaps. More specifically, the role of CSR in economies under crisis has not been sufficiently investigated. In this context, the present study proceeds in developing and testing an original conceptual framework (research model), which explores the impact of CSR practices on various measures of consumer behavior. More specifically, the proposed conceptual framework includes one independent factor (CSR practices) and nine dependent factors (trust towards the organisation, company valuation, customer-company identification, recommendation intention, repeat patronage intention, customer loyalty, willingness to pay a premium price, perceived quality of services, company reputation). The proposed conceptual framework was tested, using a newly-developed structured questionnaire, in a sample of 473 Greek consumers. The Structural Equation Modelling (SEM) technique was used in order to test the research hypotheses. Results underline the significance of CSR practices in an economy under crisis, the effect of gender, and the shift from the classic paradigm of Corporate Social Responsibility.*

**Keywords:** Corporate Social Responsibility; Economic crisis; Empirical study; Structural Equation Modeling (SEM); Greece.

## **1. Introduction**

Corporate Social Responsibility (CSR) appears to have a significant impact on consumer behavior, since modern societies tend to pay an increasingly higher attention to the social interactions of business organisations (Bhattacharya and Sen, 2004; Cheng *et al.*, 2014; Korschun *et al.*, 2014; Maignan *et al.*, 2005). Despite that, there is a lack of empirical studies

providing coherent evidence about the specific effects of SCR practices on various measures of consumer behavior.

Moreover, according to numerous studies measuring consumer perceptions (e.g. CSR Europe, 2009; WPP, 2011), 87% of consumers expect companies to consider their effect on society while pursuing organisational goals and objectives, while 70% express the intention to purchase products from companies that have ethical values and demonstrate social responsibility. This seems to be an ongoing trend, since CSR becomes an increasingly important part of the business environment around the globe (Di Giuli and Kostovetsky, 2014).

According to Marin *et al.* (2009), the CSR stream of empirical research is characterised by contradicting results. The same view is being supported by the literature review studies of Schmitz and Schrader (2015) and Xu *et al.* (2014). More specifically, most empirical studies investigating consumer behavior are descriptive in nature, failing to recognise cause-and-effect relationships between research factors. Additionally, the role of CSR in economies under crisis has not been sufficiently investigated. The few recent studies investigating CSR in economies under crisis (e.g. Ducassy, 2013) are concerned with organisations, not citizens.

The present study aims at developing and empirically testing an original conceptual framework (research model), exploring the impact of CSR practices on various measures of consumer behavior (trust towards the organisation, company valuation, customer-company identification, recommendation intention, repeat patronage intention, customer loyalty, willingness to pay a premium price, perceived quality of services, company reputation). This framework was based on a critical synthesis of numerous previous empirical studies (e.g. Bravo *et al.*, 2009; Choi and La, 2013; Kalyar *et al.*, 2013; Lai *et al.*, 2010; Mandhachitara and Poolthong, 2011; Marin *et al.*, 2009; Martínez and del Bosque, 2013; Salmones *et al.*, 2005; Walsh and Bartikowski, 2013).

The examination of the proposed conceptual framework was made with the use of a newly-developed structured questionnaire that was distributed to a group of Greek consumers. Exploratory Factor Analysis (EFA), Confirmatory Factor Analysis (CFA), and the Structural Equation Modelling (SEM) technique were used in order to test the research hypotheses.

The present study is empirical (it is based on primary data), explanatory (examines cause and effect relationships), deductive (tests research hypotheses) and quantitative (analyses quantitative data collected with the use of a structured questionnaire). Its contribution lies in the following areas:

- It adopts an explanatory methodological approach, investigating causal relationships between various research factors. On the other hand, the existing international literature is, mostly, descriptive in nature.
- It is original, testing a conceptual framework that includes relationships that have never been collectively examined before by the relevant literature. Nevertheless, its theoretical basis is coherent, since the proposed conceptual framework is a synthesis of previous empirical investigation.
- It is conducted in an environment under economic crisis (Greece). Very few empirical studies have adopted the same approach. The recent studies of Ducassy (2013), Gangi and Trotta (2013), Herzig and Moon (2013), and Glavopoulos *et al.* (2013), also, examined economies under economic crisis, but their main focus was on organisations and not on consumers. Hence, the present study enhances the international body of CSR literature, offering information about the effect of CSR practices on consumer behavior in an economy under crisis.
- It uses primary data collected from consumers, and not from official financial statements. By doing so, it takes under consideration the “customers” of CSR initiatives. After all, the success of CSR practices is not determined by the amount of money spent, but on the

real perceptions of consumers. Moreover, using data from financial statements seems somewhat problematic, since their reliability is, usually, criticised.

## **2. The proposed Conceptual Framework**

The conceptual framework of the present study was built after an extensive review of the relevant literature. More specifically, numerous previous studies investigating the effect of CSR on consumer behavior were identified. The most important factors used in these studies were incorporated into the proposed conceptual framework (research model).

The present study adopts a wider view than the one, usually, followed in the literature of the field, since previous studies have, mostly, focused on a limited number of factors capturing consumer behavior. On the other hand, the present study investigates the effect of CSR practices on nine dimensions of consumer behavior.

### **2.1. Trust towards the organisation**

According to Godfrey (2005), CSR is a basic parameter for building the ethical background of an organisation. The perception that a company is ethical and responsible develops trusting relationships that are not based on contracts, but on values and principles. Pivato *et al.* (2008) argue that trust is one of the most significant consequences of social initiatives undertaken by companies. Thus, it is hypothesised:

*H1: CSR practices have a positive effect on trust towards the organisation.*

### **2.2. Company valuation**

Bhattacharya *et al.* (1998) argue that company valuation is being conducted upon the basis of the distinct characteristics of an organisation. CSR practices can be perceived as an integrated part of the organisational profile, allowing consumers to increase their overall valuation about the company. On the same vein, Berens *et al.* (2005) support that CSR builds a stronger corporate profile, thus affecting consumer perceptions. Mohr and Webb (2005) concluded that when consumers perceive a company as social responsible, their overall valuation about that company is significantly strengthened. Therefore, the following hypothesis is proposed:

*H2: CSR practices have a positive effect on company valuation.*

### **2.3. Customer-company identification**

The attractiveness of corporate image has been considered as one of the most important ingredients of customer-company identification (Ahearne *et al.*, 2005). According to Shamir (1991), the similarity between the personality of the consumer and the perceived image of the organization is allowing consumers to consider themselves as an integrated part of the organizational entity. After all, people wish to belong in groups that have the same values as their own (Tajfel and Turner, 1985). Consequently, consumers that are social responsible are more likely to identify themselves with companies that take part in CSR initiatives. Thus, it is hypothesised:

*H3: CSR practices have a positive effect on customer-company identification.*

### **2.4. Recommendation intention**

According to Vlachos (2011) and Wang (2013), the implementation of CSR practices increases customer willingness to express their positive opinion about the implementing company in their immediate surrounding (friends, family, colleagues, etc). Moreover,

Bhattacharya and Sen (2003) found that, even though consumers do not make their purchase decisions on the basis of corporate responsibility, they tend to recommend social responsible companies to their peers. Therefore, it would be interesting to hypothesise:

H4: *CSR practices have a positive effect on recommendation intention.*

### **2.5. Repeat patronage intention**

Repeat patronage intention has very randomly been examined in the empirical literature of the field (Bhattacharya and Sen, 2003; Folks and Kamins, 1999). Nevertheless, its empirical investigation has yielded contradictory results. Mohr *et al.* (2001) found out a direct positive effect, Salmons *et al.* (2005) concluded that the effect of CSR on repeat patronage intention is mediated through service quality, while Berens *et al.* (2005) identified corporate brand dominance as the only mediating factor. The present study posits that the relationship between CSR practices and repeat patronage intention is direct:

H5: *CSR practices have a positive effect on repeat patronage intention.*

### **2.6. Customer loyalty**

According to marketing experts (Kotler and Armstrong, 2008), customer loyalty is not only a significant marketing objective, but also contributes to building a coherent customer base and ensuring business survival. Moreover, customer loyalty is considered as a cornerstone for building a sustainable competitive advantage (Dick and Basu, 1994). Since the cost of gaining additional customers is quite significant (Chiou and Droge, 2006), retaining the existing customer base emerges as a major necessity. In that direction, it would be interesting to hypothesise whether CSR practices have a direct effect of customer loyalty:

H6: *CSR practices have a positive effect on customer loyalty.*

### **2.7. Willingness to pay a premium price**

Willingness to pay a premium price is considered as another dimension of customer loyalty (Pena *et al.*, 2013; Toufaily *et al.*, 2013). The impact between CSR practices and willingness to pay a premium price has not yet been investigated in the CSR literature. Despite that, such a relationship has found some theoretical support (Visser and Hollender, 2011; Werther and Chandler, 2011). Castaldo *et al.* (2009), in an empirical study of an, almost, similar field, found that customer trust in stores selling fair trade products has an impact on their intention to pay a premium price. Therefore, it would be reasonable to hypothesise that the more the CSR initiatives undertaken by an organisation, the higher the intention of its customers to accept the payment of a premium price:

H7: *CSR practices have a positive effect on willingness to pay a premium price.*

### **2.8. Perceived quality of services**

The international literature suggests that consumers are being influenced by the reputation of a company when evaluating the quality of its products and/or services (Brown and Dacin, 1997; Souiden *et al.*, 2006). Additionally, in the field of CSR, it has been found that social responsible initiatives have the ability to drive customer perceptions (Bhattacharya and Sen, 2003; Folks and Kamins, 1999; McWilliams and Siegel, 2001; Mohr *et al.*, 2001). Moreover, it has been empirically supported that CSR has an impact on various aspects of consumer behavior (Berens *et al.*, 2005, 2007). Despite that, the influence of CSR practices on



perceived quality of services has not been sufficiently investigated. Hence, it would be interesting to hypothesise:

*H8: CSR practices have a positive effect on perceived quality of services.*

### **2.9. Company reputation**

Company reputation is often considered a source of competitive advantage (Deephhouse, 2000; Fombrun, 1998). Fombrun and Shanley (1990), in their study about reputation building and corporate strategy, argue that the social image of an organisation can significantly enhance company reputation.

Hooghiemstra (2000) supports that social reporting is a communication medium that aims at enhanced reputation. Additionally, Carroll and Buchholtz (2000) perceive that CSR and company reputation are highly correlated. Therefore, it is hypothesised:

*H9: CSR practices have a positive effect on company reputation.*

### **2.10. The impact of gender**

O'Fallon and Butterfield (2005), having reviewed more than 170 empirical studies of the ethical decision-making literature (1996-2003), concluded that gender does not differentiate the perceptions about various ethical issues. Nevertheless, in the empirical studies that revealed a statistically significant difference, women were found to be more ethical than men (O'Fallon and Butterfield, 2005). Additionally, other social studies argue that women are more ethical, sensitive towards social issues and tolerant than men (Ameen *et al.*, 1996; Borkowski and Ugras, 1992; Burton and Hegarty, 1999; Deshpande, 1997; Okleshen and Hoyt, 1996). Even though there is extremely little research conducted in the field of CSR, it would be quite interesting to hypothesise:

*H10: Women are more influenced, than men, by CSR practices.*

## **3. Research methodology**

### **3.1. Population of the study**

The target population of the present study included Greek consumers between the ages of 21 and 65. According to the most recent official data (Hellenic Statistical Authority, 2014), there are 6.391.057 people between the ages of 21 and 65 currently residing in Greece.

The context of the Greek economy was selected because Greece is a developed country under crisis, while CSR is a well spread concept among its companies and consumers.

### **3.2. Measurement**

A newly developed structured questionnaire was designed in order to collect the appropriate empirical data. The questionnaire was divided into two sections. The first section included demographic questions about the person answering the questionnaire (gender, age, etc.), while the second section included questions (items) measuring the ten factors of the proposed conceptual framework.

The questionnaire is based on items that have been used by various previous studies of the field. The five point Likert scale was used for the measurement of all ten research factors (from 1 = 'strongly disagree', to 5 = 'strongly agree'). All items have been translated to the Greek language and then back to English by another person, in order to detect and consequently improve possible discrepancies.

Table 1 presents the ten factors of the study, the number of items used to measure each factor, and the sources for their measurement.

### 3.3. Data collection

Primary data were collected from a random sample of internet users. The target population was consumers between the ages of 21 and 65. An online questionnaire was created and the participants of the survey completed the questionnaire online. More specifically, consumers were asked to answer all questions having in mind their main cell phone provider.

Table 1 – Factor measurement

Factors	Number of items	Source
Trust towards the organisation	5	Vlachos, 2011; Martínez and del Bosque, 2013; Sparks <i>et al.</i> , 2013
Company valuation	4	Marin <i>et al.</i> , 2009
Customer-company identification	4	Mael and Ashforth, 1992; Marin <i>et al.</i> , 2009; Martínez and del Bosque, 2013
Recommendation intention	5	Vlachos, 2011; Wang, 2013
Repeat patronage intention	4	Bravo <i>et al.</i> , 2009; Mandhachitara and Poolthong, 2011; Vlachos, 2011
Customer loyalty	5	Arnold and Reynolds, 2003; Jin <i>et al.</i> , 2013; Marin <i>et al.</i> , 2009; Salmones <i>et al.</i> , 2005; Walsh and Bartikowski, 2013
Willingness to pay a premium price	4	Castaldo <i>et al.</i> , 2008; Homburg <i>et al.</i> , 2005
Perceived quality of services	7	Bayol, 2000; Bravo <i>et al.</i> , 2009; Mandhachitara and Poolthong, 2011; Roy and Eshghibc, 2013
Company reputation	4	De Leaniz and del Bosque, 2013; Hsu, 2011; Lai <i>et al.</i> , 2010
CSR practices	15	Choi and La, 2013; Hsu 2011; Mandhachitara and Poolthong, 2011; Sparks <i>et al.</i> , 2013; Salmones <i>et al.</i> , 2005

The link containing the questionnaire of the survey was published in various sites and forums. The questionnaire was accessible to a significant number of internet users (it was published in quite few highly popular sites and forums), and, therefore, 926 questionnaires were finally returned.

In order to verify that the final sample would be representative of the average Greek consumer, 473 questionnaires were randomly selected by the members of the research team, so as all age groups of the original population were equally represented. The research period lasted one month (May 2014). Table 2 provides some basic characteristics of the sample.

The final sample (473 questionnaires) is considered to be quite representative of the population of the study (Greek consumers between the ages of 21 and 65). More specifically, with a confidence level of 95% and a margin of error that equals 5%, the ideal sample for the given population (6.391.057 consumers) is 385 questionnaires (Creswell, 2013; Bryman and Bell, 2015). Moreover, according to Kline (2011), an ideal sample “size-to-parameters ratio” for studies using the Structural Equation Modeling (SEM) technique is 20:1, meaning that every factor of the study should correspond to 20 questionnaires. The present study includes

ten factors ( $10 \times 20 = 200$ ), therefore the sample “size-to-parameters ratio” is considered to be more that satisfactory.

Table 2 – Sample profile

Characteristics	Percentages
Gender	
Males	47,6
Females	52,4
Age	
Between 21-30 years	25,6
Between 31-40 years	27,9
Between 41-50 years	25,8
Between 50-65 years	20,7
Education	
Elementary school	7,5
High school	14,9
Technical school	13,2
Bachelor	43,8
Master / PhD	20,6

### 3.4. *Validity and reliability*

The validity and reliability of the questionnaire were thoroughly examined.

The test for the content validity included: (a) consultation with academics, (b) consultation with practitioners, and (c) pilot testing. Several questions were slightly modified before the final draft was developed, based on the remarks and instructions that emerged from the above procedure.

The construct validity test was conducted in two steps. Each of the ten factors was evaluated (a) for its unidimensionality and reliability, (b) for the goodness of fit to the proposed research model.

The examination of the unidimensionality of each of the research factors was conducted using Explanatory Factor Analysis (EFA) (using Principal Component Analysis). Moreover, the statistical measure ‘Cronbach Alpha’ was used for estimating the reliability of the same factors. Moreover, the evaluation of the goodness of fit of the research factors (constructs) was conducted using Confirmatory Factor Analysis (CFA).

All tests concluded that the scales used for the measurement of the research factors are valid and reliable. The only modification that resulted from the Explanatory Factor Analysis was the separation of ‘CSR practices’, the only independent factor of the study, into three dimensions: (1) Interest for the local community and the environment (5 items), (2) Respect towards employees and customers (6 items), and (3) Respect towards the Law (5 items). Nevertheless, the measurement of ‘CSR practices’ with the use of one coherent structure was also possible, when examining the values provided by both EFA and second-order CFA.

Tables 3 and 4 present the main results of the construct validity test.

## 4. Results and discussion

The testing of the conceptual framework was made using the Structural Equation Modeling (SEM) technique. The estimation of the structural model was conducted with the Maximum Likelihood Estimation method. The Covariance Matrix was used as the table of entry and the

extraction of the Standardized Completely Solution was requested (Barrett, 2007; Bowen and Guo, 2011; Byrne, 2013; Hair *et al.*, 1995; Kelloway, 1998).

More specifically, the following measures have been examined (same measures were used in the CFA) (Schumacker and Lomax, 2010; Smith and McMillan, 2001):

- $\chi^2$ : It should be statistically insignificant ( $p > 0,05$ ).
- Normed  $\chi^2$  ( $\chi^2/df$ ): Values between 1 and 3 are desirable, while values between 1 and 5 are acceptable.
- Construct Reliability (C.R.): It should higher than 0,7.
- Variance Extracted (V.E.): It should higher than 50%.
- RMSEA: It should be less than 0,07.
- CFI / GFI: They both should be higher than 0,9.

Table 3 – Estimation of unidimensionality and reliability

Factors	Kaiser-Mayer-Olkin	Bartlett's Test of Sphericity	Eigen-value	% of Variance	Cronbach Alpha
Trust towards the organisation	0,824	717,032*	3,070	76,760%	0,898
Company valuation	0,833	749,320*	3,109	77,729%	0,904
Customer-company identification	0,779	531,173*	2,718	67,940%	0,832
Recommendation intention	0,678	696,411*	2,503	83,427%	0,888
Repeat patronage intention	0,771	852,481*	2,716	90,527%	0,947
Customer loyalty	0,814	499,803*	2,792	69,791%	0,853
Willingness to pay a premium price	0,713	502,290*	2,435	81,174%	0,883
Perceived quality of services	0,854	925,635*	4,175	59,638%	0,885
Company reputation	0,789	624,422*	2,816	70,405%	0,843
CSR practices (one-factor solution)	0,719	746,123*	1,123	53,761%	0,709
CSR practices: Interest for the local community and the environment	0,726	545,143*	2,514	69,471%	0,854
CSR practices: Respect towards employees and customers	0,833	597,177*	3,458	72,471%	0,837
CSR practices: Respect towards the Law	0,811	473,789*	2,471	62,458	0,855

\*  $p < 0,01$ .

#### 4.1. First model

Initially, the original conceptual framework, with “CSR practices” measured with one coherent construct (factor), was being analysed. The structural model fitted the data well, while all research hypotheses found empirical support. Moreover, it seems that CSR practices can explain a significant percentage of the variance of the nine dependent factors (see  $R^2$  indexes in Figure 1).

In order to evaluate the fit of the overall model the chi-square value ( $\chi^2 = 167,11$  with 83 degrees of freedom) and the p-value ( $p = 0,0541$ ) were estimated. These values indicate a good fit of the data to the overall model. Moreover, other measures of evaluating the overall

and the measurement model were used (Normed- $X^2$ , RMSEA, CFI, GFI). All these measures produced satisfactory results.

Table 4 – Estimation of the goodness of fit

Factors	Normed $X^2$	C.R.	V.E.	RMSEA	CFI	GFI
Trust towards the organisation	2,57	0,76	64,7%	0,041	0,99	0,97
Company valuation	2,19	0,79	75,2%	0,032	0,97	0,97
Customer-company identification	3,07	0,83	76,0%	0,035	0,93	0,94
Recommendation intention	3,31	0,84	73,2%	0,048	0,97	0,93
Repeat patronage intention	2,93	0,75	63,4%	0,052	0,99	0,97
Customer loyalty	3,13	0,85	58,6%	0,056	0,90	0,93
Willingness to pay a premium price	2,84	0,72	72,8%	0,045	0,96	0,93
Perceived quality of services	2,45	0,79	79,7%	0,036	0,95	0,93
Company reputation	2,12	0,81	77,4%	0,055	0,93	0,97
CSR practices: Interest for the local community and the environment	3,74	0,91	67,3%	0,058	0,90	0,99
CSR practices: Respect towards employees and customers	2,94	0,88	61,6%	0,061	0,89	0,95
CSR practices: Respect towards the Law	2,11	0,78	64,8%	0,038	0,97	0,94
CSR practices (second-order CFA)	2,19	0,85	79,3%	0,057	0,97	0,99

\*  $p < 0,01$ .

Figure 1 demonstrates the overall structural model, along with the extracted path coefficients and the adjusted  $R^2$  scores. Table 5 shows the overall findings concerning the hypotheses of the study. The main findings are summarised below:

- The empirical verification of all research hypotheses underlines the significant impact of CSR practices on various measures of consumer behavior. Moreover, the correlation (path) coefficients between the independent and the dependent factors are considered to be more that satisfactory, in most of the cases.
- CSR practices have the highest impact on ‘trust towards the organisation’ ( $r=0,75$ ), ‘company valuation’ ( $r=0,71$ ), and ‘perceived quality of services’ ( $r=0,70$ ).
- The lowest impact concerns the factors ‘customer-company identification’ ( $r=0,37$ ), and ‘willingness to pay a premium price’ ( $r=0,47$ ). Despite that, these effects are statistically significant, and their values are higher than those extracted in other similar empirical studies (e.g. Green and Peloza, 2011; Kalyar *et al.*, 2013; Kotler and Armstrong, 2008).
- It seems that Greek consumers, especially in an external environment of economic crisis, really appreciate the implementation of CSR practices. Therefore, they tend to adopt a positive attitude towards implementing organisations. Their behavior in numerous vital areas in significantly strengthened. Consequently, it appears that CSR practices constitute an important tool for enhancing the bonds between organisations and consumers.

Figure 1 – Main empirical results (first model)

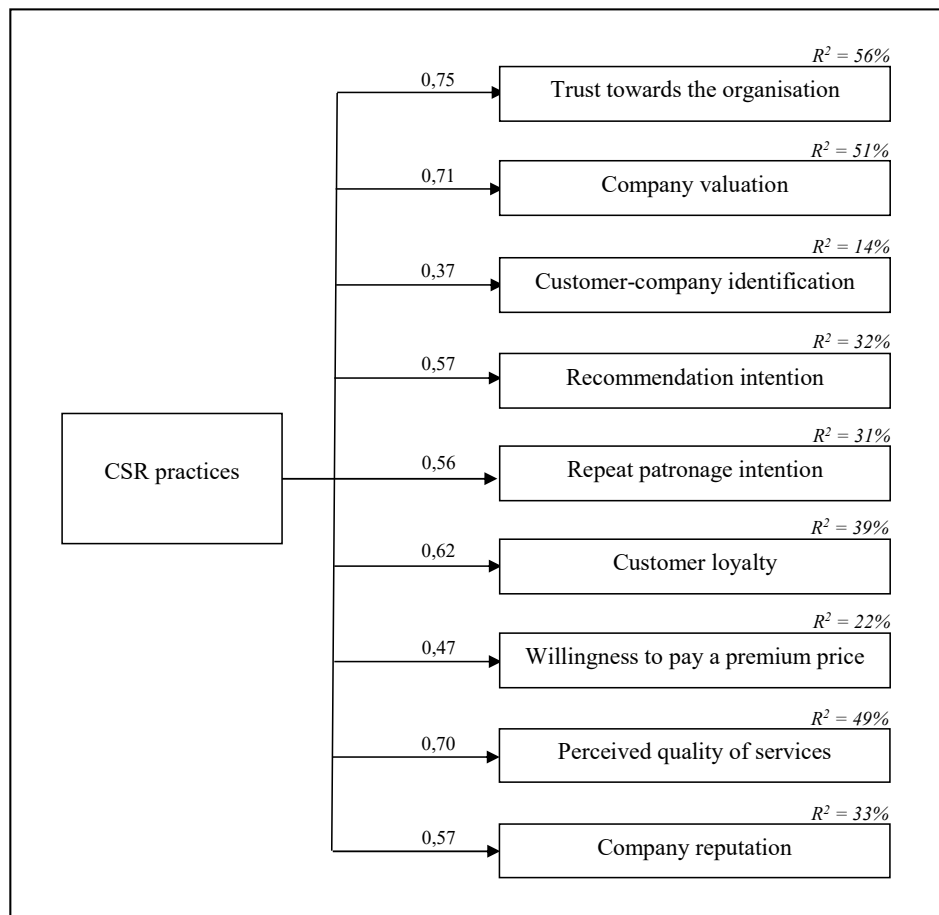


Table 5 – Results of hypotheses testing (first model)

Hypothesis	Path	Path coefficient	Remarks
H1	CSR practices → Trust towards the organisation	0,75*	Accepted
H2	CSR practices → Company valuation	0,71*	Accepted
H3	CSR practices → Customer-company identification	0,37*	Accepted
H4	CSR practices → Recommendation intention	0,57*	Accepted
H5	CSR practices → Repeat patronage intention	0,56*	Accepted
H6	CSR practices → Customer loyalty	0,62*	Accepted
H7	CSR practices → Willingness to pay a premium price	0,47*	Accepted
H8	CSR practices → Perceived quality of services	0,70*	Accepted
H9	CSR practices → Company reputation	0,57*	Accepted

\*  $p < 0,01$ .

#### 4.2. Second model

In the second model, it is investigated whether the gender of the respondents plays a significant role in the relationship between “CSR practices” and consumer behavior. In that direction, the examination of the conceptual framework was conducted twice, once for men and once for women. As with the first analysis, the structural model fitted the data well, while all appropriate measures ( $X^2$ , p-value, Normed- $X^2$ , RMSEA, CFI, GFI) produced satisfactory results.

Table 6 attempts a comparison between the results obtained from men and the ones obtained from women. It includes the path coefficients (r) and the adjusted  $R^2$  scores for both genders. The main findings are summarised below:

- The impact of CSR practices on the nine factors measuring consumer behavior is higher in the case of the Greek male consumers. More specifically, the empirical results indicate that every aspect of the behavior of male consumers is affected more from the implication of CSR practices. For example, the mean score of the effects of CSR on consumer behavior is  $r=0,69$  for men and  $r=0,50$  for women. Therefore, Hypothesis 10 is rejected by the empirical data.
- That specific finding is quite unexpected, since the previous literature (e.g. O’Fallon and Butterfield, 2005) has suggested that women are more ethical (socially responsible) than men. Explaining that phenomenon is not an easy task, since the literature does not include relevant references.
- A possible explanation may lie in the different level of pragmatism that is attributed in both genders. According to a simplistic definition (Murray, 2014), pragmatism constitutes a reasonable and logical way of thinking, that is based on dealing with specific situations and not on ideas or theories. Men, being more pragmatists by their nature, may know that CSR practices do not have pure motives, but tend to respect their real effect on society (especially on a society under crisis). On the other hand, women, being less pragmatic, pay more attention to the motives behind the implementation of CSR practices, and are, thus, more sceptical against such initiatives from business organisations. Therefore, the behavior of women consumers is less affected by various SCR practices.
- Nevertheless, it seems that the effect of CSR practices on the factors measuring consumer behavior is statistical significant, no matter what the gender of the respondents is.

Table 6 – Results of hypotheses testing (second model)\*

H	Path	Male	Female	Male	Female
		Path coefficient		$R^2$	
H1	CSR practices → Trust towards the organisation	0,80	0,68	65%	46%
H2	CSR practices → Company valuation	0,84	0,65	70%	42%
H3	CSR practices → Customer-company identification	0,52	0,34	27%	12%
H4	CSR practices → Recommendation intention	0,72	0,48	52%	23%
H5	CSR practices → Repeat patronage intention	0,68	0,47	46%	22%
H6	CSR practices → Customer loyalty	0,72	0,58	51%	34%
H7	CSR practices → Willingness to pay a premium price	0,55	0,36	31%	13%
H8	CSR practices → Perceived quality of services	0,74	0,56	54%	31%
H9	CSR practices → Company reputation	0,60	0,44	36%	19%
Mean score		0,69	0,50	48%	27%

\* All relationships are statistically significant at the  $p<0,01$  level.

### 4.3. Third model

In the third model, the three-factor solution for the measurement of “CSR practices” was taken under consideration. The analysis of the results was significantly enhanced, as a result of that consideration. Once again, the structural model fitted the data well, while all appropriate measures ( $X^2$ , p-value, Normed- $X^2$ , RMSEA, CFI, GFI) produced satisfactory results.

Table 7 presents the causal relationships between the three sub-dimension of CSR (interest for the local community and the environment, respect towards employees and customers, respect towards the law) and the nine factors capturing various aspects of consumer behavior. More specifically, the path coefficients ( $r$ ) and the adjusted  $R^2$  scores are included in the Table. Finally, the mean score of the effects between each sub-dimension of CSR and the nine factors of consumer behavior is being calculated.

Table 7 – Results of hypotheses testing (third model)\*

Dependent factors	Independent factors					
	Interest for the local community and the environment		Respect towards employees and customers		Respect towards the Law	
	Path coefficient	R <sup>2</sup>	Path coefficient	R <sup>2</sup>	Path coefficient	R <sup>2</sup>
Trust towards the organisation	0,45	20%	0,79	63%	0,61	37%
Company valuation	0,47	22%	0,74	55%	0,58	33%
Customer-company identification	0,30	9%	0,34	11%	0,29	8%
Recommendation intention	0,42	18%	0,53	28%	0,47	22%
Repeat patronage intention	0,36	13%	0,58	34%	0,41	17%
Customer loyalty	0,46	21%	0,62	38%	0,46	21%
Willingness to pay a premium price	0,43	18%	0,41	17%	0,29	8%
Perceived quality of services	0,48	23%	0,72	51%	0,58	33%
Company reputation	0,42	18%	0,55	30%	0,44	19%
Mean score	0,42	18%	0,59	36%	0,46	22%

\* All relationships are statistically significant at the  $p < 0,01$  level.

The main findings are summarised below:

- The effect of every CSR dimension on the measures capturing consumer behavior is statistically significant. That finding was quite expected, in the light of the support that was established for all research hypotheses (see section 4.1).
- Empirical results indicate that ‘respect towards employees and customers’ has the highest effect on consumer behavior (mean effect score,  $r=0,59$ ), ‘respect towards the Law’ comes second (mean effect score,  $r=0,46$ ) while, finally, ‘interest for the local community and the environment’ comes in the third place (mean effect score,  $r=0,42$ ).
- It seems that, nowadays, consumers tend to consider that corporate responsible initiatives towards employees and customers are the most important ingredients of a responsible behavior. After all, these two groups are amongst the most important stakeholders of an organisation. That finding may be attributed to the crisis of the Greek economy. On the one hand, employees live in constant fear of losing their jobs, while, on the other, customers experience a significant decrease in their family income. Therefore, when a



company takes social responsible actions towards employees and customers, the public opinion tends to shift in its favour. Summing up, it can be concluded that, in an economy under crisis, people should be in the centre of CSR practices.

- Moreover, keeping the Law (e.g. paying taxes, avoid building unethical relationships with official bodies) seems quite important for consumers.
- According to all the above, it seems that there is a shift in the classical model of CSR, since charities and actions for the improvement of the environment, while still significant, are not among the first priorities for Greek consumers.

## 5. Conclusions

The present empirical study developed an original conceptual framework that has never been used in the international CSR literature. Future studies can adopt the same approach, further highlighting the impact of CSR practices on various aspects of consumer behavior. Its main contribution lies on its implemented methodology (synthesis of various previous studies), conceptualisation (proposal of a novel research model), focus (consumer behavior), and context (economy under crisis).

The main results of the study are summarised below:

- CSR has the most significant impact on the following factors: customer trust towards the organization ( $r=0,75$ ), company valuation ( $r=0,71$ ), perceived quality of services ( $r=0,70$ ) and customer loyalty ( $r=0,62$ ). Companies facing problems in these areas can utilise CSR strategies as a measure of improving the perceptions of their customers. For example, companies operating in industries in which trust is a major factor influencing consumer behavior, should really place CSR in the centre of their attention.
- In contrary with previous studies of similar fields (ethical decision-making literature), it was found that men are more sensitive to CSR practices than women. Therefore, CSR initiatives especially aiming at male consumers should be among the strategic choices of business organisations.
- When taking under consideration the separation of CSR in three sub-dimensions (interest for the local community and the environment, respect towards employees and customers, respect towards the Law), the empirical analysis revealed that the second dimension ('respect towards employees and customers') has a higher impact on consumer behavior than the other two. 'Respect towards the Law' comes second, while 'interest for the local community and the environment' has the least strong impact on consumer behavior. These empirical results shift the 'classical' model of CSR, since consumers seem to place more importance on social actions towards employees and customers and not on charities and actions for the improvement of the environment. Moreover, keeping the law seems quite important in the mind of consumers.

All these observations contribute to the understanding of the impact of CSR under crisis. In a country under crisis, consumers prefer companies to be responsible to their employees (respect of work rights, offer of fair wages and a safe work environment) and their customers (ethical conduct, offer of quality services in a law price). Additionally, consumers expect companies to respect the existing laws, regularly pay their taxes and avoid developing intertwining interests with the government. These results urge companies, operating in economies under crisis, to redesign their CSR strategy, focusing on employees, customers and respect towards the law.

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## WHY CONSUMERS LOVE BRANDS?

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### *Abstract*

*The aim of this research is to explore the consumer-brand love relationship. By doing so, 750 entries of consumer statements about their beloved brands were analyzed via discourse analysis. As a result, it was found that brand love is different from interpersonal love. There is brand related factors (functional congruity, satisfaction, brand trust, brand passion, sensory experiences) as well as consumer related factors (self-congruity, and personalized experience) affect the development of love relationship with brands.*

**Keywords:** Brand love, Love expressions, Consumer characteristics, Brand characteristics, Thematic analysis.

### **1. Introduction**

Brands help define consumers' lives and play a central role in people's consumption behavior (Albert, 2013). As a new territory for differentiation and loyalty, creating deep emotional connection between brands and consumers became crucial. And that shift in the consumer-brand relationship raised interest and research on brand love. Among practitioners, the book *Lovemarks: The Future Beyond Brands* by Roberts (2004) drew attention that brands become ubiquitous and commoditized because of continuous improvements across quality dimensions in manufacturing, distribution, service, price, and promotion.

