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The role of marketing capabilities, absorptive capacity, and innovation performance

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Abstract

Purpose – The purpose of this paper is to analyze effects of absorptive capacity (ACAP) on organizational performance. The model looks at the mediating influence of marketing capabilities (innovative capability and new product development capability (NPDC)) and innovation performance (IP).

Design/methodology/approach – This study takes a quantitative approach by using survey data from 333 Brazilian manufacturer managers involved with strategic marketing processes. Structural equation modeling was used to test the theoretical hypotheses.

Findings – Results indicate that ACAP does not have a direct impact on organizational performance. The relation is fully mediated by marketing capabilities (innovative capability and NPDC) and IP.

Research limitations/implications – According to the research findings, managers should put efforts in the ACAP as well as marketing capabilities that will result in better organizational performance. This research is limited to the context of manufacturer firms in Brazil. However, it is suggested that an application of this research can be conducted in different industries and different countries.

Originality/value – This study contributes to theory and management practice. First, no study has explored all these constructs together. Through the relationship between ACAP and performance, the authors found that marketing capabilities and IP can fully mediate the former proposed relation. The authors’ contribution is the understanding of the role of ACAP influence on performance. Managers should be encouraged to invest in companies’ ACAP as well as marketing capabilities to differentiate themselves from competitors and improve performance.

Keywords Organizational performance, Absorptive capacity, Structural equation modelling, Mediation, Marketing capabilities, Intermediate results

Paper type Research paper

1. Introduction
The dynamic nature of the product and services market requires that firms develop new abilities to innovate with better products and services, including new processes and routines (Kostopoulos et al., 2011). Knowledge, an essential resource for innovation (Zahra and George, 2002; Cohen and Levinthal, 1990), is available from internal and external sources. However, the external knowledge available to firms is not absorbed equally among them (Zahra and George, 2002). A firm’s absorptive capacity (ACAP) refers to its ability to recognize the value of external knowledge and then to assimilate, translate, and apply that knowledge for commercial ends (Cohen and Levinthal, 1990; Flatten et al., 2011). ACAP helps companies to create and maintain a competitive advantage in dynamic environments (Teece et al., 1997; Zahra and George, 2002).

Some studies have found that marketing capabilities play a mediating role between ACAP and OP. Marketing capabilities are crucial determinants of superior financial performance. For this study, we focused on marketing innovation capability (MIC) and new product development capability (NPDC). Various researchers have linked ACAP and NPDC (Stock et al., 2001; Fosfuri and Trîb, 2008), and we identified studies that related NPDC with innovation performance (IP) as well (Steinberg et al., 2017). Thus, we can infer that NPDC mediates ACAP-performance relationship.
MIC may also mediate the ACAP-performance relationship (Akgün et al., 2009). Thus, since some studies link ACAP with MIC and other studies relate innovation (MIC) to performance; it can be proposed that the capability for innovation may be a mediator of the relationship between ACAP and performance.

Moreover, in Corral de Zubielqui et al.’s (2016) paper, ACAP has a direct and positive influence on innovation outcomes and an indirect effect on a firm’s performance through innovation. Finally, Jiménez-Jiménez and Sanz-Valle’s (2011) empirical study showed that IP directly and positively influences OP. Therefore, we infer that the ACAP-performance relationship may occur through a second mediation, wherein the mediators can be either NPDC and/or MIC together with IP.

Given the ongoing yet unresolved discussion on marketing capabilities and firm performance (Vorhies and Morgan, 2005), more fine-grained research is called for on both marketing and organizational antecedents and their effects on OP. In light of above, a comprehension of the relationship between ACAP and MIC and between ACAP and NPDC can help elucidate this question. In the absence of an existing integrated empirical test of these relationships, we cannot be confident about how ACAP affects marketing innovation and NPDC or how it contributes to OP, either directly or via IP. Since a firm’s MIC and NPDC are becoming crucial to responding to dynamic market needs (Hsieh and Tsai, 2007), we need to address this gap in the literature.

Morgan (2012) postulated that through relationship between ACAP-OP, mediated by marketing capabilities and operational performance, there will be increased causal ambiguity. It means that the cost of imitation will increase; it will be more difficult for competitors to copy products and processes due to the intangibility of the resulting learning capacities. It also highlights the importance of path dependence in the exclusivity of organizational capabilities and resources, and, finally, the legal barriers that the company can impose through patents, for example (Hooley et al., 2005).

Our study makes four theoretical contributions. First, it adds to the field’s current understanding of the relationship between ACAP and IP, contributing to closing the gap Kostopoulos et al. (2011) highlighted. The authors also stressed the lack of an integrative examination of innovation and financial measures of performance in ACAP studies. Therefore, a second theoretical contribution is that it provides a better comprehension of ACAP’s role as a mechanism for translating external knowledge into tangible benefits. Third, it provides an investigation of the effects of absorbed external knowledge on performance when mediated by different marketing capabilities (Tzokas et al., 2015). Finally, this study contributes to a better theoretical understanding of marketing capabilities’ relevance to building innovative business relationship capabilities.

Likewise, these research outcomes contribute to improved management practices as they demonstrate the importance of absorbing external knowledge and integrating it internally via marketing capabilities. The study also highlights the fact that variable knowledge is a significant asset that can differentiate a firm from its competitors. For instance, if a firm relates well with its stakeholders (such as universities and start-ups), it is probably closer to gaining new knowledge, and improved technologies than its less connected competitors (Kostopoulos et al., 2011).

This paper is structured as follows. First, we explain the background research literature, including discussions of ACAP, marketing capabilities, non-financial and financial results, resource-based view (RBV), and dynamic capabilities (DCs). Next, we present the theoretical model and describe its key constructs. This is followed by the development and construction of the hypotheses. Subsequently, we present the methodology and results, which is followed by a discussion of the findings. The paper’s conclusion and implications are then presented. Finally, we discuss the managerial implications, limitations, and potential future research directions of this paper.
2. Literature background

The key constructs for this study are grounded in the RBV and DC perspective. We used DC to provide theoretical support for ACAP and RBV to sustain marketing capabilities. According to RBV, a company’s access to strategic resources is the main determinant of performance variations among firms in the same sector (Barney, 1991). Some RBV studies, referring to organizational capabilities (Slater et al., 2006), have focused on the organizational results of resources development processes (Sirmon et al., 2007).

Nevertheless, RBV is not free from theoretical criticism. The theory’s weakness stems from its lack of a theoretical explanation of how to develop and deploy firms’ resources. Lengnick-Hall and Wolff (1999) pointed out the failure of RBV to consider the effects of dynamic market environments.

The concept of DCs (Teece et al., 1997; Newbert, 2007) aims to explain how companies create and maintain a competitive advantage in dynamic environments, focusing on company’s resources as a source of their differentiation (Barney, 1991; Penrose, 1959; Priem and Butler, 2001). DC is a dynamic view that incorporates dynamicity to RBV (Cavusgil et al., 2003). RBV highlights resource picking (i.e. marketing capabilities), while DC emphasizes resource reconfiguration (i.e. ACAP). Thus, Liu and Ko (2012) pointed out that company’s knowledge will be beneficial only if translated into specific capabilities that favor the implementation of resources, since just learning may not be enough for companies to achieve better results. To achieve a competitive advantage the integration of constructs marketing capabilities from RBV and ACAP from DC is necessary.

The remainder of this section defines and discusses ACAP, marketing capabilities, IP, and organizational performance.

2.1 ACAP

Dierickx and Cool (1989) affirmed that knowledge stocks alone are necessary but insufficient conditions of value delivery. As a possible solution, Cohen and Levinthal (1990) introduced the concept of ACAP into the organizational context. According them, ACAP is an “ability to recognize the value of new information, assimilate it, and apply it to commercial ends” (Cohen and Levinthal, 1990, p. 128). Thus, superior OP can be reached only when knowledge is properly deployed via the firm’s capabilities (Day, 1994).

Several authors have developed works based on Cohen and Levinthal’s (1990) seminal concept. The authors proposed three phases of ACAP: identification, assimilation, and exploration. Considering that the effects of externally acquired knowledge on organizational outcomes depend on a company converting this knowledge content into a usable form, Zahra and George (2002) expanded ACAP from its three original dimensions into four dimensions: acquisition, assimilation, transformation, and exploitation. Transformation, the added phase, refers to the internalization and conversion of assimilated external knowledge (Zahra and George, 2002). Transformation brings synergy and recodification to the ACAP process by facilitating the assimilation of a firm’s newly acquired knowledge with prior knowledge (Jiménez-Barrionuevo et al., 2011).

We can cite some studies that used ACAP. Xiong and Bharadwaj (2011) investigated financial impact of marketing resources and capabilities in the initial public offering market in a B2B context (computer and software industry). A young firm with strong ACAP is more likely to enhance its marketing capabilities through the transfer of knowledge in its network. In a recent study by Yang et al. (2015), the authors posited that investments in R&D help firms to accumulate intellectual capital. The findings of this study supports that previous knowledge helps firms to absorb and develop new knowledge. Yang et al. (2015) postulated that the outcome of knowledge integration in a firm is its organizational capabilities. It demonstrates the importance of ACAP to firms.
With a well-developed ACAP, firms can improve their performance (Lane et al., 2001). A well-defended argument is also that, through ACAP, heterogeneity among firms’ performance outcomes can be partially explained.

2.2 Marketing capabilities
Capabilities refer to the knowledge and skills that a company accumulates, which, in turn, allow it to increase the value of its use of resources (Murray et al., 2011). Specifically, Morgan (2012) argued that marketing capabilities are responsible for transforming company’s marketing resources into valuable results. The two marketing capabilities examined in the present research are MIC and NPDC.

When companies can manage processes and development of new products – NPDC (Murray et al., 2011), we can infer that the organization is concentrating efforts to achieve a sustainable competitive advantage. In turn, when the company has well-developed innovation capability (MIC) (Merrilees et al., 2011), and it can deliver value to its customers better than competitors; we can say that it provides recognized value to its customers. Therefore, studying the operation of these capabilities in firms is fundamental to understand mechanisms that help in search of organizational differentiation. In the next sections, these two capabilities are discussed.

2.2.1 MIC. MIC refers to a firm’s ability to successfully introduce new methods into the marketplace (Merrilees et al., 2011). Specifically, Merrilees et al. (2011) showed that MIC aids new idea development aimed to help customers: using MIC, firms are able to fast track new offerings to customers, to manage processes while keeping costs down, and, finally, to package a total solution to customer problems. In the contemporary business environment, firms depend upon external sources of information to promote innovation, stimulate new products, and improve their performance (Cassiman and Veugelers, 2002; Morgan and Berthon, 2008). ACAP, in this context, is critical to organizational innovation.

If it is theoretically plausible that ACAP can lead to the better acquisition and application of external knowledge in the development of MICs, it is also reasonable to suppose that these can lead companies to superior IP. There are studies that link companies’ innovation capabilities to their use of external knowledge sources as fonts of new ideas (Laursen and Salter, 2004). In addition, Katila and Ahuja’s (2002) study investigates the relationship between innovation capability and the creation of new products and has found that firms’ search efforts actually vary across two distinct dimensions: search depth and search scope (Katila and Ahuja, 2002).

2.2.2 NPDC. NPDC concerns a company’s ability to develop and launch new products that meet market requirements and that generate satisfactory financial returns (Ernst et al., 2010). To develop new products, a company must have scientific and technological capabilities (Stock et al., 2001). Companies need to search for external knowledge, internalize it, and use it to acquire more knowledge as they develop new products that differentiate them from competitors. Yet, despite the relevance of these two constructs (ACAP and NPDC) and indications of a probable relationship between them, few studies have verified this relationship.

2.3 Performance
Performance is defined as the achievement of established objectives, which implies that if one reaches or exceeds defined goals, one has achieved positive performance (Slater et al., 2006). There are in the literature, two major groups of indicators most commonly used as evidence of performance in organizations: financial (i.e. OP) or non-financial (i.e. IP) (Hult et al., 2005).
To be measurable, IP needs to be reflected in organizational results. Furthermore, there is evidence in the literature of a positive relationship between IP and OP, including empirical tests proving that the most innovative companies have the best results (Lawson and Samson, 2001). Cruz-Ros et al. (2010) argued that establishing direct and clear causal relationships between capacities and financial performance could be challenging. According to Marta et al. (2010), however, marketing capabilities and performance do share an indirect relationship. Thus, it is possible that IP plays an important role. At the same time, it is important to understand the leading mechanisms that drive the marketing capabilities of companies and how such mechanisms impact organizational results. Finally, it is relevant to investigate the relationship between ACAP and marketing capabilities and how they impact OP.

3. Hypotheses development
The direct relationship between ACAP and OP is the primary link examined with the conceptual model used for this research. Given this direct relationship, the model investigates the simple mediating role of MIC and NPDC. Considering the marketing capabilities cited above, our model encompasses the double mediating role of IP on ACAP and organizational performance.

According to Kostopoulos et al. (2011), a firm may use various sources to accumulate external knowledge while interacting with its stakeholders. The ways that a business utilizes its capabilities to improve their products, processes, and routines are a source of its differentiation from its competitors in the marketplace (Zahra and George, 2002) to such an extent that some researchers have argued that ACAP is positively related to OP (Wales et al., 2013).

However, other researchers have found positive relationships, both direct and indirect, between ACAP and performance (Bharati et al., 2014). For example, García-Morales et al. (2007) found that technology ACAP influences organizational learning and innovation; this, in turn, generates better OP. Ali et al. (2016) found acquisition, assimilation, and exploitation are key drivers of organizational innovation and, in turn, of improved OP. Moreover, when Lane et al. (2001) tested ACAP of companies, also in a discharged form, they discovered both direct and indirect relationships with performance. In turn, Kostopoulos et al. (2011) discovered that IP fully mediates the relationship between ACAP and financial performance. Finally, although it is clear that ACAP is important to a company’s performance, it is necessary to clarify how this relationship occurs: directly or indirectly. Thus, we first tested the direct link:

H1. ACAP has a direct and positive effect on organizational performance.

According to Day (1994), marketing capabilities are among the three most important factors that influence OP (along with business strategy and market orientation). Thus, we proposed measuring the relationship between marketing capabilities and OP (Thorpe and Morgan, 2007). Innovation capabilities, meanwhile, are critical to holding a competitive advantage and to superior marketing performance (Hooley et al., 2005), and the study of this variable receives a significant share of attention in OP studies (Merrilees et al., 2011). Based on existing literature, it can be inferred that IC is a determinant of OP.

A company’s success, in other words, relates directly to that company’s ability to develop and launch new products that meet market requirements and generate satisfactory financial returns (Ernst et al., 2010). As Teece et al. (1997) argued, to be successful in the market, a company must possess the capacity to develop rapid and flexible product innovations.

Based on the literature reviewed, we propose the following hypotheses:

H2a. MIC has a direct and positive effect on organizational performance.

H2b. NPDC has a direct and positive effect on organizational performance.
In addition, there is evidence in the literature of a positive relationship between IP and OP, including empirical tests proving that the most innovative firms perform the best (Lawson and Samson, 2001; Tuan et al., 2016). Therefore, we propose the following hypothesis:

H3. Marketing IP has a direct and positive effect on organizational performance.

Zahra and George (2002) also presented ACAP as a DC that influences the creation of a firm’s other capabilities. Thus, we argue that a firm increases its innovation capabilities when influenced by ACAP, resulting in better OP. Yet, according to Barney (1991), ACAP can improve the firm’s competitive advantage and influence its performance indirectly through innovation.

Thus, as Stock et al. (2001) affirmed, the expectation is that higher levels of ACAP will be positively related to more effective product development outcomes. Therefore, we can posit that new knowledge inputs create new products. We also argue that ACAP is one of the sources of a firm’s new organizational knowledge.

Kostopoulos et al. (2011) argued that even when external knowledge is “ready to use” (e.g. in the acquisition of a prototype), it has to go through a processing phase. This phase requires the firm to have an ACAP that allows it to process the newly available knowledge and to exploit this knowledge in a more innovative way. Nevertheless, we argued that firms can add complexity to this process when their MIC and NPDC work in tandem with ACAP. Thus, in this research, we considered marketing capabilities as mediators of ACAP and OP.

Nevertheless, as Zahra and George (2002) have suggested, firms with a well-developed ACAP are more likely to achieve a competitive advantage through innovation and product development than those with less developed capabilities. Following this logic, we proposed the following hypotheses:

H4a. MIC mediates the relationship between ACAP and organizational performance.

H4b. NPDC mediates the relationship between ACAP and organizational performance.

Kostopoulos et al. (2011), Tsai (2001), and Wuryaningrat (2013) have all empirically investigated the connection between ACAP and innovation capability. For instance, Kostopoulos et al. (2011) demonstrated that ACAP contributes directly to innovation and indirectly (i.e. via innovation) to subsequent financial performance. Moreover, Tsai’s (2001) results revealed that when ACAP interacts with a network position, it produces significant and positive effects on business unit innovation and performance. Nonetheless, a study by Wuryaningrat (2013) has provided empirical evidence that new knowledge can be transformed into innovation capabilities if it is supported by higher ACAP. Furthermore, as Cassiman and Veugelers (2002) concluded, external expertise can increase IP, and Akgün et al. (2009) found that product innovations and process innovations have a strong and significant influence on OP.

The role of ACAP is to support firms achieving their commercial ends through external knowledge application, usually in form of innovation outcomes (Cohen and Levinthal, 1989, 1990). Considering ACAP as a tool for processing external knowledge, Kostopoulos et al. (2011) and Moilanen et al. (2014) affirmed that ACAP contributes to a firm’s IP. In a recent study, Corral de Zubielqui et al. (2016) discovered that ACAP has a direct and positive influence on innovation outcomes and an indirect influence, through innovation, on OP. Most empirical studies have found a positive link between IP and OP (Jiménez-Jiménez and Sanz-Valle, 2011; Corral de Zubielqui et al., 2016).

Based on the argument that marketing capabilities are directly related with ACAP, we proposed that MIC and NPDC precede IP, which then impacts OP. Thus, we proposed a double mediation in the relationship between ACAP and OP in the following hypotheses:

H5a. MIC and IP mediate the relationship between ACAP and organizational performance.

H5b. NPDC and IP mediate the relationship between ACAP and organizational performance.
4. Methodology

4.1 Sampling and data collection
For this quantitative study, we used a structured survey. The sampling frame was chosen from a database of 1,916 manufacturing firms in Brazil. The sample selected was motivated by the aim of examining innovation within firms, including product innovation. Thus, these companies were likely to place emphasis on both ACAP and marketing capabilities.

To guarantee measurement scale validity and reliability, we followed the procedures described in the literature (Creswell, 2010). There were 544 responses to the survey. The database was cleaned leaving 333 valid responses. A test for outliers found no influential outliers and no case of skewness or kurtosis.

4.2 Research variables and measurement assessment
ACAP was measured using a scale from Flatten et al. (2011), with four dimensions, as suggested by Zahra and George (2002): acquisition, assimilation, transformation, and exploitation. MIC was measured using a scale from Merrilees et al. (2011) based on the development of new ideas, cost management, and efficiency finding solutions faster than competitors.

Innovation capability was measured with Jiménez-Castillo and Sánchez-Pérez's (2013) scale. NPDC was measured using a scale from Murray et al. (2011), which measures the firms' ability to manage, develop, and launch new products successfully. Finally, OP was evaluated through two dimensions: marketing performance and financial performance (Merrilees et al., 2011), composed of questions about profitability, ROI, sales revenues, market shares, and new customer acquisition (Figure 1).

All variables were measured using seven-point Likert-type scales. Table I shows the constructs, loadings, and t-values of the scales. The internal consistency, convergence, and discriminant validity of our measurement models were assessed. Table II shows the results for average variance extracted (AVE), composite reliability (CR) of the constructs, and Cronbach’s $\alpha$. The results shown in Table II are above the recommended threshold values of 0.70 for CR and 0.50 for AVE (Bagozzi and Yi, 2012). Additionally, discriminant validity was

\[ H1 \]
\[ H2a \]
\[ H2b \]
\[ H3 \]
\[ H4a \]
\[ H4b \]
\[ H5a \]
\[ H5b \]

Figure 1.
Theoretical model with results
assessed by comparing the square root of AVE greater than correlations, as Fornell and Larcker (1981) recommended. Then, we analyzed common method bias by applying the principles suggested by Podsakoff et al. (2012): common latent factor and marker variable. The common method bias was identified in our model by a significant $\chi^2$ difference test between a zero-constrained

<table>
<thead>
<tr>
<th>Scale measurement</th>
<th>$\lambda$</th>
<th>t-Value</th>
</tr>
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<tbody>
<tr>
<td>Absorptive capacity</td>
<td>0.87</td>
<td>18.28</td>
</tr>
<tr>
<td>Our management motivates the employees to use information sources within our industry</td>
<td>0.81</td>
<td>16.96</td>
</tr>
<tr>
<td>In our company, ideas and concepts are communicated cross-department</td>
<td>0.78</td>
<td>13.82</td>
</tr>
<tr>
<td>Our management emphasizes cross-departmental support to solve problems</td>
<td>0.78</td>
<td>13.88</td>
</tr>
<tr>
<td>Our management demands periodical cross-departmental meetings to interchange new developments, problems, and achievements</td>
<td>0.74</td>
<td>14.72</td>
</tr>
<tr>
<td>Our employees have the ability to structure and to use collected knowledge</td>
<td>0.84</td>
<td>17.90</td>
</tr>
<tr>
<td>Our employees are used to absorbing new knowledge as well as to preparing it for further purposes and making it available</td>
<td>0.84</td>
<td>17.81</td>
</tr>
<tr>
<td>Our employees successfully link existing knowledge with new insights</td>
<td>0.81</td>
<td>16.92</td>
</tr>
<tr>
<td>Our employees are able to apply new knowledge in their practical work</td>
<td>0.82</td>
<td>17.81</td>
</tr>
<tr>
<td>Our management supports the development of prototypes</td>
<td>0.80</td>
<td>17.60</td>
</tr>
<tr>
<td>Our company regularly reconsider technologies and adapts them in accordance to new knowledge</td>
<td>0.86</td>
<td>19.40</td>
</tr>
<tr>
<td>Our company has the ability to work more effectively by adopting new technologies</td>
<td>0.88</td>
<td>17.60</td>
</tr>
<tr>
<td>Marketing innovative capability</td>
<td>0.70</td>
<td>14.09</td>
</tr>
<tr>
<td>Better at developing new ideas to help customers</td>
<td>0.79</td>
<td>13.26</td>
</tr>
<tr>
<td>More able to fast track new offerings to customers</td>
<td>0.83</td>
<td>13.85</td>
</tr>
<tr>
<td>More able to manage processes to keep costs down</td>
<td>0.85</td>
<td>14.09</td>
</tr>
<tr>
<td>New product development capability</td>
<td>0.74</td>
<td>13.78</td>
</tr>
<tr>
<td>We manage new products well</td>
<td>0.78</td>
<td>14.61</td>
</tr>
<tr>
<td>We develop new products to exploit R&amp;D investment</td>
<td>0.72</td>
<td>13.36</td>
</tr>
<tr>
<td>We speedily develop and launch new products</td>
<td>0.68</td>
<td>12.40</td>
</tr>
<tr>
<td>We successfully launch new products</td>
<td>0.78</td>
<td>12.49</td>
</tr>
<tr>
<td>Innovation performance</td>
<td>0.82</td>
<td>17.63</td>
</tr>
<tr>
<td>The overall performance of our new product development program</td>
<td>0.81</td>
<td>16.79</td>
</tr>
<tr>
<td>From an overall profitability standpoint, our new product development program has been successful</td>
<td>0.84</td>
<td>17.63</td>
</tr>
<tr>
<td>Compared with our major competitors, our overall new product development program is far more successful</td>
<td>0.80</td>
<td>16.46</td>
</tr>
<tr>
<td>Our company makes considerable profit from its new products</td>
<td>0.74</td>
<td>13.45</td>
</tr>
<tr>
<td>Is more profitable</td>
<td>0.76</td>
<td>15.13</td>
</tr>
<tr>
<td>Has a better return on investment</td>
<td>0.71</td>
<td>14.24</td>
</tr>
<tr>
<td>Is better able to reach financial goals</td>
<td>0.79</td>
<td>13.03</td>
</tr>
<tr>
<td>Stronger growth in sales revenue</td>
<td>0.73</td>
<td>14.02</td>
</tr>
<tr>
<td>Better able to acquire new customers</td>
<td>0.81</td>
<td>13.03</td>
</tr>
<tr>
<td>Has a greater market share</td>
<td>0.77</td>
<td>14.56</td>
</tr>
<tr>
<td>Able to increase sales to existing customers</td>
<td>0.77</td>
<td>14.56</td>
</tr>
</tbody>
</table>

Notes: Measurement model fit (CMIN/DF: 1.93; NFI: 0.85; CFI: 0.92; RMSEA: 0.05; SRMR: 0.05; HOELTER 0.05: 188; HOELTER 0.01: 195)

Table I. Role of marketing capabilities, ACAP, and IP
and an unconstrained model. Then, we controlled for the competitive intensity (marker variable) in our structural analysis (Brashear-Alejandro et al., 2016). Next, we used a structural equation model to test the proposed hypotheses (Table III).

5. Results and discussion

Despite what the ACAP model of Zahra and George (2002) suggests, a direct relationship between ACAP and OP, in our sample, H1 was not supported. Our result corroborates with the findings of those researchers who noted only indirect relationships between ACAP and performance (Bharati et al., 2014; Ali et al., 2016; Corral de Zubielqui et al., 2016; Kostopoulos et al., 2011). This finding also underscores that a mediated relationship between ACAP and OP should exist, as we proposed in the other hypothesis. The simple acquisition and assimilation of external knowledge, without effective transformation and commercialization through specific innovation outputs, cannot lead to concrete financial results for organizations over time (Kostopoulos et al., 2011).

Our result for H2a (MIC-OP) was not statistically significant. According to Teece et al. (1997), firms must own their capability to develop innovations in order to seek to compete successfully in the market. However, the authors did not propose a direct relationship. Likewise, some studies have failed to find a direct relationship between marketing capabilities and OP (Maria et al., 2010; Cruz-Ros et al., 2010). Based on that, we can infer that MIC might be related to OP, but not in a direct relationship.

On the other hand, our results did support H2b (NPDC-OP), in accordance with some authors who argue that marketing capabilities are positively related with performance (Theodosiou et al., 2012; Vorhies and Morgan, 2005).

<table>
<thead>
<tr>
<th>Cronbach's</th>
<th>CR</th>
<th>AVE</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Absorptive capacity</td>
<td>0.90</td>
<td>0.81</td>
<td>0.51</td>
<td>0.72</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2. Organizational performance</td>
<td>0.90</td>
<td>0.91</td>
<td>0.58</td>
<td>0.72</td>
<td></td>
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<tr>
<td>3. Innovative performance</td>
<td>0.89</td>
<td>0.89</td>
<td>0.67</td>
<td>0.82</td>
<td></td>
<td></td>
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<tr>
<td>4. New product development capability</td>
<td>0.86</td>
<td>0.85</td>
<td>0.58</td>
<td>0.60</td>
<td>0.55</td>
<td>0.58</td>
<td>0.76</td>
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<tr>
<td>5. Innovative capability</td>
<td>0.87</td>
<td>0.87</td>
<td>0.64</td>
<td>0.68</td>
<td>0.42</td>
<td>0.43</td>
<td>0.49</td>
<td>0.80</td>
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<tr>
<td>6. Marker</td>
<td>0.83</td>
<td>0.50</td>
<td>0.33</td>
<td>0.34</td>
<td>0.20</td>
<td>0.24</td>
<td>0.37</td>
<td>0.71</td>
</tr>
</tbody>
</table>

Table II. Cronbach’s α, CR, AVE, and discriminant validity measurements

Notes: *p < 0.05; **p < 0.01

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Theoretical model Coefficients</th>
<th>Marker variable Coefficients</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Coefficients standardized</td>
<td>p-Value</td>
<td>R²</td>
<td>Coefficients standardized</td>
</tr>
<tr>
<td>H1: ACAP → OP</td>
<td>0.20</td>
<td>0.06</td>
<td>0.47</td>
<td>0.17</td>
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<tr>
<td>H2a: MIC → OP</td>
<td>0.02</td>
<td>0.85</td>
<td>-0.03</td>
<td>0.70</td>
</tr>
<tr>
<td>H2b: NPDC → OP</td>
<td>0.19</td>
<td>0.02</td>
<td>0.18</td>
<td>0.02</td>
</tr>
<tr>
<td>H3: IP → OP</td>
<td>0.42</td>
<td>***</td>
<td>0.42</td>
<td>***</td>
</tr>
<tr>
<td>H4a: ACAP → MIC → OP</td>
<td>0.01</td>
<td>0.82</td>
<td>-0.02</td>
<td>0.70</td>
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<tr>
<td>H4b: ACAP → NPDC → OP</td>
<td>0.12</td>
<td>0.03</td>
<td>0.11</td>
<td>0.04</td>
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<tr>
<td>H5a: ACAP → MIC → IP → OP</td>
<td>0.06</td>
<td>0.00</td>
<td>0.05</td>
<td>0.00</td>
</tr>
<tr>
<td>H5b: ACAP → NPDC → IP → OP</td>
<td>0.13</td>
<td>***</td>
<td>0.13</td>
<td>***</td>
</tr>
</tbody>
</table>

Table III. Hypotheses test and path estimations

Notes: Bootstrap resampling procedure in AMOS (333 cases, 2,000 runs). R² values correspond to OP. Structural model fit (CMIN/DF: 2.02; NFI: 0.87; CFI: 0.93; RMSEA: 0.06; SRMR: 0.06; HOELTER 0.05: 183; HOELTER 0.01: 191). ***p < 0.001
H3 (IP-OP) was supported as well. The literature, including empirical tests proving that the most innovative companies have better results (Lawson and Samson, 2001), suggests that there is a positive relationship between innovation and OP.

Nevertheless, the hypothesized mediatory role of MIC on the relationship between ACAP and OP (H4a) was not supported. Related to organizational innovation capabilities, Kostopoulos et al. (2011) stated that the success of an innovation is not guaranteed. Following this same idea, Baker and Sinkula (2005) noted that it is difficult to predict whether customers will adopt new products and services. Therefore, according to the authors, an expected return is always uncertain. We can infer that these arguments may also provide an explanation for rejection of H2a. According to Kostopoulos et al. (2011), several studies have found conflicting empirical findings on the relationship between innovation and performance (Morgan and Berthon, 2008).

Our findings on H4b agree with Fosfuri and Tribó (2008) that a firm’s ACAP is not a goal in itself. We found – in accordance with Newey and Shulman (2004) and Stock et al. (2001) – that ACAP positively influences NPDC. Fosfuri and Tribó (2008) found in their research on Spanish organizations that firms with higher levels of potential ACAP could achieve better OP through new or improved products. Therefore, H4b is confirmed (β = 0.11, p < 0.05).

We confirmed H5a (ACAP-MIC-IP-OP) (β = 0.05, p < 0.05). The claim that the double mediation of MIC passes through IP to have an effect on the relationship between ACAP and OP was supported by our data. Some studies have considered that market knowledge (ACAP) is a main driver of IP (Li and Calantone 1998). Other studies have found that a firm’s ACAP significantly influences the firm’s ability to innovate (MIC) (Cohen and Levinthal, 1990; Knudsen and Roman, 2004). According to our study, however, MICs are not related directly to OP. In our findings, IP needs to mediate this relationship in order for OP to improve.

Finally, H5b (ACAP-NPC-IP-OP) was supported (β = 0.13, p < 0.001). According to Kostopoulos et al.’s (2011) findings, ACAP assists firms in modifying existing organizational practices and developing new cognitive schemas. Such changes allow firms to pursue new product developments and extend new product lines (Kazanjian et al., 2002). These activities help firms to promote financial performance and achieve competitive advantage (Lane et al., 2006; Zahra and George, 2002).

According to Zhao et al. (2010), most of the mediation found in this study (H4b-H5b) can be classified as indirect-only mediation. This classification is due to the effects of ACAP (independent variable) on the mediators (NPDC, MIC-IP, and NPDC-IP) and OP (dependent variable) that were significant. However, the direct relationship of ACAP-OP is not significant, thus characterizing indirect mediation. The only mediation that is classified as no-effect nonmediation is H4a (ACAP-MIC-OP) because there is no direct or indirect effect.

6. Conclusions and research implications
The purpose of this study was to analyze the mediating influence of marketing capabilities (MIC and NPDC) and IP on the relationship between ACAP and OP. Our study contributes to exploring the effects of absorbed external knowledge on performance when this knowledge is mediated by different marketing capabilities (Corral de Zulbiequi et al., 2016). While ACAP has no direct or significant relation with OP, ACAP does have a positive, indirect effect on OP through NPDC. At the same time, there is a double mediated relationship when IC and IP are included in our model. IP plays a mediating role with NPDC in the relationship between ACAP and OP, as well.

We also contributed to the existing literature by elucidating the relationship between ACAP and innovation results, diminishing the research gap stressed by Kostopoulos et al. (2011). According to Henard and Szymanski (2001), linking its capabilities to product innovations is
central to a firm’s continuing existence. ACAP aids firms in reaching innovation, developing new products, and, finally, improving their financial performance.

This research adds to an emerging body of literature on the outcomes of ACAP (Fosfuri and Tribó, 2008). In it, we tested some mediators of ACAP and OP outcomes and found that an organization that invests in ACAP also invest in marketing capabilities and IP controls in order to reach peak OP, resulting in performance differences among firms (Todorova and Durisin, 2007). Finally, following the same line as Kostopoulos et al.’s (2011) theoretical research, we studied ACAP as a DC (Zahra and George, 2002).

7. Managerial implications, limitations, and research directions
Given our results, we can say that external knowledge is important to differentiate firms from competitors. These findings can help managers to improve their understanding of the importance of external knowledge resources and marketing capabilities. As the relationship between absorbed knowledge and OP is fully mediated by marketing capabilities, managers should invest in both in order to achieve improved marketing capabilities. For example, when firms increase their process complexity through allying different capabilities, competitors will face more difficulties to copying these new products or innovations.

Another managerial implication is related to benefits of findings to well-established firms and new ventures. Both types can benefit from marketing capabilities studied, NPDC and MIC. To new ventures, it is more valuable to develop marketing capabilities than depend on someone else to market their offerings, for instance. Xiong and Bharadwaj (2011) postulated that some marketing alliance partners are well-known firms, and they will try to beneficiate themselves from new ventures’ new ideas and innovative products. In that sense, one way young firms can avoid this situation is by developing their marketing capabilities through ACAP.

On the other hand, well-established firms can benefit from NPDC and MIC, once they face other well-established companies that seek to develop themselves to add more value to products and customers, and work hard to create competitive advantage. Thus, the speed of information nowadays asks for companies to increase their capabilities to create heterogeneity among competitors, and differentiate themselves. External knowledge that ACAP brings to organizations can be improved by marketing capabilities, for example.

Some limitations of this research include a common method bias, with the sample gathered in just one country and in just one sector (manufacturing). Moreover, our data were collected only in one moment of time (transversal data). For future research, we suggest ACAP could be tested in a disaggregate manner. We also propose sector comparative studies as well as country comparative studies. Control variables such as firms’ ages or team characteristics should also be investigated to provide more insights into the relationships among ACAP, marketing capabilities, and firm performance. Finally, we suggest a longitudinal study to verify the relationships among firms’ capabilities and determine whether they are maintained over the long term. Longitudinal studies in this area would also reinforce the validity of empirical evidence that elucidates the role ACAP plays on marketing capabilities and OP.

References


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Reduction of tension effects on partner evaluation

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Abstract

Purpose – The purpose of this paper is to examine how tension management as a means of achieving compromise and overcoming minor conflicts reduces the effects of the opportunism and bargaining costs of relationships on the evaluation of business partners. The paper proposes and tests a theoretical model with a full-information approach using structural equation modeling.

Design/methodology/approach – The data set was based on 312 observations from a unique survey based on a business-to-business relationship sample in Sweden. The measurements reflect the effects of partner opportunism, bargaining costs, and tension management on partner evaluations.