Studies on the love relationship between consumers and brands are commonplace not only in marketing literature but also in managerial applications. Research has revealed that there may develop a love strong bonds between consumer and brands such as marriage-like, love-like and friendship-like (Fournier, & Yao, 1997). There are studies on the conceptualization (Ahuvia, 1993; Albert *et al.* 2008) and measurement (Carroll & Ahuvia, 2006; Batra *et al.*, 2012; Albert & Valette-Florence, 2010; Rossiter, 2012). There are only a few studies analyzed the outcomes of brand love and found that brand love is associated with positive word of mouth (WOM), brand loyalty (Carroll & Ahuvia 2006; Fournier 1998; Thomson *et al.*, 2005), increased willingness to pay a price premium (Thomson *et al.*, 2005), forgiveness of brand failures (Bauer *et al.*, 2009), brand identification (Bergkvist & Bech-Larsen 2010; Albert & Merunka, 2013), commitment, and trust (Bergkvist & Bech-Larsen 2010; Albert & Merunka, 2013).

This research aims to define the roots of brand love and answer the question of why people love brands. Based on 750 entries of consumer statements about their lovemarks, this research proposes a higher-end love relationship model. Secondly, this research put forwards

the possible antecedents brand love. And finally, this study extends the literature by responding Albert & Merunka's (2013) further research concern on the roots of brand love.

The following section provides a literature review on the concept of brand love and the reasoning of research questions. Next, the methodology is explained and the results of analysis are discussed along with the theoretical and managerial implications. The further research considerations are presented last.

## 2. Literature Review

Brand love is defined as "the degree of passionate emotional attachment that a person has for a particular trade name" (Carroll & Ahuvia, 2006, p. 5). Consumers develop an emotional connection with the brands that is beyond brand loyalty. Love is a predominant concept since it was the second most commonly listed emotion, superseded only by happiness, when asked to list feelings that were experienced for an emotionally attached object (Schultz *et al.*, 1989). Our sense of who we are is strongly influenced by the people, and things that we love (Ahuvia, 2005).

Theorists attempted to link the brand love with the interpersonal love based on Sternberg's (1986) triangular theory of love. Sternberg's (1986) defines fundamental components of love as (1) intimacy, (2) passion, and (3) decision/commitment. Shimp & Madden (1988) adapted Sternberg's (1986) triangular theory of love and defined eight types of consumer-object relations: nonliking, liking, infatuation, functionalism, inhibited desire, utilitarianism, succumbed desire, and loyalty. Ahuvia (1993), Whang *et al.* (2004) concluded that there were similarities between interpersonal love and brand love. However, Albert *et al.* (2008) argue that love is a complex phenomenon, and choosing any particular theory of interpersonal relationships may be theoretically constraining brand love concept. They defined seven first-order dimensions of brand love (duration, idealization, intimacy, pleasure, dream, memories, unicity) that constitute two second-order dimensions (passion and affection) (Albert *et al.* 2008). In addition to that, Batra *et al.* (2012) highlighted that consumers' love for a brand should have been differentiated from interpersonal love and they revealed that brand love was constituted by seven dimensions: perceived functional quality; self-related cognitions; positive affect; negative affect; satisfaction; attitude strength; and loyalty. Rossiter (2012) provided the C-OAR-SE method to measure brand love and distinguishing it from brand liking.

On the other hand, there are several studies that explored consumer-brand relationship constructs as antecedents and consequences of brand love. The results demonstrate relationships between brand love and sense of community (Bergkvist & Bech-Larsen 2010) brand trust, and brand identification (Albert & Merunka, 2013; Bergkvist and Bech-Larsen 2010) as antecedents, and brand commitment, (Albert & Merunka, 2013) positive WOM (Albert & Merunka, 2013; Batra *et al.*, 2012; Carroll & Ahuvia 2006; Fournier 1998; Thomson *et al.*, 2005), propensity to pay a higher price (Albert & Merunka, 2013; Thomson *et al.*, 2005); resistance to negative information (Batra *et al.*, 2012), brand loyalty (Batra *et al.*, 2012; Bergkvist and Bech-Larsen 2010), and active engagement (Bergkvist and Bech-Larsen 2010) as consequences. □

Previous studies used convenience sampling, and collected data via in-depth interviews or self-administered questionnaires. Love is a complex emotion and measuring love via self-administered questionnaires may not cover all the aspect of brand love. In that point, qualitative research and in-depth interviews may generate much richer data. Already, the studies used in-depth interviews concluded that brand love is different from interpersonal love. The aim of this research is to explore the roots of brand love by answering the questions of; (1) why do the consumers love brands? (2) Are there brand-specific features? (3) Are there



consumer-specific features? (4) How does brand love develop? By doing so, unlike the other studies, this research relies upon the self-expressions of consumers, their stories with the brand and their love declarations.

### 3. Methodology

#### 3.1. Sampling

In the study, as a research methodology, in order to collect data netnography is used via non-participant observation. ). Netnography is defined as “a new qualitative research methodology that adapts ethnographic research techniques to study cultures and communities that are emerging through computer-mediated communications” (Kozinets, 1998: 366). It is a stand-alone method of tracking marketing-related behavior of virtual communities (Kozinets, 2002). It provides valuable contributions for the marketing and consumer behavior. As part of the ethnographic approach, first of all, cyber ethnography is a method well suited to gaining insights about the virtual communities. Because the virtual communities have a cultural composition, netnographic research provides a deeper understanding of behavior, habits, needs and wants (Ward, 1999; Catterall & Maclaran, 2001). Also it is adaptable to a variety of circumstances due to its rich qualitative content and the open-endedness of its findings (Kozinets, 2002). The most important decision of netnography is the identification of the suitable online communities in cultural entrée stage. There are five basic criteria in deciding which virtual community to choose. These are as follows (Kozinets, 2002):

- The chosen virtual community should have a focused segment related with the research question.
- The traffic in the community should be substantial and the number of postings should be high.
- The virtual community should have larger numbers of discrete message posters.
- It should contain detailed and rich data.
- The member contact related with the research subject should be interactive.

On the basis of these criterias *lovemarks.com* website is chosen as subject to research. *Lovemarks.com* is established by Saatchi&Saatchi and includes the conversations and shares of consumers' lovemark stories. In the study, the consumers' statements and stories about six brands (Apple, Google, Starbucks, Coca Cola, Toyota and Nike) were downloaded on 5-8 February 2015, and totally 750 entries were analyzed. These brands are chosen because not only they are from different product categories, but also they are on the list of the most valuable brands, have global operations, and have higher postings on the *lovemarks.com* website.

#### 3.2 Data Analysis

The data was analyzed via thematic analysis. Thematic analysis is a widely used qualitative analytic method to identify, analyze, and report patterns (themes) within a data set (Braun and Clarke, 2006). Thematic analysis searches for themes, which are emerged as being important to the description of the phenomenon (Fereday & Muir-Cochrane, 2008). The process involves the identification of themes through “careful reading and re-reading of the data” (Rice & Ezzy, 1999, p. 258). It is a form of pattern recognition within the data, where emerging themes become the categories for analysis. It helps to describe the data set in rich and thick details. It also interprets various aspects of the research topic (Boyatzis, 1998). An

inductive approach is implemented in coding. Inductive approach is data-driven and includes “a process of coding the data *without* trying to fit it into a pre-existing coding frame, or the researcher’s analytic preconceptions (Braun & Clarke, 2006, p. 12). Hierarchical coding was used in order to reach high-order themes. In hierarchical organization of codes, with groups of similar codes clustered together to produce more general higher-order codes. Hierarchical coding allows the researcher to analyze texts at varying levels of specificity (King, 2004). Themes are defined as units derived from patterns such as “conversation topics, vocabulary, recurring activities, meanings, feelings, or folk sayings and proverbs” (Taylor & Bogdan, 1989, p.131). Themes that emerge from the informants’ stories are pieced together to form a comprehensive picture of their collective experience. The “coherence of ideas rests with the analyst who has rigorously studied how different ideas or components fit together in a meaningful way when linked together” (Leininger, 1985, p. 60).

## 4. Research Findings

### 4.1. Brand-specific features

A brand is formed by different functions, concepts, and characteristics that are named as brand assets from the consumers’ perspective (Park et al., 2013). An emotional bond develops if a brand helps to achieve one’s goals, in other words, the instrumental role of brands are important in the emerging process of personal connection and emotional bond between brands and consumers (Park et al., 2006). This findings of this research also supports the previous literature on that brand love is not an unconditional love, and in that sense, it differs from interpersonal love. In this study, five brand-specific features are defined as affecting brand love: (1) functional congruity, (2) satisfaction, (3) brand trust, (4) brand passion and (5) sensory experiences.

*Functional congruity:* Functional congruity is defined as “the match between the consumer’s beliefs about brand utilitarian attributes (performance) and the consumer’s referent attributes” (Sirgy & Johar, 1999 p.252). The referent attributes are used as criteria to evaluate the actual performance of the brand. In this study, love statements in relation with six different brands highlighted that, consumers impressed by the functional features of the brands. These brands are described as *high quality, make life easier, comfortable, taste great, user-friendly, functions well, run smoothly, long-lasting*, in sum, *best and great*. Park et al. (2013) state that attachment occurs if and when a brand can serve the consumers’ needs effectively through reliable functional performance. Since the consumers see these brands as being beyond their expectations, it was proposed that (P1) functional congruity positively affects brand love.

*Satisfaction:* Satisfaction is a major outcome of marketing activities and serves to link purchase and consumption with post-purchase phenomena such as attitude change, repurchases, and brand loyalty (Churchill & Surprenant, 1982). It is conceptualized within the context of relationship marketing rather than transactional marketing (Sheth & Parvatiyar, 1994; Hennig-Thurau & Klee, 1997). Consumers declared that they are satisfied with their beloved brands:

*My Macbook Pro featuring my iMac, just unbeatable!*

*Google is simply the best Search Engine I ever used.*

*The feeling when you drink an ice, cold Coke from that traditional curvy glass bottle on a steaming hot day is one of those things you never forget or fail to appreciate. My whole body*

*relaxes as that caramel-like sweetness hits my tongue and is followed by that wonderfully pleasant burn as it hits the back of my throat and is finally welcomed by my stomach as it quenches my thirst. That my friends, is satisfaction.*

Therefore second proposition is stated that (P2) satisfaction positively affects brand love.

**Brand trust:** Brand trust is composed of affective perceptions about the brand (Elliott & Yannopoulou, 2007) as well as cognitive beliefs (Delgado-Ballester *et al.*, 2003). Cognitive brand trust beliefs include expectations of brand reliability, consistency, competence, and/or predictability of performance. The emotional elements leading to brand trust include expectations of brand integrity, honesty, and/or benevolence (Becerra & Korgaonkar, 2011; Delgado-Ballester *et al.*, 2003). In general, the consumers think those brands are reliable, and trustworthy, and they are never disappointed by them.

*My first car was a Pontiac Firebird - used. That thing broke down whenever it had a chance and it even had the nerve to do so at a drive through ATM on payday Friday. I ditched it and my father gave me the old beatup Toyota minivan that was older than the Pontiac with no air conditioning. In Florida a car with no air is like a sauna multiplied by an oven. That Toyota ran, rarely broke down and was an absolute godsend. It was efficient on gas and it was just such a great car. When I saved up enough I got a new car... a Toyota Tundra. Built to be great cars and they seldom disappoint.*

*Nike is a very high quality sports brand which is also quite prestigious. I have fallen in love with Nike and never want to use another brand. If you truly Nike, you will not be disappointed.*

*3 words that can describe this product are classy, elegant and highly-qualified. Love can disappoint you, but Apple will never let you down. I recommend Apple over any other product*

So that, it was stated that (P3) brand trust positively affects brand love.

**Brand passion:** Brand passion is an intense feeling of consumers toward the brand (Bauer *et al.*, 2007; Thomson *et al.*, 2005). Brand passion encompasses two components: the presence of the brand in the consumer's mind and the idealization of the brand (Albert *et al.*, 2008). Within that context, it is a psychological construct that comprised of excitement, infatuation, and obsession for a brand (Albert *et al.*, 2013). In this study, consumers' statements displayed that those brands became a part of their life; they could not think how they can live without them, because without them, they feel incomplete, and anxious.

*Oh my God, this computer [Macbook Air] is a piece of art. I can't think of using something else. I feel that it's sooooo sexy and sooooo attractive. The way you hold everything in - it is soo attractive.*

*I can't live without Starbucks green tea latte. It is my all time favourite beverage! I can't find anything better than Starbucks. I'm in love!.*

*When you buy coffee from Starbucks, you are not only buying an ordinary beverage but also experiencing the passion, loyalty, and personality of the brand.*

*Google is the most important thing in my life. I can't live without it. Google means everything to me.*

*I can't live without Coke... I don't have the words to describe the emotion of drinking a Coke... cold! I have beautiful memories when I was part of Coke's creative team at McCann-*

*Erickson Chile. I think constantly about having a Coke... all the people in the world just think about having a Coke.*

Therefore, it was proposed that (P4) brand passion positively affects brand love.

*Sensory experiences:* Any combination of sensory experiences (i.e. visual, auditory, gustatory, tactile, olfactory, thermal, equilibratory, and/or kinesthetic) can deliver pleasure and alter mood (Park *et al.*, 2013). Consumer-brand engagement is derived from hedonic elements as multi-sensory contact, astonishment, amusement and aesthetic pleasure (Hirschman & Holbrook 1982). Consumers explain their love relationship is developed on the multi-sensory experiences and pleasure.

*The 2005 Camry LE especially spells driving pleasure behind wheels, leather upholstery, sleek dashboard and comfy interior et al gives you a breathless experience as you waltz through a blaze of air. What a piece of machine!*

*Cozy, classy and calming are the things I am looking for in a coffee place. Starbucks has it all! It is the place I want to be; it is my comfort zone. The smell of coffee relaxes and inspires me every time.*

*Starbucks is the place I go to for a 5-minute vacation from a hectic day.*

*.....Managing and working with Windows was what I did back then, and to come home and sit in front of my Mac was a pure pleasure, and it still is....*

Hence, it was suggested that (P5) sensory experiences positively affect brand love.

#### **4.2. Consumer-related factors**

In this study, two main consumer-related characteristics are defined as affecting brand love relationship: *self-congruity and personalized experiences*.

*Self-congruity:* Self-concept is the sum of characteristics, traits, and memberships that cognitively represent an individual in memory (Greenwald & Pratkanis, 1984). An attachment object becomes connected to the self when it is included as part of the consumer's self-concept (Park *et al.*, 2013). Previous researches demonstrate that individuals use products to create and communicate their self-concepts (Belk, 1988; Wallendorf & Arnould, 1988). Self-congruity is a psychological process in which the consumer focuses on the brand user image and compares this image to his/her self-concept.

*Nike is not just a sports brand, Nike is a life-style. To me, Nike means personal achievement and self-improvement.*

*.....I have tried many shoes but I think Nike is the best. I feel very cool everytime I wear Nike shoes.*

*....I'm a proud owner of a Macbook Pro and I can only say that I had never fallen in love with a computer.*

Therefore, it was suggested that (P6) self-congruity positively affects brand love.

*Personalized experience* is derived from three resources: parental influence, usage duration, and trying once. Consumers, especially for Toyota, Coca Cola and Apple, grown up by seeing their parents use them. That evokes past experiences, and memories. Moreover, some of the consumers stated they use those brand for a long time, like a marriage, those

brands became a part of their everyday life. And they claim that once you try, you get addicted.

*Apple has been in my home for over 20 years. When Macs first came out, my mom had one. And I still remember the lady's voice that would shout random comments. ....The day I owned a Mac of my own, I felt like I could take over the world.*

*Coca Cola has been a permanent companion in my life. I remember when I was a small child and lived in Ukraine I used to go to the coast of Black Sea every summer. That's where my dad bought me the first bottle of Coke. I think about and still remember the sensation of a new, delicious taste when I had my first sip of Coke. After that, no matter where I go in the world Coke is always there, like a good friend from who you know what to expect.*

*My first Nike shoe was the White and Lazer Blue Air Max 90, the following year I was walking on air with my Black and Infrared Jordan 6. Fast forward to 2014, a quarter-century later, here I am still kicking the same old, yet new release Retro Jordan and Air Max. What can I say, those exciting childhood memories of opening-up a fresh new Nike box still sticks with me to this day*

So that, it was proposed that (P7) personalized experiences positively affect brand love.

## 5. Conclusions

The objective of this study was to explore the antecedents and consequences of brand love. 750 entries of consumer statements about their lovemarks (Apple, Starbucks, Coca Cola, Nike, Toyota and Google) were analyzed via inductive thematic analysis and a brand love relationship model was proposed.

The antecedents of brand love are clustered under two main groups: brand-related factors and consumer-related factors. Brand –related factors are *functional congruity*, *satisfaction*, *brand trust*, *brand passion* and *sensory experiences*, and positively affect brand love.

Brand love is affected by the *functional congruity*. Brand love is not an unconditional love like some forms of interpersonal love. Instead, loved brands were praised for having best features (Batra *et al.*, 2012). Consistent with the findings of Batra *et al.*, (2012), in the statements not a single consumer made an unconditional love claim. Those loved brands are described as being the “best” and “great”. Consumers perceive congruence between their performance specifications and brands’ performances. Therefore functional congruity is proposed as affecting brand love.

*Satisfaction* is another feature that the brands should provide. Satisfaction is defined in the context of disconfirmation experience, where disconfirmation is related to the person's initial expectations. Consumers declare obviously their satisfaction. Carroll & Ahuvia (2006) defined brand love “as the degree of passionate emotional attachment a satisfied consumer has for a particular trade name”. Moreover, the duration of the relationship suggests the existence of a feeling of satisfaction (Albert *et al.*, 2008). Consumers mention their long-lasting relationship with these brands, and they claim they will never change that brand- that also indicates brand loyalty.

Brands also should be *trustworthy*. Trust is an important antecedent of commitment in relational marketing because trust is involved in highly valued relationships (Albert *et al.*, 2013). Consumer express that those brands “never let them down” or “never disappoint them”.

Brand love is in the air if there is *passion*. Brown (1998, p. 794) suggests consumers do fall “[...] truly, madly, deeply in love with products and services. They have to have them; they are passionate about them; they get a quasi-erotic charge from examining, exhibiting and

expending money on them". In consumer behavior literature, brand passion is conceptualized as a part of brand love (Batra *et al.*, 2012; Albert *et al.*, 2008; Thomson *et al.*, 2005). The analysis in the study put forward that consumers not only feel love towards brands but passion also. They stated that they cannot live without that brand. Consumers mention those brands as "him/her", and use "my" to declare possession, and express their lifetime attachment. Those brands are not just brands, but their soul mates.

And lastly, brands should build *sensory experiences*. People do not desire products but satisfying experiences (Holbrook, 1994). Albert *et al.*, (2008) put forward that love is linked to positive emotions, including pleasure. This study also confirms that brand love is derived from multi-sensory experiences and pleasure.

The love relationship between consumers and brands is also affected by the consumer-specific factors, such as *self-congruity* and *personalized experiences*.

Brands help consumers to attain self- and social-oriented goals (Fournier, 1998), and that derives strong attachment between the brand and the consumer (Grisaffe & Nguyen, 2011). In other words, consumers purchase products not only for the utilitarian benefits but also for self-expressive benefits (Park *et al.*, 1986). In this study the analysis displayed that consumers perceive beloved brands are cool and prestigious, and they express that they feel confident, stylish, high class, prestigious, and sophisticated. They also stated that they are proud owners.

In the love statements it is also seen that consumers have personalized experiences. Those brands are also used by their parents and make them remember their childhood (especially for Apple, Toyota and Coca Cola). In addition to that, consumers themselves have some memories in relation with those brands. They are using them for a long time and they describe them as a life partner with whom they shared good times and get through bad times.

As a consequence, this study generates a higher-order brand love relationship model based on the consumers' statements about their beloved brands and contributes to the literature by defining brand and consumer-related roots of brand love. This study has several limitations. The main limitation of the study is that the findings rely upon the love statements written by consumers online in relation with six brands. For further research, including other brands and product categories could enable to make comparisons and it is believed that would provide thick and deeper insights on brand love. Moreover, in the study the propositions stated in relation with the inductive thematic analysis and should be tested quantitatively for further generalizability.

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# THE ROLE OF INFORMATION DIFFUSION ON FARMERS GOOD AGRICULTURAL PRACTICES: A SOCIAL NETWORK POINT OF VIEW – THE CASE OF THE FRENCH AGRO- ENVIRONMENTAL PRACTICES

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## *Abstract*

*Many recent researches focus on the sustainable agriculture and the advantage of the adoption of good agriculture practices for farmers, consumers and for the environment. In this work, we agree on one thing: better information diffusion leads to better adoption of good agricultural practices by farmers. The objective of our article is double. Firstly, we aim to propose an analytical model of the relevant factors which can help to better understanding the process of adoption of these practices. Our framework is developed around three main elements: the individual level (the information seeker), the economic level and the social network level. Secondly, we aim to test empirically this model, by confronting it to some field experience in agro-environmental practices. Our first empirical results put a lot of emphasis on the importance of the formal network in knowledge transfer. Finally, we discuss the implication for theory and practice and present the next steps of this ongoing research.*

**Keywords:** Network; good agricultural practices; information diffusion; knowledge.

## **1. Introduction**

Sustainable agriculture is concerned with the ability of farmers to adopt good agricultural practices. They are defined as practices “that address environmental, economic and social sustainability for on-farm processes, and result in safe and quality food and non-food agricultural products” (FAO COAG 2003 GAP paper). Adopting them creates new market

opportunities for farmers, helping them optimizing their use of inputs (e.g. water, fertilisers, pesticides) yielding to safety and security products, which consequently leads to best health of the plant and for the environment.

In this study we focus on the adoption of recent innovative practices that benefited from the existence of a historical and pioneering one as the organic farming. " In France, it is a well-known symbol of agro-environmental practices. From a political standpoint, the French national strategy considers the agricultural area engaged in organic farming as an official indicator of sustainable development. The development of this forerunner practice, for nearly half a century has greatly influenced the context for agri-environmental practices. And recent innovative practices will be illustrated by the High Environmental Value (HEV) and the conservation agriculture (CA), both launched in France in the middle of the 2000's.

More specifically, we look at the role of the information diffusion on the process of adoption of new agro-environmental practices. A review of the academic literature makes sure that this adoption process is a complex process that includes many factors. These factors could objective such as the increasing consumer willingness to pay environmental friendly products, and the institutional context, and subjective/intrinsic such as the psychological features of the farmer and his education level. All these factors are interconnected, and not easy to measure.

As far as agro-environmental practices can be considered as a combination of technological and organizational innovation, the social network approach could be a pertinent framework to the comprehension of the information diffusion and the adoption of the agricultural innovation. That's why, in addition to these elements mentioned earlier, we mobilize a new approach which is not addressed by agricultural researches: the social network. For indeed a farmer isolated is not able to get useful information. Farmers who are less isolated than others (they are members of cooperatives, members of networks, etc.) obtain useful knowledge either from colleagues, from other members of their networks or also from neighbours and friends. This view of farmers put a lot of emphasis on the importance of the network in knowledge transfer, incorporating both formal and informal dimensions.

Then in this paper we consider that the adoption of good agricultural practices is not the result of the unilateral farmer alone, but the result of a combination of many interconnected factors. Information is the "lifeblood" that connects all these elements; it is also making the link of farmers with other actors. Until recently, the subject of good agricultural practices interest many researchers in different disciplines. The dominant concern of studies was on the impact of the use of inputs on the environment (Van der Werf and Petit, 2002; Hansen, Alrøe and Kristensen, 2001). Economic and management sciences studies have focused more specifically on the financial-economic concerns of good agricultural practices (McCann et al., 1997). Sociological and psychological literature have focused on the farmer profile such as the farmer's personal characteristics, farm operation characteristics, and farm's perception of agricultural practices (Willock et al., 1999; Greiner and Gregg, 2011; Greiner, Patterson and Miller, 2009).

There is however no unified framework to guide debates and methods for helping farmers achieving sustainable agriculture. Little is said about how farmers have got access to information. Nevertheless, it is evident that the adoption of good agricultural practices largely depends on the access by farmers to information. In social science and economics the challenge then is to examine how farmers could obtain useful knowledge about good agricultural practices. Our key question in this research is: What are the determinants of the information diffusion within farmers leading them to adopt good agricultural practices?

The objective of this study is double. First, we aim to understand the mechanisms and the process that conduct a farmer to adopt these good practices. This requires the examination of

all indicators of information diffusion such as external and intrinsic indicators. Second, our ambition is to mobilize a social network approach to the comprehension of this process, which is used in management literature but not yet explored in agriculture studies (this point will be developed in further researchs).

This work follows in 3 further parts. In the first section we try to identify the main factors that are relevant to explain the adoption of good agricultural practices. In the second section we will explain the methodology that will be used in the next steps of this ongoing research. Finally, in the third section we present our first results in focusing on agro-environmental practices in France and the network level.

## **2. Literature review**

The aim of this section is to develop an analytical framework capturing the main elements that could explain information diffusion and lead to the adoption of new good agricultural practices. This framework could help us to understand the relationship between the knowledge seeker (the farmer) and the knowledge source (agricultural institutions, electronic and paper-based sources of information, persons, etc.).

### ***2.1. Psychological-based explanation***

The first actor concerned with the adoption of good agricultural practices is the farmer. Information access depends largely of intrinsic characteristics of the farmer. Agricultural science researches have offered clear evidence of the role of the farmer's profile and psychological aspects in adopting good agricultural practices.

The attitude of the farmer toward risk is identified as important in deciding whether to adopt or not a new good agricultural practice. This decision is considered as risky because farmer cannot be sure about outcomes (Greiner et al., 2009).

Economic analysis showed that farmers are generally risk averse (Willock et al., 1999), which can slow the agricultural innovation process and the adoption of new practices. But, if economical approach profit maximization is the principal motive of farmer's adoption of innovation, farmers could be driven by non-financial motives such as "life-style" and "social motivation" (Greiner et al. (2009). Greiner and Gregg (2011) support the idea that "personal and family well-being" and ethical considerations are also motives for farmers to adopt innovation. In the same line of idea, for Traoré, Landry and Amara (1998), farmer's concern for personal health is an important determinant to his decisions. In addition, other intrinsic factors can influence the decision of a farmer of whether to adopt or not good agricultural practices such as his age, education level (Gould, Saupe and Klemm 1989), and prior experience.

### ***2.2. Economic-based explanation***

We consider organic farming as a pioneering and forerunner event in the sense that its development has impacted the whole context surrounding the agro-environmental practices. For that, we can focus on the consumer's willingness to pay the "environmental" quality of produced goods and on the presence of many institutions that encourage environmental practices. In this section we develop these elements that are important for the launch and adoption of other environmental benefits associated practices such as conservation agriculture and HVE.

#### ***The evolution of the final consumer demand***

The long term development of organic farming has positively influenced the context surrounding societal demand on agro-environmental practices. Organic farming has spread

the idea that one could simultaneously satisfy a nutritional need and do not destroy the environment. Despite the tensions between the different movements that constitute the french organic farming, a consensus ariseed around the fact that it has greatly contributed to education and information of consumers on environmental quality, in a context of globalization and standardization of production.

In industrialized and developed countries such as France, consumers are searching for identity and diversity (Brodhag, 2000) in accordance with the principles relating to environmental, social and ethical preoccupation (Mathe, 2009). This is reflected to the consumer awareness about environment issues and the development of a new behaving, such as the willingness to search and to pay an environmental quality.

In France, according to a national survey conducted by the research center for study and observation of conditions of life (CREDOC) in 2009, French consumers are interested to products with specific qualities. That brings a significant number of them to consider accepting to pay more to obtain products environmentally and animal welfare (67%).

#### *The role of institutions in diffusing information*

The contextual environment can play an important role on the diffusion of knowledge. That means that the capacity of individuals (or organizations) to get useful information depend on the context where they are. More specifically, at the institutional level, the national systems of innovation play a considerable role in the diffusion of information and encouraging networking activities. It is evident that formal institutions can make knowledge transfer easier. By institutions we mean the "legal system, the banking and finance system, the structure of labour markets, the education system and the political system" (Grandori and Soda 1995).

Normally, all farmers are similarly concerned with the institutional environment. But they do not equally benefit from opportunities and information diffused by these institutions. Access by farmers to information can be influenced, among others, by their profiles, localizations, etc.

### **2.3. The contribution of a social network approach**

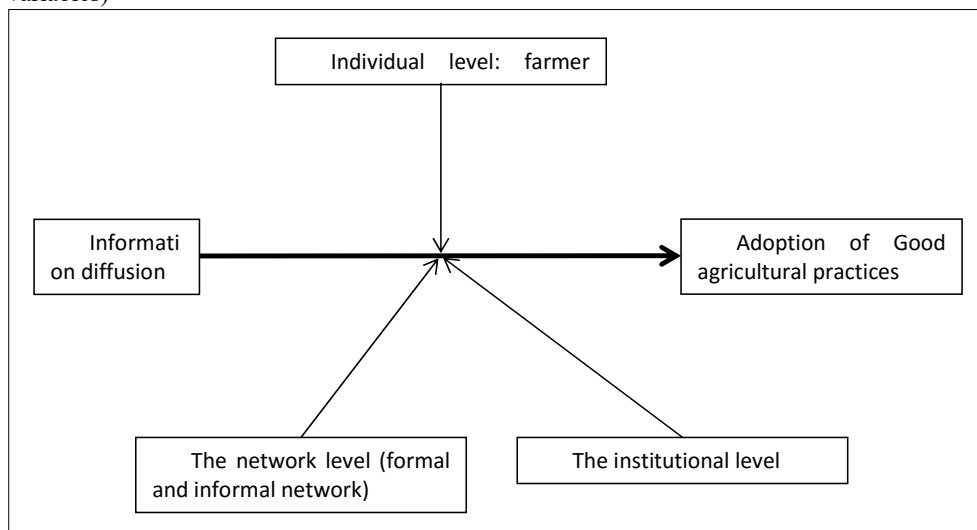
The social context is also important to consider when to speak about information diffusion. In the literature, many authors have clearly demonstrated the role of the social network in information and knowledge diffusion, in particular in helping individuals to develop their innovative ability (Duysters and al., 2003), to get information (Burt, 1992; Borgatti & Cross, 2003)) and to stimulate knowledge diffusion (Rogers, 1995).

Networking promotes social interactions which generate trust and reciprocity that facilitate knowledge transfer between people (Almeida and Kogut, 1999). For entrepreneurs, networking enhances the success rate of entrepreneurial initiatives (Baum and al., 2000), because it allows partners to access to other resources and also to gather informations and advices (Smeltzer and al., 1991). It appears also that, when they need information, people prefer seek it from other people. Because searching information could take a lot of time, people prefer using less documentation. For Cross (2001), even people who have access to paper or electronic sources of information, tend to seek information from their colleagues. That is the case also in the research done by Allen (1977) on engineers and scientists.

The social network approach is also concerned with the identification of local cultures and "opinion leader" personalities that can play a considerable role in the decision of a farmer to adopt good agricultural practice. The presence of key personalities in the network of a farmer can influence his way in doing agriculture. The idea of opinion leaders, called also "influentials" by (Merton 1968), is occupying a central place in the literatures of the diffusion

of innovations. For example, Coleman (1966) who developed the theory of cognitive processes in adults, showed that the adoption of a new behavior results from the interaction between the medical community and the opinion leaders who are members of the same community but are able to influence other opinions or decisions. In this context of knowledge sharing, interpersonal trust has a crucial role (Abrams and al., 2003).

Figure 1 - Conceptual model (This is a simplified version of the model. It does not show all variables)



### 3. Methodology

The methodology was conducted in two steps.

#### *First step: Case study*

This step is about starting to characterize the relationship between the information diffusion, the social network and the adoption of good agricultural practices *in confronting the model with the field experience in agro-environmental practices* (Poux, Faure and Villien, 2015).

Agro-environmental practices mainly address environmental and economic sustainability. They take sources in the concept of agroecology, first defined in 1930, studied and highly enriched up in the 1990s to become a strong orientation of French agriculture over the last twenty years (Schaller, 2013).

#### *Second step: Comparative analysis*

This step is about conducting a comparative analysis to complement the results on the network level and focus on the producer and institutional ones, in focusing on other types of good agricultural practices

#### 3.1. Data

The empirical study will be done in two steps. First, a qualitative research will be conducted in two regions in France: Aquitaine (10 operations of Hight Environmental Value "HEV" in Viticulture sector) and Picardie (2 operations of HEV in polyculture-breeding farms). Second,

a quantitative survey will be conducted. A questionnaire will be administered to all farmers from these regions.

The study will include surveys and data collect. We propose a multi-level approach which includes:

- Analyzing of data-bases
- Other Case studies, in particular in two geographical areas in France (Aquitaine and Picardie) on adoption of Organic Agriculture (Bio), Conservation Agriculture, and the High Environmental Value (HVE)

For the empirical part, to test our conceptual model, two case studies of farming environmental initiatives were investigated: the Conservation Agriculture (CA) and the High Environmental Value (HEV) certification. Case studies information was collected from technical documents and reports, various dedicated press communications related to the both practices and existing interviews of farmers (adopting HVE or using CA) and support organizations and websites. Especially for HVE program, interviews of pioneers' farmers (first HVE certified farmers in year 2012) were analyzed composed by 2 farmers from Champagne region and 1 farmer from Picardie Region). We used firstly a qualitative method which must be further complemented by a quantitative method within a questionnaire emailed to conventional and certified farmers, and also some semi directive interviews of institutional operators. The data analysis focuses on the adoption process (by responding to following question how and why), thus and also the motives and barriers of adoption of such practices.

### ***3.2. Summary description of the case studies***

The CA and HVE are seen as an approach which meets the society demand of sustainable food production with various benefits for farmers and the environment. The both approach are marginally used in France but on progress. France records an increase of the area dedicated to the CA from 400,000 hectares in 2001 to 630,000 hectares in 2006, according to Shaller (2013). The HEV approach, launched in the end of 2011, accounts 138 certified farms on 2014 against two dozen on year 2012 (France agricole, 2014)

The Conservation Agriculture according to the Food and Agriculture Organization (FAO) is an approach to managing agro-ecosystems for improved and sustained productivity, increased profits and food security while preserving and enhancing the resource base and the environment. The CA principle is based on a strong reduction, even an abolition of the ground labor, a permanent soil cover and crop rotations.

The HVE is an official environmental approach stemming from the environmental law «Grenelle environment number 2 "and set up on the end of 2011. The HVE certification is a progressive approach and includes 3 levels of environmental requirements: the first level (1) including requirements to access the approach. The second level (2) includes a set of best practices regarding the biodiversity, the use of phytosanitary products and fertilizers and the water management. Farmers implementing already specific environmental approach can reach directly the level 2 of the process. Indeed, 22 environmental approaches (example organic agriculture, ISO 14000, etc.) are officially recognized equivalent to the level 2 of the HVE certification process.

The level (3) allows the obtention of HVE certification conditioned by an external audit by a third certification body. This HEV initiative is in constant evolution although more modest on a national scale. However, regional and sectorial disparities are observed. Some region like Aquitaine or Champagne counts more certified farms than Picardie. In addition, among the certified farms, 85% are from the wine sector but tends to become widespread.

### 3.3. Case study results and discussion

The case study analysis highlights key factors influencing willingness of farmers to adopt environmental approach:

- Farmers attitude and beliefs play a key role in the decision of good environmental practice adoption.
- Meeting consumer behavior towards environmental concerns (more demanding of environmental friendly product) are among the motivation of the conversion of farmers. Indeed, viticulture farmers particularly adopt the HVE approach to improve their image towards the environment conservation and to communicate about their effort about the good agricultural practice.
- The Farmers already engaged on environmental approach, for example environmental management systems (EMS) ISO 14001, organic agriculture, *agriculture raisonnée* etc.) are the majority of HVE certified.
- Certified farmers are members of farmers association or environmental network (example DEHPY).
- Interviews of pioneers farmers' show that information was provided by the chamber of agriculture firstly and also from the farmers' network (Example in the wine sector, Qualenvi association or independent wine owners association viticulteurs indépendants de France VIF). Indeed independent wine owners' network counts 75 of HVE certified farms within their members.

The adoption or conversion was accompanied by the support organization (farmers associations, territorial network like DEPHY and AREA approach etc.). They provide information, learning process and training for farmers. The referee ( technician from agriculture chamber ) play also an important role (preparation for audit, information diffusion about the certification).

Information and knowledge are diffused through platform and farmers networks (example for CA and dedicated project through DEPHY). The combination of networking and learning. The adoption of CA requires a high management skills for farm management and knowledge that explain the necessity of strong support from dedicated project, and exchange through networking.

At the institutional level, it seems also essential to effectively support farmers committing to conservation agriculture because of their complexity: financial supporting technical advice, training in agronomy, technical references. Mobilizing chain actors is finally necessary to fit crop diversification often requires new markets (shaller, 2013). These systems are subject to numerous projects and research, worn both by non-governmental organizations, national or international institutes, or large groups of agro-industry. In France, several experiments are conducted in partnership with farmers, including through the BASE network (biodiversity, agriculture, soil and environment), Sustainable Agriculture Institute or the cooperative group VIVESCIA.

Finally, confronting our model with the field experiences in agro-environmental practices led in France (Poux and al., 2015) enable to characterize first and foremost the relation between *the formal network*, the information diffusion and the adoption of agro-environmental practices.

*The major role of the French network "Réseau rural" (Rural network):* Agro-environmental policies based on a top-down logic have shown their limits in terms of adoption of good practices. Indeed, the rural network was built to develop a bottom-up logic. Producers who join the network can participate in any deliberation needed for the construction of the technico-economic "referential" which is the basis for the knowledge and

practices dissemination. "Farmers who participated in the deliberations have a high propensity to adopt practices that they helped to be institutionalized"

*The interdependent role of the "Territorial Network" and the "Agricultural Network":* The success in terms of adoption of good practices within a territory is assured when these two networks are able to collaborate. The Territorial network is seen as an engine that boosts the involvement of farmers. And the Agricultural one has been identified as a support of group dynamics. It sees the creation and the strengthening of relations and exchanges between farmers and other stakeholders.

*The famers' proximity with the "environmental referee":* At last and not the least, the famers' proximity with the "environmental referee", which is working closely with the "Territorial, Agricultural and Rural networks". Throughout decades of experimentation, public policy and the different networks have institutionalized a group named "Environmental referent." It is seen as the guarantor of environmental objectives in any agricultural projects. Networks are needed to establish a link between farmers and this group of "environmental referent", to learn about current issues affecting farms, and about how to defend their concerns, and about the associated fundings and European and National supports. Insights from this confrontation are needed to improve our model.

#### **4. Concluding comments**

The aim of this research is to contribute to the understanding of the factors determinants the impact of information diffusion on the adoption by farmers of good agricultural practices.

The first result of this work is theoretical. We propose a conceptual framework to summarize the relevant variables of this phenomenon that came out mainly from literature on food and rural studies, economic and management studies. With a focus on the social network concept, our framework is developed around five main items: Information diffusion, adoption of good agricultural practices, the individual level (the information seeker), the institutional and the network level.

Secondly, we provide primary empirical support for the conceptual model by confronting it with some experiences in agro-environmental practices such as the "Rural Network", the "Agricultural Network" and the "Environmental Referent". All these examples show mainly the important role of the formal network on the information diffusion and on the adoption of good environmental practices. That is, while these examples are very useful to understand the role of the formal network, they don't allow us to understand how the informal relationships make easier (or more difficult) the information diffusion. That's why more empirical research needs to be conducted on the complex role of the informal network, notably interviews with practitioners (farmers and institutions).

The project will offer many insights that can be helpful to practitioners (farmers, institutions, etc.). First, it will offer evidence that knowledge diffusion consistently matters in the adoption by farmers of good agricultural practices. Second, it can help understanding the mechanisms of knowledge transfer and assimilation by farmers regarding good agricultural practices. Third, it can help all stakeholders to focus on ways to improve knowledge diffusion, especially by networking activities.

In addition to interviews, it seems important, in the next phases of this research, to compare the two French regions. As previously announced, there are less HEV operations in Picardie than in Aquitaine. Consequently, we need to understand the factors related to information diffusion which prevent farmers in Picardie to adopt HEV practices.



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## CO-ADVERTISING, E-WOM AND SOCIAL RESPONSIBILITY

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### *Abstract*

*Following the digital revolution, the traditional divide between value creation - R&D, production and advertising - and value distribution and consumption – sales, use and post-use- is blurring. Individuals and companies are called to exchange multiple inputs and outputs before, during and after sale. The new contemporarity of value processes is gradually leading to a new convergence among parties. Companies are enabled to promote, intermediate and intercept the customers conversation; individuals are committed to the new social game and keeping companies under non-contractual observation. This study researches the effects of e-WOM (Electronic-Word of Mouth) of individuals through a netnography on 20 worldwide crowd-sourcing platforms. Findings demonstrate that the new overlapping of dialogue and sale can generate a positive loop between companies and individuals responsibility and reduce the distance between market and society.*

**Keywords:** Co-advertising; E-WOM; Co-value chain; Social responsibility; Company-consumer communication; Consumer behavior; Netnography.

### **1. Introduction**

Following the digital revolution, production, distribution and consumption are no longer linear steps in a supply chain. In the past, companies made proposal – *value proposition* – while consumers purchased – *exchange value* – and used products and services – *value in use* – and the three phases of “proposition – sale – use” followed a clear logical and chronological sequence in time and space. Pre-sale data collection logistically implied being present at point of sale, which was usually the scene of the dialogue, and the phase of use took place at a different time. Now, the continuity of conversations is remodeling the value processes framework and can reduce the distance between individuals and companies. In this context, the recent attempt by companies to promote, intermediate and intercept the customer’s conversation is opening up a new ideological debate: is the new social game bringing new value for the gamers? Are we seeing a truly new form of value co-creation? In 2002, Gummesson put forward the idea of a “value-creation network society” which implies a science or discipline with

“new foundation, new values, new assumptions or new methods”. In 2004, Lusch and Vargo propose their *Service Dominant Logic* model in which the consumer is always the protagonist in creating value. In 2008 Grönroos stated: “...accepting value in use as a foundational value creation concept, customers are the value creators (...) the supplier can become a co-creator of value with its customers”. Value is interactively co-created by companies and consumers, rather than merely exchanged (Leavy, 2004). More recently, Gummesson (2011) suggests substituting the old B2B or B2C acronyms with the new A2A interaction: actors to actors, interacting in many-to-many networks. In 2008, an issue of the *European Journal of Marketing* entitled *Bridging the divide* and focused on the new opportunities for cooperation between company and customer. In 2009, Schau, Muñoz and Arnould clustered 52 articles from international marketing journals: all of them explicitly claim to examine collective customer behavior and its positive implication for the companies. There has been however less interest in the implications for customers.

Despite the over-optimism of the new service-marketing mainstream, many authors suggest caution. Prosumption is more than an economic activity (Holt, 1995; Xie et al., 2008; Firat, 1991), consequently, the theoretical debate requires a multidisciplinary approach. Many authors claim that new technologies are not reducing the distance between individuals and companies, which maintain their separate and complementary roles.

Humphreys and Grayson (2008), argue that when consumers take over steps that create *use value* (e.g., when they dispense their own soft drink at a fast-food restaurant or they assemble their own furniture for Ikea) their fundamental role in the economic system does not change. They suggest considering *use value* and *exchange value* separately, as in fact the situation is different when consumers produce something that they themselves do not use but can be sold to others (*exchange value*). Imagine a digital newspaper with free content supplied by readers and advertising revenues (*exchange value*) collected by the editor. In this example, who is driving the value creation process? It was not by chance that recently, thousands of bloggers promoted a class action against the Huffington Post, claiming the publisher refused to make fair payments despite profiting from their advertising revenues. At a first glance, the exploitation risk is doubled by the fact that the customer is the co-producer but in the same time is the co-user of contents and, as potential reader; he is the indirect buyer of advertising.

As Bowen (1990) suggests “it is one thing to leave assembly and transport to the customer, in return for a substantial cost advantage, like Ikea; but another thing to use the consumer’s knowledge and give no cost advantage”. Following Bowen’s original criticism, many researchers emphasize the risk of exploitation (Kelley et al., 1990; Faranda, 1994; Brodie et al., 1997; Ballantyne & Varey 2008; Humphreys & Grayson, 2008; Dujarier M.A., 2009; Salmon C., 2008). These researchers claim that exploitation no longer takes place in factories but is moving into the home, where individuals generate production but are not rewarded by the distribution of the value they have created. Fortunately, the consumer has a unique ability to defend him or herself against firms, which reduce his or her role to a sort of “part-time employee” of the service provider or as a “human resource at its disposal (Mills & Morris, 1986; Bowen & Schneider, 1988; Bateson, 1983; Keh & Teo, 2001; Kelley et al., 1992; Zeithaml & Bitner, 2000)

Starting from the concept of *countervailing power* many authors open new perspectives. In 2006, Arnould et al. write “consumer groups have a greater voice in the co-creation of value...and exhibit a sense of moral responsibility”. In practice, individuals take part in *peer-to-peer* conversation with a mixture of narcissism and altruism in order to feel they belong to a community, gain recognition and continue their process of identity building. Since identity is built on differences, in many cases the new collective conversations are driven by a reaction against market power (Dholakia N. et al. 2009). In this, context Chia (2012) analyzes how

advertising is one of the most important element of discussion between people, and also how exposure to advertising influences their interaction.

Many authors demonstrate that individuals' conversations are strongly influenced by the social desire to share personal experiences, knowledge and opinions about who they interact with, in other words, companies or brands. Conversations are often based on the perception that "...there are things that the firm cannot tell you" (Firat A. *et al.*, 2005). The phenomenon of exploitation is sometimes a feeling, "a social construct dangerous for firms" and as such can feed on collective suggestion. Increasingly through blogs, forums and others web platforms consumers gather to talk about brands, products and services, both in positive – *co-advertising*, and in negative terms- *co-destruction*. As stated by Plè and Caceres (2010) "inappropriate or unexpected use of the available resources in an interaction will result in value co-destruction for at least one of the parties". Due to this fragile management of consumer WOM and e-WOM, many topics of research are influenced by organizational and psychological theory. In 2003 Bendapudi and Leone highlight the psychological implication of interactivity. More recently, Gilde *et al.* (2011) describe *customer citizenship behaviour*, or the discretionary response of a customer to external events, which require him or her to carry out functions other than consumption.

If customers act as citizens, every opening by companies on social topics - pollution free production, safety in the workplace, training, valorization of immigration, equal opportunities, etc. - represents a new opportunity for dialogue and convergence. It is important to note that conversation about these topics can lead to effective results when the company is aware of being under non-contractual type of observation by the crowd. This means that the company accepts a new mechanism of collective indirect control or "Public Scrutiny", in other words, people's ethical control of the topic on-line (Kozinets, 2002).

Ate and Buttgen (2008) introduce the concept of *customer orientation to the company* as a sentiment, which can influence the mood of conversation between customer and company. In fact, customers' contributions are, in this light, a form of *organizational citizenship behaviour*, which can be clearly affected by cultural atmosphere (Bettencourt, 1997; Kendrick, 1985; Goudarzi, 2009). In this perspective, the working customers can be seen as employees and the *socialization of their work* implies strong commitment to the company (Bowers *et al.*, 1990; Leary-Kelly *et al.*, 1994; Manolis, 2001; Vijiande *et al.*, 2009). What is clear is that the new social space belonging to the digital conversation is a new middle ground for the matching or tuning between market and society. In the new digital space, individuals talk as customers and citizens in the same time. Cova and Dalli (2007, 2009) suggest that the new collective conversations can be epitomized by the concept of *communities*.

Within communities, individuals are inspired by *linking value* or *gift logic* and aim to defend society. The authors ask whether this type of meta-market can be considered as an entity in itself, separate from the market and capable of protect citizens from the risk of exploitation. From the same perspective, other authors focus on the concept of 'sharing', as a fundamental consumer behavior that is similar to *gift giving* (Bergquist & Ljungberg, 2001; Belk, R. 2010). Starting from the idea of new-shared collective conversation, a new type of convergence come into being. Market and society do not coincide, companies and customer act as counterparts playing different roles but their interests are converging.

New concepts like *reciprocity* and *social trust* enter the marketing dictionary (Mathwick, Wiertz, & de Ruyter, 2008; Uzoamak, 1999; Paulin, 2006; Feldman, 1981; Buttgen, 2008; Fisher, 1986, Jeong & Lee, 2013). In many cases, prosumerism can generate a new loop between company and consumer responsibility, and consumers can commit to this *new social game* of being customer and citizen at work.

## 2. The New Co-Value Chain Model

At the light of the theoretical debate, we now assess whether the new digital conversation represents a new common ground of convergence. The logical framework of our empirical test starts from the numerous attempts, which have been made to conceptualize the processes of working customer. Several classification schemes have been proposed to analyze consumer inputs. Chase (1978) distinguishes services according to the extent of “physical presence of the customer in the system”; Mills and Morris (1986) also based their classification system on the extent of interaction, a more useful way to characterize participation-intensive services than the extent of simple customer contact (Faranda, 1994, Payne 2008). More recently, Buttgen (2008) tests a model implying different phases of co-production; Michel et al. (2008) identify three different roles for the working consumer and three different techniques used by suppliers to encourage consumer involvement. Recently Etgar M. (2008) and Maglio et al. (2008) propose a descriptive model of the consumer co-production process. In 2012, Seraj analyzes three specific online communities identifying the users’ desire for social action and their participation in the value creation.

Duque et al. (2009) explore hedonic and social benefit; Raval (2010) suggests “there is no value without enjoyment”; Helkkula et al. (2009) discuss the difficulties in measuring different levels of enjoyment; Chu & Kim (2011); Thota et al. (2012) analyze the increase in new types of technology platforms which has led to the growth in customizable content. The literature explores the e-Word of Mouth as a new pattern. In 1993, Moorman introduces eWom as the “willingness to rely on an exchange partner in whom one has confidence”.

Ten years later Hennig-Thurau et al. (2004) describe eWom as a more complex concept ascribable to “any positive or negative statement made by potential, actual, or former customers about a product or company, which is made available to a multitude of people and institutions”. Individual who take part in collective conversation are talking as an individual *-me-* and/or as a plural *-us-*. Chu & Kim (2011) suggest analyzing eWOM behaviors in depth with the goal of identifying particular influential individuals. Kilambi, Laroche and Richard (2013) emphasize the fact that “all members of a community know and understand themselves as a collective”. In this perspective, the contribution of peer-to-peer communication in co-creation of value becomes important especially with respect to its viral-like advertising (Strutton et al., 2011).

In the light of so many different approaches, we develop a new simplified matrix of consumer input to the firm and related output (Figure 1). Of course, input for the consumer constitutes output for the firm and vice versa, and *convergence* can take place only if the results are positive for both parties.

There are essentially three types of value input made by the consumer:

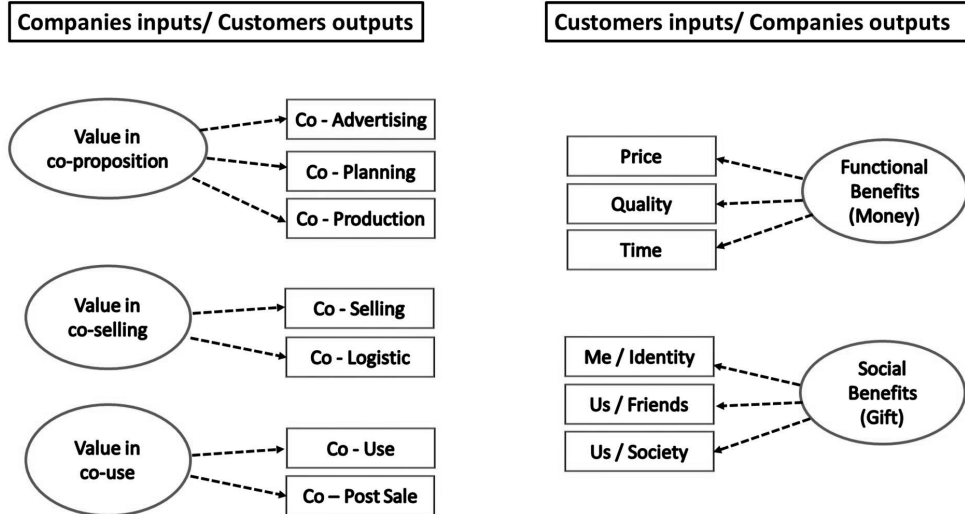
- 1) *value in co-proposition* - the consumer gives his/her opinion independently before sale and use (co-advertising, co-planning, and co-production);
- 2) *value in co-selling* - the consumer interacts when buying the good, collaborating in the sale and logistics;
- 3) *value in co-use* - the consumer interacts in use of the service and post-sales assistance.

At the same time, individuals receive two types of value inputs:

- a) *functional benefits* represented by their cognitive and affective perception of economic advantages like *price*, *quality* and *time saving*;
- b) *social benefits* classified as personal- *me/identity-*, relational – *us/friends-* and social – *us/society -*.

The arrows going in different directions are the key feature of the diagram and indicate that these benefits are the result of more than one type of investment. For example, social benefit can accrue in all three phases of dialogue, *pre-sale*, *sale* and *post-sale*.

Figure 1 - The Co-value model



Source: own

In order to test the robustness of the logic of the model, we develop four research hypotheses.

*H1 - Contemporarity: conversations enable the Actors (companies and individuals) to exchange multiple inputs and outputs before, during and after the sale. This means that the traditional divide between value creation - R&D, production and advertising - and value distribution and consumption – sale, use and post use- is blurring.*

*H2 - Co-Advertising Relevance: co-advertising is the co-creation construct with the highest level of consumer involvement since individuals conversations are strongly influenced by the social desire to share personal experiences, knowledge and opinions about the companies or brands they interact with.*

*H3 - Collective responsibility: conversations are often focussed on collective or plural topics –us/friends–us/society. This requires the company to accept a new mechanism of social or collective control.*

*H4 - Convergence: Actors conversations are focussed not only on customers' benefits- price quality and time- but also on citizens' benefits- identity, friends, and society. This leads to a new equilibrium or convergence between the customer perspective- logic of money- and the citizen perspective -logic of gift-.*

### 3. Methodology

In order to test our hypotheses, we divide the individual benefits into two categories: *economic benefit* and *social benefit*. Both inputs and outputs are measured through *semantic mining* of the key words used in online conversations. We aim to identify web sentiment through Netnography Analysis based on a sample of 20 crowd-sourcing platforms, like Innocentive, Quora, TripAdvisor, Amazon Turk, etc.. Netnography Analysis as defined by Kozinets “provides information on the symbolism, meaning, and consumption patterns of online consumer groups... it is an online marketing research technique for providing consumer insight”. We thus opt to use pure observational online ethnography to measure the normal flow of information that users exchange, without any kind intermediation from sources as used in Consumer Behaviour Analysis. Analyzing this “Social game” we intend to identify factors that affect online community usage like Usability and Sociability as defined by Preece (2001), or as we understand them in our perspective of market value, Money and Gift.

Conversation among participants from three sources: Facebook, Twitter and Google Blog is monitored (see Appendix). The web voice was first monitored May-June 2012 and in a second phase May-June 2013. For each of 21 platforms we gathered a total of 600 texts (12,600 texts) and from these we excluded:

- Impersonal descriptions which give no information about the user’s experience;
- All messages from bloggers who belonged to the company;
- All messages which were too brief to decipher objectively.

This left us with 4,601 texts and a total of over 250,000 words in about 2,000 pages of word scripts describing sentiment of consumers in the 21 online communities. Initially we tested open software for preliminary linguistic screening, like T-Lab, but the absence of a calibrated search engine for a web monitoring of very different case histories showed the limits of automatism<sup>1</sup>. Therefore, we opted for a manual check of contents. Researchers were divided into 4 groups and a cross-linked system of control of words and phrases was used so that if observers in one group were not unanimous in interpreting a message it was submitted to a group of specialists.

For each of the 4,601 texts, a deep semantic analysis was conducted.

The following examples briefly illustrate the workings of text mining. A simplified matrix of consumer inputs to the firm and related outputs is helpful to show the result of this first conceptual screening (Figure 2)

The example shows how consumers’ posts were decoded. The frequency of occurrence of the concepts is expressed as relative to a total of 100, but the original data-set, contains multiple frequencies.

### 4. Results

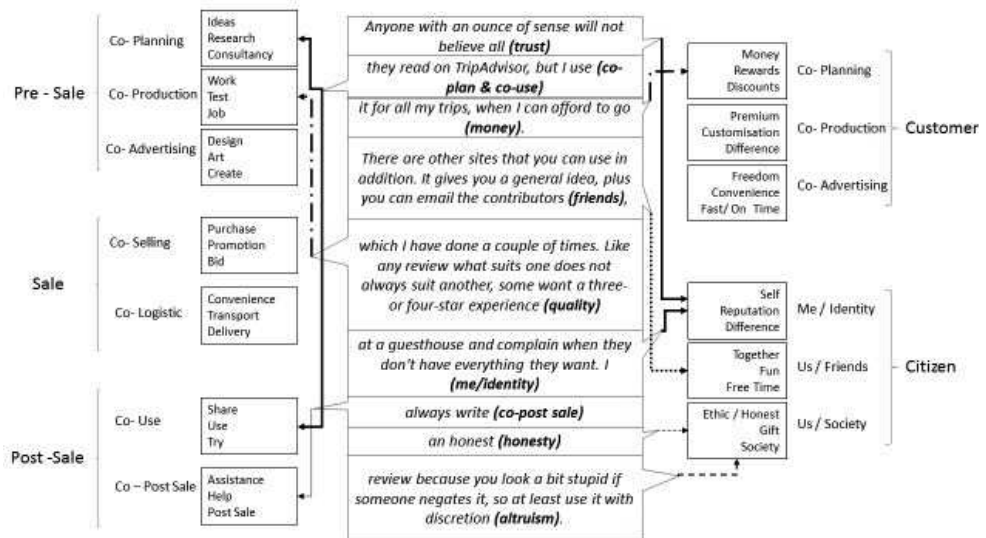
As show in figure 3, the Contemporarity is confirmed (H1). In fact, several case histories show actors co-acting at the same time in more than one process (Table 1). The overview shows that *co-advertising* is the process with the highest level of consumer involvement (28.2%) followed by *co-planning* of goods and services (16.4%), *use* (12.8%), *co-selling* (12.7%), *co-production* (12.5%), *co-post-sales* (9.7%) and *co-logistic* (7.8%).

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<sup>1</sup> See Appendix for methodological details



Figure 2 – The co-value chain key words: a conceptual framework (example from TripAdvisor)



Source: own

Also the Co-Advertising Relevance is confirmed (H2). As we have seen, co-advertising is the co-creation construct with the highest level of consumer involvement (Table 2), but it is important to analyze the relation between this process and the individual benefit perception. *Co-advertising* proves to be closely correlated to *me/identity* with a Pearson correlation of  $r^2$ : 0.695 at 0.01 significance. This relationship is explained by the individual wishing to “*be original*” and the emotive involvement of individuals using their own creativity. Moreover, *co-advertising* appears closely correlated to *friend/us* with a Pearson correlation of  $r^2$ : 0.539 at 0.05 significance. Lastly, *co-advertising* proves to be closely correlated to *time*, with a Pearson correlation of  $r^2$ : 0.498 at 0.05 significance. This last functional benefit can be explained by the “time saving” benefit for individuals who are collecting information about the products, which they are going to purchase.

Table 1 – Findings of web monitoring of 4.601 texts- Relative frequency of concepts

	Co-Planning and Research	Co-Production	Co-Advertising & Communication	Co- Selling	Co-Logistic	Co-Use	Co-Post Use	Price	Quality	Time	Me - Identity	Friends - Us	Society - Gift - Us	Number of texts
<b>CO-PLANNING (collective research &amp; innovation)</b>														
INNOCENTIVE - co-research & prize contest	41.0	27.5	23.2	1.1	4.8	2.4	-	24.0	3.5	1.7	5.9	13.9	51.0	408
CITY 2.0 - knowledge sharing	88.2	-	11.8	-	-	-	-	5.7	1.4	-	11.6	3.0	78.3	136

**CO-PRODUCTION (collective contents & tasks)**

HUFFINGTON POST - user generated contents	10.0	51.2	28.7	-	3.7	6.2	-	3.3	53.3	2.2	13.3	10.6	17.2	166
AMAZON TURK - cloud labor/microtasks	-	100.0	-	-	-	-	-	43.7	15.1	21.1	-	-	20.1	57
QUORA - re-search tasks	10.0	40.0	30.0	-	-	20.0	-	-	53.1	14.3	14.3	4.1	14.3	92

**CO-COMMUNICATION (collective creativity)**

KLOUT - social rating	-	-	50.0	25.0	-	25.0	-	2.1	23.7	9.9	28.1	13.5	22.7	176
THREADLESS - product customisation	21.0	-	75.0	2.2	-	1.8	-	13.1	3.0	11.3	21.8	18.8	32.2	271
MOUNTAIN DEW - product selection	18.6	20.7	39.5	4.2	16.9	-	-	4.8	37.1	2.1	14.6	6.0	35.4	342

**CO-SELLING (collective or interactive shopping)**

EBAY - e-commerce	4.3	-	10.2	53.6	21.7	1.4	8.7	34.2	38.4	9.5	6.5	0.8	10.6	300
FAB - content markets	-	-	66.0	20.0	-	-	14.0	9.6	34.0	9.6	27.9	11.2	7.6	200
GROUPON - buying groups	6.7	-	-	40.0	13.3	20.0	20.0	31.4	41.4	3.1	7.9	15.2	1.0	162

**CO-LOGISTIC (collective or interactive logistic)**

FACEBOOK PLACES - check-in	-	-	32.0	23.0	35.0	10.0	-	6.1	39.8	-	3.3	11.0	39.8	209
DOMINOS - delivery	9.0	-	-	-	42.0	19.0	30.0	8.3	56.0	15.6	6.9	7.3	6.0	300
NEXTDOOR - physical sharing	10.8	8.1	8.1	8.1	13.5	45.0	6.3	4.3	38.0	2.2	-	13.0	42.4	181

**CO-USE (collective and peer-to-peer cooperation)**

WARCRAFT - game sharing	14.5	-	52.7	23.6	-	9.1	-	16.0	16.0	25.7	20.2	10.2	11.8	407
DROPBOX - joint application	7.0	-	47.3	2.8	-	40.0	2.8	20.1	64.4	0.8	5.3	6.1	3.4	200
AIRBNB - house sharing	19.6	2.2	19.6	38.7	-	20.0	-	37.3	27.0	5.0	2.1	20.3	8.3	266

**CO-POST USE (collective & peer-to-peer cooperation)**

TRIPADVISOR - service rating	39.1	-	4.4	-	4.4	-	52.2	8.1	64.7	0.6	4.0	4.6	17.9	220
PINTEREST - social commerce	27.2	-	24.5	11.7	-	6.4	30.1	4.0	12.0	17.3	32.0	9.3	25.3	409
PIRATE BAY - downloading	-	-	40.0	-	-	30.0	30.0	16.3	38.4	1.2	8.1	5.8	30.2	99
Total /Average	18.0	8.3	29.7	14.1	8.8	11.1	10.0	14.4	30.5	8.4	12.9	9.9	23.7	4,601

Source: own

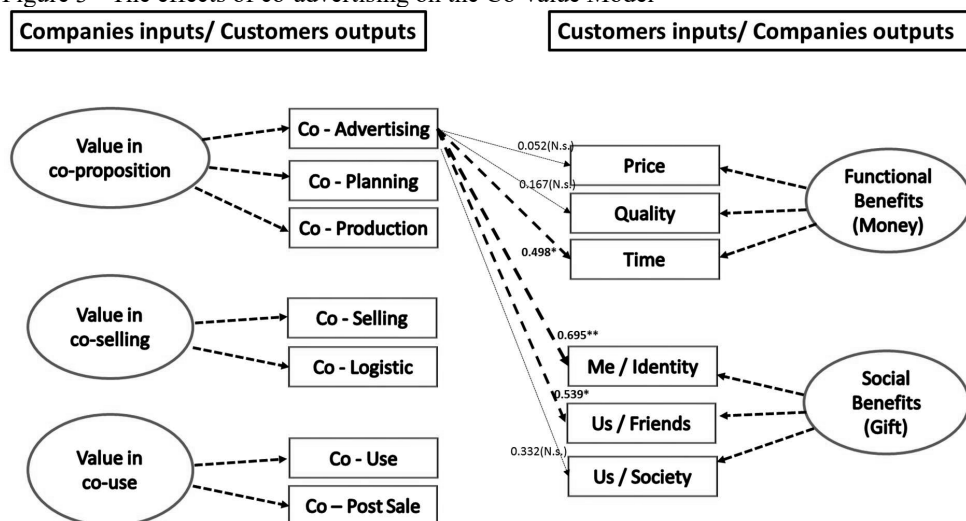
Table 2 - Internal Relationship between types of content and Co-Advertising

		Price - Money - Reward	Quality - Customisation - Difference	Time - Freedom - Convenience	Me identity - Reputation - Self esteem - Difference	Friends - Game - Fun - Emulation - Me too - All together - Us	Society - Ethic - Moral - Altruism - Relation - Gift - Us
Co-vertising & Communication	Pearson Correlation	0.052	-0.167	0.498 *	<b>0.695 **</b>	0.539 *	0.332
	Sig. (2-Tailed)	0.872	0.481	0.026	0.001	0.014	0.153

Source: own

Figure 3 shows the correlations between co-advertising and the value inputs of the co-creation model.

Figure 3 - The effects of co-advertising on the Co-value Model



Source: own

In order to compare the intensity of relationships between inputs and outputs of the co-value model, we tested a bivariate correlation with two different levels of significance 0.01 and 0.05. Our sample shows a first set of relations (Table 3).

*Co-advertising* is confirmed to be correlated with three different benefits. A new very significant correlation is between *co-selling* and *price* with a Pearson correlation of  $r^2: 0.718$  at 0.01 significance. This relationship can be explained by the fact that customers who are involved in co-selling focus their conversations on this economic issue. A second univocal correlation is between *co-logistic* and *quality* with a Pearson correlation of  $r^2: 0.506$  at 0.05 significance. This relationship is explained by the functional goals of this form of cooperation, which mean customers discuss new forms of cooperation enabled by physical or logistical conditions.