Findings – The findings corroborate that partner opportunism and bargaining costs have a negative impact on partner evaluation. In addition, the model shows that tension management weakens the negative effects of opportunism and bargaining costs on the evaluation.

Originality/value – This study offers evidence on how negative effects are reduced through intervening constructs. With most studies focusing on the positive side of relationships, this paper makes an important contribution to the literature through not only describing negative effects, but also how these can be decreased.

Keywords Relationship, Opportunism, Partner evaluation, Tension management

Paper type Research paper

Introduction

Within our industry, we go from project to project. People you meet you’ll trust or handle it in a contract. There is always a price for everything. We see it as trust is built up over a long time – but just a situation issue can challenge what we built. Overcoming any relational issue on the everyday basis is therefore one key to success. Also, I do not trust companies, but the people who work inside the company. Therefore, it is important to see individuals like people and groups as people in a group. Every human being, group and relationship is unique and important for us to understand (Emil Yletyinen, Founder of El-Trion AB in Luleå 2016).

The quotation above reflects some of the tensions in business-to-business relationships companies may have difficulties in overcoming. Viewing both sides of the contract brings social and economic rules into companies’ daily business relationships (Dahlstrom and Nygaard, 1999; Firdaus and Kanyan, 2014; Segarra-Moliner et al., 2013; Wang et al., 2013). However, relationships are built up of small unique events (e.g. Dwyer et al., 1987; Elo and Törnäinen, 2003; Parida et al., 2017) and overcoming emerging difficulties has not yet been studied in detail. For example, the literature often assumes that relationships are symmetrical dyads between only two actors (Bask et al., 2014; Dwyer et al., 1987). Following Lövstål and Jontoft (2017), we find that research has generally failed to investigate and thoroughly document the reasons why certain relationships are unable to overcome difficulties. Cooperative relationships generate positive effects (Wu et al., 2017; Zineldin, 2004), but sometimes negative effects can also be anticipated (Grandinetti, 2017; Osipova, 2014; Park and Russo, 1996). Handling negative aspects can be considered to constitute the management of tension in relationships (Tidström, 2014).
Following Fang et al. (2011), non-managed tensions reflect a contradictory force that arises when two or more goals are at odds. Empirical evidence identifies such contradictory goals creating tensions with a negative association (Guski, 1984; Leonidou et al., 2014), treated in game theory as dilemmas (Axelrod, 1984).

Causes for break-ups in business-to-business relationships are an essential topic in this literature (Fang et al., 2011). In practice, these relationships sometimes include negative selfishness, or opportunism, which interferes with agreed promises, and leads people to take up positions based on false statements, hidden costs, empty promises, and neglected obligations (Anderson, 1988; Brown et al., 2000; Dwyer and Oh, 1987; Rokkan et al., 2003). These aspects of relationships account for a significant part of expenditures and time allocated to specification, information asymmetry, monitoring costs, enforcement costs, and costs associated with identifying new partners (Hobbs and Young, 2000). Considering that tensions in relationships sometimes reflect counteraction rather than interaction, they tend to cement positions in a rigid independence, no longer seeing anything that benefits both parties.

Researchers have dedicated considerable attention to the success of relationships (e.g. Morgan and Hunt, 1994); some focus on the failure of relationships (e.g. Park and Russo, 1996), but few concern how to overcome tensions (Tidström, 2014). While the literature has depicted tensions in relationships by pointing to antecedents and outcomes (e.g. Fang et al., 2011), less seems to be known about whether they can be managed and what happens to the relationship as a consequence. More knowledge about tensions in general, and tension management, in particular, could, thereby, be seen as highly relevant for the development of targeted control measures.

This paper is centered on tension management, that is, the purposeful handling of conflicts in relationships (cf. Tidström, 2014), and its potential effect on how the relationship is evaluated in the presence of opportunism and costs of bargaining. Tension here refers to differences in orientations or behaviors, or conflicting attitudes concerning the relationship (cf. Grandinetti, 2017). The management of tension thus includes attempts to deal with conflicts and foster compromises between interacting parties. This paper asks: Can tension management reduce the impact of opportunism and bargaining costs on the evaluation of the partner? We empirically test developed hypotheses with a sample of 312 Swedish business relationships to establish if tension management can reduce expected negative effects.

This paper contributes to previous research by studying different facets of relationships involving tensions. The literature has thus predominantly been concerned with the importance of long-term relationships, and how trust is developed in such relationships. Studies focusing on the negative side of relationships, in turn, are mainly concerned with the impact on relationship development.

The rest of the paper is organized as follows: following this introduction, the conceptual framework is presented and a set of hypotheses are proposed. The framework is presented by first introducing tension. We link tension to partner opportunism and bargaining costs as a situation that clearly sets a negative relationship between tensions and partner evaluation, and then introduce tension management to the situation. Thereafter, the research design of the paper is described, including a report on the sample, the operationalization of measures and their validation, and how the data were analyzed. The results of the study are presented and then discussed. The paper ends with theoretical and practical managerial implications, along with ideas for further research.

Framework

Tension

Tension refers to differences in meaning or goals as a dysfunction or disequilibrium in a social system (Sugarman, 1969). Researchers have discussed tension related to performance and creativity, and between different organizational layers of a firm.
Tensions can also arise in business relationships (Fang et al., 2011). The literature indicates that tension occurs between two opposing standpoints or perspectives (Lovstål and Jontoft, 2017), or, as stated by Fang et al. (2011, p. 774), “two co-existing contradictory forces with conflicting goals.” Business relationships are essentially a social process or system based on the notion of two or more companies aspiring to attain a shared goal they cannot reach independently (Firdaus and Kanyan, 2014). In these relationships, either one or more companies dominate over the other(s), or they are mutually interdependent (e.g. Pfeffer and Salancik, 1978).

Tension can be both positive and negative, as evolution of relationships may well require some sort of imbalance between the parties (Andriopoulos and Lewis, 2009). Negative tensions can be portrayed as a contradictory position to the well-functioning relationship (Anning-Dorson, 2017). Negative tensions in business relationships imply that strategies, concepts, contingencies, attitudes, norms, and typologies inhibit business relationships (Fang et al., 2011; Gaski, 1984). While harmonized relationships involve trust and support in future commitments, negative tensions in relationships are based on contractual awareness (Cousins and Spekman, 2003; Dahlstrom and Nygaard, 1999) that places bargaining cost at the center of behavior.

Negative tensions in business relationships involve different layers that arise from imprecise contractual boundaries (Dewatripont and Sekkat, 1991), adverse selection (Deepa and Chitramani, 2016), and moral hazard (Wuyts and Geyskens, 2005). Consequently, partners focus more on counteraction than interaction and sometimes on punishing behavior, thus leading to partner opportunism (cf. Dahlstrom and Nygaard, 1999). Yet, punishing non-cooperative behavior, rather than accepting difficulties as selfish behavior, will only engender more bargaining costs, be destructive for goals, and ruin opportunities (Anning-Dorson, 2017). Ganesan (1994) identified this loss of social interdependence as a negative relationship in which dependence, rather than interdependence, negatively affects evaluations of partners, thus leading us to link negative tension to negative evaluations of partners.

**Partner opportunism**

Partner opportunism reflects self-seeking behaviors in business relationships (Dahlstrom and Nygaard, 1999) and pinpoints a situation in which goals are at odds. It is tempting to think that conflicting goals arising from opportunism are symptoms and that these symptoms arise because people are bad. However, this is part of the nature of the situation. Such situations would involve offering wrong information, spreading rumors, or being unwilling to follow contracts. While these are symptoms and proxies for recognizing partner opportunism, their explanations would be rooted in conflicting goals. Many situations are coercive, forcing companies to cooperate in spite of conflicting goals. Opportunism arises when partners are unable to identify a different arena in which to compete and instead work in parallel, or side-by-side (Anning-Dorson, 2017). The coordination of goals could, therefore, be an important strategy, while lack of coordination creates a potential jeopardy that one goal will have power over the other, and consequently none of the goals will be maximized. If neither goal is fully accomplished, the two goals are at odds. In networks, conflicting goals are typically better coordinated through a single point; in business relationships, they are typically better coordinated through a contract.

Partner opportunism is probably best portrayed empirically with a negative association, such as in the recently published article by Leonidou et al. (2014) covering 76 studies of export relationships. In a detailed specification, using an almost identical definition of opportunism, their study reports that a sample of 379 observations and another of 1,064 demonstrate that opportunism led to conflict and distance, respectively. Furthermore, the same study shows, with a sample of 583 observations in three separate
studies, a negative effect of opportunism on communication; another two studies accounting for 406 observations show that it negatively affects adaptation; a study with 385 observations shows that it negatively affects business relationships; five studies show a negative effect on trust; four studies, accounting for 842 observations, demonstrate a negative effect on commitment and relational performance, but positive effects on financial performance.

The relatively rich empirical evidence on opportunism (Anderson, 1988; Brown et al., 2000; Dwyer and Oh, 1987; Gaski, 1984; Park and Russo, 1996; Rokkan et al., 2003) points at its antecedents, and consequences. Wang et al. (2013) found that behavioral uncertainty explains opportunism. Cheng and Sheu (2012) describe that the positive effects of relationship orientation on strategy are negatively moderated by opportunistic behaviors, which they explain by different sets of goals, including temporarities. Dahlstrom and Nygaard (1999) claim that opportunism increases the costs of negotiation (i.e. bargaining costs), but that formalization reduces opportunism. Taken together, this holds that opportunism discourages or has a negative effect on relational trust, commitment, and communication, but may have positive effects on financial performance.

**Bargaining costs**

Economic actions, interactions, and transactions generally come with a cost (Speklé, 2001). A productive and meaningful relationship exceeds the costs associated with the relationship (Dahlstrom and Nygaard, 1999). A business relationship can reduce some costs (e.g. those related to market information and uncertainty), but can lead to an increase in others (e.g. investments and social interaction; Speklé, 2001). Ford (1980) describes the reduction of relationship costs through adaptations. Such idiosyncratic investments can be profitable over time, but are less likely to be so in the early stage of a business relationship (cf. Dwyer et al., 1987). Resources assigned to bargaining and negotiations are part of the costs of doing business (Cousins and Spekman, 2003; Dahlstrom and Nygaard, 1999).

Webster (1979, p. 61) defined bargaining as “strategic interaction, goal-oriented, interdependent behavior by two or more parties, where the choices of each party are contingent upon his estimate of the actions of the other party or parties.” Initial bargaining concerning contracts, products, routines, and procedures are important for the development of a relationship (Dwyer et al., 1987; Ford, 1980). In this process, price is not necessarily the dominant factor; for example, reliability can be of great importance (Ford, 1980). At a later stage of the relationship, the interaction will increasingly be based on institutionalized practices rather than explicit bargaining (Ford, 1980).

Bargaining can be a mutual process, in which the parties cooperate for mutual benefit, or an egotistic competitive process, in which each party acts to maximize its own benefit (Dahlstrom and Nygaard, 1999; Herbst et al., 2011; Webster, 1979). Dahlstrom and Nygaard (1999) identified that bargaining costs have positive correlations with opportunism, and negative correlations with cooperation and formalization (cf. Leonidou et al., 2014). When goals are at odds, they imply that the parties will consider their own goal maximization for their own value rather than supporting a long-term relationship. If one party maximizes its own goals, it also means that bargaining costs work against meaningful outcomes (Dahlstrom and Nygaard, 1999). Khanna et al. (1998) noted that many alliances fail because of poor dynamics rooted in incompatible goals, wherein partners either focus on maximizing their own benefits or fail to capitalize on the learning advantages offered.

Meaningful negotiation requires mutual recognition and sufficient information exchange. Such meaningful negotiation is typically defined in formalized contracts (Axelrod, 1984). However, bargaining costs exert a negative effect on such formalization (Dahlstrom and Nygaard, 1999), because of a lack of understanding and willingness to
conform to the other’s needs. Failed negotiation indicates that the relationship is not
genuinely reciprocal and long-term oriented (Webster, 1979).

Difficulties in the negotiation process thus mean that more resources have to be devoted
to the process, but this also negatively impacts the long-term development of the
relationship. Satisfaction with negotiation outcomes is a critical success factor for the
continuation of a relationship, since the development of the relationship very much depends
on the degree of satisfaction of both parties (Dabholkar et al., 1994). Consequently,
negotiation difficulties and behaviors directed at selfish goals rather than shared outcomes
would thereby be reflected in the evaluation of the partner.

Tension management
Tension management, thus, refers to the purposeful handling of conflicts in relationships
(cf. Tidström, 2014). Based on how tension entails contradictions between two parties
(cf. Fang et al., 2011), the management requires the involvement of both parties (Tidström,
2014). It would mean that the tension is addressed by the parties, and solutions are sought.
Fang et al. (2011) refer to balance in tension, while Smith and Lewis (2011) describe
defensive and accepting tension-management strategies, thus focusing on its solution.
Tidström (2014) points to how tension is often managed through competition and avoidance,
while the outcomes are inconclusive. Das and Teng (2000) discuss ineffective management
of tension in strategic alliances. Thus, the literature indicates both positive and negative
handling of tension (cf. Bradford et al., 2004), whereof we here focus attention on the
purposeful willingness to resolve tension (cf. Tidström, 2014). Related to this, Das and
Rahman (2010) suggest that managing tensions and conflict may reduce the negative effects
of opportunism.

Along with the purposeful management of tension, we hypothesize that attempts to
resolve issues and communicate concerns will be positive for the evaluation of the business
partner. We also suggest that tension management is more prevalent if the relationship is
marked by negative constructs, while it becomes more complicated based on these negative
constructs. We therefore hypothesize:

\[ H1. \] Partner opportunism has a negative relationship with tension management.

\[ H2. \] Bargaining costs have a negative relationship with tension management.

\[ H3. \] Tension management has a positive effect on partner evaluation.

Figure 1 outlines our different hypotheses.

![Figure 1. Theoretical model](image-url)
Research design

Data collection

The testing of the stated hypotheses was based on questionnaires to companies reflecting conditions for small and middle-sized companies operating in business-to-business settings in Sweden. The focus on business-to-business settings was meant to capture companies with well-developed relationships or needs to develop long-term relationships (cf. Ford, 1980). The companies to which questionnaires were sent had at least ten employees but not more than 200 employees. The reasons for excluding companies with less than ten employees were that many such companies operate on a part-time basis and would, thereby, be less likely to be involved in long-term business of substantial scale, while they would decrease the likelihood of finding a respondent with appropriate involvement in the company’s business relationships. The second stratification was to capture companies operating in services (65 percent) and manufacturing industries (35 percent), a distribution that reflects the Swedish composition of companies well. We focused on strata with companies from cities (more than 200,000 citizens) vs other areas, so as to reflect both contexts. (There is no exact number for cities and other areas provided in the statistics, which led us only to control if there are major differences between locations of operations). The selection of companies was drawn from the company database Business Retriever (including all Swedish companies regardless of organizational type). The sampling process resulted in a total sample of 711 companies. When a company denied participation in the survey, we replaced it with a company with similar business characteristics.

We received a total of 312 usable responses after eliminating companies with fewer than 10 employees. Through a pre-survey of the larger sample, these companies were validated as primarily acting in business-to-business markets, ensuring their relevance to this study.

The survey addressed key informants at the strategic business unit level, which was suitable for collecting data on relationship-related issues. These key informants controlled areas such as research and development, innovation, procurement, sales, operations management, logistics, or strategic management. From their positions, these key informants had a clear idea about their main partners, that is, suppliers, customers, and other co-producing partners, and could give well-informed answers (cf. Kumar et al., 1993).

Data were collected through phone interviews, which followed a standardized questionnaire. The respondents were given an introduction to the topic and some instructions on how to respond. They were asked to respond intuitively, and as quickly as possible. This was both to ensure an efficient process for the survey and to create stability in the answers, as initial first thoughts were expected to be more stable than those deeply considered.

Measurement operationalization and validation procedure

The model depicted in this paper is based on several constructs. A latent construct is here referred to as a factor specified by a number of observable items. Most of the questions were established scales. To capture meaning of each question we used back a translation procedure. Usually, the more detailed specifications that are offered, the less abstract is the construct; and conversely, the less detailed the construct is, the more abstract it will be. For instance, let us say that a car can be depicted with four items: the body, wheels, doors, and windows. A statistical picture then needs to capture these four items to ensure that a car is captured. Needless to say, a far more specified and detailed picture can be made to represent a car, and can, but does not have to, be better at doing so.

Our model includes four independent latent constructs based on 15 observable items (items, see Table II). The entire questionnaire included 49 standardized questions. All reflective constructs included in our conceptual framework were operationalized based on some key multi-items (Boelen and Lennox, 1991). Our main constructs (partner opportunism,
bargaining cost, tension management and partner evaluation) were based on established constructs using similar seven-point anchors. The content of each factor, factor loadings and reliability coefficient for each of these are found in Table II.

In the case of tension management, this was pre-tested in an earlier study and validated in this one. As the established original scales were developed in Swedish, we performed translation to report the items in English. Our main idea was to meet the criteria of face validity, rather than following the exact phrasing, by first and foremost trying to capture the content of each question.

To report descriptive statistics, such as correlations, means and standard deviation we used both IBM SPSS 20. For testing the model we used IBM SPSS AMOS 20.

Furthermore, for the purposes of replication, we report a correlation input matrix (Shook et al., 2004). Our correlation matrix also allows us to follow the “wisdom of measurement” by examining the correlation within a construct (Bollen and Lennox, 1991). Table I reports correlations for each of the 15 items among all 312 respondents. All correlation coefficients are high, and, in particular, are higher than any of the correlations with the other items associated with the other three constructs. Such within-construct correlation is one of the assumptions of multi-item factor analysis (Hair et al., 2010).

To meet the purpose of dimensionality, we structured established constructs according to the original (Hair et al., 2010), followed by confirmatory factor analysis (CFA). In our CFA (Table II), we confirm our theoretical factor structure, identifying four independent constructs (loadings > 0.50).

Partner opportunism was adopted based on the four first items in Rokkan et al. (2003). This scale was defined as self-seeking behavior. A full operationalization reflects: false statements; empty promises; neglected obligations; and maximized self-seeking. As expected, our measure of partner opportunism reports strong convergent validity (Table II: CFA loadings > 0.75) and reliability (Table II: $\alpha = 0.88$).