Table 3 – Internal relationships between different types of content of conversations

		Price	Quality	Time	Me/Identity	Us/Friends	Us/Society
Co-Planning	Pearson Correlation	0.069	- 0.240	0.122	0.264	0.279	<b>0.675*</b>
	Sig (2 tailed)	0.774	0.308	0.610	0.260	0.234	0.001
	N	20	20	20	20	20	20
Co-Production	Pearson Correlation	- 0.079	- 0.268	- 0.265	- 0.204	- 0.110	0.312
	Sig (2 tailed)	0.741	0.253	0.258	0.388	0.642	0.181
	N	20	20	20	20	20	20
Co-Advertising	Pearson Correlation	0.062	- 0.167	<b>0.498*</b>	<b>0.695*</b>	<b>0.539*</b>	0.332
	Sig (2 tailed)	0.827	0.481	0.026	0.001	0.014	0.153
	N	20	20	20	20	20	20
Co-Selling	Pearson Correlation	<b>0.718**</b>	0.131	0.427	0.232	0.304	- 0.118
	Sig (2 tailed)	-	0.583	0.061	0.325	0.193	0.621
	N	20	20	20	20	20	20
Co-Logistic	Pearson Correlation	0.069	<b>0.506*</b>	0.006	- 0.169	- 0.053	0.153
	Sig (2 tailed)	0.773	0.023	0.805	0.477	0.826	0.521
	N	20	20	20	20	20	20
Co-Use	Pearson Correlation	0.121	0.316	0.085	- 0.112	0.266	- 0.304
	Sig (2 tailed)	0.610	0.175	0.720	0.629	0.257	0.193
	N	20	20	20	20	20	20
Co-post Use	Pearson Correlation	- 0.124	0.379	0.265	0.329	- 0.043	0.056
	Sig (2 tailed)	0.603	0.099	0.259	0.157	0.856	0.814
	N	20	20	20	20	20	20

\*\* Correlation n is significant at the 0.01 level (2-tailed)

\* Correlation n is significant at the 0.05 level (2-tailed)

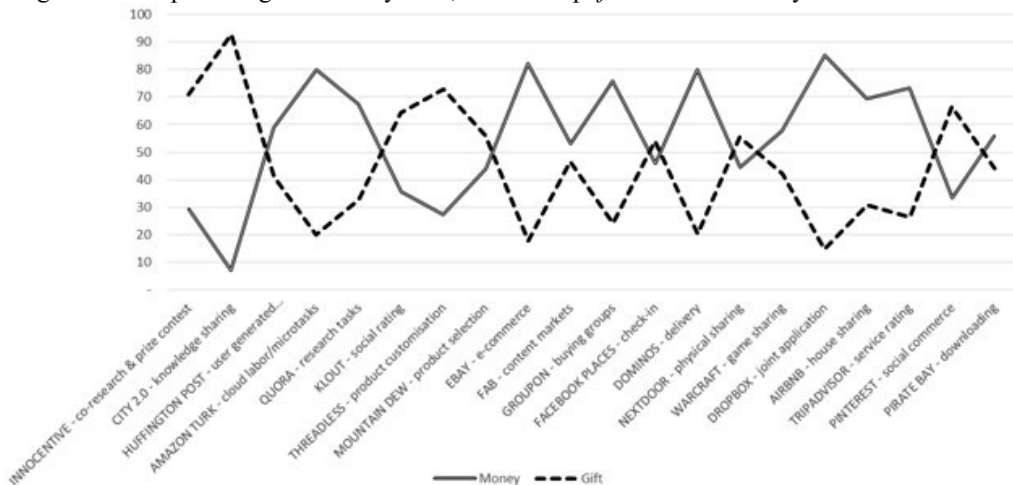
Source: own

A third group of significant and multiple relationships is connected to *co-planning* activities. First of all we observe that *co-planning* is closely correlated to *society/gift/us* with a Pearson correlation of  $r^2$ : 0.675 at 0.01 significance. From a theoretical point of view, these relationships introduce a rational and cognitive interpretation of social sensitivity. People commenting on their personal experience of co-planning use words, phrases and sentences which show their awareness of being intellectual co-planners. Last, but not least, it is necessary to observe the weak correlations between *co-use* and *co-post use* and social benefits. This is partially surprising because friendship and society were expected to be at the core of co-use and co-post use activities.

The Collective Responsibility is confirmed (H3). In order to test this hypothesis, we ranked the conversation on the basis of three variables of identity -*me*- relationships, -*friends*- and society -*us*-. The first five communities involving a strong element of identity -*me*-, appear often well positioned in terms of relationship -*friends*- and society -*us*-. There are also intermediate situations like Groupon where consumers show interest in sharing purchase coupons with friends but do not find the game innovative enough to give distinction of self-identity. Overall, there are few communities where the consumer gives a low value to friend-

ship (Amazon MTurk, eBay, City 2.0.). Moreover, values are very high in the “*society*” variables and reveal an increasing awareness of ethical implications of being continuously connected (Figure 4).

Figure 4 - The percentage of identity -*me*-, relationship -*friends*- and society -*us*-

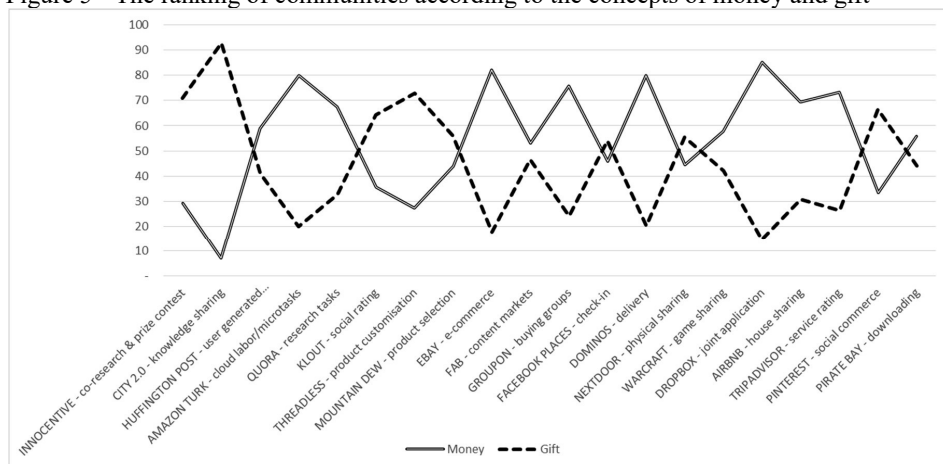


Source: own

Finally, we confirm also the Convergence (H4). The fact that the *social variables* were cited in almost the whole of the texts shows that the risks of consumer exploitation exist but are largely balanced out by consumer attention to the social content of services. What is significant is that consumer and citizen interests do not appear in inverted order: for example, it could be objected that communities like eBay and Groupon have a very small social dimension, but as a matter of fact, we found that dialogue is often about *following the rules*, and about the experiential and psychological dimension of use (Figure 8). These are frequent signals that the convergence of interests is not taken for granted, and many consumers comment on the need to be careful about their rewards. It is precisely this explicit mention of risks that comprises a *defense mechanism* against negative aspects of the convergence taking place. From our point view, this is new evidence of the convergence between the customer perspective - *logic of money* - and the citizen perspective - *logic of gift* -.

With the aim of analysing in more depth the available data-set and clustering the 20 platforms we tested Principal component analysis (PCA) as to reduce the amount of redundant information. We then inserted two new latent variables (Components 1 and 2) into the model (Figure 5). These two components in fact explain 68.88% of the original variance of outputs.

Figure 5 - The ranking of communities according to the concepts of money and gift



Source: own

Table 4 - The results of component analysis

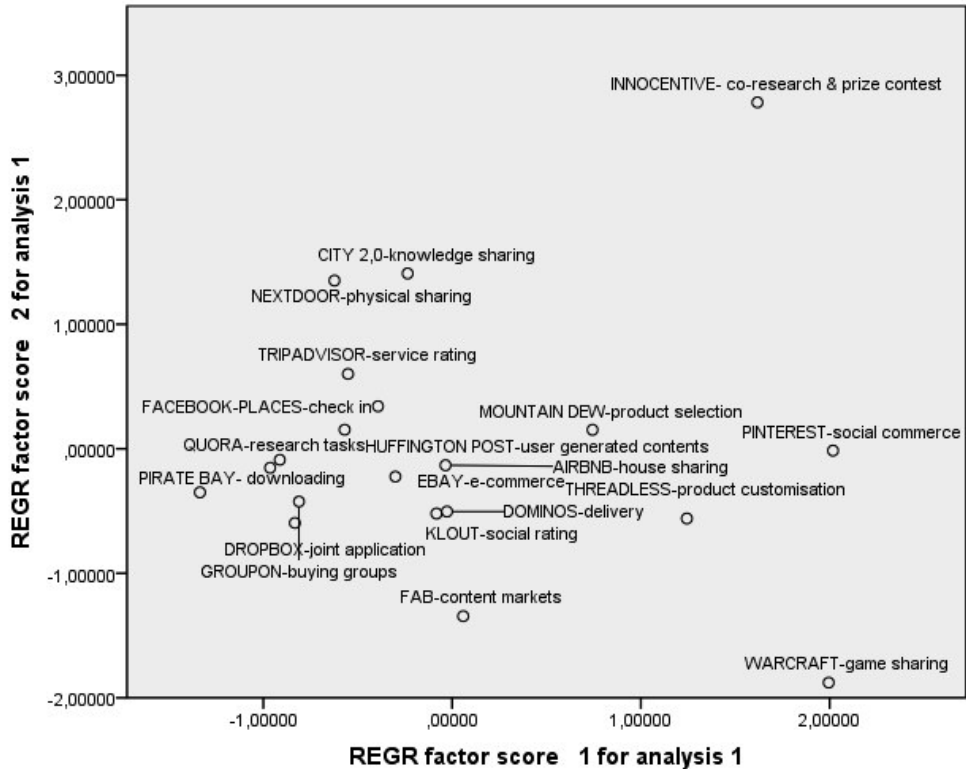
Components	Initial Eigenvalues			Extraction sum of squared loadings		
	Total	% of variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.272	47.470	47.470	4.272	47.470	47.470
2	1.927	21.412	68.882	1.927	21.412	68.882
3	0.863	9.585	78.467			
4	0.626	6.951	85.418			
5	0.466	5.173	90.591			
6	0.321	3.566	94.157			
7	0.213	2.368	96.525			
8	0.208	2.306	98.831			
9	0.105	1.169	100.000			

Source: own

*Component 1* comprises the emotive world of “*creativity, individual and friends*” and *Component 2* comprises the rationale world of “*planning, price, quality and society*”. The positioning of the 20 communities can be almost fully described by the two new Components (Figure 6).

The 20 platforms studied clearly have different vocations. It is not possible to identify a strong vocation for the emotive world of “*creativity, individual and friends*” for platforms such as Warcraft or Pinterest, or for others like City 2.0, Nextdoor or Tripadvisor more focused on the rationale world of “*planning, price, quality and society*”. A vocation as “Inno-centive” proves to be ranked quite high in both these types. This finding confirms that digital conversations are focussed not only on customers’ benefits- *price quality and time*- but also on citizens benefits- *identity, friends, society*. It means that we are definitely seeing a new convergence between the customer perspective- *logic of money* – and the citizen perspective – *logic of gift*.

Figure 6 - Crowdsourcing platforms positioning



Source: own

## 5. Conclusion

This paper employed logic and empirical evidence to focus on the new positive *convergence* of customers and citizens at work. The metrics of the Co-Value Model were used to measure and reinforce the basic idea of convergence between the customer perspective- *logic of money*- and the citizen perspective- *logic of gift*-. The model was applied to a large number of recent case histories focusing on the managerial implications of the new social game.

The hypothesis of convergence was proven through the analysis of continuous conversation between customer and companies from 20 international crowd-sourcing platforms. The findings show that the *continuous* digital conversations between companies and individuals (customer and/or citizens) are changing the value creation process. Convergence is driven by a renewed social sensitivity, which is clearly influenced by *collective responsibilities*. In the new context, *co-advertising* is the co-creation construct with the highest level of consumer involvement since individuals' conversations are strongly influenced by the social desire to share personal experiences, knowledge and opinions about the companies or brands they interact with.

Consequently, companies are able to promote, mediate and intercept customers' conversations, but the only possibility for individuals is to keep companies under non-contractual observation. The new overlap of *dialogue* and *sale* can generate a positive loop between companies and individuals' responsibility, and reduce the distance between market and society.

Our panel of 4,601 texts was not geographically defined and this could represent a limitation of the results. Furthermore, although numerous studies show how socio-demographic characteristics influence the interaction between customers and companies, this study makes no cross-cultural analysis. In this perspective recent studies on peer-to-peer communication show their interaction varies according to the gender and origin of the user.

Moreover, our analysis does not consider the factors of mediation and moderation existing in forums and reviews, especially online. An additional avenue for future research could be to test the new co-value model in different industries and cluster the role of digital conversations in various contexts. Moreover, it would be interesting to analyze the role of various tools used by customers during their conversation. In fact, new technologies, and in particular mobile devices, could lead to new form of dialogue and value co-creation. Finally, the semantic mining of words and texts could be conducted with more advanced solutions. This requires a fine tuning of professional software in line with recent developments in the field.

## Methodology Appendix

For Facebook we used Spiderbook, a tool developed by a web metrics company CaffeinaLab. The key word for the search was the name of the service (e.g. *TripAdvisor*). Spiderbook yields the *public status* of users who were then reclassified for the purposes of analysis. The public status shows:

- *No. of friends + No. of friends of commentators (reach)*
- *No. of 'likes' (engagement)*
- *No. of comments (engagement): Comments on status have the same audience as the "father status" and no result in terms of engagement.*
- *No. of 'share this' (engagement)*

Not all results have the same level of importance. Importance depends on a combination of "*reach*" (the extent of the audience who could in theory receive the message) and "*engagement*" (actual reaction on the part of receivers).

Here is an example expressed algebraically. Two *statuses* - *X* and *Y*- each describe a variable:

- *Status X is written by a boy who has 1000 friends and Y by a girl who has 100;*
- *X gets 300 likes, 3 comments and 10 shares;*
- *Y gets 30 likes, 30 comments and 100 shares;*

The weight of *X* is:  $1000 \times 300 \times 3 \times 10$ : 9,000,000 and the weight of *Y* is  $100 \times 30 \times 30 \times 100$ : 9,000,000. If there are no other comments, the system thus weighs *X* and *Y* at 50% each.

For Twitter we used its own search engine selecting "*All*" and set the key word as the name of the service without the hashtag (#). This shows all single mentions. Relevant replies to tweets were also included. The relative weighting of *reach* and *engagement* was carried out using the same principles as for Facebook and the following parameters:

- *No. of followers (reach)*
- *No. of retweets (engagement)*
- *No. of replies to tweet (engagement): Replies" have the same audience as the 'parent tweet' and were given no weight for engagement.*
- *No. of "favourites", in other word the number of times a tweet was added as a favourite by a follower.*

For the search on Google Blog the keyword was again the name of the service. In cases where there were fewer than 200 results, we used any available "*Google Suggestions*" to insert a



term to help the search. If possible we used terms linked to the concept of “opinion”, for example “used TripAdvisor”, “got TripAdvisor”, etc. Comments on posts were also evaluated. For Google Blog, *reach* and *engagement* were measured using a single variable reflecting the number of comments on each message.

In the final weighing, the three sources were given a weight corresponding to the number of mentions in each. The final result, the ‘web sentiment’, is thus a weighted average of opinions expressed by individual users.

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# PREVALENCE OF ‘FACE CONCEPT’ AMONG SOUTH ASIAN CONSUMERS. A COMPARATIVE STUDY OF UNFOLDING THE FACETS IN DECISION MAKING PROCESS OF BUYING BEAUTY PRODUCTS

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## *Abstract*

*The focus of this paper is to explore the level of importance of the term ‘face concept’, consumers transfer in their purchase decision of beauty products. The author intends to study differences in the consumption behaviour of highly collectivists Bangladeshi consumers’ compare to the highly individualistic UK consumers. Concept of face is acknowledged in every culture. However, the term ‘face’ is characterised differently according to one’s cultural setting; for example, ‘face’ represents the interpersonal relationship between the individual and groups in Asian society. On the other hand, from a European perspective face may represent stronger personal self and assertion. In this paper the author tends to identify the contributing factors to ‘face concept’ of Bangladeshi female consumers in their pre, actual and post-purchase behaviour of cosmetics products compared to the British female consumers. A structured questionnaire survey was conducted among female Bengali consumers in the capital city of Dhaka in Bangladesh and female British consumers in Southwest London in the United Kingdom. The research has compared the degree of face concept and its impact on decision making process of female consumers in the UK and the Bangladesh by using factor analysis. Five factors were extracted from factor analysis: ‘thoughts in cosmetics’, ‘brand link to social recognition and prestige’, ‘skin colour link to authority in society’, ‘group conformity’ and ‘personal-self’. It was noticed in the labelling process of the five factors that the extracted components were not exactly the same for both Bangladesh and the United Kingdom.*

**Keywords:** National culture; Consumer behaviour; Face concept; Collectivistic/ Individualistic culture; Group conformity; Decision-making process; Cosmetics purchase.

## **1. Introduction**

In cross-cultural research, concept of face has been studied largely in East Asian context. However there has been very little study relating to ‘face’ and consumption behaviour in

South Asian context. Although the concept of face is acknowledged in every culture, the term 'face' is characterised differently according to one's cultural setting; for example, in Asian Society 'face' represents the interpersonal relationship between the individual and groups. In China 'lien' (moral integrity) and 'mien-tsu' (prestige and reputation based on personal effort) are the depictions of face (Yau, 1994).

There have been several studies addressing face and face-related issues (Brown and Levingstone, 1987; Holtgraves, 1997; Kim 1994; Leung and Chan et al., 2003; Schutte and Ciarlante, 1998) on negotiation, decision-making and conflict management; however how face influences consumption remains unclear, and its conceptualisation requires further clarification and investigation (Li and Su, 2007). The concept of face is also important in western society, in the conduct of inter-personal relationships and in cultural development, but perhaps is less obvious and more subtle, appearing to be not important when actually it is (Hofstede, 2001).

This paper seeks to identify how 'concept of face' influences the attitudes of consumers towards the purchase of cosmetics in a cross-country environment. This paper intends to explore the following two objectives:

1. To investigate the nature and influence of 'concept of face' among Bangladeshi consumers in their purchase decision of buying beauty products.
2. To identify the key factors underpinning the precedence of 'concept of face' in consumption behavior between East (Bangladesh) and the West (UK, amongst the white British women).

## **2. Literature Review**

The aim of this literature review is to investigate the cultural elements and to identify the key factors impacting consumers' preference to choose and purchase beauty products at different stages of their buying decision.

Bangladesh considers to be one of the 20 Markets of the future that will offer the most opportunities for consumer goods companies globally. The country is one of the fastest growing and most promising economies in Asia-Pacific (Euromonitor International, 2012). Euromonitor 2012 also reported that, growing disposable income and an expanding urban middle class also bolstered sales of non-essential items. As a result, categories such as beauty and personal care products (CAGR 15% over 2009-2013), home care (CAGR 12%) and tissue and hygiene (CAGR 20%) also performed strongly. This research intends to outline the underlying factors in decision making process of buying cosmetics from a cross-cultural point of view.

### **2.1. Dimensions of Culture**

Geert Hofstede's cultural dimensions are widely used in international cross-cultural studies, the dimensions model is based on quantitative research and provides scores for 75 countries. Hofstede's (1984, p. 78) cultural dimensions approach is characterised as a national culture in terms of its average pattern of beliefs and values. Consequently, countries are divided on the basis of their scores on the five dimensions into cultural areas, and in some cases it is possible to find historical reasons for the cultural differentiation between the areas. Hofstede's (1980, 1984) Cultural Dimensions Model differentiates cultures according to:

- Power distance (PDI)
- Individualism/ Collectivism (IDV)
- Uncertainty Avoidance (UAI)
- Masculinity/ Femininity, and (MAS)

- Long Term Orientation versus Short Term Orientation (LTO)
- Indulgence versus Restaint (IND)

Although Hofstede initially proposed the four main cultural dimensions, he later has added another two dimensions, Long term vs short term Orientation, initially known as Confusian dynamism, that describes the time horizon and attach greater importance to the future. The second one is called Indulgence versus Restaint (IND), the extent to which member of a society try to control their desires and impulses.

To briefly define, power distance is the societal acceptance of hierarchy; uncertainty is the cultural tolerance of ambiguity; individualism-collectivism is the societal predilection for inter-dependence; and masculinity is the culture's desire for sex-role differentiation (Milner, Fodness and Speece, 1993). Since this phenomenal beginning, Hofstede (1982; 1983a, b, c; 1984a, b, c; 1985; 1987) and others (e.g., Mooij, 2003; England, 1983; Hortum and Muller, 1989; Jensen, White, and Singh, 1990; Kim, Park, and Suzuki, 1990; Lebas and Weigenstein, 1986) have validated and expounded on his initial insights.

Although Hofstede (1980, 1984) proposes five cultural dimensions, the researchers intend to focus on three dimensions, Individualism versus Collectivism (IDV), Power Distance (PDI) and Uncertainty Avoidance (UAI), to identify the relevance of cultural dimensions to consumer purchase behaviour in a cross-national environment. Mooij (2003) stated that dimensions of national culture provide excellent variables that can be employed to analyse cross-cultural consumer behaviour. Mooij further suggested that together with national wealth Hofstede's cultural dimensions can explain more than half of the differences in consumption and consumer behavior.

## **2.2. Individualism/Collectivism (IDV)**

The individualism and collectivism dimension at the culture level relates to how one values the individuals relative to the group (Gregory and Munch, 1996). Hofstede (2001, p.210) states: "The relationship between the individual and the collectivity in human society is not only a matter of ways of living together, it is intimately linked with societal norms (in the sense of value systems of major groups of the population)". In an individualistic culture, the "I" consciousness is central, which articulates private opinion and self-actualisation. Conversely, in a collectivistic society, the "we" term incorporates the identity and harmony with in-group members, and that it is important not to lose 'face' (Mooij, 2003, p.34).

## **2.3. Power distance index (PDI)**

According to Hofstede (2001), power distance is the extent to which less powerful members of the society accept and expect that power is distributed unequally. Hofstede argues that this inequality is usually formalised in boss-subordinate relationships. The power distance index was derived from the country's mean score or percentage on three survey questions (Hofstede, 2001), which related to the perceptions of subordinates, fear of disagreeing with the superior and of the superior's actual decision-making style, and with the decision-making styles that subordinates preferred in their bosses. From the survey it has been found that the 'power distance norm' as a value system is held by the majority of a country's middle class group. Hofstede (2001) argues that the correlation of the PDI with geographic, economic and demographic country indicators and consideration of historical factors leads to a suggested casual chain for the origins of national differences.

#### **2.4. Uncertainty avoidance index (UAI)**

Hofstede identifies the degree of uncertainty avoidance in different social contexts. As uncertainty is a basic fact of human life we try to cope with it through the rules of technology, law and religion (Hofstede, 2001). Uncertainty avoidance is “the extent to which members of a culture feel threatened by uncertain and or unknown situations” (p. 161). Hofstede (2001) suggests that uncertainty avoidance should not be confused with risk avoidance (p. 161). In strong uncertainty avoidance cultures people believe that rules and formalities shape living patterns. On the other hand weak uncertainty avoidance cultures feel that there should be as few rules as possible (Hofstede, 2001).

### **3. Evaluation of Hofstede’s Cultural dimensions**

Although Hofstede’s cultural dimensions have been criticised on methodological issues and conceptual matters, his work has been applied extensively in the field of business culture. Some Social scientists (e.g., Sampson, 1997; Smith 1978; Waterman, 1981) have disagreed on if individualism or collectivism is a desirable characteristics of humans, however they have talked past one another as they referred to very different things with terms such as ‘Individualism’ and collectivism (Hui and Triandis, 1986).

Research efforts based on comparisons between cultural groups at the country level should consider the limitations associated with extending culture-level correlations to individual-level behaviour. Hofstede’s culture-level measurements are based on the sums of individual characteristics and may have limitations when extended to individual behaviour (e.g., beliefs, evaluations and intentions). Many refer to this phenomenon as an ecological fallacy (Gregory and Munch 1996). Beyond these shortcomings, however, Hofstede’s research on work-related values in a cross-cultural context does seem applicable to consumptive behaviour in a cross-cultural context (Milner, Fodness and Speece, 1993). Schwartz (1996) suggests that in order to better understand how differences between individuals’ beliefs, evaluations and intentions are related to individual differences in value priorities, that researchers examine the individual-level value types that underlie the individualism-collectivism construct.

### **4. Consumer Behaviour and Culture**

According to Zaltman (1983, p.5), “Consumer behaviours are acts, processes, and social relationships exhibited by individuals, groups, and organisations in the obtainment, use and consequent experience of products, services and other resources”. “The behaviour that consumers display in searching for, purchasing, using evaluating and disposing of products and services that they expect will satisfy their needs” (Schiffman and Kanuk, 2004, p. 8). Usunier and Lee (2005) explain consumer behaviour theory from a variety of perspectives concerning cultural consumer behaviour theory such as a global perspective, an imported perspective, an ethnic consumption perspective and a cultural meaning perspective.

Bodley (1994) states that culture involves at least three components: what people think, what they do, and the material products they produce. Hofstede (1980, p.19) defines culture as the interactive aggregate of common characteristics that influence a group’s response to its environment. Hofstede (2005) also describes culture as the collective mental programming that distinguishes the member of one group or category of people from others. Usunier (2000) explains the impacts of cultural differences on selected aspects of perception, motivation, learning and memory, age, self-concept and group influences, social class, sex roles, attitude changes, decision making, and purchase and post purchase behaviour. Despite the multiplicity of cultures in Asia, there are many characteristics that are more or less common across many Asian cultures (Schutte and Ciarlante, 1998).

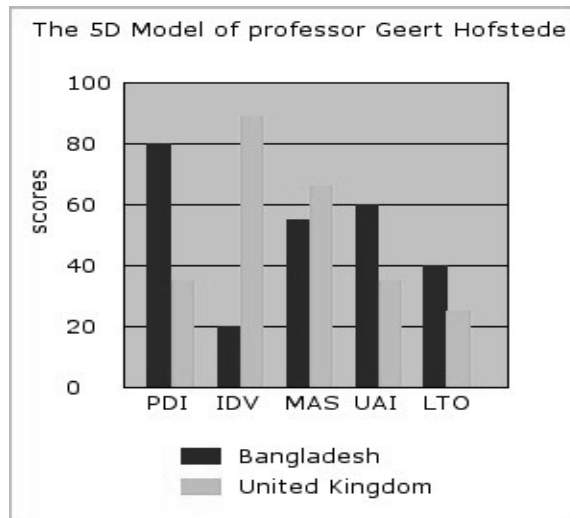


#### 4.1. *Fundamental Diversity between Bengalis and the British*

Schutte and Ciarlante (1998) argue that in order to describe Asian consumer behaviour accurately we must follow two premises: first, consumer behaviour is strongly influenced by culture and second, Asian culture is distinctly different from Western culture. Therefore, it is essential to establish the basic societal and cultural background in which behaviour takes place in order to bring to light the differences in consumer behaviour between the UK and Bangladesh. From the study of cultural dimensions it is clear that Bangladesh belongs to the culture-type that is described as collectivistic whereas the UK belongs to the culture-type described as individualistic. Bangladesh also falls in the category of high PDI and high UAI society; on the other hand UK is characterized as low PDI and low UAI society.

Hofstede's dimensions' raw scores (Figure 1) confirm the differences in culture between Bangladesh and the United Kingdom.

Figure-1: Differences in culture between Bangladesh and the UK (Hofstede, 2014)



#### 4.2. *The Concept of Face in Bengali Culture*

Face represents as an important role in the way a culture pursue its values which can be varied according to different country perspective. In a collectivistic society face is regarded as the medium of expression of respect, moral integrity, personal image, wealth, social status, prestige, level of education and the conformity to society's traditional values. In Asian culture the terms "gain face" or "face-saving" indicate that someone has good social reputation within the community and is reliable, dependable and safe to build up a relationship with. On the other hand losing face is referred to as an act of aggression (Yau, 1994).

Chinese individuals who are collectivistic in nature are mindful about the need to maintain a high degree of moral control, at least publicly, and carefully assess the possible effects of their actions on others before embarking upon a course of action (Schutte and Ciarlante, 1998). It has been argued that people in collectivistic cultures are conscious about not losing face; rather they endeavour to gain face for the family through the accumulation of wealth, prestige, status power and so on (Schutte and Ciarlante, 1998).

The concept of face is relatively similar among the Asian cultures in terms of family relationship, status priority, and conformity etc. As a part of Asia, Bangladesh shares the concept of face in the way as do China, India, Thailand, and Indonesia among others, however, to what extent, may vary. In Bengali society 'Mukh' (face) represents a social mirror in which a person can be observed by his or her performance, relationships and the acceptance within society, as well as level of conformity, and is able to earn admiration as a result. For a collectivistic society, to gain face 'mukh rakha', or to lose face 'mukh harano' form the essence of life for Bengalis because of the control the community has over the individuals.

To gain face in Bengali culture can be characterised by being honest and educated, and of high rank or social class which consequently provides power and authority in society. Loss of face symbolises embarrassment, and shame in Bengali society. As a collectivistic society, it is imperative for Bengalis to project the right image as being classy, up-market and prestigious by securing the term 'face-saving' where Bengalis rank high in a power distance society. According to Hofstede (1984), in high power distance societies, differences in power are expected to translate into visible differences in status.

In contrast, the existing concept of face in Bengali culture is likely to be absent in British culture because of its individualistic nature. Just as the collectivistic nature of the culture makes Bengalis attached to the family and conform to group decisions which is ignored in British culture, preservation of face and loss of face are related to the perception of the individual self in Britain. As Chiappini and Harris (1997) state: "In an individualistic culture individuals are free to choose the image they project to others". Thus the gain of face is not influenced by the desire of society or conformity; rather it is very much independent and controlled by individual aspirations. According to Hofstede (1984), in high power distance societies, differences in power are expected to translate into visible differences in status.

From the literature review it was established that there are several key factors linked to the 'concept of face' in Asian culture, such as the status priority and the acquisition of branded goods, kinship and family relationship, attitudes to skin colour, and concept of self. Most importantly, the extent of the authority of these factors on the decision making process is dependent on how a society practices its cultural values. For example, in a collectivistic culture with a high power distance society the need for achievement and affiliation is the basis of power. As a collectivistic culture the high level of interdependence among Bengali individuals corresponds with lesser personal attachment to material objects and a greater attachment to human beings. Indeed the conspicuous consumption may seem to clash with traditional characteristics of Asian culture such as pragmatism, collectivism and modesty in self-presentation; however, the explanation lies in the fact that the luxury products symbolise status and face-giving in the Asian culture (Schutte and Ciarlante, 1998).

## **5. Research Methodology**

As mentioned earlier, this paper seeks to identify how 'concept of face' influences the attitudes of consumers towards the purchase of cosmetics in a cross-country environment. A questionnaire survey method was selected for data collection. A two country comparison was performed in order to acquire a comprehensive understanding of the perceptions of concept of face.

Over 300 questionnaires were posted in Bangladesh using personal contacts and viral messaging. Approximately 1,500 were posted in the UK by using Royal Mail service. From Bangladesh, 150 fully completed questionnaires were returned and 142 from the UK, providing a total viable sample of 292 questionnaires.

### 5.1. Sampling

In order to determine a valid sampling frame or a mailing list, The Royal Mail UK's Address Management Software was used to select the target population in the Hampshire area. In Bangladesh a valid Postal Address Book was used to select the target audience. As the mailing list contains millions of addresses, systematic sampling was considered applicable in order to avoid extra costs and time in comparison to simple random sampling.

### 5.2. Research Hypothesis

A research Hypothesis was formulated to test that, *'female Bengali consumers are more influenced by the concept of face-saving than their female counterparts in the UK.* Several variables and scales were constructed to test the hypothesis.

### 5.3. Measurement and Scaling Procedure

According to Malhotra (1999) scaling involves creating a continuum on which measured objects are located. In a collectivistic society face is regarded as the medium of expression of respect, moral integrity, personal image, wealth, social status, prestige, level of education and the conformity to society's traditional values. The 18 statements of face were asked in the questionnaire survey. In order to meet research objective, which aim to explore the perceptions of face concept and its influences on the decision making process of buying cosmetics, the variables and scales were constructed using with 5-scale Likert measurement (1= strongly agree, 2=agree, 3= neither agree nor disagree, 4= disagree and 5 =strongly disagree). The attitudes towards face concept were simplified and reduced into composite variables by the factor analysis technique.

### 5.4. Factor Analysis

There are two primary functions of factor analysis – one is to identify underlying constructs in the data and the second is simply to reduce the number of variables. Factor analysis procedures attempt to retain as much of the information as possible and make the remaining variables meaningful and easy to work with (Field, 2009). According to Hamilton (1992), factor analysis provides a basis for combining variables, (p.263). Bryman and Cramer (2005) describe that factor analysis is primarily concerned with “describing the variation or variance which is shared by the scores of people on three or more variables” (p.327). Hair et al. (2010) suggest that, in order to examine the underlying pattern or relationship for a large number of variables and determine if the information can be condensed or summarised in smaller set of factors or components, a factor analysis can be utilised (p.233). A factor analysis explains underlying meanings and the correlation among a set of variables (Malhotra and Birks, 2009).

### 5.5. Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO)

The alternative and in fact most popular method of examining the correlation is the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO), developed by Kaiser in 1970. The KMO can be calculated for individual and multiple variables and represents the ratio of the squared correlation between variables (Field, 2009). The KMO statistics vary between 0 to 1. A value of 0 indicates that the sum of the partial correlation is large relative to the sum of correlation, indicating distribution in the pattern of correlations (thus, the factor analysis is likely to be inappropriate). A value close to 1 indicates that patterns of correlation are relatively compact and so factor analysis yields distinct and reliable factors (Kaiser, 1974). Hutcheson and Sofroniou (1999) recommend accepting that values of KMO greater than 0.5 are barely acceptable, values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are excellent.

Table 1 – KMO and Bartlett's test on the Statement of Attitudes

KMO and Bartlett's Test <sup>a,b</sup>		Bangladesh <sup>a</sup>	UK <sup>b</sup>
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.743	.772
	Approx. Chi-Square	1503.950	.947.876
Bartlett's Test of Sphericity	Df	153	153
	Sig.	.000	.000

a. Only cases for which Nationality = Bangladeshi are used in the analysis phase.

b. Only cases for which Nationality = British are used in the analysis phase.

A principal component analysis (PCA) was conducted on the 18 items with varimax. Table-1 shows that the overall value of KMO for the set of 18 variables was .743 for Bangladesh and .772 for the UK which shows that the correlation is quite large and verifies the sampling adequacy for the analysis. The approximate chi-square test was 1503 (Bangladesh) with degrees of freedom of 153, which is significant at the level of .05 levels. Bartlett's test sphericity for Bangladesh is  $\chi^2(153) = 1503$  and for UK  $\chi^2(153) = 948$ . A significant test tells us that R matrix (correlation matrix) is not an identity matrix and therefore there are some relationships between variables. The result for Bartlett's Test of Sphericity for both countries was highly significant,  $P < .001$ , and therefore factor analysis is appropriate on the set of variables.

### 5.6. *Reliability:*

The Cronbach's reliability coefficient alphas for the Bangladesh sample fall between .776 and .888 (Table-2); on the other hand, those for the UK sample are between .721 and .858 (Table-3). The reliability tests of both samples suggest that the reliability is adequate and acceptable. A 5-point Likert scale was developed to measure the constructs in all five factors (1= strongly agree, 2=agree, 3= neither agree nor disagree, 4= disagree, 5=strongly disagree).

### 5.7. *Selection of Rotation Procedure*

By using the rotation, the relationship between the variables becomes much clearer and the interpretability of factors can be improved through rotation. Rotation maximises the loading of each variable on one of the extracted factors whilst minimising the loading on all other factors (Field, 2009).

### 5.8. *Naming the Factor Loadings*

Variables with higher loadings are considered more important and have greater influence on the name or label selected to represent a factor (Hair et al., 2010). The ability to assign some meaning to the factors, or to interpret the nature of the variables becomes an extremely important consideration in determining the number of factors to extract (Hair et al., 2010). The process of naming the factors involves substantive interpretation of the pattern of factor loadings for variables, including their signs. Hair et al. (2010) suggested that before interpretation, a minimum acceptable level of significance for factor loading must be selected. The factor solution was derived from component analysis with Varimax rotation. The cut off point was set somewhat low - factor loadings  $\pm .5$  or above in order to illustrate the factor interpretation process with as many significant loadings as possible.

### 5.9. Rotated Component Matrix - Bangladesh

From Table 2 below we can see that five discrete factors have emerged from the set of variables and each one has an underlying meaning concerning the attitudes towards face concept. Factor 1 represents that there are four components that have high factor loadings (shown in bold type), factor 2 represents five components, factors 3 and 4 represent three components and factor 5 represents two components. In order to name the factors it is necessary to recognise the significant loadings; and the variables with higher loadings influence to a greater extent the name or label selected to represent a factor (Hair et al., 2010).

Table 2 – Rotated component matrix for Bangladesh by five factor solution

Components	Rotated Component Matrix <sup>a,b</sup>					Mean for individual item
	Component					
	1	2	3	4	5	
CHOSINGCOS	.875					1.69
THOUGHTINCOS	.841					1.80
IMPORTCOS	.801					1.92
UNSUITPUROFCOS	.791					1.79
BRANDSOCIALRECOG		.773				2.34
BRANDSOPH		.724				2.19
BRANDFASHION		.659				2.14
IMPORTREF		.645				2.97
IMPORTREF		.634				2.93
BRANDPERSONSAT						1.70
FAIRSKIN			.952			2.27
FAIRSKIN			.943			2.32
FAIRSKIN			.628			2.40
GROUPCONFO				.845		2.31
GROUPCONFO				.839		2.43
GROUPCONFO				.693		2.29
PERSONALSELF					.801	1.61
PERSONALSELF					.769	1.57
Reliability measurement (Cronbach's coefficient)	.888	.776	.841	.792	.832	
Variance%	29.708%	16.355%	10.007%	7.866%	6.726%	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation.

a. Rotation converged in 7 iterations.

b. Only cases for which Nationality = Bangladeshi are used in the analysis phase

### 5.10. Rotated component matrix – UK

The Table-3 below represents the rotated components matrix for the United Kingdom by four factor solution. Five factors have been extracted from the 18 statements of attitudes. The sample size of 142 (usable questions) is shown in Table 3. The factor loadings greater than  $\pm.50$  were considered statistically significant. From Table 3 it can be seen that for factor 1

there are four components with high factor loadings; for factor 2 - three components, for factor 3 - four components, and two components for both factors 4 and 5.

Table 3 – Rotated component matrix for UK by five factor solution

Components	Rotated Component Matrix <sup>a,b</sup>					Mean for individual item
	1	2	3	4	5	
BRANDPERSONSAT	.828					3.14
BRANDSOCIALRECOG	.797					3.66
BRANDSOPH	.674					3.36
BRANDFASHION)	.624					2.14
UNSUITPUROFCOS						2.54
TANNEDSKIN		.878				3.93
TANNEDSKIN		.866				3.56
TANNEDSKIN		.709				3.98
GROUPCONFO						4.19
GROUPCONFO			.859			4.30
IMPORTREF			.757			4.09
GROUPCONFO			.718			4.38
IMPORTREF			.602			4.27
THOUGHTINCOS				.846		3.08
CHOSINGCOS				.789		3.33
IMPORTCOS						3.61
PERSONALSELF					.915	1.93
PERSONALSELF					.904	1.87
Reliability measurement (Cronbach's Alpha)	.858	.833	.811	.721	.852	
Variance %	33.440%	13.265%	9.763%	7.349%	5.789%	

Table 4 – The labels of five extracted factors within the two countries

Countries	City	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Bangladesh	Dhaka	Thoughts in cosmetics purchase	Brand link to social recognition and prestige	Skin colour link to authority in society	Group conformity	Personal-self
United Kingdom	Hampshire	Brand link to personal satisfaction	Skin colour link to authority in society	Group conformity	Thoughts in cosmetics	Personal-self

In Table 4 above there are five factors related to face consumption: thoughts in cosmetics, brand link to social recognition and prestige, skin colour link to authority in society, group conformity and personal-self, which have been identified for both Bangladesh and the UK. For Bangladesh, Factor 1 represents 'thoughts in cosmetics' whereas for the UK it represents

‘brand link to status’. Factor 2 for Bangladesh emerged as ‘brand link to social recognition’ whereas ‘skin colour link to authority’ emerged as the second factor for the UK. ‘Skin colour link to authority’ was the third factor for Bangladesh, while for the UK ‘group conformity’ was the third factor. ‘Group conformity’ appeared as the fourth factor for Bangladesh while for the UK ‘thoughts in cosmetics’ emerged. Factor 5, ‘personal-self’ has emerged for both countries.

It has been argued that female Bengali consumers are more influenced by the concept of face than their female counterparts in the UK. On the factor ‘process of thoughts in cosmetics’ Bengalis females scored  $m=1.801$ , whereas British females scored  $m=3.354$ , which represents a significant difference,  $t= 7.8394$ ,  $P<.001$ . The second factor, ‘brand link to social recognition’, indicates that Bengali females  $m=1.376$  more strongly relate brands to their social face (i.e., social recognition, sense of being sophisticated and fashionable and social recognition of the choice of purchase) than British females  $m=3.394$ , ( $t=11.2539$ ,  $P< 0.001$ ) which therefore represents a significant difference. The third factor, ‘skin colour link to authority in society’, represents that Bengali consumers ( $m= 2.320$ ) are more likely to consider fair or lighter skin as associated with prestige and authority in society than the way British consumers negatively associates ( $m= 3.882$ ) tanned skin with prestige and authority in society,  $t=7.6032$ ,  $p<.001$ . The fourth factor ‘group conformity’ indicates that the purchase decision of female Bengali females ( $m= 2.355$ ) are strongly influenced by the family members’ and peers’ opinions whereas British females ( $m=4.310$ ) are strongly opposed to the group conformity influence in their purchase decision which shows a significant difference  $t=9.2609$ ,  $P< 0.001$ , between the two groups.

On the fifth factor, ‘personal-self’, both Bengali ( $m=1.610$ ) and British females ( $m=1.855$ ) scored low which indicates that there is no significance difference, ( $t=1.5924$ ,  $p>.05$ , ns) between the two nations in terms of the influence of personal-self on purchase decision.

## 6. Results of hypothesis testing

The results in Table 5 represent all four factors (apart from ‘personal-self’ which scored high among both nationalities) showed significant differences between Bangladesh and the UK. Therefore, based on this evidence, the first hypothesis *‘Female Bengali consumers are more influenced by the concept of face-saving than their female counterparts in the UK’* is accepted.

Table-5: Results of hypothesis testing

Construct	Bangladesh (n=150) (Mean)	United Kingdom (n=142) (Mean)	<i>t</i> value	<i>p</i> value
1. Process/thoughts in cosmetics	1.801	3.254	7.8394	0.000
2. Brand link to social recognition	1.376	3.398	11.2539	0.000
3. Skin colour link to authority	2.320	3.882	7.6032	0.000
4. Group conformity	2.345	4.410	9.2609	0.000
5. Personal self	1.610	1.855	1.5924	0.112

## 7. Conclusion

The 'concept of face' is an important value in a high collectivistic society in which people's thinking process, shopping behaviour, brand perceptions and overall lifestyle are strongly connected with the notions of having respect for others, gaining face in society by achievement and power, greater importance of considering the opinions of important referent others (IROs) and judging the 'self' through IROs which are tremendously involved in the process of controlling people's behaviour in society. International and multinational companies with an intention to enter, operate and market their products in Bangladeshi market, when endeavouring to understand Bengalis' behaviour from cultural point of view for a sustainable business and to segment their target customers with the right approach, should seriously consider the propensity of 'face-saving' and its enormous impact within Bengali society.

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# ANALYSYS OF GROSS LOANS AND RESERVES FOR IMPAIRED LOANS OF ITALIAN LISTED BANKS

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## *Abstract*

*This study aims at monitoring the role of Net loans for banks in terms of impact on total assets and, consequently, the trend of gross loans and the reserves for impaired loans in the period between 2005 and 2013. We also investigate the correlation between loans and their related Reserves for impaired loans, by using the Pearson correlation ratio. Data were extracted from Bankscope, a database containing comprehensive information on financial companies in Italy. Our findings raise important issues on the administrative supervision of banks and the financial system in general. A strong concern regarding the steady increase of impaired loans emerged and consequently the possibility of mergers has become one of the solutions for pursuing a more efficient risk policy.*

**Keywords:** Gross loans; Assets; Reserves; Impairment; Banks; Italian Stock Exchange; Correlation.

## **1. Introduction**

Banks, like any other business, have been changing continuously with the surrounding environment. In fact, there are several inputs, such as production factors, constraints and conditions that, through a process of transformation, generate a series of outputs (Brusa, 2013). Along with insurance, financial intermediaries, banks are part of the so-called "financial system" (Giovando and Venuti, 2014). The financial system connects the entire economic system through the financial reports.

The financial statements of banks present peculiarities of composition, exposure and content that make it suitable for the specific type of business (Bocchino, 2013).

Indeed the bank balance sheet follows an order of presentation of the items, essentially based on a policy of decreasing liquidity, with cash and cash equivalents reported as the first entry (Bank of Italy, Circular no. 262, 22 December 2005).

Our empirical study bases its theoretical rationale on the necessity to strengthen with further demonstrations the importance and the strategic role of loans and the several implications of a specific loan policy on the profitability of each bank.

In fact loans are an essential item of the balance sheet of banks, as being one of the most representative items heavily influencing both stability and profitability of this system.

The International Accounting Standards aim at giving a true and fair representation of the above-mentioned item. In accordance to IAS 39, the procedure of *impairment* requires to divide the credits into two large groups: exposures (the so-called "non-performing loans") and those who have not brought individually to objective evidence of impairment (performing loans or "performing").

In this connection there is a specific provision for doubtful accounts in order to show a true and fair view of the same.

Moreover, in order to define the adjustment and the associated value loss, we proceed by deleting the receivables for which the impairment is considered complete and definitive or devaluing (individually or collectively, depending on the method applied) claims for which it is made necessary rectification.

The sample chosen is that of all the banks listed on the Italian stock market in the period between 2005 and 2013.

Consequently we have formulated two different hypotheses and in order to start analysing the results we used the Pearson correlation ratio.

This research differs from previous studies, proposed in the following literature review, in terms of empirical analysis. First of all, the current sample is particularly representative as it includes all the banks listed on the Italian stock Exchange. In addition, this study was conducted on the financial statements of those banks and the analysis covers a very long period.

This analysis allowed us to monitor the changes in balance sheet items considered and the evolution that occurred in the surrounding environment in that period. Moreover, we try to evaluate the effects caused by the global financial crisis that has particularly affected the financial sector and consequently those companies operating in our market.

This last element can help us introduce the limits of this research. First of all we should underline that it is the first phase of a far deeper analysis on the banking system. Therefore we carried out a simple empirical analysis in order to create the groundwork for further research. Moreover Bankscope, the database from which we took the data, did not provide all the information required for each bank. This is the reason why we decided to use the mean of each item.

The remainder of this study is organised as follows. In Section 2, we provide the literature review of the topic presented. The definition of the sample of companies and the methodology are described in Section 3. In this section, we also include the presentation of the research questions and of the phases of analysis. Our findings are presented in Section 4. Discussions are in Section 5 and conclusions in the last part of the research.

## **2. Literature review**

Many analyses have been conducted to study the bank in its entirety (Koch and MacDonald, 2007). Over the years many scholars have studied the bank account (Bocchino et al 2013), its performance (Barros et al 2007; Berger, 2005; Boubakri et al., 2005) and its financial analysis (Hartvigsen, G., 1992). Some researchers have analyzed the performance of the banks

belonging to individual countries (Faisal et al 2015; Iqbal, and Raza, 2009; Ali and Ansari, 2007; Barros Ferreira and Williams, 2007). Recent studies have analyzed the bank in terms of international accounting standards (Dezzani et al 2014) and other specific studies are focused on a thorough analysis of the assets and liabilities of the balance transfer.

In addition other researchers have recently analyzed the impacts of the new capital requirements under Basel III on bank lending rates and loan growth. As a result higher capital requirements, raising the marginal cost of bank funding, have been leading to higher rates (Cosimano, et al., 2011; Elliott, 2009; Laeven and Valencia, 2008).

Some studies focused on how some banking entities have faced this moment of global crisis (Crowley, 2015; Costa and Thegeya, 2013; Avdjie et al 2012; Caprio et al, 2011). Many studies have concentrated on this period of financial crisis, highlighting the crucial role played by the liquidity risk in the stability of a bank, and more generally in the financial system. Some have tried to locate the perimeter within which identify the financial risk and study of methods for good management, in accordance with the requirements of Basel (Álvarez and Rossignolo 2015; Angelini, et al. 2011, Strahanb and Cebenoyan, 2004).

A major study found that the systemically important banks Eurozone during the period 2007 and 2013 are well capitalized with respect to market risks, but what about the risks undercapitalized credit and counterparty (Kahlert et al, 2015).

The accumulation of reserves in the banking system of the United States during the financial crisis increased concerns that the policies of the Federal Reserve may have failed to stimulate the flow of credit to the economy: banks, apparently, are accumulating funds instead of loan out (Keister and McAndrews, 2009).

Although credit risk is an important factor that financial institutions must cope with the determinants of bank problem, loans have been little studied.

A smaller proportion of studies focused on loans in the bank balance sheets. In particular some scholars employ Granger-causality techniques to test four hypotheses regarding the relationships among loan quality, cost efficiency, and bank capital (Berger and De Young, 1997). Other studies analyzed the trade-off between (loan portfolio) focus and diversification using a unique data set that is able to identify individual bank loan exposures to different industries, to different sectors, and to different geographical regions (Acharya et al, 2003). Some studies have analyzed the types of loans to customers and the different types of credit between different regions (Salas and Saurina, 2002).

Important studies analysed in depth how loan growth affect the riskiness of individual banks in many countries (Foos et al, 2010; Bushman and Williams, 2012). The study notes that the loan growth leads to an increase in provisions for credit losses over the next three years, to a decrease in interest income related, and lower capital ratios. Further analysis shows that lending growth has also a negative impact on net interest income risk-adjusted. All this leads to the conclusion that the growth of loans is an important driver of the riskiness of banks.

El Sood (2012) focused his analysis on the relationships between loan growth and tier 1 capital ratio, loan growth with the tier 1 capital component, loan loss provisions and the change in nonperforming loans and loan loss provisions and the change in securities to loans.

Beccalli, Casu and Gilardone (2006) investigated the determinants of bank performance and their relationship with share prices. This paper extends the literature on market-based accounting to examine the relationship between stock prices and efficiency. Specifically, it monitors if the changes in stock performance can be explained by changes in operating efficiency, derived by parametric and non-parametric methods.

However, none of these types of analyses concentrated on Italian banking firms in the period considered. More specifically, our research considers the period between 2005 and 2013, a very long period that allows to overcome the cyclical trends in the short term, on a large sample of Italian banks, generating incremental results than existing literature from an empirical point of view. Moreover our research monitors the correlation between gross loans and reserves for impaired loans over a very long period. We aim at analysing how and if reserves have the same trend of loans and, consequently, if they have a huge impact on them.

Consequently, the results provide a "snapshot" of the economic situation of the Italian banks.

### 3. Methodology

The following paragraphs describe the sample and the data, research questions and phases of analysis and the statistical techniques used to conduct our research.

#### 3.1. Sample and Data

This analysis focuses on the group of banks listed on the Italian Stock Exchange. In particular, we have chosen those listed on the sectoral index called FTSE Banks.

We focused on the analysis of the Gross loans and the related Reserves for impaired loans in the period between 2005 and 2013. Moreover this study can help us understand the context and the main business in which banks operate.

Data were extracted from Bankscope, which is a database containing comprehensive information on financial companies (banks and insurance companies) in Italy. We used the consolidated balance sheets of all companies and we focused on information about Gross loans, Reserves for impaired loans and Total Assets of the balance sheet of the groups of banks companies. We want to specify that data provided in our figures all refer to the mean of the single element analyzed for the specific sector.

Table 1 shows all the Italian banks of the sample analyzed.

Table 1 – Italian banks listed on the bank sectoral index of the Italian Stock Exchange

Banks
Banca Finnat Euramerica SpA
Banca popolare dell'Etruria e del Lazio Soc. coop.
Banca Popolare di Milano SCaRL
Banca Popolare di Sondrio Societa Cooperativa per Azioni
Banca popolare dell'Emilia Romagna
Banca Profilo SpA
Banco di Desio e della Brianza SpA-Banco Desio
Banco di Sardegna SpA
Banco Popolare - Società Cooperativa-Banco Popolare
Banca Carige SpA
Credito Emiliano SpA
Banca Piccolo Credito Valtellinese - Credito Valtellinese Soc Coop
FinecoBank Banca FinEco SpA-Banca FinEco SpA
Intesa Sanpaolo SpA
Mediobanca SpA - Banca di Credito Finanziario Società per Azioni
Banca Monte dei Paschi di Siena SpA - Gruppo Monte dei Paschi di Siena
Unione di Banche Italiane Scpa- UBI Banca
UniCredit SpA

### 3.2. Research questions and phases of analysis

The present research is based on the following main hypothesis: the assets of banks listed on the sectoral index called FTSE banks are mainly represented by loans.

To reach the goals of this study, we need to formulate two research questions:

*RQ1: What is the role of Net loans for banks in terms of impact on total assets? And, consequently, what is the trend of the reserves for impaired loans?*

*RQ2: Is there a correlation between the credits and their related Reserves of impaired loans?*

The research methodology followed three phases:

*Phase 1:* Definition of the items monitored. As we analyse the annual financial reporting standards of a group of Italian listed companies, we refer to the IAS-IFRS principles (Dezzani et al, 2014), and in particular to IAS 1, *Presentation of Financial Statement*, IAS 39 *Financial Instruments. Recognition and Measurement*.

*Phase 2:* Empirical analysis and findings. It involves an analysis of the information derived from the sample. The research only uses the information provided in the consolidated financial statements because it is sufficient to answer the research questions.

With reference to *RQ1*, we firstly want to demonstrate that the amount of net loans is particularly significant in the bank balance sheets. Afterwards we want to monitor their evolution and we make a comparison with the percentage of Reserves of impaired loans to the total gross loans in the period considered.

With reference to *RQ2*, we calculate the Pearson correlation ratio between Gross Loans and Reserves for impaired loans. Thanks to this ratio, we can analyse the impact of gross loans on the reserves for impaired loans in order to evaluate the effects of a specific gross loans policy.

As mentioned above, the Pearson correlation ratio ( $p$ ) is used to identify a positive or negative correlation between the gross loans and the reserves for impaired loans. For this, it is necessary to underline the following conditions:

- if  $p > 0$  there is a direct correlation;
- if  $p = 0$  there is no correlation;
- if  $p < 0$  there is an indirect correlation;
- if  $0 < p < 0.3$  the correlation is weak;
- if  $0.3 < p < 0.7$  the correlation is moderate;
- if  $p > 0.7$  the correlation is strong.

*Phase 3:* Conclusions and limitations of the research.

### 3.3. Statistical Techniques

In phase 2, after a brief analysis of the data obtained, we focused our empirical work on the analysis of the Pearson product-moment correlation coefficient, which is a measure of the linear correlation between two variables  $X$  and  $Y$ , giving a value between  $+1$  and  $-1$  inclusive, where  $1$  is total positive correlation,  $0$  is no correlation, and  $-1$  is total negative correlation.

Pearson's correlation ratio is the covariance of the two variables divided by the product of their standard deviations. The form of the definition involves a "product moment", that is, the mean of the product of the mean-adjusted random variables.

The correlation coefficient ranges from  $-1$  to  $1$ . A value of  $1$  implies that a linear equation describes the relationship between  $X$  and  $Y$  perfectly, with all data points lying on a line for

which Y increases as X increases. A value of  $-1$  implies that all data points lie on a line for which Y decreases as X increases. A value of  $0$  implies that there is no linear correlation between the variables.

More generally,  $(X_i - \bar{X})(Y_i - \bar{Y})$  is positive if and only if  $X_i$  and  $Y_i$  lie on the same side of their respective means. Thus the correlation coefficient is positive if  $X_i$  and  $Y_i$  tend to be simultaneously greater than, or simultaneously less than, their respective means. The correlation coefficient is negative if  $X_i$  and  $Y_i$  tend to lie on opposite sides of their respective means. Moreover, the stronger is either tendency, the larger is the absolute value of the correlation coefficient.

This ratio was developed by Karl Pearson (1895) from a related idea introduced by Francis Galton in the 1880s (1877; 1855; 1886). Early work on the distribution of the sample correlation coefficient was carried out by Gayen (1951) and Fisher (1915; 1921) from the University of Cambridge.

As regards the topic of this research, the Pearson correlation ratio was used by Bushman and Williams (2012), who examined banks across 27 countries, estimating two measures of the forward-looking orientation reflected in discretionary loan provisioning practices within a country. They used this parametric correlation between their two measures of discretionary provisioning and measures of countries' bank regulatory regimes and other country-level institutions.

El Sood (2012) instead used this ratio between his sample of data. In particular he focused his analysis between loan growth and tier 1 capital ratio, loan growth with the tier 1 capital component, loan loss provisions and the change in nonperforming loans and loan loss provisions and the change in securities to loans.

Beccalli, Casu and Gilardone (2006) used the Pearson correlation ratio in their research in which they investigated the determinants of bank performance and their relationship with share prices. This paper extends the literature on market-based accounting to examine the relationship between stock prices and efficiency. Specifically, it monitors if the changes in stock performance can be explained by changes in operating efficiency, derived by parametric and non-parametric methods.

Our research instead differs from previous studies because it monitors the correlation between gross loans and reserves for impaired loans over a very long period. We aim at analysing how and if reserves have the same trend of loans and, consequently, if they have a huge impact on them.

## **4. Findings**

### **4.1. Results**

First of all, before analysing the data obtained, we want to give further details and definitions.

The gross loans include loans, finance leases, factoring transactions, debt securities, the variation margins with clearing in front of derivative transactions and operating receivables associated with the provision of financial services. The gross loans are initially recognised at fair value which corresponds to the amount disbursed, or subscription price, plus any transaction costs and revenues directly attributable.

At the end of each accounting period an assessment is made regarding the loss of value of the entire loan portfolio. The amount of the loss is recognised in the income statement. The evaluation of the impairment loss on the entire loan portfolio is made taking into account these distinctions:



- Non-performing loans (non-performing): this category includes the sufferings, substandard loans, restructured loans, loans past due/overdue (Past due), as defined by the applicable regulatory reporting;
- Performing loans (or performing): as for non-performing loans (Excluding past due) assessment, analytically attributed to each individual position, is performed, for loans that exceed the threshold of significance, determining the expected cash flows and the relative timing of receipts.

Starting with *RQ1*, Figure 1 emphasises the weight of net loans to total assets of bank balance sheets in the period between 2005 and 2013. The data refer to the average of the sample for each year.

The figure confirms our main hypothesis, therefore, in the sample of banking firms considered, it can be noted that gross loans were a significant part of the total assets. Moreover there was a direct correlation between the two. In fact when gross loans went up, total assets increased too. Obviously, the trend of total assets was also influenced by other items such as financial assets, classified as *AFS* (Available for Sale) or *HFT* (Held for Trading). Moreover, despite the initial phase of the financial crisis in the period between 2007 and 2009, the sample of Italian banks increased its gross loans, in opposition to what happened on the sample of American banks (Keister and McAndrews, 2009).

Figure 1 – The impact of net loans to total assets

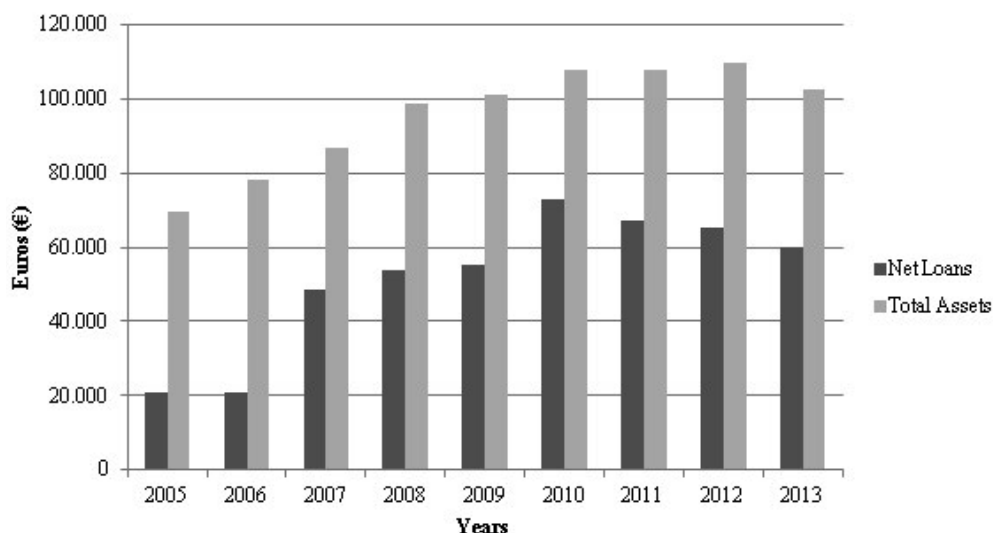
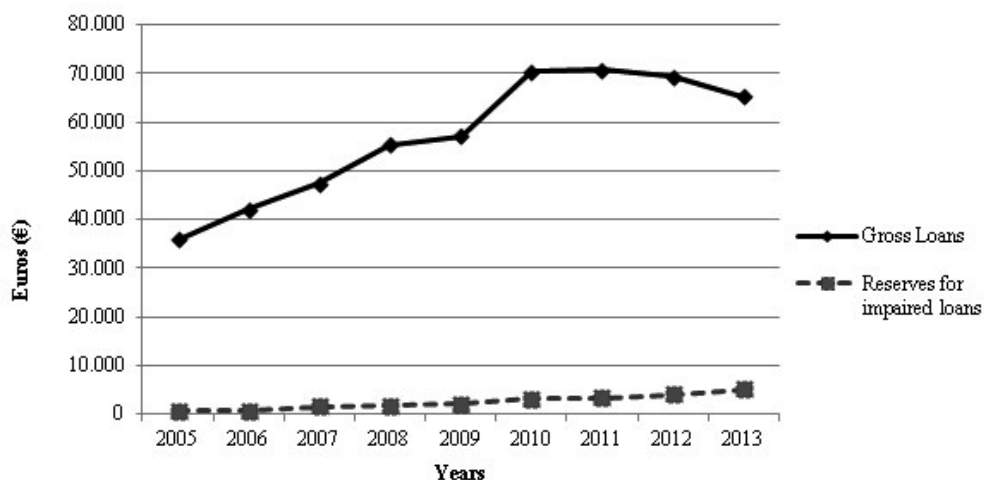


Figure 2 shows the trend of gross loans and reserves for impaired loans during the same period. The data refer to the mean of the sector for each year.

Figure 2 – The trend of gross loans and reserves for impaired loans



The two figures demonstrate that the initial main hypothesis is true. In addition, it is important to understand the relationship in the balance sheets of banks between credits and the related reserves.

This graph introduces the answer to RQ2. In fact, by analysing their evolution, we can affirm that the two items were interrelated in the period considered.

We can notice that the reserves gradually increased between 2005 and 2013, while credits did not have the same plain growth. In 2009 the development stopped and then started increasing again, but in 2011 the amount of gross loans began decreasing. It is therefore clear that in a period of crisis, such as the one that we have been through, banks have increased their reserves for impaired loans and have decided to reduce their risks.

Table 2 shows the percentage of impaired loans to gross loans, referring to the sample analysed. As we can notice, the amount of reserves has increased over the years. In fact it passed from 2.6% in 2005 to 6.4% in 2013. In particular, in 2008 there was a peak, clearly determined by the general situation of crisis of that year.

Table 2 – Percentage of reserves for impaired loans to gross loans of the banks of the sample

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Reserves of impaired loans	2,6%	2,5%	3,3%	4,4%	3,1%	3,4%	3,9%	4,9%	6,4%

As mentioned in previous paragraph, in order to demonstrate the hypothetical correlation between gross loans and their related reserves, we decided to use the Pearson correlation ratio (p) in the period between 2005 and 2013.

Table 3 shows the results deriving from the correlation between gross loans and reserves for impaired loans.

Table 3 – Pearson correlation ratio between gross loans and reserves for impaired loans of the banks of the sample

		Reserves for impaired loans								
		2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross Loans	2005	0,94								
	2006		0,93							
	2007			0,96						
	2008				0,98					
	2009					0,99				
	2010						0,99			
	2011							0,98		
	2012								0,99	
	2013									0,98

The table confirms there is a strong positive correlation between the two variables. Every year the correlation overcomes 0,9, rising from 0.94 in 2005 to 0.98 in 2013. Even in this case, the Pearson correlation ratio of each year confirms what we have just commented before.

On the one hand the average of the allocations increases over the years and on the other the correlation is very strong.

#### 4.2. Discussions

Our research and its results confirm what many previous studies have stated before: the gross loans are an essential item of the balance sheet of banks reaching in some years a percentage on average more than 50 percent of total assets (Keister and McAndrews, 2012).

Nowadays the balance sheet of banks is formed mainly by that item. But precisely for these reasons reserves for impaired loans have had an increasing importance. Indeed provisions to reserves for impaired loans reveals that they will be one of the most strategic items of bank balance sheets. Under these provisions, administrators will influence the income statement of these financial institutions.

Our findings raise important bank supervisory policy issue: the use of bank level variables as early warning indicators. Thanks to our study, we realised that in Italy in the period between 2005 and 2013 the gross loans of the group of banks considered comprehensively grew, even if between 2010 and 2013 they slightly decreased. Moreover the related reserves for impaired loans had the same growth in the period considered, but they had a steady and constant positive trend. We have also noticed that the Pearson correlation ratio underlines that the growth of gross loans is strongly positively correlated to the increase reserves for impaired loans.

Especially in the period between 2010 and 2013, the decrease in gross loans and the growth of the related reserves underline that the Italian financial system is blocked.

As a consequence the crisis of recent years has generated strong concern regarding gross loans and their potential loss.

The overall situation and this strong concern in the financial system has also an impact on the topic of bank mergers. Business combination would bring benefits related to the aggregation of credit, liquidity and operational risks and their management. In fact recent

events demonstrated that in some cases the only way to deal with past due and sufferings was to merge with other banks.

## 5. Conclusions

The present research first concentrates on the analysis of the Gross loans and the related Reserves for impaired loans in the period between 2005 and 2013.

This study aims at monitoring the role of Net loans for banks in terms of impact on total assets and, consequently, the trend of the reserves for impaired loans. Our findings raise important issues on the administrative supervision of banks and on the system in general. A strong concern regarding the steady increase of impaired loans emerged and consequently the possibility of mergers has become one of the solutions for pursuing a more efficient risk policy.

The sample chosen is that of all the banks listed on the Italian stock market in the period between 2005 and 2013 and data were extracted from Bankscope, a database containing comprehensive information on financial companies in Italy.

We have formulated two different hypotheses and, in order to start analysing the results, we used the Pearson correlation ratio between loans and their related Reserves for impaired loans, by using the Pearson correlation.

This research differs from previous studies in terms of empirical analysis. First of all, the current sample is particularly representative as it includes all the banks listed on the Italian stock Exchange. In addition, this study was conducted on the financial statements of those banks and the analysis covers a very long period.

This research allowed us to monitor the changes in balance sheet items considered and the evolution that occurred in the surrounding environment in that period. Moreover, we try to evaluate the effects caused by the global financial crisis that has particularly affected the financial sector and consequently those companies operating in our market.

What we have analyzed also allows us to introduce all the limits of this research. First of all, this study represents the first step of a much deeper analysis that can consider other variables, financial indicators and margins.

We carried out a simple empirical analysis in order to create the groundwork for further research. In addition Bankscope, the database from which we took the data, did not provide all the information required for each bank. This is the reason why we decided to use the mean of each item.

As regards the future developments of this research, it might be interesting to compare and contrast the Italian situation with that of other European countries, such as England, France and Germany.

Moreover, it may be useful to understand the impact of the annual provision to reserves for impaired loans on the operating result. This might help better understand the balance sheets of banks during this period and how performance in the sector have been influenced by the policy linked to these provisions.

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# INDIGENOUS ENTREPRENEURS AND BATTLE FOR COMPETITIVE EDGE WITH MULTINATIONAL CORPORATIONS IN NIGERIA

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## *Abstract*

*This paper examines the plight of indigenous entrepreneurs and their battle for competitive edge with the Multinational Corporations in Nigeria. The research method is qualitative and analytical relying on previous scholarly works on this subject. The sourced data were analysed using critical discourse analysis. The authors found modernity theory most appropriate to underpin this study. The finding indicates that indigenous entrepreneurs lost competitive edge because of unequal balance of power with MNCs linked to lack of advanced technologies, poor managerial knowledge, low international social networks and inadequate institutional support from the government. The paper concludes that for indigenous entrepreneurs to regain its competitive edge with MNCs, the issues of advanced technologies, managerial knowledge, international social networks and institutional support must be addressed by the policymakers.*

**Keywords:** Competitive Edge; Indigenous Entrepreneurs; Multinational Corporations.

## **1. Introduction**

Nigeria is a populous country in Africa, accounting for about 47 percent of West Africa's population, with a growth rate of 2.4 percent per annum (Ukaejiofo, 2010; Raimi, Shokunbi and Peluola; 2012). Presently, Nigeria's population stood at 170,123,740 million (Central

Intelligence Agency Factbook, 2011). Investment is encouraged as there are several incentives and opportunities for perspective local and foreign investors (Nigerian Investment Promotion Commission, 2013). Official data indicate that the micro, small and medium enterprises (MSMEs) sub-sector constitutes over 95% of the nation's enterprises and proudly accounts for over 50% of formal employment (Alkali, 2008).