Bargaining costs arise between transacting parties and define the effectiveness of negotiation (Wang et al., 2013). A full operationalization reflects: negotiation complexity; upcoming changes in contracts; difficulty in negotiation; and unwillingness to give up demands. As expected, our measure of bargaining costs reports strong convergent validity (loadings > 0.75) and reliability ($\alpha = 0.87$).

Tension management was originally tested and developed for situations of co-opetition. This original scale was presented at a co-opetition conference with a sample of 160 practitioners in a co-opetitive dilemma. The origins of this study are omitted because of the blind review process. The theoretical conceptualization was adopted from Tjosvold (2006), and defines the ability to compromise and overcome minor conflicts. A full operationalization reflects three assumptions: the ability to find solutions to conflicts; the ability to compromise; and avoiding situations of incompatibility. As expected, our measure of tension management reports strong convergent validity (loadings > 0.84) and reliability ($\alpha = 0.88$).

The evaluation of partners was developed from Wang et al. (2013). Originally, we used eight items, but omitted four that converged into one dimension. We define the evaluation of partners as expected value and delivery (Wang et al., 2013). A full operationalization reflects four items: value received; product quality; delivery time; after-sales service. As expected, our measure of evaluation of partners’ performance reports strong convergent validity (loadings > 0.56) and reliability ($\alpha = 0.80$).

Results: a full information structural model
As the CFA provided satisfactory inputs of dimensionality and measurement properties, we tested a structural model. To ensure validity, we ran factor analysis and regressions simultaneously in a full information model.
### Table I.

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<td>X2</td>
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<td>X15</td>
<td>-0.17**</td>
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Notes: $n = 312$. X1-X4 = Partner Opportunism; X5-X8 = Bargaining Cost; X9-X11 = Tension Management; X12-X15 = Evaluation of Partners. *p < 0.05; **p < 0.1
First, all models exhibit strong goodness of fit, which means our theoretical model matches the observations. Following Bagozzi and Yi (2012): normed-χ², comparative fit index (CFI), root mean square error of approximation (RMSEA), and standardized root mean residual (SRMR). CFI indices ≥ 0.90; RMSEA ≤ 0.08, and SRMR ≤ 0.08 indicate a good model fit between the observed data and the theoretical model. Whereas χ² is sensitive to sample size, these indices are less sensitive to sample characteristics (see Goodness-of-fit in Figure 2). χ² = 194.99 (df = 86); normed-χ² = 2.27; p-value = 0.000; CFI = 0.95; RMSEA = 0.06; SRMR = 0.07.

### Measurement (reliability)

**Partner opportunism (α = 0.88)**
1. On occasion, this partner lies about certain things in order to protect their interests 0.80
2. This partner sometimes promises to do things without actually doing them later 0.84
3. This partner does not always act in accordance with our contracts 0.81
4. This partner sometimes tries to breach informal agreements to maximize own benefits 0.75

**Bargaining costs (α = 0.87)**
5. Negotiations of financial adjustments to the contract are typically difficult and lengthy 0.83
6. When unexpected changes arise, at least one party was dissatisfied with the negotiated outcomes 0.86
7. Our negotiations with this partner are usually difficult 0.76
8. Neither party is willing to yield to the demand of the other party in negotiations 0.75

**Tension management (α = 0.88)**
9. We always find solutions to our conflicts immediately (conflicts are minor) 0.86
10. We always compromise in ways that benefit our partnership 0.83
11. There is no negative incompatible competition with partners I work with 0.84

**Partner evaluation (α = 0.80)**
12. Delivery in line with what is expected is much better 0.69
13. Product quality is much better 0.93
14. Timeliness of delivery is much better 0.56
15. After-sales service is much better 0.65

### Notes
- α = Cronbach’s α. Goodness-of-fit CFA: χ² = 171.74 (df = 84); normed-χ² = 2.04; p-value = 0.000; CFI = 0.96; RMSEA = 0.06; SRMR = 0.05
- Table II. CFA

![Figure 2. Results](image-url)

**Table II.**

- X1: Partner Opportunism
- X2: Tension Management
- X3: Evaluation of Partner
- X4: Bargaining Cost
- X5: Partner Opportunism
- X6: Tension Management
- X7: Evaluation of Partner
- X8: Bargaining Cost

**Notes:** Goodness-of-fit: χ² = 194.99 (df = 86); normed-χ² = 2.27; p-value = 0.000; CFI = 0.95; RMSEA = 0.06; SRMR = 0.07. *p < 0.05; **p < 0.01; ***p < 0.001; --- indirect effect
SRMR = 0.07). When examining squared multiple correlation ($R^2$) we could explain 5.80 to 23.70 percent of variance in tension management and evaluation of partner, respectively.

Turning to each hypothesis we find support to all of these. Starting with the first hypothesis, $H_1$ (Partner opportunism $\rightarrow$ Tension management) we find that partner opportunism is negatively associated with tension management ($\beta = -0.13, p < 0.05$). Second we find that ($H_2$) bargaining costs report a negative and significant relationship on tension management ($\beta = -0.20, p < 0.01$). Finally, we expected a confirm ($H_3$) a direct relationship between tension management and the evaluation of partner ($\beta = 0.49, p < 0.001$).

Furthermore, we used bootstrapping technique to report indirect effects of partner opportunism and bargaining cost on partner evaluation (see dashed lines in Figure 2). These indirect effects report a substantial negative indirect effect (Figure 2: indirect standardized $\beta = -0.10, p < 0.01$) between bargaining cost and partner evaluation. Partner opportunism, has a marginally weaker negative effect on indirect effect on partner evaluation (Figure 2: indirect standardized $\beta = -0.06, p < 0.05$). We also examined the model by removing a direct path between bargaining cost and partner evaluation which strongly affected the relationship between tension management and partner evaluation.

**Discussion and implications**

One established notion in business marketing research is that trust fosters cooperative relationships (e.g. Dwyer et al., 1987; Morgan and Hunt, 1994). Morgan and Hunt (1994) propose commitment as the success of the relationship. In light of this research, it is widely assumed that individuals perform better in business-to-business situations because they are able to identify, build, and maintain successful relationships with individuals in other organizations. An assumption behind such successful relationships is that it costs more to identify a new partner than to keep old ones (cf. Ford, 1980; Hobbs and Young, 2000; Williamson, 1979). This optimistic foundation for business relationships was the starting point for framing theory on negative tensions (cf. Anning-Dorson, 2017). In particular, negative tensions would arise in the absence of trust, and their presence is herein defined as a contradictory force to those mechanisms that are conceptually assumed and empirically perceived as positive (cf. Andriopoulos and Lewis, 2009). While there is the tendency to focus on positive attributes and rate these highly in importance scales, negative items such as false information and other opportunistic items would expectedly be rated as negative (Leonidou et al., 2014). Thus, combining these items builds the ultimate situation of a negative relationship in which goals are at odds, and reflects the processes that contribute to negative tensions in a relationship (Fang et al., 2011).

Elements such as partner opportunism and high bargaining costs may push individuals into processes of working side-by-side instead of deepening relationships (Anning-Dorson, 2017). This is evident in our study. When relationships are contaminated by lack of trust and negative tensions, there would be ways to build and repair relationships; tension management expects to offer one such bridge to overcome those difficulties (cf. Tidström, 2014). This situation is reflected in our model.

We believe it can here be assumed that tension management leads the parties to start discussing issues, and, thereby, stop existing side-by-side, so that they can progress to more of an interactive relationship. Hence, this is not a process of goals becoming increasingly similar, as described in the literature on partner opportunism (e.g. Dahlstrom and Nygaard, 1999), but rather denotes an increased understanding for the other party, which, in turn, suggests a positive effect for the evaluation of the partner.

**Conclusions**

This paper answers whether or not tension management can reduce the impact of opportunism and bargaining costs on the evaluation of the partner. Our theoretical
assumption was strongly affected by the fact that negative tensions in relationships would negatively impact the evaluation of the partner (cf. Fang et al., 2011). We also selected theoretical constructs that we expected would reflect what key informants would find negative in their business relationships – namely, opportunism and bargaining costs. Conceptually these interfere with agreed promises, such as false statements, hidden costs, empty promises, and neglected obligations (Anderson, 1988; Brown et al., 2000; Dwyer and Oh, 1987; Rokkan et al., 2003).

As expected, these constructs seemed to have a negative influence on the process of partner evaluation. Our findings suggest that tension management may help reduce negative impact of failure marked by opportunism and the bargaining of actors.

Theoretical contributions
This paper contributes to previous research by focusing on the negative side of relationships, and second, through explicitly addressing whether such negative relationships can be repaired. Our main contribution to previous research is how our study shows that tension management reduces the negative evaluation of partners (see indirect effect Figure 2). One of the rare attempts to previously address tension management (Tidström, 2014) only illustrated the issue through case studies. Lövstål and Jontoft (2017) argued that tension management can reduce uncertainty in new product development, while we stretch that reasoning to a broader practical scope which can be more universally applied.

Managerial implications
Tension should be acknowledged as a basic ingredient in business-to-business processes. Bargaining and opportunistic behavior create tensions in which opposing views are present. For any manager, it is important to acknowledge – and indeed handle – any such type of tension, provided that the relationship delivers desirable resources or competencies. Failing to handle tensions comes at the cost of terminated relationships, distrust, and conflicts which may harm the firms at both ends of the failing relationship.

For a manager, it is important to address a number of questions in relation to existing business relationships (or for entering into new ones): What do the business partners create benefits for us? How vulnerable are we to any changes in connection to this business partner? How can we understand each other’s situation, aims, and scopes? Is there a balance in the relationship? What are the liabilities? Do our goals match, or are they combinable or complementary? How can we create a win-win situation? How can we enhance the communication between the firms? How can any upcoming conflict be resolved?

We believe that businesses may benefit from training and support systems that direct more activities toward tensions management as it may positively affect partner evaluation, and, thereby, their business relationships with others. Addressing questions, but also purposefully building trust and discussing controversies are essential parts of such training.

Limitations and further research
This paper follows traditions of reporting a specific statistical technique: structural equation modeling. As part of the reporting involves meeting rules of thumb and other recommended cut-off, it may be perceived as over-confident in the research design and not fully reflecting on issues related to data collection or processes on validating findings. From an epistemologically perspective, there are assumptions of causes and effects that cannot be fully explained. These can only be limited to the assumptions of the model that captures one sequence and the context of the data collection. Yet, the paper also follows a long tradition theoretical empiricism (Wold, 1989) of micro studies that focus more on conceptual findings.
and inferences of a relationship between concepts (Bearden and Netemeyer, 1999; Price, 1997), rather than actual and true causality separated in time (Podsakoff et al., 2003). Such conceptual findings are sometimes mixed up and claimed to be spurious inferring causation from correlation (Simon, 1954) unless it is strongly backed-up from plausible theoretical assumption. On the other hand, time separation per se will not induce causation, unless supported by theory.

We do know relationships would be dynamic (Kindström and Kowalkowski, 2014), iterative, and reflect how people behave within the relationships (Parida et al., 2017). They are also shaped by the contexts within which they occur. Hence, there are some limitations with the way the questionnaire was constructed and the study designed, that may have affected the findings of this paper. This also applies to how the original questionnaire was constructed in Swedish, leading to translation issues in addition to problems of measuring dynamic relationships along predefined variables. We used principles of face validity to capture the meaning of the wording rather than the technically most exact translation. Such principle may cause issues for replication.

Yet, the findings of the paper are interesting to explore in further studies – also replicating this one to test its validity. Such studies could include other settings: emerging markets; large-sized firms; specific industries; consumer-goods markets, etc.

Tension management is obviously worthy further exploration, both in additional quantitative and qualitative data settings. Mechanisms that are specifically useful to manage tension would be of interest here, as would the meaning of tension management as a precautious process at the very start of the relationship. Indeed, we hope that our early attempts to bring interest to tension management function as an inspiration for many further studies ahead.

References


Reduction of tension effects


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WOM source characteristics and message quality: the receiver perspective

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Abstract
Purpose – Word-of-mouth (WOM) literature has identified the roles of source and message in WOM influence, but the relationship between them is yet to be investigated. The purpose of this paper is to explore this relationship by examining the mediation of message on the impact of perceived source characteristics from the perspective of the receiver. The paper also considered the mutual relationships between source characteristics and message quality.
Design/methodology/approach – A quantitative survey of prospective students was conducted to empirically examine the proposed conceptual model. A sample of 509 respondents was analysed using structural equation modelling.
Findings – The findings suggest the significant impact of expertise, trustworthiness, homophily and opinion leadership of the WOM source on the judgement of message quality and the indirect effects on WOM influence mediated by the message quality. The results also indicate the moderating effects of receiver involvement and the valence of the message on the impact of message quality.
Practical implications – The findings of this paper can inform the strategic development of WOM marketing. A deeper understanding of source characteristics and the role of the message may enable marketing practitioners to better target appropriate influencers for seeding programmes that stimulate WOM communication about their brands or products.
Originality/value – This study examines how the receiver’s evaluations of message content mediate the relationship between source characteristics and WOM influence. Source and message are two elements of communication which are processed when people receive information. However, nascent research examines their effects on each other. This research contributes to the understanding of this relationship through an empirical examination of the direct effects of primary source characteristics on perceived message quality.

Keywords Expertise, Trustworthiness, Homophily, Opinion leadership, Message quality, WOM influence

Introduction
Word-of-mouth (WOM) communication is an influential information source during the purchase decision-making process (Bansal and Voyer, 2000). Receiving advice from a friend, seeing a complaint on social media, or reading a review on a website could affect a prospective consumer’s attitude towards a product (problem recognition and information search stages) and the purchase decision. When people receive WOM messages, they process the source characteristics and the quality of message content. These two elements have been shown to individually influence both attitude and WOM acceptance (Mahapatra and Mishra, 2017).

However, the relationship between the perceived source characteristics and the perceived message quality has been largely overlooked, that is, source and message are commonly examined as two unrelated constructs in the WOM process. This study seeks to address this void by examining the message quality as a mediator of the relationship between source characteristics and WOM outcomes. For example, the information provided by people...
deemed to be experts may be perceived as especially content-relevant, more convincing and reliable, thus, in turn, enhancing the WOM influence. The lack of knowledge regarding this mediation presents a limitation to the WOM literature as the receivers’ judgement of WOM message content may depend on the source of the message, especially with information regarding attributes consumers are unable to process. In practice, selecting a suitable source to deliver a relevant message and improve the perceived quality of message are key factors of successful WOM marketing campaigns. Therefore, it is important for marketers to understand the relationship between source characteristics and message quality, and how message quality mediates the effects of source characteristics.

How consumers process received WOM messages is demonstrated by the elaboration likelihood model (ELM), which posits source and message as the two main routes of information processing, defined as central and peripheral (Cacioppo and Petty, 1984). Aligning this model with historical communication theories, WOM research has investigated source and message, as the two main constructs of the WOM process and antecedents of WOM influence (e.g. Cheung and Thadani, 2012; Mahapatra and Mishra, 2017; Sweeney et al., 2008). As the theoretical support for the propositions of this study, ELM theory also supports the mediation effect between source and message, as the attitude shift occurred from peripheral route (source evaluation) leads to central processing (message evaluation) that then shapes attitude change (Petty and Cacioppo, 1986).

To examine the mediating effects of message quality on source characteristics and WOM influence, this study focusses on the four most frequently mentioned source characteristics examined in the domain of WOM research: source expertise, trustworthiness, opinion leadership and homophily (Ballantine and Yeung, 2015; Chu and Kim, 2011; Gilly et al., 1998; Martin and Lueg, 2013; Reichelt et al., 2014; Wangenheim and Bayón, 2004). This study extends knowledge in this area by considering, for the first time, if each of these perceived characteristics impacts the evaluation of message quality and the indirect effects on WOM influence.

Such focus is warranted as a deeper understanding of the receiver perspective would benefit practitioners in terms of understanding how WOM information is evaluated and affects and influences on behaviour (Martin and Lueg, 2013). Thus, the findings will assist marketing practitioners to select a relevant source for their WOM marketing campaigns by identifying the opinion leaders, experts, trustworthy sources in each context. Further, while message quality is known to influence WOM effectiveness (Mazzarol et al., 2007), whether the valence of the message content (negative or positive WOM content) and the involvement on the purchase task shape its effect are unknown. Thus, the moderating effects of involvement and valence on the effect of message quality are also explored.

Theoretical foundations
Given the fundamental nature of WOM as the passing on of communication and the multiple-channel options afforded by electronic WOM (eWOM), the most appropriate definition of WOM to progress understanding is one that incorporates both traditional and electronic characteristics and functionality. Thus, based on Westbrook (1987) original definition, Berger (2014, p. 261) defined WOM as “informal communications directed at other consumers about the ownership, usage or characteristics of particular goods and services or their sellers; and it includes literal WOM, or face-to-face discussions, as well as “word-of-mouse”, or online mentions and reviews”.

WOM is commonly considered from one of two main perspectives: the source or the receiver. Significantly more attention has been paid to the source perspective through investigations into the motivations and behaviour of WOM sources and transmission (e.g. Berger, 2014; Hennig-Thurau et al., 2004; Jalilvand et al., 2017) than to the receiver perspective (Sweeney et al., 2008). While a WOM message will not consistently lead to
action, such as purchase or transmission, the influence of WOM on the receivers is affected by the factors of information processing (Martin and Lueg, 2013). Thus, further research is needed to examine WOM from the receiver perspective to achieve a deeper understanding these factors.

Of the frameworks which conceptualise the factors influencing WOM effectiveness and adoption from the receiver viewpoint, the source and message are consistently proposed as primary factors (e.g. Cheung and Thadani, 2012; Sweeney et al., 2008). The ELM suggests that receivers will evaluate the source and content of a message when processing information. This evaluation is considered in both peripheral and central routes of information processing (Cheung et al., 2009; Petty et al., 1983) and ELM theory differentiates between the two routes by considering the depth of cognitive information processing that message evaluation undergoes (Petty and Cacioppo, 1986). When receivers have high motivation and ability to process information, elaboration likelihood is high, and they tend to evaluate the message content through the central route. When receivers have both low motivation and ability to process the information, elaboration likelihood is low and they are likely to evaluate the peripheral cues or source-related factors.