The country's sound economic foundation was laid by the indigenous entrepreneurs at pre and post-independence era. It is therefore worthwhile investigating what accounted for the loss of competitive edge by indigenous entrepreneurs to multinational companies (MNCs) in Nigeria.

Indigenous entrepreneurship (IE, henceforth) is an emerging field of research which requires rigorous conceptual, theoretical and empirical studies from multidisciplinary lenses. Studies have shown that IE leverage on cultural networks of shared language, family connections, affiliation and communal social capital. Furthermore, the indigenous people in most regions of the world have created jobs; stimulate wealth creation and open-up export markets while retaining their cultural age-long cultural norms and traditions (Ashoka, 2014). From the foregoing, it could be inferred that social norms and cultural factors influence the nature, governance and management structures of indigenous enterprises (Bruton et al; 2008; Frederick and Foley, 2006; Lee-Ross and Mitchell, 2007; Rehn and Talaas, 2004; Peredo, et al, 2004; Banerjee and Tedmanson, 2007). These socio-cultural factors that have played significant role in the accomplishments IE in the past have now waned. What could be responsible for this? To reconnect with the past, governments and institutional bodies are deliberately promoting indigenous and mainstream entrepreneurs.

In Nigeria, the contributions of indigenous nationalities like the Yorubas in western Nigeria, Igbo in eastern Nigeria and Hausa-Fulani in northern Nigeria to entrepreneurship have been well documented in books of history. To these three groups, entrepreneurship is a culture and habit transferred from one generation to another (Raimi et al., 2012). Before the advent of colonial administration and emergence of MNCs, the Yoruba and Hausa indigenous groups were great entrepreneurs and small business owners in their respective regions. Among the Yoruba, the Maiyegun and Agbekoya farming communities were prominent in the south and east of Ibadan (Eades, 1980). The Igbos are globally recognized for their culture of entrepreneurship and enterprise development (Dana, 1995; Gabadeen and Raimi, 2012). The Hausa-Fulani communities are masters of the caravan trade and cattle-rearing.

Furthermore, Igbo, Yoruba and Hausa-Fulani indigenous entrepreneurs provided the platform on which the Nigerian economy prospered before colonialism and after colonialism. They were involved in artisanship, food processing, crafts, farming and merchandising. Those within the production line produced physical goods and sold the surplus goods to near and distant communities (Raimi, et al., 2010). However, the emergence of MNCs with their sophisticated business antics and foreign capital change the pendulum in their favour and consistently reduced the role of indigenous entrepreneurship in Nigeria.

Based on the foregoing, the purpose of this paper is to examine the plight of indigenous entrepreneurs and their battle for competitive edge with the Multinational Corporations in Nigeria. Apart from the introduction Section 1 above, there are five sections in this paper. Section 2 focuses on conceptual issues on indigenous entrepreneurship. Section 3 discusses the methodology with justification. Section 4 presents the findings from the critical discourse. Section 5 concludes with research implication and suggestion for future research.

## **2. Conceptual Issue and Theoretical Framework**

The mainstream entrepreneurship is viewed as a resource-based process exploited by individuals as business opportunities for the creation and nurturing of new businesses in enabling market (Balamoune-Lutz, 2007). However, IE compared with the mainstream



entrepreneurship has a distinct and specific socio-cultural connotation. To understand indigenous entrepreneurship therefore, it is necessary to ask: What is indigenous entrepreneurship? Hindle and Lansdowne (2005) define IE simply as the process of creating, managing and developing new commercial enterprises or ventures by indigenous people or communities. The definition emphasises three key points “*creation, management and development of new ventures*” (p.133). IE therefore describes a peculiar form of entrepreneurial ventures (commercial or social enterprises) owned and managed by family members of ethnic nationalities or indigenous communities known with certain cultural orientations (Berkes and Adhikari, 2005). Put differently, IE unlike the general entrepreneurship is a set of cultural values-based behaviours (Dana, 2006). Why has global attention and research focused on indigenous people/entrepreneurs and the need to revive indigenous entrepreneurship?

Indigenous peoples and their plights in entrepreneurship are important to the global community because they constitute about 5 percent of the world’s population. Pathetically, when summed up they are one-third of the world’s 900 million people described as extremely poor, marginalized, and vulnerable (Ashoka, 2014). Apart from pang of poverty, they also suffer lower education levels, and poor health (Peredo et al., 2004).

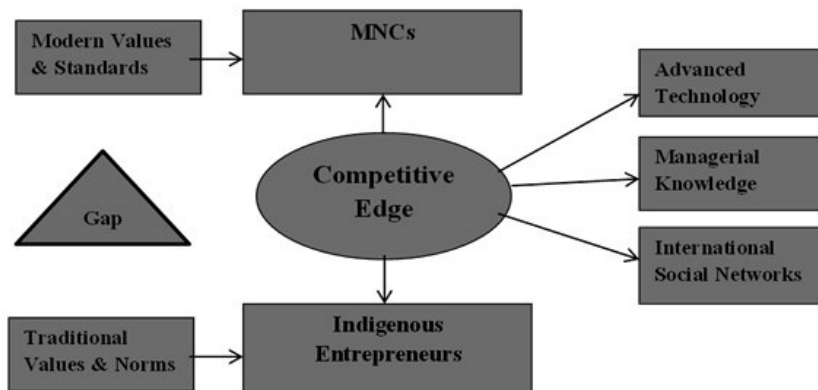
From the conceptualisation of IE, the battle for competitive edge between MNCs and indigenous entrepreneurs is a hegemonic issue; hence a strand of political economy theory called Modernisation Theory provides theoretical underpinning for the discourse. Modernisation theory is a framework for explaining transitional phases of societal development from traditional society (pre-modern era) to more advanced society (Andorka, 1993; Pursiainen, 2012). The theory views development as a continuum of passing phases and stages. For traditional societies to experience development and progress they must pass through certain stages that will eventually take them to modernity (Crewe and Harrison, 1998; Peredo, et al., 2004). Modernisation theory in its discourse makes use of structural processes terms like urbanisation, demographic development, improved living standards, industrialization, enhancement of welfare system and other terms that connote progressive advancement (Pursiainen, 2012).

The proponents of modernisation theory therefore situate ‘modernisation and development’ on the same pedestal and are synonymous terms. Andorka (1993:317) provide reason for the link, that within the modernisation theoretical perspective, a society is described as modern or modernized, when five processes are identified. These include: structural changes, improvement in living standards of the people, development of a welfare system; embedment of democracy (democratization) and development of modern values and norms. When the theory is applied to the theme of this paper, the implication is that MNCs are products of modernisation and progressive society; hence they have all the requisites of modernity, which gave them competitive edge over IE structurally and functionally. The IEs on the other hand are still operating within the framework of traditional institutions, social network, age long traditional culture, old social norms and diverse languages which have been described as hindrance to progress in the modern times (Peredo, et al., 2004).

To enhance their economic visibility and competitiveness in the Nigerian business environment, there is need for IE to transit from traditional practices and standards which underpin their present operations to modern practices and standards which are the core values of the MNCs. Figure 1 theorizes the rational for wide gap or competitive edge between MNCs and IE. The gap is historical; while the MNCs operate with modern values and standards, the IE operate based on inherited traditional values and norms handed over by previous generations. From Figure 1, the competitive edge of MNCs manifests in three ways:

deployment of advanced technology, managerial knowledge and international social networks.

Figure 1 – Theoretical framework



Source: Raimi *et al.*, 2010.

### 3. Methodology

The paper adopts the qualitative research method relying on documentary sources and journal articles on the subject. The sourced data were analysed using critical discourse analysis (CDA). The CDA as a form of discourse analysis examines how phenomenal issues like social power or hegemony, dominance, inequalities and other vital constructs are used and contested within socio-political contexts (Van Dijk, 2001; Mason, 2012; Fairclough, Mulderrig and Wodak, 2011). The CDA is appropriate because indigenous entrepreneurship has become a registered language in social discourse and indigenous entrepreneurs have suffered economic abuse and deprivation from MNCs.

### 4. Findings and Discussions

Critical review of the literature unveil the following findings as the exploits of indigenous entrepreneurs and the external and internal factors that precipitated loss of competitive edge to MNCs.

#### 4.1. Exploits of Yoruba, Igbo and Hausa-Fulani

For the Yoruba ingenuous entrepreneurs, historical account by Olalere (2013) revealed that 200 years before independence, the Yoruba people from Oyo, Saki, Ogbomoso Ilorin, Igboho and other groups had recorded landmark achievements in entrepreneurship in their local communities. With time, they extended their social networks to Gold Coast (now Ghana) and other parts of Africa because they identified economic opportunities beyond the shores of Nigeria.

The major merchandises they traded were assorted clothes, hard wares, kola nuts, dried pepper, motor cycle or bicycle parts and locally manufactured equipment and household utensils. In Ghana, the Yorubas as a group were formidable and united; they rented a third of the 700 stalls and built additional 200 to fortify their businesses. Yoruba people had the credit before the British to explore Ghana for other Nigerians. Yoruba impacted on social and spiritual wellbeing of Ghana, as accomplished entrepreneurs they built schools, houses and religious centres in their communities in Ghana. Some of their self-funded religious

institutions survived till today in places like Suhum, Secondi-Takoradi, Tarkwa, Kumasi and Koforidua et cetera.

The indigenous Igbo entrepreneurs are also known for their passion for business, ingenuities and creativities. They are risk takers and adventurers. These qualities took them to greater height before the Nigerian Civil war, which eroded significantly their accomplishments. The Igbo entrepreneurs used their ethnic networks effectively and efficiently to their advantage. Even contemporary studies acknowledge the important of ethnic businesses as priceless assets which “facilitate the exchange of inputs critical to global capitalism - finance, technical knowledge, and marketing information” (Bräutigam, 2003:102). In addition, Achebe (2012) explained that Igbos were outstanding entrepreneurs and had competitive edge in entrepreneurship because they had the abilities to grab environmental opportunities that came their way because their culture placed emphasis on change (adaptability), individualism (self-confidence) and competitiveness (inherent democratic values) traits that the ethnic group has a competitive edge and ability to grab environmental opportunities that come their way.

The Hausa-Fulani people had positive records in entrepreneurship at pre and post-independence era. Their caravan trade carried livestock, salts, leather products and textiles for sale to people from other regions (Norris 1984; de Haan and van Ufford, 1999). Even at the level of regional trade relations, the Hausa-Fulani had competitive edge on livestock rearing till date because the southern parts were geographically unsuitable to stock breeding (de Haan and van Ufford, 1999; Folami and Akoko, 2010).

Kerven (1992) explained that the Hausa-Fulani communities monopolised long distance trade in West Africa, a role they shared with only the Dyula traders. They traded with the Ashante in Ghana, and their caravan chain extended to present-day Benin Republic, Togo and Kankan in north-east Guinea. In the present day Nigeria, the Hausa-Fulanis are cereal cultivators and livestock producers (Folami and Akoko, 2010). The exploits of Hausa-Fulani people is largely shaped by a number of “cultural, attitudinal, and performative indicators” which are believed to have strengthen what has come to be known as Hausa identity (Ochonu, 2008). Pierce (2005) had alluded to similar viewpoints that Hausa identity could be described as a distinct ways of making a living and lifestyle generally.

The facts that have emerged from the critical discourse is that the three indigenous ethnic groups were successful entrepreneurs because they had good knowledge about their environment, strong social networks based on family ties and cultural norms, willingness to undertake risk and strategic migration for opportunity seeking. In spite of these strengths they lost complete edge to MNCs. Why? The next section unveils the factors.

#### **4.2 . External Factors affecting Indigenous Entrepreneurship**

*Technology and Managerial Knowledge:* MNCs maintained competitive edge because their enterprises are technologically advanced, manufacturing-oriented, and mining-inclined with higher capacities than indigenous companies (Malgwi et al., 2006). Whereas, the indigenous entrepreneurs still rely on traditional knowledge, local technology and socio-cultural norms for running their enterprises, whereas access to advanced technology and managerial knowledge are critical factors that gave MNCs and retuning entrepreneurs leverage in emerging economies (Dai and Liu, 2009). Even economic theory acknowledges the advantage of technology as catalyst of innovation and creativity which stimulate entrepreneurial activity (Schumpeter, 1950).

Managerial knowledge enhances understanding of the complexities of global business operations, the characteristics of foreign markets, the business climate and cultural patterns (Downes and Thomas, 1999). Managerial knowledge is an intangible asset of MNCs; its

benefits include enhanced information on access to labour force, infrastructural needs, distribution channels, raw materials and other requirements for running successful businesses (Dai and Liu, 2009; Makino and Delios 1996).

*Corruption, Bribery and Money-laundering:* MNCs in their attempts to have competitive edge in Nigeria employed bribery, money-laundering and corruption as potent vehicles for circumventing local norms, economic interests and hegemony (Anzaki, 2015; Geo-Jala & Mangum, 2000; Otusanya, 2011). Geo-Jala and Mangum, 2000) explained the Watergate scandal which involved the American corporations as form of bribery and illegal payments made by MNCs to Nigerians to gain competitive business advantages in developing countries. It has been proven that MNCs do this to degrade the governing system in the developing country. MNCs when viewed from a broader perspective of international capitalism, represent the engines of corruption in the Nigerian socio-economic and political context; They has succeeded in designing corporate policies and strategies which circumvent extant laws and regulatory framework in the country, an approach which contradicts their claim in annual reports and media that they are socially responsible and accountable (Otusanya, 2011). This ugly development put MNC at vantage position over indigenous entrepreneurs.

*Destructive Governance and Predatory War:* MNCs encourage destructive governance by fuelling conflict for supremacy among contending political actors with the aim of having exclusive control of the resources while the political contestation continues. Some MNCs instigate wars among the indigenous communities and while the war rages, the natural resources of the warring countries are exploited and stolen. Porter (2003:3) states that developing countries suffer set-back “because of internal economic and political disorder and destructive and predatory alliances among multinational capitalism, Western governments, and African dictators”. This strategy facilitates “the predation of resources – its illicit taking by more dominant parties – and consequent territorial dispossession, loss of culture and identity, and the often justified feelings of betrayal and anger” (Carleton, 2014:56).

Tsabora (2014) expatiated that MNCs exploit natural resources in most warring African countries. Between 2008 and 2010 alone, natural resources worth US\$ 63.4 billion was illegally stolen from Africa, an amount which exceeds US\$ 62.2 billion given to Africa as foreign investment and aid. In the Niger-Delta, where indigenous communities have been rendered useless, unemployed and hopeless, the use of predatory antics for land and oil-fields acquisitions has been well documented. The Petroleum Information Bill (PIB) is a bill to strengthen indigenous Nigerian companies in the oil & gas sector to compete with MNCs (NEITI, 2015). Similarly, Reno (2000) identifies illegal exploitation of diamonds as the underpinnings of endemic war in Angola between two militia groups. The MNCs are the buyers of the blood diamonds and facilitated supply of ammunitions to both parties. Indigenous communities and entrepreneurship suffered on account of these wars, as a result of endemic looting and political instability.

*Foreign Direct Investment (FDI):* FDI has been described by economists as strength for the developing countries, whereas, it is inimical to indigenous entrepreneurs development in several ways. The MNCs from Europe, America and China have utilized FDI for their national interests, although some economic benefits accrue to recipient nations (Motano and Qing, 2014). The state-owned multinational oil corporation - CNOOC has acquired prospective licenses for oil exploration in Nigeria, Morocco and Gabon. In the ICT sector of the developing countries including Nigeria, ZTE Corporation, Huawei Technologies, CL and

Lenovo have emerged as leading players to the detriment and growth of indigenous company like Zinox Computer Company (Alden and Davies, 2006).

*Strategic Seizures:* With regards to seizures, the MNCs in collaboration with corrupt politicians, traditional leaders and global financial institutions resorted to tacit seizure of massive land resources in some parts of Africa without adequate compensation or restitution (IRIN, 2009; Schoneveld et al., 2010). This approach serves two purposes in the oil communities. One, the indigenous communities in the oil producing areas are “‘cheated’ out of a fair share of oil revenues”; and two, the indigenes are made to bear the brunt of oil pollution, unemployment, destruction of arable land for commercial farming, extreme poverty, ravaging youth unemployment, discriminatory practices in trade and employment and other unethical conducts (Obi, 2009:106). In the non-oil communities, the MNCs collude with governments of Africa to seize rich arable land from the indigenous framers for mechanized farming with the intent of producing food and cash crops for export (Hornborg, 2009; Sachs, 2011). They secure land without regards for the traditional land rights of the indigenous communities (Motano and Qing, 2014).

The Economist (2009) reports that in 2006 alone, a total of 15 million to 20 million hectares of farmland had been secured for biofuel and food production by MNCs. In terms of ratio, 70% of the pieces of land so far grabbed are from Africa, and the investment on such land totaled between US\$20bn and US\$30bn (Adusei, 2010). Nigeria occupies number 10th position in the list of countries where this illegal seizure of land is taking place. In Ghana, the policy has forced several indigenous farming communities and rural inhabitants to migrate to cities and urban areas in search non-existing jobs (Davis, 2006). The long-term devastating consequences of forceful sale of land in developing countries are abrupt end of small-scale farming and termination of rural livelihoods (Grain, 2008).

#### **4.3. Internal Factors Affecting Indigenous Entrepreneurship**

Indigenous entrepreneurs suffered in Nigeria because of several factors linked to lack of institutional support services from formal market-supporting institutions like banks and government agencies (Biggs and Shah, 2006; Raimi, Shokunbi and Peluola, 2010). Environmental challenges stifling indigenous entrepreneurship in Nigeria include high taxes, complex tax regulations, inadequate infrastructure, rising rate of inflation, weak labour regulations, and rigid regulations on starting and running a business (Kisunko, Brunetti and Weder, 1999).

With specific reference to Nigeria, a number of scholars noted that Nigerian entrepreneurs suffer harassment, extortion from public officials and deficient infrastructure especially roads, water shortage, erratic supply of electricity and poor telecommunication (Mambula, 2002; Chu, Kara, Benzing, 2008). Besides, the most critical challenge facing entrepreneurs is access to credits from financial institutions (Ariyo, 2000; Raimi et al., 2012). Other challenges are lack of infrastructure, cumbersome government regulations and restrictions on equity/ownership structure in the case of MNCs (Cotton and Ramachandran, 2001). Furthermore, the World Bank (2014) identified access to finance, access to land, corruption, constraint of license & permits, electricity, paucity of educated workforce, political instability, multiple taxes and others as major factors affecting entrepreneurship in Nigeria.

The internal factors discussed have been worsened by unstable socio-economic and political climates, which seriously undermine growth of entrepreneurship and small business development in developing nations and consequently low market participation (Biggs and Shah, 2006). Militancy in the Niger-Delta and Boko Haram in northern Nigeria are classic examples of political instability affecting national development (Adebakin and Raimi, 2012).

Apart from the issues of environmental constraints and security challenges discussed above, African countries in general are prone to economic shocks arising from unfriendly climatic conditions, distress in agriculture, sudden conflicts, terms-of-trade shocks, frequent policy changes and poor management policy measures, institutional corruption, infrastructure deficits et cetera (Biggs and Shah, 2006).

## 5. Conclusion and Implications

This paper sets out to examine the plight of indigenous entrepreneurs and their battle for competitive edge with the MNCs in Nigeria. On the strength of the modernisation theory, the finding indicates that IE lost its competitive edge to MNCs which are technologically advanced and possess higher capacities than indigenous companies operating in Africa (Malgwi et al., 2006). Also, the indigenous entrepreneurs are affected by a number of external and internal factors. From the foregoing critical discourse, the MNCs would continue to enjoy competitive advantage until IEs has an enabling environment supported by friendly government policies to thrive. To enhance the visibility and competitiveness of IEs, the traditional knowledge, social norms, ethnic and family social networks which are the strengths of indigenous entrepreneurs need to be fortified with advanced technology and managerial knowledge. This paper has taken a theoretical approach to analyse the MNCs competitive edge over IEs, in Nigeria, in particular. There is need for an empirical study or cross-sectional study to validate the findings in this paper. After all, IEs and MNCs abound in other West African countries; are the IEs in this region facing the similar challenges from their respective MNCs? We need to know.

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# THE TOURISM INTERMEDIATION SYSTEM: THE RELATIONSHIP BETWEEN TRAVEL AGENCIES AND TOUR OPERATORS

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## *Abstract*

*The study aims to investigate the characteristics of the relationships between travel agencies (TA) and tour operators (TO). Through an empirical analysis, we highlight the weight, the number, and the duration of the relationships that are created in the Italian tourism intermediation system. An empirical research was conducted on a sample of Italian travel agencies (202, covering all of the regions in Italy). Results show that, although the products supplied by TOs are fundamental to the realization of TA turnover, in most cases channel relationships are of short duration and highly variable. This could mean that vertical channel relationships do not sufficiently exploit areas of potential cooperation.*

**Keywords:** Travel agencies; Tour operators; Tourism; Business to business; Disintermediation.

## **1. Introduction**

Over the last decades, the growth of tourism consumption in the world has been constant and vigorous, pulling the development of the tourism industry and of the actors who are part of it, such as tour operators and travel agencies. This means that it has become more and more important to connect consumers' needs with the tourism service supply chain and to promote the international image of tourism destinations (Mariani, 2013). However, despite this important growth phase, the tourism industry and the tourism intermediation system, in particular, is undergoing a profound transformation by changing the dynamics of both the relationships and competitive positions among the major players in the system.

Therefore, the changed conditions of competition between the different intermediaries are leading to an evolution of the distribution channel's features which cannot be defined with certainty. This is especially due to the advent of new internet technologies and the web 2.0 era, that have profoundly changed consumer buying and tourist behavior, with a high impact

also on tourism supply (Bastakis *et al.*, 2004; Pencarelli *et al.*, 2005; Buhalis and Law, 2008; Sigala, 2012; Standing *et al.*, 2014).

From the supply side, the advent of new information and communication technologies allows economic actors to facilitate the creation, the development, and the maintenance of intra- and inter-organizational relationships. For example, as a response to market changes, independent travel agents are increasing horizontal cooperation by creating various types of networks that can be ownership networks (direct ownership, association in participation) or associative forms of networks, such as franchising or buying groups (Gentile, 2003; Yevstafyev V. and Yevstafyev N., 2015).

Moreover, thanks to internet technologies, communication by tour operators is facilitated because they can send and receive catalogues and other promotional materials by e-mail, all along the supply chain. This reinforces vertical agreements both upstream and downstream of the value chain.

At the same time, the Internet reveals aspects of conflict behind each form of collaboration, creating the conditions for cancellation or reorganization of existing relationships. Indeed, new technologies can reduce transaction costs along the vertical chain (Malone *et al.*, 1987; Martini, 2001), causing disintermediation processes where travel agents could disappear (Van Rekom *et al.*, 1999), as well as the birth of new intermediaries (on-line travel agents, infomediaries, portals). Thus, potential conflict situations could reduce the cooperation areas along the value supply chain.

So, the relationship presents a dual nature and internet technologies are influencing the relational dynamics by changing the balance of power between the various actors in the tourism industry, especially in vertical channel brokerage, where collaboration and conflict intertwine and overlap.

## **2. Literature review and research questions**

The recent dynamics manifested in situations that have occurred (e.g., economic crisis, political instability, etc.) in some tourist areas of primary importance, combined with the impact of new ICTs, have led to a profound change in the dynamics of the system of tourist intermediation. In recent years numerous publications have attempted to study the relationships among the various subjects that make up the tourism supply system (see Table 1) from several points of view. Nevertheless, there do not emerge from the literature analysis any outstanding studies that have focused attention on the relationship between travel agencies and tour operators which, besides representing two key players in the tourism network, have undergone deep relational changes due to the recent changes in ICT.

The new information and communication technologies have created a more competitive environment in the tourism industry as they have become an indispensable element of business development, involving inter-organization, intra-organizations, and business-to-consumer relationships (Berné *et al.*, 2015). The new ICTs have changed the decision-making and buying habits of tourists, and in particular, how they search for information and book their travel (Buhalis, 1998, 1999; Bertozzi, 2005; Pencarelli *et al.*, 2005; Sciarelli and Della Corte, 2005; Buhalis and Law, 2008; Abou-Shouk *et al.*, 2016).

On the supply side, the historic role of the travel distribution sector has undergone profound changes: the conventional outgoing travel agents, tour operators, and incoming travel agents have been progressively integrated or replaced by new electronic intermediaries, namely GDS, e-Platforms, Internet portals or Vortals, interactive digital television and mobile devices (Buhalis and Licata, 2002). The new electronic intermediaries include a wide number of firms within the tourism value supply chain, such as airlines, hotels, cruise or railway companies, web-based travel agents, etc., all looking for direct contact with customers.

Table 1 – Publications that have addressed the relationships between entities in tourism distribution channels.

Author, year	Relationship	Research method
Shi and Liao (2013)	Between hotels and restaurants	Social exchange theory and resource dependence theory
Guo and He (2012)	Between tourism hotel and tour operator	Stackelberg game model (Game theory)
Ford, Wang and Vestal (2012)	Within tourism distribution network including consumer, suppliers and travel trade intermediaries	Strategic contingencies theory perspective
Huang, Chen, Song and Zhang (2010)	Between three actors: theme park, hotel and accommodation provider and tour operators (does not distinguish between Tos and travel agents)	Sequential game (game theory) and sensitivity analyses
Andreu, Aldas, Bigné and Mattila (2010);	Between travel agencies and suppliers	Structural equation modelling (SEM)
Castillo-Manzano and Lopez-Valpuesta (2010)	Customers - travel agent and airlines (Spanish airline market)	Survey and multinomial logit model
Christodoulidou, Connolly and Brewer (2010);	Between online travel agencies, travel meta sites and suppliers	Multiple case study approach, data evidence came from field study interview and document analysis
Li and Tang (2009)	Between travel agency and tourist, between tour operator and transport system	Game theory and classical newsboy model
Pan (2003)	Between Chinese authorized travel agents whit Australian Nominated Inbound TO in the process of building up business network	Questionnaire and interview Chinese travel agencies and Australia inbound TOs
Wu and Chang (2006)	Between travel agencies (Taiwan)	Adapting TRA as the concept framework, Likert scale questions in the survey
Holma (2004)	Triadic business relationship in travel distribution: buyers (travellers)-intermediaries (travel agencies) - sellers (service suppliers)	Re-constellation of triadic relationship
Bastakis, Buhalis and Butler (2004)	Between small and medium tourism enterprise (SMTEs) and European tour operators (Tos)	Exploratory study (interview) whit secondary research
Medina-Munoz, Medina Munoz and Garcia-Falcon (2003)	Tour operators and accommodation companies	Five-point Likert-type questionnaires - statistics data analysis
Tse (2003)	Travel agents and hotels	Discussion
Medina-Munoz, Garcia-Falcon and Medina-Munoz (2002)	Hotel and travel agencies	Survey, five-point Likert-type scale for questionnaires-statistics data analysis
Medina-Munoz and Garcia-Falcon (2000)	Hotels and agencies (US)	Statistics data analysis (F test, questionnaires)
Buhalis (2000)	Hotels and tour operators (Mediterranean region)	Interviews (Likert scale 1-5)
Garcia-Falcon and Medina-Munoz (1999)	Hotel companies and travel agencies (US market)	Empirical survey

Source: Tran M., Jeeva A. S., Pourabedin Z. (2016)

The proliferation of new electronic tourism intermediaries has confused consumers and also many marketing managers who are now required to simultaneously manage a number of sales and communication channels.

A further effect of this has been the disintermediation in the value system of organized tourism, where many conventional travel agents are disappearing from the market (Lang, 2000, Buhalis and Laws, 2001; Buhalis and Licata, 2002; Kotler et al., 2010; Del Chiappa, 2013).

This restructuring process in the tourism industry is producing a negative impact on travel agents, who perceive service cannibalization. Perceived cannibalization reflects sales agents' attitudinal reactions to challenges created by the expansion of distribution channels, including the Internet. Extant research suggests that the psychological effects of perceived cannibalization are motivationally, emotionally, relationally, and financially detrimental to travel agents (Sharma and Gassenheimer, 2009). The impact is negative, namely in terms of job insecurity, job dissatisfaction, job alienation, risk-aversion, and required travel agent effort and training (Diaz et al., 2015).

Moreover, the advent of new ICTs is causing a surge in the on-line distribution channel, due to lower costs and more competitive performance. The on-line intermediaries are gaining market shares and competitive advantage against the more traditional competitors along the distribution channel (Maria et al., 2015). This happens above all for two reasons: first, because the online suppliers are more able to personalize tourism products in which operators and consumers can easily co-create value and second, because the conventional, independent travel agents are not exploiting the potential of the new technologies and Web 2.0.

Therefore, the process of disintermediation has not led to overcoming the traditional distinction between TOs and TAs, as some have argued (Baldarelli, 2000; Becheri and Biella, 2013), but has led to increased complexity in the relationships among the actors of the distribution channel. The structure of the distribution channel has become a complex global network where, in order to thrive in this environment, competing actors at all levels find themselves involved in collaboration, partnerships, and the continuing evolution of relationships (Kracht and Wang, 2010; Ruiz Molina et al., 2010). In addition to altering the balance of power in the distribution channel (Berné et al., 2012; 2015), this trend implies a context characterized by areas of cooperation and conflict<sup>1</sup>, both upstream and downstream of the tourism industry, as well as at the intra-sector level (Pencarelli, 2010; Vasanth et al., 2012).

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<sup>1</sup> As regards the relationship between TOs and TAs, the new network technologies can accentuate phenomena of conflict and heighten the risk of disintermediation (Pencarelli, 2003), on the one hand. On the other hand, it can facilitate different areas of collaboration caused by the strong interdependence among a wide range of goods and services necessary for building the tourism product, the small size of many individual operators, and the spatial separation between the vacation and the home (Berné et al., 2015). The cooperation areas involve travel agents and tour operators, in the following ways :

- by strengthening cooperation and trade marketing activities between TOs and TAs, enabling both parties to communicate directly with end buyers (Suarez et al., 2007; Cioppi, 2013) by deepening and broadening the value of customer relationships in the long term, in terms of profitability and of customer loyalty due to the personal interactions made possible (Pencarelli et al., 2013);
- by improving the efficiency of trade (less time needed to research suppliers, fewer errors, reduced costs of research information, etc.), thus reducing transactional costs and improving mutual economic and competitive performances;
- by having a positive effect that is reflected in enhanced business performance and value creation for consumers, through the cooperation activities based on ICTs and carried out in a vertical integration approach (Berné et al., 2015).

Thus, in pursuing a policy to strengthen one's own competitive market position, travel agencies must necessarily develop collaborative processes with the other stakeholders in the tourism supply system who, nevertheless, through the very process of overcoming the traditional tourism network roles are, in fact, their competitors, also. This phenomenon of contraposition has been coined cooptation (Bagdoniene and Hopeniene, 2015) in the literature on competition and cooperation in the tourism industry.

Nonetheless, as maintained by numerous scholars (Von Friedrichs Grängsjö, 2003; Kylänen and Mariani, 2012), within the tourism industry the relationships and the relations among the various interlocutors are paradoxical, thus making it difficult to identify the boundaries between competition, cooperation, and cooptation.

This paper aims to position itself in this space, attempting to make a theoretical contribution to filling this gap in the literature on the relationships between TOs and TAs. Moreover, at the empirical level, it aims to provide some elements that may help to identify the type of relationship that exists between travel agencies and tour operators in the Italian context.

Therefore, the objective of this exploratory research is threefold: to investigate the characteristics of the relationship between travel agencies and tour operators in terms of economic turnover, number and turnover of relationships; to try to define the critical success factors that are the basis for travel agencies' choice of tour operators; to assess whether the "image and reputation" effect transmitted by individual TO brands really help TAs to attract clients (Succurro, 2006).

In particular, this study seeks to answer the following research questions:

*What are the characteristics of the relationship between TAs and TOs, and in particular, how stable are they and how many distribution channel relationships are there? (§3.3.1)*

*What are the key factors in the selection of TOs by the travel agency? (§3.3.2)*

*What role does the TO Brand play in the choice of product made by those clients that use travel agencies? (§3.3.3)*

### 3. Paper Content

#### 3.1. Methodology

The study aims to answer the research questions through an empirical analysis. A structured questionnaire was administered on-line, to a selected sample of 2,000<sup>2</sup> Italian travel agencies, between September of 2013 and April of 2014. The respondents were contacted by e-mail.<sup>3</sup> A total of 202 travel agencies responded.

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<sup>2</sup>The selection was made through the Google search engine, by keying in "Travel Agents" Region." The number of TAs in each region was chosen based on the percentage of TAs in that region. (Source: "Il Rapporto sull' Intermediazione turistica in Italia 2011", for example, Trentino Alto Adige 1.2% of the Italian Travel Agencies, number 24/2000).

<sup>3</sup>The answers (202) are geographically distributed as follows: Friuli-Venezia Giulia (0.5%), Valle d'Aosta (0.5%), Molise (0.5%), Sardinia (1%), Abruzzo (1.4%), Basilicata (1.9%), Trentino Alto Adige (1.9%), Liguria (2.0%), Calabria (2.4%), Puglia (3.0%), Umbria (3.9%), Sicily (5.9%), Veneto (5.9%), Tuscany (6.4%), Marche (7.9%), Campania (8.9%), Lazio (8.9%), Emilia Romagna (9.4%), Piedmont (11.8%), Lombardy (15.3%).

To create the questionnaire, the authors followed the main indications provided by the extant literature, along with semi-structured (or free, Cfr. Corbetta, 1999) interviews with the director of marketing and the director of sales<sup>4</sup> of Eden Viaggi of Pesaro, a leader in the sector of tourism intermediation in Italy<sup>5</sup>. As with any non-structured interview, the conversations did not include a set of pre-determined questions but followed a general guideline that served to highlight the main features of the relationship between TAs and TOs<sup>6</sup> as well as the critical success factors in the sector<sup>7</sup>.