Situational and individual factors have been suggested as determinants of motivation and ability. Situational factors include distraction or repetition and individual factors include knowledge or relevance (Kang and Herr, 2006). In such conditions when low elaboration likelihood occurs, the perception towards a source has a greater influence on persuasion (Bordia et al., 2005). Positive source perception would shift the peripheral attitude and lead the information receiver back to the central cognitive processing route (Petty and Cacioppo, 1986), which would then drive the attitude change of WOM receivers.

Therefore, in conditions when WOM receivers are distracted, or lack knowledge about the information received, WOM sources shape the evaluation of the message content. Moreover, in real conditions, the central and peripheral routes are not discrete, since the former, requiring minimal cognitive resources, can be a precursor to the latter (Kang and Herr, 2006). Thus, information processing is complex, and perceptions towards source and message are interdependent. ELM theory provides a theoretical foundation for the mediating effects and relationships of message and source variables. The conceptual model and hypothesis development discuss these effects in more detail.

Conceptual model and hypothesis development
Message quality and WOM influence
WOM influence refers to the change in attitude and/or purchase intention of consumers as an outcome of information exchange during WOM (Gilly et al., 1998). WOM influence has been widely used as the main construct to measure the consequence of WOM communication from the receiver perspective (e.g. Bansal and Voyer, 2000; Gilly et al., 1998; Voyer and Ranaweera, 2015).

Characteristics of message are one of the principles of WOM research (Allsop et al., 2007). Mazzarol et al. (2007) categorised message characteristics into the richness of the message and strength of advocacy. The richness of the message includes “content aspects, such as the language used and the degree of storytelling or depth of information involved in the message” while the strength of advocacy refer to “the power of the way the message is delivered” (Sweeney et al., 2012, p. 242). Within the scope of this study, the message quality refers to the richness of the message, as it is consistent with the term defined in ELM theory. The delivery of the message is not included in this construct because according to ELM theory, it is considered as a peripheral cue. Message quality is a key factor in the central process (Petty and Cacioppo, 1986), which is related to the content delivered, including
cognitive value and the richness of argument. Therefore, a WOM message which delivers rich content would have a stronger impact on WOM influence. Hence:

H1. Perceived WOM message quality is positively related to WOM influence.

The effects of source characteristics on message quality

The conceptual work of Sweeney et al. (2008) on the factors influencing WOM effectiveness suggested five source factors such as credibility, trustworthiness, expertise, homophily (tie strength) and opinion leadership. However, this study excludes source credibility from our model in line with the long-held argument that credibility is a major factor of other sub-dimensions including trustworthiness and expertise (e.g. Ohanian, 1990). Consequently, expertise, trustworthiness, opinion leadership and homophily are examined in this study. Previous research into source characteristics also acknowledges the importance of these four characteristics as the antecedents of WOM positive outcomes (e.g. Ballantine and Yeung, 2015; Martin and Lueg, 2013; Reichelt et al., 2014; Wangenheim and Bayón, 2004). However, there is no research that examines the relationships of these characteristics with WOM message quality.

Source expertise refers to the extent to which the source is perceived as having sufficient capability to provide correct information such that the seeker has no motivation to cross-check the receiving messages due to a high level of persuasion (e.g. Bansal and Voyer, 2000). When a source has a specialised occupation or trained skills they are more likely to be considered of higher expertise (Martin and Lueg, 2013). Because of the unique position of these experts, WOM seekers tend to search for such experts and believe their recommendations (Gilly et al., 1998; Wangenheim and Bayón, 2004).

Expertise has been reported to have both a "strong impact" (Wangenheim and Bayón, 2004) and "no impact" (Martin and Lueg, 2013) on WOM influence. The rationale for the "no impact" finding was the presence of the construct WOM source experience which is related to opinion leadership. This meant that WOM receivers placed greater weight on experience rather than general knowledge (Martin and Lueg, 2013). This present study considers the direct impact of source characteristics, not on WOM influence but message quality, and proposes that when consumers receive information from an expert source, they will consider the message content to be of higher quality:

H2. Perceived WOM source expertise is positively related to perceived WOM message quality.

The trustworthiness of a source has been linked with the expertise to measure the credibility of communication (Hovland and Weiss, 1951; Pornpitakpan, 2004; Reichelt et al., 2014). Such a source can be more persuasive because others believe that they provide and pass on trusted information (Martin and Lueg, 2013). Compared to expertise and similarity, Reichelt et al. (2014) found that trustworthiness is the most important source characteristic, with impact on both the utilitarian and social functions of WOM. The trustworthiness of sources has become increasingly important in eWOM because of the anonymity of message sources (Brown et al., 2007). Thus, similar to source expertise, the effects of trustworthiness on message quality are hypothesised as:

H3. Perceived WOM source trustworthiness is positively related to perceived WOM message quality.

Homophily, or similarity, refers to the degree to which the source and the receiver are perceived as having similar attributes (e.g. demographics, lifestyle, preferences and values) (Gilly et al., 1998; Wangenheim and Bayón, 2004). Because of these similarities, WOM seekers are more likely to talk to homophilous sources. Initial works in this field
support the significant influence of homophily and the tie between source and receiver (Gilly et al., 1998). However, the impact of homophily on WOM effectiveness is relatively inconsistent. Further research on determinants of WOM engagement suggests homophily is negatively associated with opinion seeking and passing behaviours and is not associated with opinion giving behaviour (Chu and Kim, 2011). The similarity between source and receiver has a positive relationship with social function but has a negative relationship with utilitarian function (Reichelt et al., 2014). Therefore, H4 is suggested as follows:

H4. Perceived WOM source homophily is negatively related to perceived WOM message quality.

Opinion leadership is the most frequently mentioned characteristic in the extant literature, however, while opinion leaders are thought to share some similarities, opinion leadership and source expertise are identified as different source types (Sweeney et al., 2008). Gilly et al. (1998) found that the expertise of the source has a significant relationship with opinion leadership. While expertise refers to the positive personality attributes of the WOM source, opinion leadership is related more to source ability, motivation and will to spread WOM messages (Gilly et al., 1998). The information from influential opinion leaders would be perceived as more reliable and better quality because the receivers could not evaluate the purchase information given their lack of experience. Hence:

H5. Perceived WOM source opinion leadership is positively related to perceived WOM message quality.

**Mediating roles of message quality**

The ELM and information processing theories suggest that both source and message affect the persuasion of information. Following the peripheral route, the peripheral attitude shift influences the central cognitive processing and attitude change in that sequence. In actual communication, when people receive information from a credible source, whether they are influenced solely by the source of the message or they also evaluate the message itself is unknown. That is, if there are significant mediating effects of the message marketers should also pay attention to content seeding alongside source selection. In the mass communication context, Slater and Rouner (1996) suggest that message quality mediates the relationship between initial source credibility assessment and the second assessment, as well as mediates the relationship between initial source credibility assessment and belief change. However, within WOM context, no prior research confirmed the mediation of message quality. Given the hypothesised effects of each source characteristic on message quality, and of message quality on WOM influence (Figure 1), each source characteristics is expected to have indirect effects on WOM influence mediated by message quality. Hence:

H6. Perceived WOM message quality mediates the relationship between perceived WOM source expertise and WOM influence.

H7. Perceived WOM message quality mediates the relationship between perceived WOM source trustworthiness and WOM influence.

H8. Perceived WOM message quality mediates the relationship between perceived WOM source homophily and WOM influence.

Moderating roles of task involvement and valence

In investigating the mediating role of message quality on WOM influence, the processing of the message by the receiver and message characteristics must also be represented. In this respect, the involvement of the receiver in message processing and the valance of the message are considered in this study as moderating the influence of message quality on WOM influence. Task involvement is examined in this study and is defined as the motivation of the receiver to be engaged in the decision-making process (Park and Lee, 2009; Sweeney et al., 2008). Involvement can be seen as the motivation to process information (Voyer and Ranaweera, 2015), which would affect the central process in ELM. Thus, WOM receivers who are highly involved in the purchase task would expend greater efforts in evaluating WOM communication factors. The moderation effect of such involvement is hypothesised as:

\[ H10. \] Task involvement moderates the positive effect of perceived WOM message quality on WOM influence.

Valence, or the sidedness of message content, is a message characteristic which has been widely investigated (e.g. Baker et al., 2016; East et al., 2008). All messages deliver a negative, neutral or positive opinion regarding the brand or product, and valance has been shown to significantly influence consumer behaviour (e.g. brand attitude, purchase intention, sales) (Ballantine and Yeung, 2015). Despite the attention valence has received in the literature, and recognition as a characteristic of WOM messages (Sweeney et al., 2012), no research examines if valence (negative or positive) impacts on message quality and subsequently on WOM influence. Receiving messages which are extremely positive or negative would attract receivers’ attention and motivation to process the message. Thus:

\[ H11. \] Valence moderates the positive effect of perceived WOM message quality on WOM influence.

Method

Sample and data collection

Higher education was selected as an appropriate context for this study because consumers in this industry are highly involved in the decision-making process and use WOM as the main source of information (Patti and Chen, 2009). This industry can be classified as a credence service as its quality and attributes are difficult to evaluate even after purchase and consumption (Patti and Chen, 2009). The decision-making process is lengthy and prospective students receive various kinds of WOM information sources through multiple channels of communication.
Consistent with previous studies investigating source characteristics and message quality, we empirically examine the conceptual model using cross-sectional data obtained via a quantitative survey. The self-administered survey was distributed to final-year students at three public high schools located in Ho Chi Minh City, Vietnam, who were considering applying for admission to at least one university. The three participating high schools were selected by the Department of Education and Training in Ho Chi Minh City. The chosen schools were among the largest in the city and their principals were willing to facilitate the research. Participation in the research by the students was completely voluntary, and thus constitutes a non-probability convenience sampling method. The questionnaires were returned with a total of 509 respondents used for data analysis, equating to a 35.73 per cent response rate across the three schools. The numbers of responses from each participating school are 205, 127 and 177. There were 316 female (62.1 per cent) and 193 male (37.9 per cent) respondents. Almost half of the respondents (298, 58.5 per cent) had at least one sibling currently attending university or had completed a university degree.

Measures and pre-test
The dependant construct WOM influence was measured by three items adopted from Bansal and Voyer (2000). The expertise of source and trustworthiness were measured using the scales of Ohanian (1990), and the opinion leadership scale was adapted from Childers (1986) to suit the context. To ascertain homophily the four-item measure adapted from Sweeney et al. (2014) was used. Message quality was measured by an eight-item scale developed by Sweeney et al. (2012) and task involvement was adapted from the involvement index of Zaichkowsky (1985). Valence was considered in terms of the information or advice received on a negative/positive single-item scale. Consistent with the established scales they were adopted from, all scales were seven-point Likert scales (1 = totally disagree, 7 = totally agree), with the exception of the valence item where the Likert scale was presented as 1 = extremely negative, 7 = extremely positive.

In the opening of the questionnaire, screening questions ensured that only final-year high school students who were intending on applying for admission to at least one university completed the questionnaire. Further, a definition of WOM was presented to respondents, with relevant examples, to ensure that respondents understood the concept and answered questions about their WOM experiences from the same perspective. The remainder of the survey was structured following the three main themes of this research: the influence of WOM, evaluation of the source characteristics, and evaluation of the message itself. The survey concluded with a final section collecting demographic information.

The questionnaire was pretested with five Vietnamese academics, who confirmed the translation and checked for validity and readability, and five Vietnamese final-year high school students who checked for readability and ease of completion. Reliability (Cronbach's $\alpha$ values) and validity tests (convergent and discriminant validity) were performed to validate the measurement scale before the main stage of analysis. The measurement model was tested by EFA and confirmatory factor analysis (CFA) techniques, and all model fit indices were satisfied the threshold values.

Data analysis and results
In the first stage of measurement validation, principal component factor analysis indicates that the eigenvalues of all factors are greater than one. All factor loadings are high, and there are no significant cross-loadings with the varimax rotation method. Before conducting the path analyses to test the hypotheses, a CFA using AMOS 22 was performed to analyse the reliability and validity of constructs measured by multi-item scales.
Maximum likelihood estimation was employed to estimate the parameters and the overall fit index of the measurement model. The measurement model consisted of expertise, trustworthiness, homophily, opinion leadership, message quality and WOM influence. The overall fit indices of the measurement model, as reported in Table I, indicating a good model fit (Fornell and Larcker, 1981; Hair et al., 2006; MacKenzie et al., 2011), and all of the factors satisfied the conditions for reliability and validity (Hair et al., 2006).

Table II shows the results of relationships of constructs using structural equation modelling (SEM). Among the five direct hypothesised relationships, the SEM results support four of the direct relationships tested. First, message quality is found to be strongly related to WOM Influence ($\beta = 0.67$, $p < 0.01$), supporting $H1$. Next, the relationships between the source characteristics and message quality were examined. A positive

<table>
<thead>
<tr>
<th>Measures</th>
<th>Factor loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expertise ($AVE = 0.63; \alpha = 0.90; CR = 0.90$)</td>
<td></td>
</tr>
<tr>
<td>This person is an expert</td>
<td>0.65</td>
</tr>
<tr>
<td>This person is experienced</td>
<td>0.88</td>
</tr>
<tr>
<td>This person is knowledgeable</td>
<td>0.91</td>
</tr>
<tr>
<td>This person is qualified</td>
<td>0.78</td>
</tr>
<tr>
<td>This person is skilled</td>
<td>0.75</td>
</tr>
<tr>
<td>Trustworthiness ($AVE = 0.74; \alpha = 0.92; CR = 0.92$)</td>
<td></td>
</tr>
<tr>
<td>This person is honest</td>
<td>0.72</td>
</tr>
<tr>
<td>This person is reliable</td>
<td>0.92</td>
</tr>
<tr>
<td>This person is sincere</td>
<td>0.89</td>
</tr>
<tr>
<td>This person is trustworthy</td>
<td>0.90</td>
</tr>
<tr>
<td>Homophily ($AVE = 0.74; \alpha = 0.91; CR = 0.92$)</td>
<td></td>
</tr>
<tr>
<td>I usually spend free time with this person</td>
<td>0.79</td>
</tr>
<tr>
<td>We have a similar outlook on life</td>
<td>0.85</td>
</tr>
<tr>
<td>We share common interests</td>
<td>0.90</td>
</tr>
<tr>
<td>We have similar likes and dislikes</td>
<td>0.89</td>
</tr>
<tr>
<td>Opinion leadership ($AVE = 0.54; \alpha = 0.76; CR = 0.78$)</td>
<td></td>
</tr>
<tr>
<td>This person provided me with a great deal of information about universities</td>
<td>0.62</td>
</tr>
<tr>
<td>In a discussion about universities with this person, I am more likely to receive information from them than I provide in return</td>
<td>0.76</td>
</tr>
<tr>
<td>In general, I often use this person as a source of advice</td>
<td>0.82</td>
</tr>
<tr>
<td>Message quality ($AVE = 0.56; \alpha = 0.92; CR = 0.91$)</td>
<td></td>
</tr>
<tr>
<td>The message was informative</td>
<td>0.75</td>
</tr>
<tr>
<td>The message was reliable</td>
<td>0.80</td>
</tr>
<tr>
<td>The message was clear</td>
<td>0.81</td>
</tr>
<tr>
<td>The message was specific</td>
<td>0.73</td>
</tr>
<tr>
<td>The message was elaborate</td>
<td>0.75</td>
</tr>
<tr>
<td>The message was explicit</td>
<td>0.76</td>
</tr>
<tr>
<td>The message was intense</td>
<td>0.69</td>
</tr>
<tr>
<td>The message was reinforcing</td>
<td>0.68</td>
</tr>
<tr>
<td>WOM influence ($AVE = 0.54; \alpha = 0.77; CR = 0.78$)</td>
<td></td>
</tr>
<tr>
<td>This conversation has a significant influence on my university choice decision</td>
<td>0.67</td>
</tr>
<tr>
<td>This conversation mentioned helpful things I had not considered</td>
<td>0.80</td>
</tr>
<tr>
<td>This conversation really helped me make the decision about selecting a university</td>
<td>0.73</td>
</tr>
</tbody>
</table>

Notes: $n = 509$. $\alpha$, Cronbach’s $\alpha$; CR, composite reliability; AVE, average variance extracted. Model fit indices: $\chi^2 = 770.639$, $df = 302$, $p = 0.000$, $\chi^2/df = 2.552$; root mean square error of approximation (RMSEA) = 0.055; Tucker Lewis index (TLI) = 0.941; normed fit index (NFI) = 0.919; and comparative fit index (CFI) = 0.949

Table I. Results of the measurement model assessment
relationship between source expertise and message quality ($\beta = 0.19, p < 0.01$) in support of $H2$. Trustworthiness is also shown to have a positive significant impact on message quality ($\beta = 0.31, p < 0.01$), thus $H3$ is also supported. Although a significant positive path was found between homophily and message quality ($\beta = 0.07, p < 0.05$), the relationship is weak and conflicts with the hypothesis proposing a negative relationship. Hence, $H4$ is not supported. The strongest path is the relationship between opinion leadership and message quality ($\beta = 0.44, p < 0.01$), confirming the $H5$.

Table II also shows the standardised coefficients and $p$-value of effects of interactions on WOM influence. The interaction of involvement and message quality is found to be significant ($\beta = 0.09, p < 0.01$), so that the moderation of involvement ($H10$) is fully supported. This finding suggests that as the task involvement of consumers increases, the positive relationship between message quality and WOM influence is strengthened (Figure 2). Next, the moderating effect of valence is also significant ($\beta = 0.07, p < 0.05$), supporting the $H11$. Similarly, if messages deliver positive content rather than negative content, the positive relationship between message quality and WOM influence is strengthened (Figure 3).

The mediating role of message quality was assessed using the bootstrapping method developed by Preacher and Hayes (2008) and implemented through the PROCESS macro offered by Hayes (2013). For the mediating effects, Table III shows the results of the

<table>
<thead>
<tr>
<th>Standardised estimate</th>
<th>$p$-value</th>
<th>Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Message quality → WOM influence</td>
<td>0.67**</td>
<td>0.00</td>
</tr>
<tr>
<td>Source expertise → Message quality</td>
<td>0.19**</td>
<td>0.00</td>
</tr>
<tr>
<td>Trustworthiness → Message quality</td>
<td>0.31**</td>
<td>0.00</td>
</tr>
<tr>
<td>Homophily → Message quality</td>
<td>0.07*</td>
<td>0.03</td>
</tr>
<tr>
<td>Opinion leadership → Message quality</td>
<td>0.44**</td>
<td>0.00</td>
</tr>
<tr>
<td>MQuality x Involvement → WOM influence</td>
<td>0.09**</td>
<td>0.01</td>
</tr>
<tr>
<td>MQuality x Valence → WOM influence</td>
<td>0.09*</td>
<td>0.04</td>
</tr>
</tbody>
</table>

**Table II.** Results of structural model

**Notes:** $n = 509$. $R^2$ values: message quality: 0.66, WOM influence: 0.45. *$p < 0.05$; **$p < 0.01$
mediation analysis with a bootstrap sample of 5,000 cases at a 95 per cent confidential interval (CI). Mediation was assessed by the indirect effect and CI values, indicated by the limits: lower level CI and upper level CI. If the CI contained the value zero, it cannot be concluded that a mediation effect exists; if the CI does not contain value zero, the mediation effect can be confirmed (Hayes, 2013). All paths reflect the bootstrap CI limits not containing the value zero. That is, there is a significant indirect effect of Expertise on WOM Influence through the mediating variable message quality (0.32, CI [0.26,0.38]), supporting H6. Similarly, there are significant indirect effects of trustworthiness, homophily and opinion leadership on WOM influence through message quality (0.36, CI[0.30,0.42]), (0.15, CI[0.11,0.20]), (0.36, CI[0.30,0.42]), respectively. Thus, the tests confirm the mediating effects of message quality on all source characteristics on WOM influence and H6-H9 are all supported.

**Discussion**

Message and source are two primary elements which exist in communications. This study sought to examine if the receiver’s evaluation of WOM sources will affect the judgement of message content and, in turn, WOM influence. The results of this study confirm this relationship, demonstrating the mediating role of message quality on the relationship between the four source characteristics under study and WOM influence. In summary,
the findings suggest that the use of relevant source characteristics in delivering a WOM message will increase WOM influence.

Of the four source characteristics examined, the findings show the significant, positive influence of opinion leadership and expertise on message quality, with opinion leadership having the strongest impact. This result confirms the significant role of opinion leadership in WOM communication (Gilly et al., 1998). The greater effect of opinion leadership over expertise is consistent with Martin and Lueg (2013), indicating the importance of source experience rather than source expertise. That is, WOM receivers tend to prefer information from people who are familiar with, and experienced in, the purchase context. In the higher education context, prospective students would listen to the career advisors, teachers or people in their network who they usually ask information regarding universities rather than experts or professors. Prospective students may ask these people because they are familiar with the context as a consumer. Experts or professors are familiar with the context too, just not as consumers.

The results are also consistent with previous studies which identified the important role of trustworthiness in WOM sources (Martin and Lueg, 2013; Reichelt et al., 2014). In the digital era, the trustworthiness of online sources could be very important for information receivers because they cannot evaluate the expertise of the online communicators. For example, Brown et al. (2007) argued that website reputation is more important than the expertise of the contributors. Within the credence services such as higher education, this trustworthiness may be essential because consumers do not have prior personal knowledge regarding considered attributes.

Of the four hypotheses related to the examined characteristics, the hypothesis regarding the impact of homophily is the only one not supported and has the weakest positive effect. In this study, homophily is found to have a positive direct effect on message quality and positive indirect effect on WOM influence, though the weakest. This result can be explained by Reichelt’s et al. (2014) finding that the use of similar of sources satisfies the social function of consumers but has no utilitarian function. In a service context where consumers need to find information regarding credence attributes, their information acquisition activities are more likely to be associated with the utilitarian function rather than social function. However, because of the data collection context of higher education, the closest similar WOM sources are likely to be family friends. These sources may not have sufficient experience in the considered attributes (e.g. course content, teaching staff qualification) because they did not attend a university recently or at all, and thus homophily in this context primarily satisfies the social function.

The findings also illustrate the moderating effects of the involvement in the purchase context and the valence of message content. High involvement was shown to strengthen the positive relationship between message quality and WOM influence. This moderating effect is consistent with ELM theory which contends that argument quality has a greater impact on attitude under high involvement (Petty et al., 1983). In term of valence, when receiving positive information, the message content will have a greater impact on WOM influence. This result shows that consumers are more confident to elaborate and adopt a WOM message when it delivers positive content. As empirical support for moderating relationships are very difficult to obtain, even at $p < 0.1$ (Podsakoff et al., 1995), empirical support for moderating relationships is important for theory testing.

**Implications for theory and practice**

From our knowledge, this is the first empirical study to seek a deeper understanding of the relationship between source characteristics and message quality. The study differentiates the power of each source characteristic on the judgement of message quality, which is helpful for marketing practice in selecting the source for WOM marketing strategies.
Previous research has indicated that WOM sources influence the effectiveness of WOM delivered to receivers, though the influence varies depending on source characteristics, namely expertise, trustworthiness, source homophily and opinion leadership. However, the effects of these characteristics via the mediating variable of message quality have not been previously considered. The findings of this study confirm the mediating role of message quality. This mediation explains the process that underlies the known relationships between source characteristics and WOM influence. It also contributes to the understanding of the link between the two processing routes of ELM theory. Although the peripheral process occurs when elaboration likelihood is low, the evaluation of peripheral cues or source characteristics does not lead directly to the attitude change. It plays a stimulating role for the central process, which leads to message evaluation and attitude change. Regarding information processing theories, the findings support the view that central and peripheral processes of ELM do not exist separately, but influence each other. This is different from other WOM research where the ELM treats such information processing as isolated routes.

This study has several implications for practitioners, marketers, and managers. Although WOM is non-commercial communications and are not generated from practitioners, it can be stimulated through marketing campaigns (Godes and Mayzlin, 2009; López and Sicilia, 2013). From a practical perspective, the findings of this study support two primary ways to enhance WOM in marketing strategies. First, marketers can develop referral programmes to encourage consumers to recommend their products or services to other consumers; second, marketers can employ seeding programmes to encourage influencers to generate information, share commercially generated messages or co-create with the brand/organisation those messages and then share them on their own channels (López and Sicilia, 2013).

Thus, with the nature of information processing in the WOM context more deeply understood, practitioners can consider how the message and sources are evaluated by consumers and alter messages, accordingly. To develop a WOM marketing strategy, for example, a seeding programme, practitioners need to identify the most effective influencers for the programme and the most appropriate WOM message aimed to the potential consumers. According to the findings, opinion leaders, or trustworthy people, should be the targeted sources or seeds of information. Identifying who they are and reaching these potential sources are fundamental to the success of the WOM marketing campaign. Furthermore, understanding that the source characteristics will have an indirect effect on WOM influence through the mediation of message quality, marketers and managers should also carefully design relevant messages to improve the effectiveness of WOM marketing. For each source characteristic, the messages should be customised to match with the voice of source. Organisations can also educate influencers on how to best design messages to enhance message quality and capitalise on the source characteristics they represent to consumers.

Limitations and future research
Limitations of this research are noted and provide avenues for future research. Data collection was conducted in the higher education context, a credence service where attributes may be difficult to evaluate for prospective consumers, limiting generalisability. Further research should be conducted in other sectors to analyse the impact of source characteristics in different purchase contexts.

The need to extend this research across purchase contexts is especially relevant to the construct of homophily. As discussed, the effect of homophily is inconsistent across previous studies. Brown and Reingen (1987) predicted but did not confirm the impact of homophily, while Gilly et al. (1998) indicated that the effects of homophily can be inverted and vary depending on the demographic or perceptual form of homophily, as well as the...
types of products. Finally, Chu and Kim (2011) found that homophily is negatively related to WOM opinion seeking. These conflicting results indicate that homophily is a complex factor which varies from demographic homophily, lifestyle or attitude homophily (Brown and Reingen, 1987), and across different contexts (Gilly et al., 1998). Thus, further examination of the nuances of homophily in WOM research is needed and provides a rich area for future research.

The role of demographics and offline-online platforms were not the focus of this study. Future research can extend the investigation to examine source-message relationships in various platforms to compare the difference between information processing in traditional WOM and eWOM. Moreover, a more diversified sample of respondents can provide further findings and improve applicability to multiple groups of consumers.

An extended investigation on involvement and valence could be an interesting avenue for future research. This study only focuses on the task involvement, which is related to the importance and motivation to concentrate on the decision-making process. Involvement is driven by multiple factors and different forms of involvement potentially have different effects on information processing (e.g. enduring involvement in the decision-making process or the situational involvement with communication). Moreover, due to the diversification of communication platforms, valence should be further examined under different forms (e.g. comment valence, review valence or rating valence). The development of a multi-item scale for valence should be pursued to better reflect this construct.

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Corporate rebranding failure and brand meanings in the digital environment

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Lund, Sweden, and
Galina Biedenbach
Umeå School of Business, Economics and Statistics, Umeå University,
Umeå, Sweden

Abstract

Purpose – The purpose of this paper is to investigate the dynamic process of brand meaning creation by multiple stakeholders during corporate rebranding in the digital environment.

Design/methodology/approach – By applying a symbolic interactionist perspective, the case study analyses a failed corporate rebranding of Gap. A variety of narratives by managers, consumers, designers, and marketing professionals were captured by collecting qualitative data on Facebook, Twitter, and professional forums on the internet.

Findings – The study demonstrates that the process of brand meaning creation is affected by the complexity of brand meaning negotiation within and between different stakeholder groups. The findings illustrate that the polarisation of brand meanings, in which both antagonistic and supportive forms co-exist, has a determinable impact on the outcome of corporate rebranding.

Research limitations/implications – The study analyses one case of corporate rebranding failure with the focus being on the four key stakeholder groups. Future studies could examine multiple cases of successful and failed corporate rebranding, including a broader variety of internal and external stakeholders.

Practical implications – Marketing managers should engage multiple stakeholders proactively during the process of brand meaning creation. They are encouraged to learn from antagonistic incidents of brand meaning negotiation as well as to utilise opportunities arising during constructive episodes of brand meaning co-creation.

Originality/value – The study contributes to previous research by exploring how the process of brand meaning creation can trigger the collision of brand meanings, which lead to the failure of corporate rebranding.

Keywords Stakeholder management, Corporate branding, Brand meaning, Rebranding, Digital marketing

Paper type Research paper

Introduction

In the digital era, marketing managers have lost the ability to exercise complete control or even to claim full ownership over their brands (Christodoulides, 2009). Positive intentions of marketing managers behind corporate rebranding often result in negative reactions and even anxiety of consumers, especially those with the highest levels of brand commitment (Peterson et al., 2015; Walsh et al., 2010). Despite a need to understand how marketing strategies can result in negative consequences, prior studies on corporate rebranding have mostly analysed successful examples and fictional scenarios (Miller et al., 2014). In fact, within the stream of research on corporate rebranding, unsuccessful attempts have been explored only in very few case studies (e.g. Gotsi and Andriopoulos, 2007; Juntunen, 2014).

In general, corporate rebranding involves “the disjunction or change between an initially formulated corporate brand and a new formulation” (Merrieles and Miller, 2008, p. 538). In the past, the focus of studies on corporate rebranding has been predominantly on the stages of the rebranding process, its diverse triggers and outcomes (Miller et al., 2014). Some studies on corporate rebranding have drawn attention to the importance of considering the brand as a portfolio of meanings co-created by various stakeholders (Iglesias and Bonet, 2012).
In addition, previous research has highlighted how the different stakeholder groups that co-create a brand through their interactions can also challenge an intended brand meaning (Fournier and Avery, 2011). In the digital environment, the complexity of brand meaning creation implies that it is more relevant to consider brand meaning negotiation among multiple stakeholders rather than only co-creation in its positive connotation.

By applying a symbolic interactionist perspective (Ligas and Cotte, 1999), we aim to advance research on corporate rebranding by exploring brand meaning negotiation within and between different stakeholder groups in a case of corporate rebranding failure. The main purpose of this study is to investigate the dynamic process of brand meaning creation by multiple stakeholders during corporate rebranding in the digital environment. Empirically, we analyse an episode of corporate rebranding for the company Gap, which lasted for just one week in 2010. Thereafter, it had to be reversed due to strong negative reactions by multiple stakeholders. We intend to provide recommendations for marketing managers on how to develop a proactive approach to avoid such failures in the future.

Theoretical framework

Corporate rebranding

Corporate rebranding represents a complex process of brand revitalisation, which can vary from minor modifications to a brand logo through to major changes involving the restructuring of the entire company (Muzellec and Lambkin, 2006). Among the core stages of a corporate rebranding process, prior studies have demonstrated the relevance of: brand audit; brand discovery and redevelopment; and rebranding implementation (Miller and Merrilees, 2013). Furthermore, the effectiveness of this process can be increased within a company through internal communication, training of employees, and internal marketing (Merrilees and Miller, 2008). Externally, the success of the corporate rebranding process is also determined by the achievement of “buy-in” among different stakeholders (Miller et al., 2014). Marketing managers implement corporate rebranding in order to rejuvenate their company and to enhance the brand value so as to increase their company’s performance (Müller et al., 2013; Round and Roper, 2012; Tsai et al., 2015). However, there are past examples, such as that analysed in this study, where even minor changes to a brand logo hindered marketing managers in achieving these goals and led to far-reaching negative implications for the company concerned. In a case of Gap, the negative consequences included the evolvement of antagonistic reactions, the collision of opposing brand meanings between different stakeholder groups, and the resulting failure of corporate rebranding.

While rebranding principles have been widely applied in managerial practice, corporate rebranding is less comprehensively investigated in previous research compared to other phenomena (Miller et al., 2014). The first studies on corporate rebranding focussed on conceptualising this phenomenon (e.g. Stuart and Muzellec, 2004; Muzellec and Lambkin, 2006; Lomax and Mador, 2006) and describing exemplary cases of its practical implementation (e.g. Ewing et al., 1995; Kaikati, 2003; Muzellec and Lambkin, 2007). Further theoretical developments in this research stream explored the variety of enablers and barriers of corporate rebranding (see Miller et al., 2014 for a comprehensive literature review). Recent studies have been aimed at developing a more nuanced understanding of corporate rebranding, for example, by evaluating triggered cognitive and emotional reactions (Peterson et al., 2015) or by assessing acceptance or resistance towards a rebranded entity (Collange and Bonache, 2015).

Prior studies on corporate rebranding have acknowledged the relevance of considering different stakeholder groups affected by rebranding of a particular organisation (e.g. Gotsi and Andriopoulos, 2007; Lomax and Mador, 2006; Miller and Merrilees, 2013). Nevertheless, the predominant body of literature on corporate rebranding has been focussed on actions of managers or perceptions of consumers. In addition, within this research stream, there have
been few studies investigating corporate rebranding failures. Those works have indicated the challenges faced by marketing managers during the process of corporate rebranding, for example, the resistance of employees (Gotsi and Andriopoulos, 2007) and board members (Juntunen, 2014). Overall, this stream of research lacks studies that would provide a more holistic view by integrating the perspectives of multiple stakeholders, thus developing an understanding about how interactions between them can affect the outcome of corporate rebranding.

**Brand meaning**
Among the key reasons why companies fail to succeed in corporate rebranding, previous research has indicated their strong focus on labels instead of meanings, and their ignorance of how multiple stakeholders can influence rebranding actions (Gotsi and Andriopoulos, 2007). Hence, rebranding strategies need to go beyond assigning an attractive new logo to a marketing offering, if they are to guarantee success. Marketing managers responsible for corporate rebranding need to consider the evolving nature of brand meanings and continuously changing perceptions of various stakeholders. Over the years, the complex nature of brand meaning has been investigated by applying a diversity of theoretical perspectives. Following a cognitive approach, brand meaning has been conceptualised as a combination of fundamental elements, including semantic and symbolic features of a brand, which comprise consumers’ mental representations of it (Batey, 2008). The cognitive perspective on brand meaning highlights neural associative networks formed in minds of consumers (Wilson et al., 2014). These networks evolve over time as consumers develop brand knowledge from their own experiences and marketing communications by companies (Wilson et al., 2014). In contrast, the cultural approach stresses that marketing managers can search for consumer relevant meanings in the surrounding culture and transfer these meanings to their offerings through advertising and fashion systems (McCracken, 1986). In turn, consumers will further appropriate these meanings through possessions, exchange, grooming, and divestment (McCracken, 1986). Based on this perspective, the culturally constituted world acts as a reservoir of meanings for marketing managers, while advertising serves as a primary instrument for transferring these meanings to goods and services.

Among other alternative approaches, a symbolic interactionist perspective provides a more holistic view on brand meaning. Following this sociological perspective, social acts underlay human behaviour by integrating spontaneous individual tendencies and socially determined expectations (Mead, 1938). According to the core premises of symbolic interactionism, people act towards things based on their meanings, created through social interactions and transformed through interpretive processes (Blumer, 1969). The symbolic interactionist perspective provides a fruitful foundation for understanding the process of brand meaning creation that evolves across the dynamic system of marketing, individual, and social environments (Ligas and Cotte, 1999). First, within the marketing environment, marketing managers develop intended brand meaning, and communicate it via advertising campaigns and visibility in the media (Ligas and Cotte, 1999). Second, within the individual environment, consumers interpret brand meaning communicated by marketing managers (Ligas and Cotte, 1999). Consumers adopt or actively change it through a discourse between the “accepted” meaning and their personal life situation (Holt, 2004). Third, these individually constructed brand meanings are brought forward into the negotiation of brand meaning through social interactionism in the social environment (Ligas and Cotte, 1999).