### 3.2. Characteristics of the sample

In 65% of the TAs the turnover does not exceed 500,000 euros, 19% are positioned between 500,000 and 1 million euros, while the remaining 10% of the sample are over the 1 million mark, and 6% gave no response.

In terms of the number of employees, 86% have one or two employees, 6% have between three and five employees, while only 8% have more than five employees. As concerns the size of the premises, 70% of the travel agencies occupy an area not exceeding 60 m<sup>2</sup>, 21% between 61 and 99 m<sup>2</sup>, while only 6% a larger area of up to 100 m<sup>2</sup>. The remaining 3% did not respond. The data indicates that the majority of the respondents are small travel agencies both in terms of turnover and in the other defining features.

### 3.3. Findings

#### 3.3.1. Characteristics of the relationship between TAs and TOs

In order to define the relationship between tour operators and travel agencies, three different questions, considered critical by the managers who were interviewed during the process of setting up the questionnaire. They regarded the following aspects:

- turnover achieved by travel agencies through the sale of TO products (§3.3.1.1);
- number of TOs with whom the travel agencies maintain contemporary relationships (§3.3.1.2);
- turnover rate in these relationships between TAs and TOs, defined as the number of accounts closed versus the number activated (§3.3.1.3).

*Turnover achieved by travel agencies through the sale of TO products.* The TA turnover resulting from the sale of TO products is fairly high on average, i.e. 50% of the sample declared that more than 70% of their turnover comes from these products, while only 17% of the sample stated that it is less than 40%. On average, 60% of the turnover is realized through the sales of TO products.

In addition, travel agents were asked to indicate how much of their turnover comes from the sale of TO products, derived from their relationships with the top six TOs.

The responses indicate that, of the total number of products sold, on average 70% comes from the relationship with just six tour operators. This information will be very useful for some final considerations.

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<sup>4</sup> The interviewees were: Angelo Cartelli (Director of Marketing and Sales) and Andrea Ancarani (Head of the Office of Marketing and Communication). The interviews took place on several occasions from March through June of 2013.

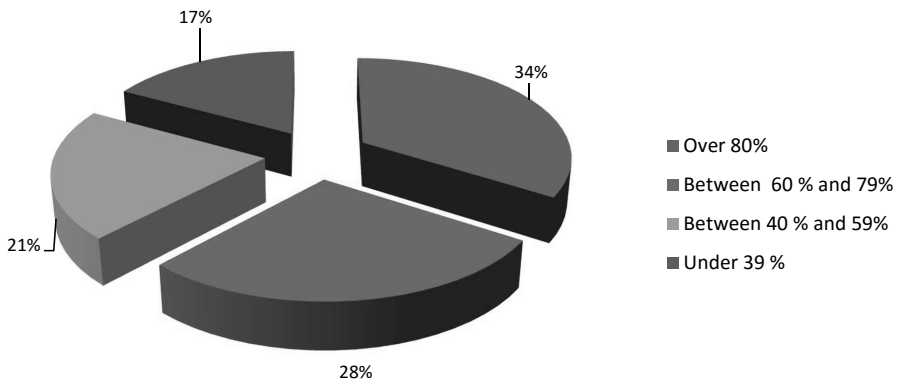
<sup>5</sup> Cfr. Pencarelli *et al.*, 2013.

<sup>6</sup> See par. 3.3.1.

<sup>7</sup> See par. 3.3.3.



Figure 1 – Percentages of turnover derived from the sale of TO products

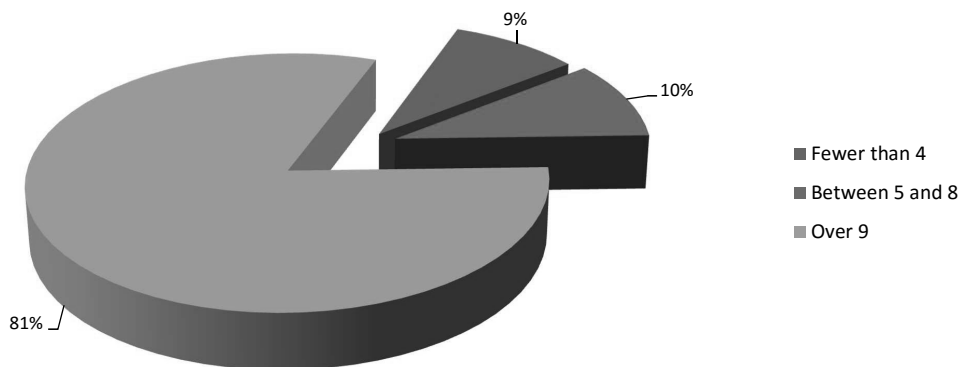


Source: our data

*Number of TOs with whom the travel agencies maintain contemporary relationships.* The second question seeks to define how many relationships travel agencies have with TOs in order to build their tourism offers. The results show that most of the travel agencies maintain a relationship with several different TOs at the same time (81% answered "more than nine relationships"). The large number of TOs with whom the TAs carry on contemporary relationships is symptomatic of a high level of competition among TAs and of their need to make use of numerous different suppliers in order to provide the tourism offer.

In sum, the majority of the TAs in the sample make the bulk of their turnover from having a large number of TO relationships contemporarily.

Figure 2 – Number of TOs with whom the travel agencies maintain contemporary relationships



Source: our data

Delving more deeply into the analysis (Table 2), if we cross two variables, i.e., the number of TOs with which TAs maintain contemporary relationships and the turnover rate, it is plain that those agencies that earn most of their turnover (60/100%) through TO product are also those that have the greatest number of relationships with TOs - 11% have between 5 and 8 and 89% have over 9.

This is highly significant in that it indicates that there is a directly proportional relationship between turnover earned from TO products and the number of TOs with which an agency maintains a business relationship. This tendency is probably attributable to the need to supply a wide and varied range of offers geared toward the many requests made by clients that could otherwise remain unfulfilled if there were too few TOs and/or too highly specialized products.

Table 2 – Number of TOs with whom the travel agencies maintain contemporary relationships in relation to the level of turnover in TAs

	TA Turnover 0/59%	TA Turnover 60/100%	Average
Fewer than 4	24%	0%	9%
Between 5 and 8	9%	11%	10%
Over 9	67%	89%	81%

Source: our data

*Turnover rate (defined as the number of accounts closed vs the number activated).* Another indicator that defines the relationship between travel agents and tour operators is the turnover rate (expressed in the number of TOs). This rate is defined as the number of accounts that are closed versus the number that are activated in a short period of time (three years).

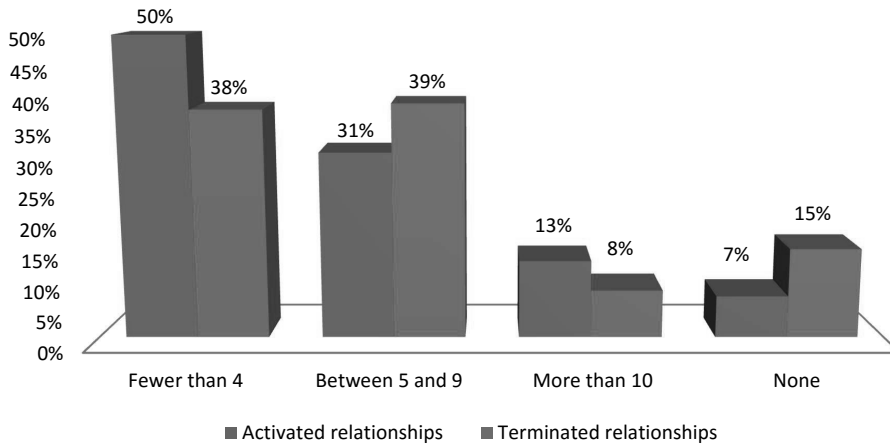
The time period considered for the purposes of this study is the last three years.

Regarding the relationships that were terminated, 38% of the TAs said they had put an end to working relationships with fewer than four TOs, 39% with between five and nine TOs, and 8% with more than ten TOs. It is worthy of note that there is also a minority (15%) who did not terminate any relationship.

As for the accounts that were activated, 50% said they had initiated up to four relationships, 31% between five and nine, and 13% over ten. The number of tour operators who did not foster any relationship is 7%.

The results show a high rate of turnover in terms of relationships that were either activated or terminated. This data is indicative of the high turbulence of the relationship between tour operators and travel agencies (Pencarelli *et al.*, 2013). It is likely that this turbulence is fueled by low entry barriers typical of this context, which result in the presence of numerous actors.

Figure 3 - Terminated and activated relationships over the last three years



Source: our data

In conclusion, the analysis shows that the relationship between tour operators and travel agencies displays the following characteristics:

- the widespread and generalized presence of multi-supply relationships;
- a very high interdependence between the turnover of travel agencies and the number of tour operators with which there are working relationships;
- a very high exchange rate in terms of the activation and termination of relationships between tour operators and travel agencies.

### 3.3.2. Key factors in the selection of TOs by the travel agency

In order to evaluate which factors have the highest impact on travel agencies' selection of tour operators<sup>8</sup>, we asked the sample travel agents to select the three factors (among 10 proposed) they considered most important.

The factors that appear to carry the most weight in the selection of the TO are, in decreasing order, product quality and level of customization (51%), customer service to agencies and end users (44%), intermediation margin (44%), economic stability (43%), problem solving (37%), price and value (35%), prompt, effective and appropriate response (26%), incentives (24%), and image and reputation (24%), catalogue quality (12%).

The data highlights the tendency of TAs to give priority to the joint aspects of effectiveness and customer management, to require customized products to satisfy the increasingly more complex demand, to consider both efficiency and profitability by paying close attention to the intermediation margins and economic incentives.

It is worth pointing out how much attention the TOs put into assisting TAs in the daily processes of problem solving and management, which emphasizes how important is for TOs to develop effective CRM processes aimed at the retail network.

<sup>8</sup> The factors chosen were identified through the interviews conducted with the two managers of Eden Viaggi Tour Operator, see par. 3.1.

Table 3 – Key factors in the selection of TOs, as indicated by TAs, classified by level of turnover from TO products

	Average	TA Turnover 0/59%	TA Turnover 60/100%
Product quality and level of customization	51%	45%	53%
Customer service to agencies and end users	44%	49%	40%
Intermediation margins	44%	36%	48%
Economic stability	43%	37%	46%
Problem solving	37%	47%	30%
Price and value	35%	32%	36%
Prompt, effective and appropriate response	26%	29%	23%
Incentives	24%	24%	25%
Image and reputation	24%	28%	22%
Catalogue quality	12%	17%	9%

Source: our data

When the individual factors driving the TA's choice of TO are compared and classified by amount of turnover earned from TO products, a number of interesting aspects come to light. First of all, economic factors as well as intermediation margins and the financial stability of suppliers (not counting incentives) are judged to be more important by those TAs that earn a high portion of their turnover from TO products. Thus, those travel agencies that are more heavily dependent on their business relationships with TOs are also those that are more sensitive to economic aspects.

Services like problem solving and customer service to agencies and users are considered important by those TAs that are less financially dependent on TO-generated turnover (up to 59%), while they are considered less significant by those agencies with a higher rate (over 60%). This difference in sensitivity to these services could be due to the fact that the former category of TA is seeking business relationships that can complement their own portfolio of offers and that can guarantee high levels of service to the agencies themselves and to their clientele. Instead, the latter category of TA may put lesser emphasis on services because most of their offer is based on the intermediation of their suppliers' products and so, these agencies are mainly looking to gain greater commission margins and to ensure a stable, high quality supply of products, with a highly personalized services.

This could help explain the fact that the quality of the product and the level of customization both represent critical success factors for those TAs with a higher percentage of TO-dependent turnover.

In order to investigate retailers' assessment of the major Italian tour operators and to verify whether tour operators meet the critical factors for a strong partnership, the TO market leaders were evaluated (and given a score of 1 to 5) according to the critical success factors considered important by the TAs.

Table 4 – Evaluation of the TO market leaders for the critical success factors considered most important by the TAs

Tour operator	Image and reputation	Economic stability	Customization of products	Assistance to agencies and end customers	Problem solving	Price	Intermediation margin	Incentives
A	3.78	3.53	2.94	2.98	2.92	2.52	2.32	2.47
B	3.46	3.32	3.17	3.20	3.05	3.13	2.89	2.88
C	2.81	3.01	2.68	2.89	2.81	3.35	2.83	2.92
D	3.26	3.29	3.40	3.05	3.14	3.03	2.88	2.50
E	3.46	3.37	3.15	3.09	3.05	2.80	2.81	2.83
F	3.79	3.74	3.40	3.20	3.16	2.98	2.93	3.08
AVG	3.43	3.38	3.13	3.07	3.02	2.97	2.78	2.78

Source: our data

The average scores are positioned in an intermediate zone of the scale from 1 to 5 (minimum 2.78, maximum 3.43), showing that the level of TA satisfaction is not high. This first fact could explain why TAs have a very incidence of multi-supplier relationships, as they are not completely satisfied by the market leaders (especially as regards the intermediation margins and economic incentives). Among the six TOs no dominant position emerges, showing the existence of a very competitive environment.

The factors that are scored highest are Image and reputation (3.43), Economic stability (3.38), and Customization of products (3.13). The economic factors that get the lowest scores are Intermediation margin and Incentives (2.78).

The factor that was most appreciated in the TO market leaders is image and reputation, linked to the economic soundness of the same. One can reasonably deduce that the recent crisis in northern Africa, with the resulting failure of TOs, has shifted the focus of TAs on these factors; thus, they consider them a priority in the selection of their supplier relationships. A similar finding emerged in the recent study by Yevstafyev and Yevstafyev (2015) referred to the Russian market, in which the authors highlight that tour operators with a high brand reputation and a high index of geographical concentration of their agent network are more likely to create partnerships with travel agencies, rather than with other tour operators.

We can say that in this historically turbulent time period, TAs are prepared to choose products with lower profit margins, as long as they are organized by TOs that offer greater guarantees, in order to avoid reputational and financial damage deriving from the possible cancellation of the holiday package sold. However, TAs cannot be totally satisfied with the TO offers and this can also explain the high rotation of the relationships between TOs and TAs.

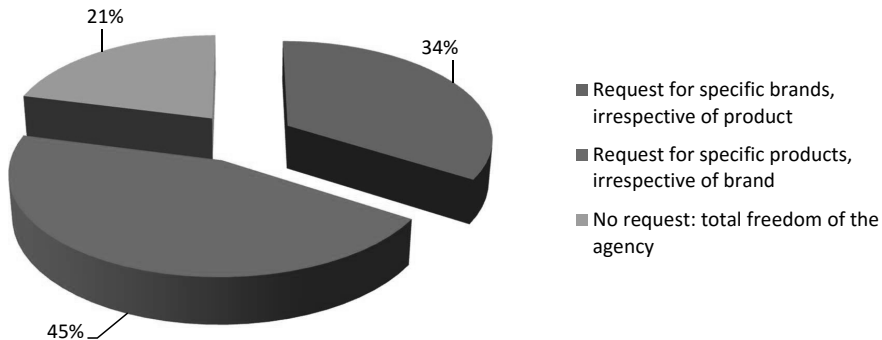
### 3.3.3. Role that the TO brand plays in the choice of product made by those clients that use travel agencies

The aim of the question is to understand the attitude of the client who goes to travel agencies, in order to assess the role played by the brand of Tour Operator in the selection of tourism products.

For this question the respondent could select one of the following three answer options: "Request for specific brands, irrespective of product", "Request for specific products, irrespective of brand", "No request: total freedom of the agency."

The questionnaire findings show that only 34% of customers request a specific brand.

Figure 4 – Client attitude towards the TO brand in choosing a product



Source: our data

In most cases the buying behavior of customers (79%) is not bound to the TO brand, thus leaving TAs the opportunity to guide them in their choices. In fact, 34% of clients "do not have a clear idea of the product or of the brand" and leave the decision completely to the travel agent, whereas 45% of the clients' requests are focused exclusively on the type of product. This consumer behavior gives important contractual power to retail agents along the distribution channel of the "intermingled tourism" market. This happens because in the Internet era the role TAs play in providing truthful and credible information concerning the quality of the tourist products remains important. A TA is able to credibly provide a signal of quality to tourists, thereby increasing informational efficiency both in quality and content, because of its role as a reputation provider. Thus, the TA's main role in the vertical tourism chain is and should be the transmission of credible and reliable information to customers (Calveras, 2006).

It follows that the TOs that are able to establish solid relationships with TAs and make ICT investments downstream can gain considerable competitive advantage over their competitors. This is because consumers demonstrate store loyalty to TAs rather than brand loyalty to TOs.

#### 4. Conclusions and implications

The study was exploratory, aiming to investigate the characteristics of the relationship between TOs and TAs, the role of the TO brand in the process of selling tourism products to the consumer, as well as the critical success factors for the selection TOs, in order to truly assess the potential conflicts and collaborative processes in place between the two actors. From the analysis of the relationship between TAs and TOs divergent aspects come to light.

On the one hand, there is a high interdependency between the turnover of the travel agency and the number of tour operators with which they have relationships of supply at the same time. This dynamic indicating the need for both parties to establish cooperation geared

towards increasing the value for both customers and businesses. On the other hand, there is a generalized and widely diffused presence of multi-supplier relationships with a very high turnover rate, showing a conflictual context that is more closely related to market dynamics than to the processes of deepening and broadening the value of the relationship. These issues lead us to hypothesize that the relationship between TAs and TOs is characterized by elements that can foster areas of collaboration as well as conflict (Pencarelli, 2010; Vasanth et al., 2012).

In particular, the fact that in most cases the channel relationships are of short duration and highly variable probably means that the travel intermediaries do not sufficiently exploit the areas of potential cooperation along vertical channel relationships. The research findings lead us to believe, in keeping with the outcome of other studies (Bagdoniene and Hopeniene, 2015), that the relationships between TAs and TOs are potentially more conflictual than they are collaborative, thereby indicating that said relationships show little cohesion and interdependence (Tran *et al.*, 2016).

The factors that are central to TAs' selection of TOs are, above all, the quality and level of customization of products, followed by the customer service provided to TOs and TA end customer and intermediation margin. The possibility of customizing products shows the strong need for TAs to respond to new demand trends (Sambri and Pegan, 2007; Fabris, 2008; Dalli and Romani, 2011) through a wide and diversified tourism offer which requires multi-supplier relationships. The high attention to intermediation margins is a classic factor which can lead to conflict between TAs and TOs, who pursue opposite financial objectives in the division of the value in the distribution channel. So, tour operators are obliged to pay great attention to these key factors in order to create and maintain strong and durable relationships with travel agents. This is also due to the fact that, as our study shows, sensitivity to financial aspects is expressed more markedly by the travel agencies that report higher turnover volumes thanks to their intermediation for package deals supplied by tour operators.

From this point of view, it has been useful to compare the main critical success factors with respect to the assessment, for the same factors, of the six TOs market leaders. The results show that in addition to collaboration, there is also a "context of conflict" and a "relationship distance" between the TAs interviewed and the leading TOs. The factors considered most important by the TAs in their relationships with TOs only receive a medium-low evaluation from the market leader TOs, (especially those related to the financial aspects of the relationship, i.e., "intermediation margins/ economic incentives"). This could explain why TAs show a high incidence of multi-supply relationships, as they are not completely satisfied with the TO market leaders and therefore, continuously seek new relationships that can provide the best conditions.

The factors that receive the highest rating by the TAs, are "image and reputation", related to the economic solidity of the TOs. This aspect would let one assume that agencies are prepared to overlook the profitability of the products in their portfolio, provided that the offers are proposed by TOs of high reputation and high credit standing, in order to avoid reputational or financial damage resulting from either the low quality or the cancellation of the holiday sold.

With reference to the role played by TO brands in the choice of product by clients who use travel agencies, this study highlights that in most cases (about 80%), during the process of purchasing the product, customers are little swayed by the brand reputation of the TO, leaving a lot of room for the TA to influence their choices. Therefore, consumers recognize the fact that it is the agents, not the TO brand, that act as guarantors of the quality of the tourist offer. Nevertheless, the reputation of the producers of these package deals is, instead, important to travel agents.

This aspect highlights the importance of TAs in the competitiveness of organized tourism. Therefore, the TOs that can establish collaborative relationships with TAs have the opportunity to gain a competitive advantage of no small importance compared to their competitors. This also emerges from the study carried out by Pencarelli *et al.* (2013) which showed how the success of a leading TO in the Italian tourism market is strongly based on a relational marketing approach geared toward creating loyalty from the network of travel agents.

In summary, the relationship between TAs and TOs is complex and ambivalent, one that is pushed both towards collaboration and towards channel conflict (Von Friedrichs Grängsjö, 2003; Kylänen and Mariani, 2012). Some managerial challenges emerge for TOs who should aim to retain the TA, by implementing policies of relationship marketing and making use of new ICTs (Pencarelli *et al.*, 2013).

In this perspective, it is particularly important for TOs to invest in the expansion of CRM (Customer Relationship Management), which may allow them to improve relationships with TAs who are the true "ambassadors" of the TOs (Silvestrelli and Gregori, 1998), because they contribute to enhancing the image and reputation of TOs, in addition to ensuring them a certain level of sales.

However, the presence of multi-supply relationships highlights how the type of relationship between TAs and TOs is characterized by poor stability and scarce loyalty, making certain aspects of channel conflict prevalent (Pencarelli, 2010).

Despite the limitation resulting from the fact that most of the questionnaires were self-compiled on-line, leading to a phenomenon of self-selection of respondents, the research highlights some interesting findings and managerial challenges for Italian TOs.

In line with these considerations, research must continue to delve into the characteristics of the relationship between TAs and TOs, looking to validate the hypotheses through more complex and reliable statistical tools.

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# FAST FASHION RETAILING CUSTOMER AND RETAILER'S PERCEPTIONS

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## ***Abstract***

*The aim is to describe customers' and street retailers' perceptions related to Fast Fashion (F/F) Retailing. Through qualitative and quantitative research, data from São Paulo street retailers and Curitiba young people, Brazil, are collected, using sampling by convenience. Likert Scales have been used to evaluate F/F perceptions. One of the major differentials of Fast Fashion (F/F) in Brazil could be credit conditions, when retailers provide to their customers the possibility to pay purchases through the use of monthly instalments. It seems that there is a tendency that customers with some F/F knowledge and level of F/F consumption present positive perception of F/F quality, design and price. A theoretical contribution of this paper is to show some characteristics of Fast Fashion customer's behaviour related to the combination of F/F knowing and F/F consumption, using consolidate theories (Engel, Blackwell, Miniard, 2000; Kotler and Armstrong, 2008) with new concepts of Fast Fashion (Solomon and Rabolt, 2009). The managerial implications for the retail companies are to pay attention in the customer's behaviour that consumes Fashion items, especially Fast Fashion clothes and accessories, and the timing of collections.*

**Keywords:** Fashion; Fast Fashion; Retailing Customers. Retailers.

## **1. Introduction**

Fashion always has its role in people's life, especially from last Century, when the focus of attention in Fashion had spread throughout the world and in all social classes in different intensities. Fashion has become affordable even in different timing. First, in the royalty and noblesse, then in the richest without noble roots and breed, and finally, in the working class. Fashion is part of the culture and it is in the people's culture. Fashion influences and it is influenced by customer's behaviour. It is a vital part of different business, from designers, to manufactures and retailing, just to mention some of the fashion sectors. Even though, it seems that the Business Administration teaching programmes do not give the importance Fashion subjects deserve, because it is hard to find the subject in the contents of such programmes.

One of the consequences is the shortage of well-developed professionals to work in the Fashion fields.

With reference to Brazil, the new middle class customers with discretionary wealth to be spent in clothes, shoes, handbags, cosmetics and accessories, looks for an environment not necessarily sophisticated and “chic”, but pleasant and organised. One of the major differentials of Fast Fashion in Brazil could be credit conditions, when retailers provide to their customers the possibility to pay purchases through the use of monthly instalments.

In Brazil there is a quick response to fashion trends, as some companies work in integrated groups, through the strategy of fashion democratisation which enables middle class woman to have access to fashion. This satisfies expectations of low income women that are becoming more demanding and complete. A recent phenomenon is the speed of new fashion collections in the seasons’ ones, when every four weeks are new looks in the shops, facing the traditional spans of fall/winter and spring/summer seasons’ collections, which take four to six months from design development to retailing and to customer’s consumption. As Grose (2012) mentioned: it is necessary to “...give people what they want when they want it”. Considering that the speedy supply of new mini fashion collections inside a season is known as Fast Fashion, the aim of this study is to identify the customers and street retailers’ perceptions related to Fast Fashion Retailing. As a result, the study emphasizes how important is the Business Schools’ role in a way to develop contents linked to Fashion and its different categories, such as Fast Fashion Retailing, and prepare future professionals to deal with such different sides of Fashion.

## 2. Literature Review

The subjects of this research are presented in seven groups of contents: Fast Fashion Retailing, Customer Behaviour and Perception, Interface between retailer and customer, Price-quality relationship, Impact of online branding, Emotions, and Atmosphere. They are of great importance when it comes to helping the Business Schools to realise the need of developing Fast Fashion contents in their programmes.

*Fashion retailing* (BAM, 2012) is a group of companies, part of the fashion supply chain, that goes from the manufacturers to the consumer, offering fashion goods and services, through traditional seasonal spans and/or fast fashion timing, ranging from budget to designer price lines. It is the group of companies that “sell the merchandise to the ultimate consumer” (Solomon & Rabolt, 2009:7-10). According to Solomon and Rabolt (2009), there are different price lines in the sector that classify businesses depending on the quality level and price of their goods. The first group is the Haute Couture or *High Fashion* that is defined as ‘fine sewing’, very high-quality and custom-made. The second group is called *Prêt-à-porter* that includes expensive lines, but is much affordable and casual in style. The third group is the *Designer* one where the professionals develop secondary lines called bridge lines, made of lesser-quality fabric or licensed to another manufacturer. The fourth group includes *better goods* with lower prices, good quality of a lesser-known brand or name. The fifth group comprises *moderate goods* with lower prices and quality than better products and sold in department stores and specialty shops. And finally, the sixth group, made up of *budget goods* with the lowest price-quality approach, usually offered at discount stores or by mass merchandisers.

When it comes to timing as the focus of the analyses, there are two groups of fashion retailers, (1) the traditional ones that have a seasonal time span of 3 to 6 months, such as the fall/winter or spring/summer season.

The fashion cycle is a little bit of an anachronism. We show the clothes in February and they’re not available until July or August or September. By that

point, images of the collection have been seen all over the Internet and discussed *ad nauseum* [...] and by the time it reaches the store, people are already tired of it. [...] the solution is to give people what they want when they want it (Grose, 2012:15).

The other group (2) is made up of fast fashion retailers. “Fast fashion is the term that is used to represent the various strategies that fashion companies use in order to respond commercially to the latest fashion trends”. [...] The younger fashion market shrinks the design to retail cycle to as little as 4 weeks making the top fashion designers available to the mass market in the same season” (Bruce, Moore, & Birtwistle, 2004:31-34). Fast Fashion is considered the high-street revolution, because if the masses cannot afford the original look from the Top Designers, then these professionals are prepared to go to the masses (Grose, 2012). Fast Fashion designers (also known as Reproducers) work together with a team of buyers and product developers to produce different looks in mini collections for a particular retailer (Grose, 2012:17).

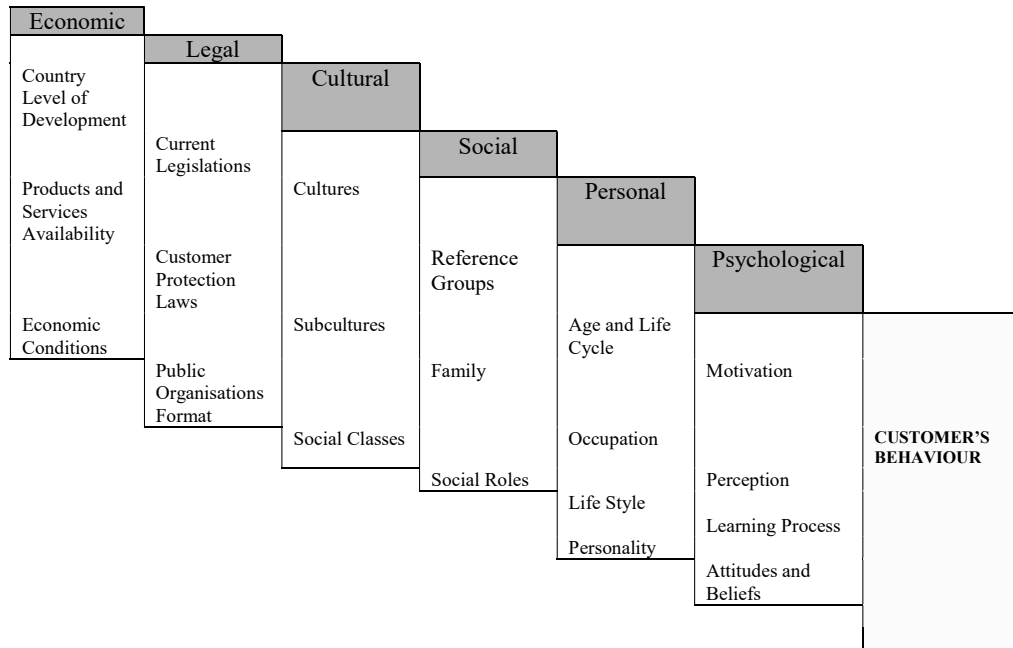
*Customer's behaviour* is a group of concepts and theories that covers different approaches of the consuming process. Initially the field refers to the “buyer behaviour” (Solomon and Rabolt, 2009:26-27), focusing on the interactions between customers and producers at the moment of purchase. Afterwards, a customer “is generally thought of a person who identifies a need or desire, makes a purchase, and then dispose of the product during [...] the consumption process” (Solomon and Rabolt, 2009:27). The customer's behaviour is influenced by different factors related to cultural, social, personal and psychological elements (Kotler and Armstrong, 2008:113-125). Urdan and Urdan (2010:236-238) include economic and legal features, as it can be seen in Figure 1.

*Perception* starts with a first impression which is the initial step of customer's recognition process. Perception is the process of recognition through the human's senses (sight, sound, smell, touch, and taste), according to Lindstrom (2005) and Schmitt (1999). When an object is exposed to prospects and customers, one or more senses can be activated and the process of recognition begins in the people's mind. Perception, already influenced by people's past experiences (Brakus, Schmitt and Zarantonello, 2009), prints a mark, an image in their brain, producing positive, neutral or negative judgement related to the exposed object (Engel, Blackwell and Miniard, 2000: 97). Perception is related to the customer attitude which “is the general evaluation of an alternative” (Engel, Blackwell and Miniard, 2000: 93), being positive, neutral or negative. The attitude influences the behaviour and it formats future process of purchase. When it is crystallised in the customer's mind, it is very hard to be changed.

Different readiness stages of customer's behaviour (awareness, knowledge, liking, preference, conviction and purchase) can influence one's pattern of consuming (Kotler and Armstrong, 2008:363). The first stage of *awareness* is related to the level of consciousness of the product or service or organisation that the target audience has about them. The second readiness level is concerning of how much *knowledge* the prospects have about the product, the brand or any other item linked to the company. The third phase is the state of *liking*, which is how the target audience feels about the product, etc. The fourth element is the step that the prospects show *preference* (or they do not) for the product/service/experience/brand or organisation. The fifth component shows if the target audience develops a *conviction* about buying the organisation's offer. And, finally, the sixth element is related to the fact that the prospects have made the *purchase*.

To study the consumer behavior of Fast Fashion (F/F), the element of knowledge is linked to the phase of purchase, producing a matrix as it can be seen in Figure 2:

Figure 1 – Factors that influence Customer’s Behaviour



Source: Adapted from Kotler and Armstrong (2008) and Urdan and Urdan (2010).

Figure 2 – The Relationship between Fast Fashion Knowledge and Consumption

		FAST FASHION KNOWLEDGE	
		YES	NO
FAST FASHION CONSUMPTION	YES	F/F K+C  (1)	F/F NK+C  (4)
	NO	F/F K+NC  (3)	F/F NK+NC  (2)

Source: adapted from Kotler and Armstrong, 2008.

*Interface between retailer and customer* - Kinley (2010) developed a research project of useful application, with the purpose of determining whether clothing benefits sought (CBS) affected fit preferences, satisfaction with the fit of ready-to-wear, label style preferences, and shopping behaviours of North American women.

The four CBS factors used in the study were: Fashion Forward, Sexy, Reputation, and Individualist. Study participants who desired Fashion Forward benefits preferred to shop in specialty stores and a tighter fit. Participants who sought Sexy benefits spent the most money on average, for a new pair of pants, preferred a tighter fit, clothing sized by waist dimension, and shopping in specialty stores. Participants who desired Reputation benefits from clothing shopped in specialty stores. Respondents who sought the Individualist benefits were more likely to shop via catalogue/internet (Kinley, 2010:397).

As practical implications, the author stressed that among so many stores, and a highly competitive retail environment, it would be useful for store professionals to target products and to understand that female customers who seek different benefits from their clothing do shop differently. This is an important cue in the relationship between retailers and customers. Marzo-Navarro et al. (2004) understood that globalization, competition and market saturation have caused a growing interest by firms in developing strategies directed at creating brand loyalty among their customers, especially in markets with low growth rates.

Relationship marketing would be crucial to achieve this goal, as contemplates mutual benefits derived from stable relationship between buyers and sellers. Although the study focused on customers from the service sector, it appeared useful for the present paper, given the emphasis on the benefits of the relationship with the contact personnel: customers can reach greater levels of satisfaction and loyalty toward the organisation (the retailer in the present case). Concerning the support that sales personnel can offer to customers, Bruce and Daly (2006) raised questions about traditional approaches to sourcing and buying in the complex retail nature of fast fashion of a supermarket, a department store and a own brand label. The authors found that Fast Fashion is a combination of global and local suppliers in which trust is an important factor in the supplier-retailer relationship to ensure fast delivery at an agreed quality, and integration of key internal activities and processes to facilitate the speed of buying decisions that may be required.

*Price-quality relationship* - When looking for a store, customers believe there is a strong relationship between price and quality, as there is between brand and quality. For this reason they perceive as of higher quality, items with a designer brand or a higher price, when comparing similar pieces of apparel. Fowler and Clodfelter (2001) developed a study aiming to compare the pricing and quality of identical designer merchandise sold in department stores and manufacturers' outlet stores. Prices in the department store were 31% higher than in the outlet store, the quality was the same in both formats of retail. A more recent study could indicate how street stores are positioned when compared to department or outlet stores.

*Impact of online branding* - Rowley (2009) aimed to contribute to knowledge on online branding, and the way in which the online channel is being used to support brands. As the focus of this research was the top multi-channel UK fashion retailers, the study resulted interesting for the present paper. The author found that most top "non-value" fashion retailers offer transactions through their web site, offering extended opportunities for brand engagement and experience to their customers. While all fashion retailers achieve consistency of visual identity between the online and other channels, their use of the online channel to communicate brand values, and to promote brand relationships may be academically underdeveloped. Research into online and multi-channel branding has a role to play in supporting this process, which could be useful to understand better and support the interface between fast fashion retailer and customer.

*Emotions* - Moody, Kinderman and Sinha (2010) found strong relationships between mood and personality factors and clothing style preference. Mood was a significant predictor of preference, while personality was moderate. These research findings may lead to practical consequences: Personality, emotion and mood were shown to be managed and reflected through clothing with implications for assistance in customer clothing decisions, service training, and strategies for personal shoppers, market segmentation and design.

*Atmosphere* - Parsons (2011) stated that stimuli have a significant effect on fashion customers' affect for a store. He defined shopper responses to a few main stimuli: music, scent, temperature, lighting and colour. Based upon his research, fashion retailers are less differentiated in their use of sensory stimuli than they could be to achieve the responses they expect. According to the author, stagnation from repeated exposure can diminish affect for the store whereas small changes in stimuli levels can revitalise and increase affect.

### **3. Research Methodology**

The methodology includes some aspects (Gil, 2002; Malhotra, 2001; Mattar, 2007, Siegel and Castellan, 2006, Spiegel, 1971 and Wonnacott and Wonnacott, 1981): the nature of the research and the population and sampling.

#### *3.1 The nature of the research*

This investigation is a qualitative and a quantitative study (Creswell, 1998; Gil, 2002).

The qualitative analyses are used to assess the retailers' responses. A structured protocol was applied on the interviews with the Fast Fashion street retailers to gather data related to the store as the interface between retailer and customer; how is the way customers evaluate physical facilities, or not; if they make comparisons with different kinds of shops, such as street stores, the ones in shopping malls and online shops; and to identify if customers evaluate Fashion services, for instance, clothes repair and renting, as well as to find out the environmental factors of a store they consider. Due to the format of this article, the qualitative analyses are not presented in the form of quotes. They are summarised the way they are presented in the Results section.

Through the use of comparative analyses, customers' perceptions concerning Fast Fashion are also evaluated. The Rattam (1998) protocol is used on customers' information to create social classification (Rattam, 1998) based on the level of formal education, income, spatial residential area, size of residence and occupation. The Rattam social classification Model (Rattam, 1998) is based on the idea that formal education level, size of residence, and occupation are more important than income in order to format customer behaviour and to classify the segments as A, B, C, D and E. The protocol was used to identify in which segment the respondents are classified. Communication with the respondents was face-to-face. The researcher supplied the questionnaires, respondents answered the questions and they returned the document to the researcher as soon as they had filled in the forms. Some information were collected about the customers' characteristics, such as their profile, the customers' level of knowledge related to Fast Fashion; their feelings and emotions concerning Fast Fashion; and the customers' consumption process of Fast Fashion.

Simple statistical analyses have been used to describe street retailers' and the customers' characteristics and some cross tabs analyses to produce their responses. Some results have been measured on 11-point scales and some 5-point Likert-type scales (+2 = strongly agree, for positive statements, and -2 = strongly disagree, for negative statements) (Mattar, 2007:111; Ferguson, 1941). The format of Likert scales was adapted from the Fishbein Multiattribute Model scales (Engel, Blackwell & Miniard, 1990). Neither the SPSS nor the



Mann-Whitney tests were used to organise the data, but they could be applied when working with larger samples (Wonnacott and Wonnacott, 1981). The data collected have been organised to meet the operational objectives of this article.

### 3.2 Population and Sampling

The population of the research is made up of two different groups: street retailers that merchandise Fast Fashion clothing and accessories and Fast Fashion young customers. According to IBGE (2014a), the Brazilian Institute of Geography and Statistics, the population are more than 206 million people. More than 11 million are living in Parana.

Younger residents between 15 to 29 years old are an average of 39% (IBGE, 2014b) in Parana. According to Retailing research (IBGE, 2014c), there are more than 150 thousand registered companies that present some revenue. *The samples are selected by convenience:* (1) 20 managers and/or owners and sales people of 11 stores in Sao Paulo City, Brazil; and (2) a customers' sample. The customers' sample contains 80 Brazilian people aged between 18 and 30 years old, living in Curitiba, Parana. Tables 1 and 2 show some of the sampling characteristics. The interviews with the street retailers took place in November 2012 and the customers' survey was conducted in January 2014.

Table 1 – Interviewed Professionals by store and business

Stores	Business	Quantity of Interviewed F/F Street Retailers
Binne	Shoes and handbags	1
284 Store	Clothes	1
Farm	Clothes	1
French B.	Clothes	2
Hering	Clothes	2
Honora	Clothes	2
Le Lis Blanc	Clothes	2
Mya Haas	Shoes and Handbags	3
Riachuelo	Clothes	3
Sephora	Cosmetics	2
UP Delta	Clothes	1
Total		20

Source: Survey, 2012.

Although a random sample is technically more adequate to produce precise results which represent the characters of the population, there are reasons to select the sample by convenience (Mattar, 2007), for instance, in cases when: (1) there is not available database to list the population's members and produce a random sample, and (2) the financial and human resources are limited to use a random sampling process.

Table 2 - Sampling Characteristics - Customers

Gender	Total	%
Male	43	54
Female	37	46
Total	80	100

Source: survey, 2014.

#### 4. Results

The information of customers and retailers' perceptions related to Fast Fashion Retailing is presented in two sections: (1) street retailers' characteristics and their responses to Fast Fashion which consolidate the qualitative analyses mentioned in the Methodology and (2) customers' Profile and their Perception of Fast Fashion through quantitative analyses.

##### *4.1 Street retailers' characteristics and their Responses to Fast Fashion*

As it is explained in the Methodology, 20 street retailers have been interviewed. They were managers/owners and/or sales people of 11 stores in São Paulo City, Brazil, in November 2012. Eight stores were in the clothing business, two in shoes and handbags and one in cosmetics. This information is shown in Table 3.

Table 3 – Interviewed street retailers by store and business

Stores	Business	Interviewed people/Position
Binne	Shoes and handbags	Sales person – Owner – Stock supervisor
284 Store	Clothes	Store supervisor – Manager
Farm	Clothes	Sales person (1)
French B.	Clothes	Sales people (2)
Hering	Clothes	Sales people (2)
Honora	Clothes	Sales people (2)
Le Lis Blanc	Clothes	Sales people (2)
Mya Haas	Shoes and purses	Sales people (3)
Riachuelo	Clothes	Manager and sales people (3)
Sephora	Cosmetics	Sales people (2)
UP Delta	Clothes	Owner/manager – Sales person/supervisor

Source: Survey, 2012.

Following the interview script, the street retailers were asked about the following subjects:

1. Stay in the store – how long do customers usually stay in the store?
2. Motivation – why do your customers buy: pleasure, modernity, inclination for the new, other reasons?
3. Store as interface between retailer and customer: why do customers look for this store?
4. Trends in retailing: Do customers value physical facilities?
5. Street retail stores: How do customers compare the street stores with those in malls or shopping centres?
6. Street retail stores: Why are they attractive?
7. Specialised stores: Do customers prefer this kind of store?
8. Stores of fashion services: Do customers value them?
9. Hypermarket with fashion items: are there many in the region?
10. Online retail: is the customer migrating to shop online?
11. Marketing and environmental factors of a store. Whose elements the Customers value in a store (Atmospherics): Size; Layout; Decoration; Colours; Atmosphere; External and internal presentation; Windows; Lighting; Aromas and perfumes; Sound; and Taste appeal

Interpreting the data collected in the interviews, the most important aspects verbalised are related to - Motivation to go to a street store; - Interface retailer-customer; - Price and - Marketing and environmental factors of a store.

Customers usually *stay in the store (1)* between 15 to 30 minutes to look around for products, but they can stay really longer when they decide to buy, as well as if they have an event (a gala dinner, a ball or a celebration), or if they are interested in new trendy pieces. Table 4 shows the differences of timing inside the stores.

Table 4 – Timing in the stores

Stores	How long the customers stay in the stores?
Binne	20 minutes
284 Store	5 – 15 minutes
Farm	45 minutes
French B.	20 min – 1 or 2 hours
Hering	15 minutes
Honora	15 minutes
Le Lis Blanc	15 – 40 minutes
Mya Haas	30 minutes – 2 hours
Riachuelo	40 minutes
Sephora	15 minutes
UP Delta	30 minutes – 3 hours

Source: Survey, 2012.

Concerning *motivation (2)*, customers buy for many reasons: because of the brand status, price (less expensive than other options of young fashion of the A class niche of customers), quick answer to trends and high product turnover (weekly supply of new products, Fast Fashion concept), modernity and inclination for the new. Sometimes they look for specific clothes for an event. In other cases, they come for pleasure, just for the fun of trying on something nice or in fashion that they see in the shop windows. To look for a store for a last minute gift, to buy basic clothes. Occasionally customers buy at the store because it offers lower price and allows them to constantly go in fashion. To look for quality, good service, direct contact, strong brand, and pleasant environment. Besides to offer price and fashion, the stores offer credit conditions, such the use of monthly instalments. At times customers need clothes for a special event or to get something new, as to renew the wardrobe or require mostly comfort, possibly in fashion and visually attractive. Customers look for innovative concept, luxury environment. They buy as novelty, as fashion, as experience.

In a similar aspect, *the store can be seen as an interface between retailer and customer (3)*. When asked the reason customers look for some specific store, professionals say that the store is located close to a business related to their products; therefore people pass by every day and they have a good relationship with the sales people and manager. Sales people sometimes play the role of psychologists.

There is a strong relationship between staff and customers, which generates friendship and loyalty. Sales employees believe that customers look for a store because it can really satisfy their needs better than in the competitors. As many customers are already extremely faithful to the store, Sales people and owner (also manager) are careful to satisfy their needs

so that they do not quit coming to the store and still keep buying there. The staff understand that it is important to be sincere in many aspects and not only getting customers to buy any piece. It is important to analyse the value of customer services.

When sales people are trained to understand customers' needs, they can offer the best services, to assure that the customers come back once, twice, many times. Sales employees often personalise service and they are always updated about the recent trends, so that they can serve customers as personal shoppers. Customers also appreciate sales people's cordiality. Sometimes most customers already have a close relationship with the frontline employees in the store where they usually buy. Therefore, the sales staffs are always very helpful and willing to serve customers the best way possible. Customers also can focus on price and value of the product, for its power and status. Sometimes, for some companies, price is extremely competitive because the target is the middle class customers favoured by the economic situation of Brazil, from 2004 to 2014. If a store is part of a group that produces, distributes, sells products and services and it can offer credit through its companies, assuring more favourable conditions of logistics and price than the competitors. Practices of the strategy of fashion democratisation, i.e, fashion products designed by sophisticated Brazilian stylists and sold with very reasonable price to middle class customers, can attract customers for some stores.

The perception of product quality makes customers ready to pay more for an item. Windows are very important to stores, because people do window shopping in some occasions, they know what it is available in the store and they decide to purchase when they are not in a hurry later on. Sometimes customers work or live close to the store and they buy there because it is close.

For many customers, retailing is not limited to *physical facilities* (4). Sales people understand that emotion must be stressed as a way to attract and retain customers. They give priority to the *meeting point* with the customer, as one of easy access. Some professionals say that there are customers that go to the store only to chat with the sales people, not necessarily to buy. Emotion must be stressed as a way to attract and retain customers.

Normally *customers compare street stores with those in malls or shopping centres* (5), concerning safety, easy access, and added glamour to better economic conditions to middle and low income population. Some stores emphasize the practicality of street stores. For people in the neighbourhood, the access is easier than in the malls: parking lots are of easier access, faster and free. When customers are willing to buy something specific, it is faster to buy at a street store than in a mall. Sometimes street stores sell more than the shops in malls. Some shops are more attractive and larger, they are strategically located in places with huge people circulation and their access with the customers is more direct.

*Street retail stores are attractive* (6) because they agglomerate many groups of products in the same place. Stores offer a mix of clothes, bedding, shoes, cosmetics, jewellery, home appliances, electronic sets, etc. it is important to have prestigious brands around. People like to walk on the streets and buy. Street retail stores are in a geographic region where collections and partnerships are launched.

When they are asked about *specialised stores* (7), professionals state that customers prefer some kind of store when they need of quality. It is important to have skills in building an environment for the store, according to each kind of product.

*Customers value fashion services* (8). Some shops emphasise the need of good service, aligned to customers' expectations and desires. Others offer services of sewing and arrangements that customers may need to clothes being bought in the store. One of the researched shop has a space inside the store that offers services of aesthetics and body

treatments as shiatsu, massage, manicure, depilation, and comfortable chairs, LCD TV, DVD, WiFi and even iPad for customer entertainment.

*Hypermarket (9)* of fashion items seem not to exist so much in the researched region. This type of store has self-service, supported by the purchase by impulse. Products are well exposed and have competitive prices. The stores plan an exhibition according to the customer.

When asked about *online retail (10)*, retailing professionals see some migration, in an increasing and accelerated path, because customers know what to access and where to find what they need. The use of Internet already reaches typical customers of the region.

Direct sales of cosmetics are partners of Internet. Some stores have viewed e-commerce more cash-oriented than a channel of brand communication with the customer. It generates considerable amount of sales. Some customers go to the store as a program with friends that like to buy what is more frequently used by famous Brazilian fashion blogger.

In order to reach the target, the stores have invested in these blogs, sending products to the editors that publish looks and give credits to the brand. E-commerce can be competition for street stores, but also serves customers who live in geographic regions far from the physical stores. Some stores have e-commerce. One company became a physical store in Brazil after a long period of e-commerce with a huge American department store chain. Therefore, one supports the other, as the website stock is significantly larger and diverse, comparatively. In the stores, Sales people help the customers.

Other companies do not have e-commerce, but uses Internet and social networks not only to communicate special sales, trends and novelties, but also for the relationship with the customers that are immerse in the Internet.

Finally, *Customers value some marketing and environmental factors of a store (11)*, for instance, size, lay-out, decoration, colours, atmosphere, external and internal presentation, windows, lighting, aromas and perfumes, sound and taste appeal.

#### 4.2 Customers' Profile and their Perception of Fast Fashion

As it is explained in the Methodology, the final group of respondents is represented by 80 young customers, aged between 18 and 30 years old, 54% masculine and 46% feminine, residents of Curitiba, Parana, Brazil, from Classes A, B and C (Rattam 1998).

The monthly income for 58% of male and 40% of female is higher than £ 1,200. Their professional ranks are mainly of lower level staff, middle level executives and/or small business owners (74% of males and 78% of female). All respondents are still on the undergraduate level of education.

Customers present different responses related to the Fast Fashion knowledge and their level of F/F consumption, for both genders, as it is visualised in Table 5.

In the Feminine segment, 24 respondents out of 29 (83%), that show some Fast Fashion Knowledge, present some level of F/F consumption. In the Masculine group, all 21 customers know about F/F and they consume F/F items. Comparing both groups, 78% (29/37) of the Feminine segment consumes F/F products and the Masculine segment, only 49% (21/43).

Customers of different status of F/F knowledge *versus* F/F non-knowledge and F/F consumption *versus* F/F non-consumption present different evaluation concerning to the elements of Fast Fashion (Quality, Design and Price of F/F items), as it is shown in Table 6.

Table 5 – Fast Fashion (F/F) Knowledge *versus* Level of F/F Consumption

F/F Knowledge	Masculine (43)				Feminine (37)				Customers (80)			
	Level of F/F Consumption											
	Consume		Not consume		Consume		Not consume		Consume		Not consume	
	f	%	f	%	f	%	f	%	f	%	f	%
Know F/F	21	100	12	55	24	83	4	50	45	90	16	53
Not know F/F	0	0	10	45	5	17	4	50	5	10	14	47
Total	21	100	22	100	29	100	8	100	50	100	30	100

Source: Survey, 2014.

Table 6 – Levels of F/F knowledge, Levels of F/F Consumption and Customers' F/F Perception

Customers' F/F Perception related to:	F/F Quality				F/F Design				F/F Price			
Gender	Masculine		Feminine		Masculine		Feminine		Masculine		Feminine	
Levels	f	Scores	f	Scores	f	Scores	f	Scores	f	Scores	f	Scores
F/F Knowledge vs F/F Consumption	21	6.34	24	6.38	21	8.24	24	7.75	21	5.81	24	5.83
F/F non-Knowledge vs F/F non-consumption	10	5.00	4	5.25	10	7.00	4	6.75	10	4.70	4	4.25
F/F Knowledge vs F/F non-consumption	12	5.58	4	4.25	12	7.25	4	7.00	12	5.42	4	4.5
F/F non-knowledge vs F/F Consumption	0	0	5	6.20	0	0	5	7.00	0	0	5	6.60
Total	43		37		43		37		43		37	

Source: Survey, 2014.

It seems that there is a tendency that customers with some F/F knowledge and level of F/F consumption present higher scores related to the perception of F/F characteristics, even if the frequencies are lower in 3 out of 4 levels of F/F knowledge and consumption. As shown in Table 7, there are 4 different statements of Likert Scale to identify how customers evaluate F/F stores, their Visual & Merchandising, the clothes' collections and the product displays.

Table 8 shows the table that includes the customers' evaluation, gender and the information to produce the Likert Scale, related to the four statements. The combined levels of F/F knowledge with F/F consumption that show the respondents behaviour are based on the matrix of figure 2.

Table 7 - Statements of Likert Scale

Statements
The Fast Fashion retail stores are more organised than the ones that sell the more traditional Fashion.
The Visual & Merchandising is better in Fast Fashion retail stores.
The assortment of clothes and accessories is better in Fast Fashion retail stores.
The clothes and accessories displays in the retail point-of-area are better in Fast Fashion retail stores.

Source: Survey, 2014.

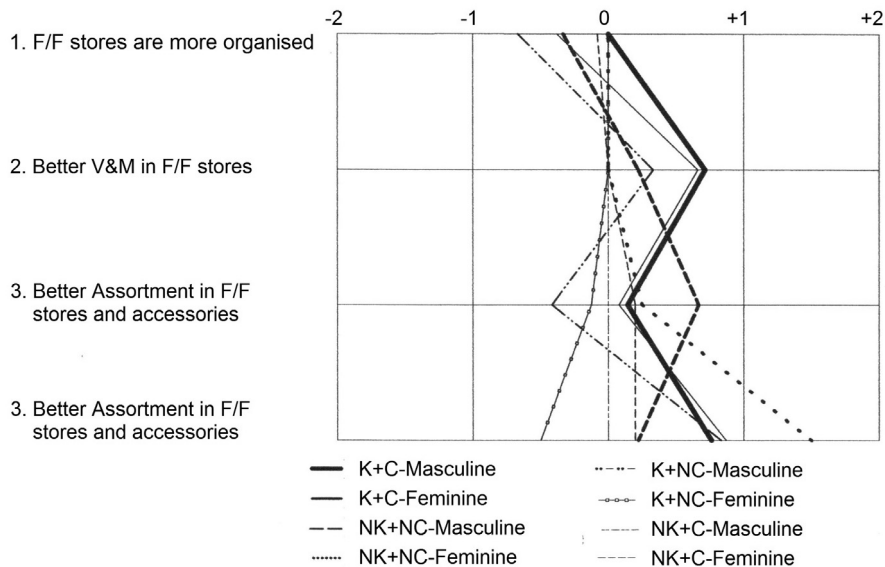
Table 8 – Customers' Evaluation of F/F Elements Likert Scales

Customers' F/F Evaluation related to:	1. The Fast Fashion retail stores are more organized than the ones that sell the more traditional Fashion				2. The Visual & Merchandising is better in Fast Fashion retail stores.				3. The assortment of clothes and accessories is better in Fast Fashion retail stores				4. The clothes and accessories displays in the point-of-area are better in Fast Fashion retail stores.			
Gender	Masculine		Feminine		Masculine		Feminine		Masculine		Feminine		Masculine		Feminine	
Levels	f	Scores	f	Scores	f	Scores	F	Scores	f	Scores	f	Scores	f	Scores	f	Scores
(1) F/F Knowledge vs F/F Consumption	21	+0.047	24	-0.333	21	+0.762	24	+0.708	21	+0.190	24	+0.125	21	+0.809	24	+0.917
(2) F/F non-knowledge Vs F/F non-consumption	9	-0.333	4	0.000	9	+0.222	4	0.000	9	+0.667	4	+0.250	9	+0.222	4	+1.500
(3) F/F Knowledge vs F/F non-consumption	12	-0.667	4	0.000	12	+0.333	4	0.000	12	-0.417	4	-0.125	12	+0.833	4	-0.500
(4) F/F non-knowledge Vs F/F Consumption	0	NIHIL	5	-0.080	0	NIHIL	5	0.000	0	NIHIL	5	+0.200	0	NIHIL	5	+0.200

Source: Survey, 2014.

The highest score of compliance (agreement *versus* disagreement) is from the Feminine segment (+1.500), in the level of F/F non-knowledge plus F/F non-consumption concerning to the statement 4 ("the clothes and accessories displays in the point-of-area are better in Fast Fashion retail stores"), although this results should be analysed very carefully, because the frequency is too small (4). The lowest score is from the Masculine group (-0.667), in the level of F/F knowledge plus F/F non-consumption linked to the statement 1 ("Fast Fashion retail stores are more organized than the ones that sell the more traditional Fashion"). The data of the Table 3 produce the Likert's Scale that can be visualised in the Figure 1.

Figure 1 – Customers' Evaluation of F/F Likert Scales – Graphic



Source: Survey, 2014.

Customers are influenced and they also influence the people around in the Consumption Process of Fashion, although some of them state that they are by themselves in the decision of what to wear (95% of Masculine group and 36% of the Feminine segment in Table 4) and they do not exchange Fashion ideas with other people (33% of Masculine and 19% of Feminine in Table 9).

Table 9 – F/F clothes and accessories – Decision Maker

Who decides which clothes and accessories the customer is going to wear?	Masculine		Feminine		Customers	
Frequency and %	f	%	f	%	f	%
The customer, always.	30	70	23	62	53	66
The customer, almost all of the time	11	25	13	35	24	30
Somebody else (e.g. mother or girl-friend)	2	5	1	3	3	4
Total	43	100	37	100	80	100

Source: Survey, 2014.

Friends play a common role as the ones exchange ideas of which clothes and accessories the customer is going to wear (frequency of 19 in Masculine group and of 15 in the Feminine one, in Table 10), as well as who asks for Fashion Advice to the customers (frequency of 11, Masculine and of 8 in Feminine group, in Table 11).

The Feminine customers mention their mother as one of the persons they go for help, to exchange ideas (frequency of 17 in Table 10) or as the one who asks them for advice (also frequency of 17 in Table 11).



Table 10 – F/F clothes and accessories – Exchanging Fashion Information

Does the customer exchange ideas of which clothes and accessories he/she is going to wear?	Masculine		Feminine		Customers	
Frequency and %	f	%	f	%	f	%
No	14	33	7	19	21	26
Yes	29	67	30	81	59	74
Total	43	100	37	100	80	100
With Whom? (Multiple choice)						
Friends	19		15		34	
Mother	5		17		22	
Sister	5		8		13	
Others	20		22		42	

Source: Survey, 2014.

Table 11– F/F clothes and accessories – Customer as Fashion Advisor

Who asks the customer's advice related of which clothes and accessories the person is going to wear?	Masculine		Feminine		Customers	
Frequency and %	f	%	f	%	f	%
Nobody asks for advice	16	37	7	19	23	29
Somebody asks for advice	27	63	30	81	57	71
Total	43	100	37	100	80	100
Who? (Multiple choice)						
Mother	-		17		17	
Friends	11		8		19	
Sisters	8		8		16	
Brothers	5		7		12	
Girl friend	6		6		12	
Others	16		17		33	

Source: Survey, 2014.

There are different patterns of purchase per type of clothes and accessories, as it is listed in Table 11. The higher frequencies are in bold numbers. Some repeated frequencies of purchase are “every two months” and “twice a year” for T-shirt, shirt and *Jeans*; “once a year” for shoes and accessories (handbags and belts); and mainly “only on special occasions” for shorts and skirts, knapsacks, boots and sandals.

“Basics” is the first group of items that is in the preference of both segment of customers, Masculine and Feminine, with frequency of 139 and 208 (Table 12, next page). From its results, it seems that the Feminine segment purchase Fast Fashion items more than the Masculine Group (110 and 46), although it seems the latter is showing some level of F/F consumption.

Table 11 – Frequency of Purchase per type of Clothes and Accessories

Clothes or Accessories	Every Week		Every 2 Weeks		Once a Month		Every 2 Months		Twice a Year		Once a Year		Only special occasions		Other Frequency	
Gender	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
Vest	0	0	0	1	0	3	2	6	2	10	10	8	10	1	19	8
T-shirt	1	0	0	0	9	4	16	14	11	4	4	6	0	1	2	8
Shirt	1	0	1	1	5	2	13	9	14	8	7	8	1	3	0	6
Blouse	1	0	0	0	2	3	8	16	14	10	17	4	1	0	0	4
Jeans pair of trousers	1	0	0	0	1	1	17	11	14	14	13	6	1	1	2	4
Other type of Trousers	1	0	0	0	0	0	6	4	6	9	11	14	14	2	5	8
Short	1	0	0	0	0	1	1	2	16	10	20	7	3	4	2	13
Saia	0	0	0	2	0	0	0	4	0	3	0	12	0	6	0	10
Skirt	0	0	0	2	0	1	0	6	0	8	0	11	0	5	0	4
Handbag	0	0	0	0	0	0	0	2	0	6	0	14	0	7	0	8
Knapsack	1	0	0	0	0	0	0	0	1	4	10	4	20	10	10	19
Belt	1	0	0	0	0	0	2	1	6	0	16	9	15	9	3	16
Socks	1	0	1	1	3	2	10	15	14	8	11	6	1	0	2	5
Training shoes	1	0	0	0	0	0	7	2	10	10	18	15	2	4	5	6
Shoes	1	0	0	0	0	2	5	9	6	8	13	7	13	5	5	6
Sandals	0	1	0	0	0	1	1	3	2	10	2	7	7	10	31	5
Boots	0	0	0	0	0	0	0	0	2	8	2	17	10	4	29	8
Flip-flops	1	0	0	0	0	1	2	5	7	11	20	13	5	3	8	4

Source: Survey, 2014.

Those characteristics presented in the previous tables (the roles the customer plays in the consuming process – decision marker or advisor - and the frequency of purchase) are part of the Fashion customer behaviour.

### 5. Final Comments, Limitations and Future Research Directions

Based on the information gathered in the street retailers, Fast fashion seems to be mostly focused on customer. The target seems to be primarily young people (age 12-35, according to Farm,) with high level of information about fashion (284 Store), great visibility with the physical store space and emphasis on the brand. The relationship between retailers and customers is very important, as Marzo-Navarro (2004) and Bruce and Daly (2006) pointed out, as contemplates mutual benefits. As analysed by Fowler and Clodfelter (2001), customers perceive the relationship between price and quality, or brand and quality: higher quality can be accepted with higher price.

Table 12 – Clothes and Accessories – Quantity and Classification

Clothes or Accessories	Fast Fashion		Formal wear		Basics	
Gender	M	F	M	F	M	F
Vest	4	2	0	0	10	21
T-shirt	-	8	0	1	12	14
Shirt	6	0	14	22	3	1
Blouse	8	14	1	1	11	10
Jeans	3	6	2	1	15	18
Other type of Trousers	3	5	4	9	6	10
Short	2	8	1	0	14	13
Saia	0	8	0	5	0	2
Skirt	0	8	0	5	0	3
Handbag	0	4	0	7	0	8
Knapsack	3	4	0	0	7	13
Belt	2	2	7	6	8	10
Socks	2	1	0	0	14	20
Training Shoes	7	7	0	0	8	13
Shoes	2	10	0	1	6	12
Sandals	0	11	0	3	4	7
Boots	2	10	0	1	6	12
Flip-flops	2	2	1	0	9	21
Total	46	110			139	208

Source: Survey, 2014.

The major differentials of Fast Fashion in Brazil could be credit conditions. Between 2004 and 2014, Brazil has passed through significant shift in the composition of income stratification of the Brazilian society. Poverty indices reduction allowed a reference to a ‘new middle class,’ defined by an enlarged C class. The access to better jobs assures higher wages and discretionary income to the families. High rates do not allow them to invest in real estate or to assume any other long term credit. Therefore, the ‘new middle class’ takes advantage of the retail credit to buy personal goods, electronics, items of relatively low price previously considered ‘luxury’ for this socioeconomic class. Although rates are still high, the credit is offered with many instalments, allowing the purchase of many goods at the same time.

There is a quick response to fashion trends, as some companies work in integrated groups, through the strategy of fashion democratization which enables middle class woman to have access to fashion, it satisfies expectations of low income women that are becoming more demanding and complete. The impact of online branding is felt as Rowley (2009) defined, that is the interface between fast fashion retailer and customer. Online channel communicate brand values, while fashion retailers achieve consistency of visual identity. Emotions are extremely important, when considering the new Brazilian middle class customers with discretionary wealth to be spent in clothes, shoes, purses, cosmetics and accessories.

Very effective were the findings of Moody, Kinderman and Sinha (2010), in the sense of the strong relationship between the mood, emotion and personality factors and clothing preference. Concerning atmosphere, the stimuli suggested by Parsons (2011) seemed to be

perceived by customers that look for an environment not necessarily sophisticated and “chic”, but pleasant and organised. It should be a store where the customer can easily locate and find the items that he/she wants. It can be modern, with or without sound, aroma/perfume and taste appeal, but a store that responds to his/her anxiety of being ‘in’, despite the reasonably simple environment. Once in a while the store has to go through reforms, changing the visual identity, the product distribution inside, and sometimes even moving walls. This is important for the customers to constantly notice the brand innovation.

According to the results related to customers, some information can be summarised as follows. Customers present different responses related to the Fast Fashion knowledge and their level of F/F consumption, for both genders. In the Feminine segment, 83% of the respondents, that show certain Fast Fashion Knowledge, present some level of F/F consumption. In the Masculine group, all customers part the survey, know about F/F and they consume F/F items. Comparing both groups, 78% of the Feminine segment consumes F/F products and the Masculine segment, only 49%. It seems that there is a tendency that customers with some F/F knowledge and level of F/F consumption present higher scores related to the perception of F/F characteristics. The highest score of compliance (agreement *versus* disagreement), through Likert Scale is from the Feminine segment (+1.500), in the level of F/F non-knowledge plus F/F non-consumption concerning to the statement 4 (“the clothes and accessories displays in the point-of-area are better in Fast Fashion retail stores”), although this results should be analysed very carefully, because the frequency is too small.

The lowest score is from the Masculine group (-0.667), in the level of F/F knowledge plus F/F non-consumption linked to the statement 1 (“Fast Fashion retail stores are more organised than the ones that sell the more traditional Fashion”). Customers are influenced and they also influence the people around in the Consumption Process of Fashion, although some of them state that they are by themselves in the decision of what to wear (95% of Masculine group and 36% of the Feminine segment) and they do not exchange Fashion ideas with other people (33% of Masculine and 19% of Feminine). Friends play a common role as the ones who exchange ideas of which clothes and accessories the customer is going to wear (frequency of 19 in Masculine group and of 15 in the Feminine one, as well as who asks for Fashion Advice to the customers (frequency of 11, Masculine and of 8 in Feminine group).

The Feminine customers mention their mother as one of the persons they go for help, to exchange ideas or as the one who asks them for advice concerning to what to wear. “Basics” is the first group of Clothes that is in the preference of both segment of customers, Masculine and Feminine, with frequency of 139 and 208, respectively. From its results, it seems that the Feminine segment purchase Fast Fashion items more than the Masculine Group, although this latter is showing some level of F/F consumption.

The practical implications for the retail companies are to pay attention in the customer’s behaviour that consumes Fashion items, especially Fast Fashion clothes and accessories and the timing of collections. As Grose (2012) mentioned: it is necessary to “...give people what they want when they want it”.

One of the contributions of the research is to show some characteristics of Fast Fashion customer’s behaviour related to the combination of F/F knowing and F/F consumption, using consolidate theories (Engel, Blackwell, Miniard, 2000; Kotler and Armstrong, 2008) with new concepts of Fast Fashion (Solomon and Rabolt, 2009). The other contribution is concerning of the interfaces between F/F retailers’ and their customers, highlighting some aspects of these relationships, such as, the atmospherics’ elements (Schmitt, 1999; Lindstrom, 2005), the salespeople closeness, the season’s must-have, the sewing and repairing services, among other features shown in the study. The main issue is to show the importance of Business Schools’ role in a way to develop contents linked to Fashion and its different

categories, such as Fast Fashion Retailing and to prepare the future professionals to deal with such different sides of Fashion.

This study has some limitations. The type of study explains the results only for the sample units. The two surveys are conducted in separated period of time and in different cities of Brazil. Only street retailers are interviewed. The professionals that work in mall stores (Chase, 2012) are not included in the study. Due to copyrights issues, the brands' images, logos, etc. are not shown in the study, only their names which are extracted from public sources.

Future research on the field could be addressed to: (1) to improve the knowledge of Fast Fashion concepts and (2) how to evaluate the customers' and street retailers' responses. (3) The research format and its methodology can be used to study different kinds of retailing, such as mall's stores and online shops. (4) It is also possible to study the relationship between social class and customer's perception. (5) To use Mann-Whitney test, larger samples and random sampling can improve the quality of the results. And (6) to study the levels of importance of Fast Fashion (F/F) between developed and emergent countries.

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