In this study, we apply a symbolic interactionist perspective to capture the dynamics of brand meaning creation through negotiation within and between the multiplicity of stakeholder groups – managers, consumers, designers, and marketing professionals. Our choice of this perspective is supported by previous research emphasising the relevance
of not only organisation-initiated processes, but also stakeholder-initiated processes
(Asmussen et al., 2013). Intangible and tangible brand manifestations created during these
processes determine the construction of brand meaning by each individual and every
stakeholder group (Asmussen et al., 2013). Prior studies have highlighted that a subjective
and context-dependent nature of meaning construction can undermine the marketing efforts
of companies, even in cases where they have consistent and memorable brand
communications (Berthon et al., 2009). Dynamically, evolving brand meanings
constructed by different stakeholders can be dissonant to one another and too
incompatible for evolving into a convergent brand meaning (Berthon et al., 2009;
Merrilees et al., 2012). The potential brand meaning gaps between and within numerous
groups of stakeholders represent additional challenges for successful implementation of
corporate rebranding (Wilson et al., 2014). Previous research on brand meaning provides
rich empirical evidence about stakeholder groups characterised by the synergy of individual
and social interpretations (e.g. Broderick et al., 2003) and stable brand meanings
(e.g. Eckhardt and Bengtsson, 2015). To advance the current state of knowledge, it is
important to explore contexts involving the presence of conflicting brand meanings (such as a
digital environment), and strong negative implications (such as a failed corporate rebranding).

Brand meaning creation in a digital environment
A digital environment intensifies the complexity of corporate rebranding, since digital
platforms support active participation of multiple stakeholders and enable their networked
interconnectedness (Hennig-Thurau et al., 2013). Increased interactivity, transparency, and
anonymity facilitate the emergence of immediate and often opposing reactions by various
stakeholder groups and thus, aggravate the problem of stakeholder resistance
(Deighton and Kornfeld, 2009). The technology-driven empowerment has created
possibilities for consumers and other stakeholders to organise mass actions, which can
result in positive consequences, for example, effectively functioning brand communities,
or lead to negative events, such as collaborative brand attacks (Rauschnabel et al., 2016).

The findings of previous research demonstrate that consumers have become the primary
source of meaning creation in marketing by producing their own consumption experiences,
services, product concepts, symbolic meanings, and narratives of consumption (Cova and
Dalli, 2009). However, not all of these processes involve the co-creation of brand meaning
with companies, because consumers can pursue their own opportunistic goals even within
an established brand community (Gambetti and Graffigna, 2015). Consequently, consumers
cannot always be considered as partners in the process of brand meaning creation,
but rather as producers of brand meaning through their immaterial labour (Cova and
Dalli, 2009). Furthermore, marketing managers need to align their managerial practices not
only by considering the needs of empowered consumers, but also the interests of other
stakeholders involved in the meaning creation process (Hatch and Schultz, 2010;
Jones, 2005). For example, previous research emphasises the central role of employees in
enacting brand values through their meaningful behaviours and “living” the corporate
brand (Baumgarth, 2010; Ind, 2003).

In the digital environment, other multiple stakeholder groups (besides marketing
managers, consumers, and employees) have critical roles in the process of brand meaning
creation. For example, members of anti-brand communities can actively participate in
brand-related discursive storytelling, interpretations of brand meaning, and sense making
(Hollenbeck and Zinkhan, 2010). Through these actions, anti-brand activists affect the
constructed brand meaning during brand meaning negotiation not only within their
stakeholder group, but also between other groups. The antagonistic brand meanings
developed by members of the community impact their collective identity, as well as facilitate
the learning of other groups about alternatives challenging the dominant viewpoint
In online interactions during a brand crisis, salient stakeholders, such as management, employees, clients, unions, media, and bloggers, can take on the roles of brand promoters, brand offenders, or brand neutrals (Vallaster and von Wallpach, 2013). While previous research on brand meaning co-creation has identified the potential roles of different stakeholders, there is still a need to explore further the complexities in managing multiple brand meanings and networked interactions by the various stakeholders (Tierney et al., 2016). Moreover, prior research on corporate rebranding lacks insights into diverse processes of brand meaning negotiation by multiple stakeholders and their possible implications for the success or failure of corporate rebranding.

**Methodology**

To investigate the dynamic process of brand meaning creation, we conducted a single case study of corporate rebranding of Gap. We selected this method, because a single case study allows for studying a complex social phenomenon and its dynamics in real-time (Yin, 2013). For data collection, we applied a netnography approach, which is an effective method for analysing online phenomena characterised by the presence of rich data and active interactions of members in online forums (Kozinets, 2002). During the rebranding episode of Gap, the most impactful interactions between multiple stakeholders took place on the company’s Facebook page and Twitter account, the designers’ forum in the blog dedicated to the Gap logo contest, and the website of Advertising Age. On all these platforms, participants created a large number of postings in less than one week (6-12 October 2010), starting when Gap introduced the new logo on its website, and ending when it announced the return of the old logo. The empirical data included 1,116 postings on the Gap Facebook page, more than 200 entries on the Twitter account, and 311 posts with the new logo on the designers’ forum (Gap Redesign Contest) and 324 comments made there by designers along with around 100 comments on the website of Advertising Age.

After identifying the relevant forums, one of the researchers read the texts, copied them by using the function NCapture of the programme NVIVO 10, and categorised them according to the common themes raised by the participants. Special attention was paid to the participants’ identification and additional information provided by them online (e.g. titles, comments, number of likes). The language used by the participants (e.g. metaphors, jargon, references to private or professional artefacts) was considered as an additional marker of their identification (Alvesson and Karreman, 2000). Consequently, we identified four key stakeholder groups relevant to this particular case of corporate rebranding: managers, consumers, marketing professionals, and designers. To guarantee privacy, we have removed the names of individuals from the cited statements. We continued the data collection until new insights were no longer possible to generate, which meant limiting the data to the abovementioned entries and postings.

We followed a central assumption of the interpretive narrative process that data presentation cannot be separated from its interpretation (Alvesson and Karreman, 2000). The analysis included several steps: specification of a stakeholder group to which the participants belonged and identification of macro-narratives by all groups (collective meanings); selection of the most characteristic examples of brand meaning articulated via metaphors, symbols and other linguistic means by the participants (individual meanings); identification of the brand meaning negotiations within and between stakeholder groups; and assessment of the impact of brand meaning negotiation within and between stakeholder groups on the outcome of the corporate rebranding. The empirical evidence was used for developing an overarching narrative framework, which demonstrates the impact that multiple stakeholder discourses had on the outcome of brand meaning creation – the return of the old logo.
Analysis and findings

Davids against Goliath – rolling back the Blue Box

The following narratives feature the phases of the failed negotiation of new brand meaning by the corporate managers (corporate “Goliath”) with the consumers and other members of the public (social “Davids”).

Goliath phase 1 – no fanfare, no meaning. In the initial phase of a “soft launch” of Gap’s new logo, it was silently revealed on the company’s website (www.Gap.com). Whilst being preceded by several corporate statements on the necessity for further development of the brand, the new logo appeared relatively unexpectedly for the public. Later, during one media interview, a spokesperson for Gap explained the surprising appearance of the new logo:

Gap’s target customer is the millennial, and we are exploring ways to communicate with them. On Monday, without a lot of fanfare, we introduced the logo on the Gap.com site […] That’s in line with them[2].

Immediately after the new logo appeared online, a wave of criticism was poured on the company triggering lively debates in the social media. The process of brand meaning negotiation had started.

Goliath phase 2 – revealing the new brand meaning and discarding it. The managerial statements, which appeared on Facebook and Twitter, constituted the next phase of the brand meaning negotiation by managers. First, they tried to justify their change of logo with the need to revitalise the brand by providing it with a new meaning:

Our brand and our clothes are changing and rethinking our logo is part of aligning with that. We want our customers to take notice of Gap and see what it stands for today. We chose this design as it is more contemporary and current. It honours our heritage through the blue box while still taking it forward (President of Gap NA on Facebook).

However, perplexed by the growing emotional stream of comments criticising the new logo, managers invited followers of their Facebook page and Twitter accounts to participate in a crowdsourcing project and to provide their input as regards to an alternative logo design. These statements communicated within the marketing environment sent contradictory signals about the intended brand meaning. The managers confirmed that they loved the new logo, but they were actually getting ready to discard it. As this information was met with the intense criticism by followers on social media, who suspected some foul game by the company, managers changed their tactics. The process of brand meaning negotiation continued.

Goliath phase 3 – listening, flipping the brand meaning, and retreating. In this phase of brand meaning creation, the company’s managers released additional statements and proposed actions referred to by some journalists as “backpedalling”[3]:

We’ve heard you. We only want what is best for Gap. No crowdsourcing, but the Blue Box is back (Twitter account of Gap)[4].

In a number of emotional statements, a strong emphasis was placed on listening to consumers and hearing their voices, although in a somewhat selective way, as only the supportive voices were heard. Hence, the consumers’ outrage was flipped to being interpreted as overall passion towards the brand. Finally, by heralding the return of Blue Box with the “customers come first” mantra, the managers presented the outcome of brand meaning negotiation as a “happy ending” for everybody:

At Gap brand, our customers always come first. We’ve been listening to and watching all of the comments this past week. We heard them say over and over again they are passionate about our blue box logo, and they want it back. So we’ve made the decision to do just that – we will bring it back across all channels (President of Gap NA on Facebook).
The contradictory statements made by the managers, and their attempts to ignore the negative reactions to their actions resulted in a failed process of brand meaning creation, because the new logo had been seen by managers as an opportunity to “bring the brand forward”. The corporate “Goliath” was defeated by numerous social “Davids”, and the Blue Box was brought back.

Social Davids – “liking” the brand to hate its logo
The followers on social media expressed their views during the episode of the Gap rebranding on the company’s Facebook page and Twitter account. At the time of the logo change, there were 720,000 fans on the Gap’s official Facebook page and 35,000 followers on its Twitter account. Overall, there were 418 likes of Gap’s post announcing the crowdsourcing project on 7 October 2010. As there was no “dislike” button on Facebook, passionate brand critics spent more time on the page than they probably wanted to. One follower clarified: “I have to like the Gap page to say that I hate their new logo”.

The analysis of the comments provided by followers allowed for identifying several topics in the order of diminishing volume of posts: the “love-hate” narratives; narratives of cultural heritage of Gap; narratives ridiculing the company and its logo change, narratives of offended designers; narratives of cooperating designers; and narratives of sceptical marketing professionals. The highly emotional posts by consumers revealing strong feelings towards the new and old logo, logo change as such, and the brand of Gap constituted the largest stream of comments. Multiple posts revealed the most antagonistic individual meanings attached to the new logo of Gap and, at the same time, the overall strong and positive relationship between consumers and the brand. In general, the followers constructed their individual brand meanings without explicitly interacting and negotiating with one another (there were almost no or few likes). Nevertheless, there was a clear social commonality expressed through negative sentiment towards the new logo of Gap and positive sentiment towards the old one:

I love Gap, but I HATE the new logo. The great thing about Gap is that it is timeless and this new logo is not timeless! (7 October 2010 at 10:21 p.m. Like 1).

Several consumers emphasised the cultural heritage behind the brand, evoking their childhood memories, personal possessions as well as family traditions:

As a child of the 90s, I grew up with the “fall into the gap” commercials. The original logo to me symbolizes the cool clothes my mom would never buy for me. The new logo is more like the used computer store down the street (8 October 2010 at 5:05 a.m. Like 2).

Designers offended by the crowdsourcing post by managers created another stream of comments. Almost all participants in this stream identified themselves, while some also addressed their fellow designers in order to prevent them from undertaking free work for Gap. The language used by designers was also very different from that of consumers and other followers in that they drew on their professional identity both directly and indirectly. The brand meaning negotiation within this stakeholder group was highly interactional, whereby they addressed other designers and received immediate reactions from them:

If you’re a designer reading this, don’t fall for it. Gap is asking you to do spec work – essentially to work for free. Don’t minimize your profession by giving away your skills. I’ll bet Gap paid far more for this new logo than they will compensate even the “winner” of a new design. And that agency got paid for prototype designs before turning out the ultimate winning logo (7 October 2010 at 11:33 p.m. Like 7).
In addition to this stakeholder group, the marketing professionals expressed their deep scepticism towards actions of Gap’s managers, often suspecting them of devising a marketing ploy or buzz for naïve consumers:

Really? You DID NOT pay someone to design the new logo. Your marketing team patched it together to create some buzz so that there’d be a public outrage and someone will give you a great new design for free. The Marketing department calls it “crowdsourcing”. Clever. Now how about throwing a little bit of money at a logo design? (8 October 2010 at 4:46 a.m. Like 4).

As shown in the next section, the Facebook discussion initiated the start of the designers’ forum, where the contest for the best logo design took place. Consequently, the marketing professionals engaged more actively in clarifying their detailed viewpoints on the professional forum of Advertising Age.

Creative souls – creating a new brand meaning and organising passive resistance. During the process of brand meaning creation, the meaning negotiation by the design community turned out to be the most effective in terms of its tangible outputs. The designers not only generated narratives, but also created alternative designs of the Gap logo (311 logos) during the contest organised by a blogger (See footnote 1). The winning logo design was the one approved by the whole community, but they have never submitted it to Gap. Moreover, the organisers claimed that the contest was completely independent from Gap. The contest took place directly after the new logo had appeared and finished after the old logo was re-installed. Many participants provided their opinions about Gap’s new and old logos, and almost unanimously were in favour of the old one:

Oh man […] that is BEYOND horrible […] I really like the old logo. Simple. Classy. Nice font […] That new looks like it’s trying to sell me pantone colours (Designer 1).

Almost everybody commented on their co-contestants’ entries: “Love #1”, “#18 solid concept”, “all are just boring”, “fun to see all the ideas”, and “Chris, your design is true to the brand, yet fresh and very appealing. Lovely!” A lot of discussion evolved around the designer profession, which was seen as a “fun” and creative process, where professionalism was synonymous with the creativity. Some participants even sympathised with the Gap designers:

We have no clue what the creative brief was that was given to whoever designed the new logo. Perhaps, it was dead-on with what Gap wanted? (Designer 11).

The overall tone of designers’ narratives was supportive and inspirational, when designers communicated with each other, and critical, when they discussed the managers of Gap and their actions. Similar to the followers on the Facebook page, the designers emphasised the cultural heritage of Gap as the core of its brand meaning. The meaning negotiation within this stakeholder group took place in complete isolation from managers of Gap. The clearly antagonistic positions of the designers can be characterised as being passive and ineffective, since designers made no direct impact on the outcome of rebranding episode.

Marketing professionals – searching for a deeper brand meaning. During the meaning creation process, narratives by marketing professionals (marketing managers, social media managers, advertising managers, production managers, PR managers, CEOs, etc.) appeared on the professional platform of Advertising Age. Many marketing professionals, exactly as the consumers, liked the old GAP logo and intensely disliked the new one. This stakeholder group was clearly distinguishing the logo from the brand. The marketing professionals regarded the logo change as a “quick fix” and a “face lift” of the brand in need of more comprehensive changes. Some comments ridiculed the company as being utterly unprofessional in their marketing and pointed out its lack of
understanding about retail business. Following the critical path, a number of marketing professionals attempted to uncover the real intentions behind Gap’s logo change, referring to it as a viral buzz and “marketing ploy”:

Not buying this at all. This logo is so bad that it is not even believable. I think this whole thing is a clever marketing ploy to create some viral buzz on the net, and looks like it’s working. People are fired right up about this, but if you look at their website, they’ve only changed the logo in one place in the nav. I think that new logo is an online marketing campaign to create buzz & attention on the Gap brand. To stimulate emotions in loyal Gap fans, how many of you are thinking let me go buy 1 or 2 jeans from Gap, b4 they change the logo. Even if its 10% of you that’s a considerable victory for their sales team and social media footprint (Marketing Manager).

In their meaning construction and negotiation, the marketing professionals were searching for an understanding of the true reason for Gap’s rebranding and like the designers, were mistrusting managers of Gap. The brand meaning construction within this stakeholder group was set in the broader frame of the marketing expertise possessed by all of them. Whilst brand meaning negotiation by the marketing professionals did involve some sharing of opinions, the overall character of what occurred represented the “preaching” rather than the sharing mode. The brand meaning construction by the marketing professionals was quite rational. Despite being critical towards the rebranding of Gap, some marketers were sympathetic with the managers in that they suggested some possible alternatives of how to “make things right” for the brand of Gap.

Discussion
The general overview of the dynamic process of brand meaning creation by the key stakeholders during the corporate rebranding of Gap is presented in Table I. Following the core premises of symbolic interactionism (Blumer, 1969; Mead, 1938), the findings demonstrate the broad variety of individually and collectively constructed brand meanings, which emerged from social interactions within and between different stakeholder groups. Considering the dynamic system of marketing, individual and social environments (Ligas and Cotte, 1999), the findings provide examples of opposite brand meanings constructed by the different stakeholder groups and highlight differences in the overall character of their brand meaning negotiation.

The narratives evoked by the managers appeared to be mostly one-way and meaning-poor, such that they failed to communicate the changing brand identity represented by the new logo or to provide convincing reasons behind this change. The managers also used questionable tactics directed towards consumers and the designer community. Finally, they carried out risk management rather than brand management (Fournier and Avery, 2011) characterised by the annihilation of the meaning behind the logo change. The narratives of the consumers were the most emotionally laden and rich in opposite meanings as regards the logo and brand of Gap. The collision of supportive and antagonistic meanings by the consumers acted as a catalyst for other stakeholders whose reactions immediately spread to other social media (such as the forums of designers and marketing professionals). Referred to as online firestorms in the recent literature (e.g. Pfeffer et al., 2014; Rost et al., 2016), such waves of outrage can critically damage the brand. The narratives of the designers were also emotional, but professional and respectful towards their own community, while still being critical towards the managers of Gap. Their inward view partly explains the lack of interest on the designers’ side of directly influencing the managerial process during the rebranding episode of Gap. The narratives of the marketing professionals were mostly rational. They aimed at searching for the deeper layers of brand meaning and addressing the dilemma of logo change vs brand rejuvenation. Their meaning construction evolved in a “preaching” mode, with almost no brand meaning negotiation between the participants.
<table>
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<th>Stakeholder group</th>
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<tr>
<td>Managers</td>
<td>Taking the brand of Gap forward; Crowdsourcing – searching for a better new logo; Consumers come first; Reversal of rebranding – return of the iconic Blue Box</td>
<td>Love for the new logo – a symbol for forward thinking; Need for change and to move forward; Need to keep the heritage</td>
<td>Annihilation of meaning behind new brand logo; Passive and selective listening to followers; No active negotiation with followers on Facebook and retreating; Risk management rather than brand management</td>
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</tr>
<tr>
<td>Consumers</td>
<td>Love (old logo) and hate (new logo); Love the iconic brand; Cultural heritage behind the brand; Outrage in response to the managerial actions</td>
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<td>Designers</td>
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<td>Marketing professionals</td>
<td>Old logo vs new logo; Logo vs brand; The brand of Gap; Brands in general; Principles of effective rebranding</td>
<td>Old logo – timeless; New logo – messy, unplanned; Logo change as a marketing ploy and buzz creation; Logo – a face to the world, while brand – a deeper relationship with consumers</td>
<td>Rational and at times emotional; “Preaching” rather than the sharing mode; Sympathetic with managers of Gap; No direct negotiation between members</td>
<td>Searching for a deeper brand meaning; Achieving no real outcome</td>
</tr>
</tbody>
</table>
Overall, social interactions within and between different stakeholder groups played a critical role for their interpretations of brand meaning and acts towards the brand of Gap. The most active and open interactions took place within the group of consumers and between the groups of consumers and managers. Nevertheless, the managers of Gap showed reluctance to negotiate the brand meaning and the logo with consumers. Previous research highlights the important role of managers for protecting an intended brand meaning and potential roles of other stakeholders for disseminating alternative brand meanings (e.g. Vallaster and von Wallpach, 2013). Our study indicates a paradoxical change of roles between consumers and managers, whereby the latter acted as the destroyers of brand meaning and situational risk managers, while the former took on the role of brand meaning keepers and genuine brand managers. As far as the control over brand meaning was concerned, the managers not only lost it to the consumers, but they also succeeded in obscuring their intended brand meaning and failed to achieve their original goal of “moving the brand forward”. Consumers, on the other hand, captured and executed control over brand meaning by: articulating the variety of meanings; actively negotiating them within the Facebook group; spreading the “firestorm” from Facebook to other digital platforms; and collectively forcing managers to retreat to the old logo as a symbol of their common understanding of the brand identity.

Designers and marketing professionals also played very specific roles in the process of brand meaning creation. The designers engaged actively in interactions within their professional group, created a large pool of brand’s visual representations and generated meanings for the new visual brand identity. However, their control over brand was low, since their reservoir of brand meanings remained closed for the managers and other publics. The marketing professionals, in their turn, delved much deeper into the brand meaning construction and branding as such. However, they did not really interact actively with one another. Thus, despite having a high individual control over brand meaning, they did not collectively achieve any outcomes in the process of brand meaning creation.

The findings show that multiple stakeholders participating in the process of brand meaning creation determine the success or failure of corporate rebranding. While in the pre-digital era the active involvement of stakeholders in branding was often limited to end-consumers and employees, the digital environment brings together different stakeholder groups, which often have conflicting interests and opposing viewpoints regarding the expected brand meaning (Hollenbeck and Zinkhan, 2010). Furthermore, the digital environment also amplifies their reactions causing firestorms with an immediate spread. Moreover, the individual and collective brand meaning negotiations can result in the polarisation of constructed brand meanings, which can take both the constructive and destructive forms. The interactions between and within different stakeholder groups can both elevate and destroy a brand due to the emergence of both supportive and antagonistic brand meanings, their immediate transfer between individuals, the collision of constructed brand meanings, and the rejection of intended brand meanings, which are initially communicated by the company.

Conclusions
This study demonstrates that the process of brand meaning creation in the digital environment is much more complex and unpredictable than it has been theorised in previous research. Across a variety of digital platforms, multiple stakeholders engage actively and often instantly in constructing and negotiating brand meanings within and between the diverse stakeholder groups. As a result, they can affect the dynamic process of brand meaning creation by facilitating the development of multiple reservoirs of antagonistic and supportive brand meanings. In general, all stakeholder groups have a potential to act as possible partners in the managerial rebranding process. The incapacity of managers solely to control their
brands in the digital environment has been highlighted in previous research (e.g. Christodoulides, 2009), as well as the replacement of brand management by risk management as an outcome of this loss of control (e.g. Fournier and Avery, 2011). Our study advances prior studies by demonstrating the dynamics of brand meaning construction and destruction, which take place within and between the multiple “islands” of brand meaning negotiation. Whilst the ideas about managerial openness and active engagement of stakeholders holding opposing views as the only option for post-modern brands to survive might seem extreme for marketing managers (Gyrd-Jones and Kornum, 2013), this is a potential path for building brands, which thrive on multiple meanings created by different stakeholders. Thus, we can conclude that the creation of rich and emotionally laden brand meanings, which are also democratic in the sense of being open to change and critique, is essential for successfully implementing corporate rebranding in the digital environment.

Limitations and future research
This study was limited to investigating the brand meaning negotiation within and between the four stakeholder groups, including managers, consumers, designers, and marketing professionals. Future studies are encouraged to consider a broader variety of internal and external stakeholders, and to examine multiple cases of successful and failed corporate rebranding. Due to access restrictions, the data for this study were limited to information publicly available on different digital platforms. Future research can benefit from using other data collection methods, for example, interviews with different stakeholders, which may provide important insights into real intentions and motives behind their actions. The cases investigating how companies could overcome negative perceptions of different stakeholder groups towards a new logo design can be important for developing impactful managerial recommendations.

Managerial implications
Marketing managers are recommended to conduct a constant monitoring of brand- and company-related discourses developed in the digital environment. They should take responsibility for providing a clear meaning as to what the brand stands for and clarifying its intended identity, firmly based on core brand values and brand heritage. Marketing managers need to interact proactively with different stakeholders during all stages of corporate rebranding process. Thus, by combining the guidance of the brand with openness to multiple interpretations and criticism, marketing managers can regain the integrity of the brand and make it more relevant for multiple stakeholders.

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Abstract

Purpose – The purpose of this paper is to examine the influence of parents (via family communication patterns) on teenagers’ electronic word-of-mouth (eWOM) intentions, via a serial mediation by internet usage and self-esteem, along with the moderating effect of online impression.

Design/methodology/approach – A conceptual model was developed based on the nature vs nurture perspective and theory of consumer socialization. Structural equation modeling was applied to investigate the interplay among proposed variables, using a sample of 797 teenage respondents in India.

Findings – The findings indicate that family communication, internet usage, and self-esteem are significant antecedents to eWOM intents of teenagers. Also, online impression is a strong moderator which influences whether teenagers would engage in eWOM activities or not.

Research limitations/implications – This study presents actionable items for marketers interested in teenage consumers in an emerging economy. Marketers can benefit by tailoring their online communication to influence parent’s attitude toward the internet and to enhance online impression of teenagers to substantially increase eWOM dispersion.

Originality/value – This study provides original insights about how parents and individual characteristics act as antecedents and impact teenagers’ eWOM intentions including the moderating effect of online impression.

Keywords Consumer behaviour, Internet, India, Surveys, Quantitative methods, Socialization

Paper type Research paper

1. Introduction

Prior research has shown that people discuss, communicate, and share their views about products and consumption experiences on digital platforms leading to the creation and transmission of electronic word-of-mouth (eWOM) which significantly affects consumer decisions (Abubakar et al., 2016; King et al., 2014). Broadly, the eWOM literature focuses either on its antecedents or consequences and mostly investigates the adult population (Chan and Ngai, 2011). The consequences of eWOM influence are parameters such as revenues, sales, and product adoption (e.g. Hennig-Thurau et al., 2014), whereas antecedents include motivations (e.g. psychological and behavioral characteristics) of eWOM participation (Cheung and Lee, 2012). This study explores the antecedents of eWOM behavior of teenagers[1], who represent a critical consumer segment with enormous purchasing power (Sommer, 2012).

Previous studies have identified many important antecedents to eWOM behavior (Chan and Ngai, 2011), which can be categorized into nature (individual) or nurture (family or social environment) categories. The “nature” perspective emphasizes the prominence of genetics and heredity, personality, and psychological well-being (Archontaki et al., 2013), whereas the “nurture” perspective posits that socialization agents like parents (operationalized as family communication patterns (FCP)), peers, and mass media influence behavioral, psychosocial, and consumption outcomes in teenagers (Mascarenhas and Higby, 1993; Moschis et al., 1984; Schrodt et al., 2008).
Though we find extensive literature on eWOM, a key research gap exists on the role of parents who are one of the most important influencers of children’s development (Mishra et al., 2017). Similarly, the impact of personality traits such as self-esteem and online impression which are crucial to teenagers’ eWOM intent remain underexplored (Valkenburg and Peter, 2008). Therefore, the research objectives of this study are twofold. This study aims to:

1. utilize a nature/nurture perspective to provide an in-depth understanding of how socialization agents (parents) influence teenagers’ eWOM intentions; and
2. determine how self-esteem and online impression influence teenagers’ eWOM behavior.

In this way, this research makes several important contributions to the existing literature. First, this research proposes and establishes the presence of a complex relationship between FCP and eWOM via serial mediation (through self-esteem and internet usage). Second, the moderating effect of online impression confirms the importance of adolescents’ identity management in an online environment. While parents are important, their influence on eWOM depends on teenagers’ concerns about online image. Third, this study extends prior work in the consumer socialization area and concludes that socialization is a complicated process where many factors such as parents and personality traits interact with each other to influence teenagers’ propensity to engage in eWOM.

2. Conceptual framework and hypotheses
The conceptual model proposed in this study (Figure 1) is based on consumer socialization theory (Moschis et al., 1984), psychosocial theory (Erikson, 1994), and nature vs nature perspective in psychology. Parents are the first contact who influence consumer behavior of children via FCP, which essentially captures the parent-child interactions and communications (Mangleburg and Bristol, 1998; Schrodt et al., 2008). Furthermore, teenagers share creative and entertaining content to enhance their online image among peers to fulfill their identity needs (Erikson, 1994; Oh and LaRose, 2016). This study explores the effects of parents (FCP), self-esteem, internet usage, and online impression on teenagers’ eWOM intentions.

![Conceptual model](image)

**Notes:** The dashed lines represent mediation paths; the bold dashed lines show the serial mediation via self-esteem and internet usage (H4a and H4b); online impression acts as a moderator.

**Figure 1.** Conceptual model
2.1 eWOM

While traditional word-of-mouth (WOM) is limited to face-to-face interactions, eWOM has a wider reach and impact because it is persuasive and omnipresent (Abubakar et al., 2016). Most of the research on eWOM deals with the adult population (Cheung and Lee, 2012; King et al., 2014) and little attention is paid to teenage consumers. Furthermore, in new emerging markets (e.g. India), family structures are rapidly changing from joint to nuclear families because of globalization, growing economy, and concentrated urban development (Singhi and Jain, 2016). India has the second largest number of internet users (462 million) in the world with 17 percent of its adolescent population already using the internet (Statista, 2017). This number is growing and presents an interesting opportunity to investigate the eWOM behavior of teenage consumers.

An important aspect of the teenage period is the issue of “identity crisis” where teenagers confront the questions about who they are and their importance in society (Erikson, 1994). The internet and social media offer opportunities to teenagers to experiment with their identities (Valkenburg and Peter, 2008), where teenagers create desired online profiles and share information to build or enhance their online image (Ellison, 2007). The unprecedented popularity of online streaming services (music and videos) and online games among teenagers further reflects the importance of eWOM for this powerful consumer segment. However, the wide adoption and extensive usage of the internet has raised problems of privacy issues, cyberbullying, and internet addiction, which are creating significant challenges for both parents and children. To counter these concerns, parents monitor online activities of their children and control how long children can use an online medium (Anderson, 2016). Therefore, parents behave as gatekeepers who monitor, control, and influence online activities of children.

2.2 FCP

Parents are one of the most influential socialization agents (Mascarenhas and Higby, 1993), who impact children’s consumption behavior (Fan and Li, 2010). The interactions and communication between parents and children have been conceptualized in the theoretical construct of FCP, which is further divided into two distinct dimensions (Kim et al., 2009): concept-oriented communication (COC) and socio-oriented communication (SOC). COC parents encourage children to think as individuals and promote open discussions, whereas SOC parents enforce unquestioned acceptance by children to maintain social harmony (Kim et al., 2009). Furthermore, COC has a positive effect on the traits of self-disclosure and sociability (Huang, 1999), which are considered important antecedents to internet usage and social media (Grace et al., 2015). Therefore, children from COC (vs SOC) families are endowed with traits and attitude to express and share their consumption experiences on the internet. Thus, we hypothesize that:

H1a. COC has a positive influence on eWOM intentions.

On the contrary, SOC is positively associated with shyness and self-monitoring (Huang, 1999). SOC parents define rules and restrictions to limit children’s internet usage, monitor, and control the information disclosed by children (Youn, 2008), and often regulate the online activities of children. Such restrictions and continuous monitoring will have an adverse effect on children’s eWOM activities. So, we hypothesize that:

H1b. SOC has a negative influence on eWOM intentions.

2.3 Mediating role of self-esteem

Children’s behavior and personality development is a function of social, cultural, and economic contexts, and parenting intervenes in these interactions (Collins et al., 2000). Prior research in communication area suggests that FCP influence the behavioral,
psychosocial, and information processing outcomes (Schrodt et al., 2008). The supportive communication (COC) leads to a higher self-esteem, whereas restrictive communication (SOC) lowers self-esteem among children (Huang, 1999). Children are more likely to have higher self-esteem when parents are conversation-oriented (Rangarajan and Kelly, 2006). COC parents build positive affect where children experience positive moods as they can follow their interests, but SOC leads to anxiety and stress in children which reduces their self-esteem (Schrodt et al., 2008). Self-esteem is a significant predictor of WOM behavior (Berger, 2014). Similarly, people with high self-esteem are more likely to share and discuss their experiences online to feel good about themselves (Angelis et al., 2012). This behavior is explained by the self-enhancement theory, which states that people fulfill their intrinsic motivations of feeling good about themselves by creating a positive self-image, which further reinforces their self-esteem. People who evaluate themselves high are more likely to spread eWOM with a purpose of helping others (Cheung and Lee, 2012). When people do not consider themselves worthy, they lack the motive of sharing information for serving the public good (Kim and Davis, 2009). Similar behavior is observed among teenagers where teenagers with high self-esteem are more likely to embrace the online platforms to share and express themselves (Steinfield et al., 2008). Self-esteem impacts eWOM behavior because it implicitly affects the self-control and sensation-seeking behavior in an online environment (Kim et al., 2009). We notice that distinct styles of communications from parents lead to the varying development of self-esteem in children, which intervenes in the process of how FCP influence eWOM. Therefore, parental communication has a direct influence on eWOM coupled with the indirect effects via self-esteem. Thus, we hypothesize that:

**H2.** Self-esteem mediates the relationship between (a) COC and eWOM intentions, and (b) SOC and eWOM intentions.

### 2.4 Mediating role of internet usage

Internet usage is measured as the amount of time teenagers spend on the internet using devices like computers or smartphones. COC and SOC parents have opposite viewpoints and strategies toward children’s access and usage of media. For example, children in COC (vs SOC) families get more time to watch TV (Bristol and Mangleburg, 2005). In contrast, SOC parents are more likely to make strict rules on internet usage and how much information children can disclose online (Youn, 2008). To control and monitor children’s online activities, SOC parents do co-surfing with children. Furthermore, parents worry about information disclosure by their children on the internet (Anderson, 2016) as misuse of private information risks children’s online safety. Teenagers from COC (vs SOC) families are relatively better prepared about online privacy as they receive appropriate and relevant information from their parents (Youn, 2008). This is another reason why children from COC families get more time to spend online. Therefore, FCP has a significant influence on teenagers’ internet usage.

Prior research provides some evidence on how time spent on the internet is associated with eWOM behavior. There is a significant positive association between the metadata-seeding behavior (e.g. tags, ratings, and comments) of adolescents and the duration and frequency of their internet usage (Courtois et al., 2009). Teenagers are exposed to eWOM content in the form of online ads or posts shared by peers on social media. When teenagers spend more time online, they tend to share, forward, or reply to the eWOM content under peer pressure or just to be part of the ongoing online discussion (Mishra et al., 2017). Therefore, we argue that the effects of FCP on eWOM depend on the internet usage. Other than the support from parents, teenagers will engage in eWOM activities only if they are allowed to access and spend sufficient time on the internet. Hence, it is hypothesized that:

**H3.** Internet usage mediates the relationship between (a) COC and eWOM intentions, and (b) SOC and eWOM intentions.
The aforementioned discussion suggests that self-esteem and internet usage are intervening factors in the relationship between FCP and eWOM. Past research further provides evidence that internet usage is a function of personality traits (e.g., self-esteem). People with low self-esteem spend more time on the internet as an escape route to avoid direct social interactions (Kraut et al., 2002). On the contrary, people having high self-esteem monitor their internet usage and display lower risks of internet addiction (Kim and Davis, 2009). Therefore, we argue that FCP is related to eWOM intentions through self-esteem first and then internet usage. Advancing the earlier arguments and integrating the two mediation hypotheses via self-esteem and internet usage, we propose a serial mediation and hypothesize that:

H4. Self-esteem and internet usage sequentially mediate the relationship between (a) COC and eWOM intentions, and (b) SOC and eWOM intentions.

2.5 Moderating role of online impression
Impression management is a vital function of WOM behavior (Berger, 2014). People share views and information online to reflect their aspirations and preferences (e.g., discussion on an upcoming movie or a smartphone). Teenagers are virtually connected with their friends, family, and others in the online world (Anderson, 2016). They have many interesting options to create a desired representation of themselves on social media by using images and innovative descriptions (Ellison, 2007). The content on social media acts as cues, which enables others to form opinions about people. As discussed earlier, adolescents from COC families (vs SOC) are more confident to share their views online, but whether the content improves their online reputation or not may determine the quantity and quality of shared content (Courtois et al., 2009). Similarly, adolescents from SOC families may get limited access to the internet. But, if they are eager to build a positive image among online peers, they may utilize the internet to search and post content which they find impressive and potentially benefitting their online reputation (Cheung and Lee, 2012). While sharing appropriate content enhances one’s image, sharing any content which is deemed inappropriate can undermine one’s reputation. As a result, adolescents will put extra efforts in finding content that can help in achieving the goal of impression management (Oh and LaRose, 2016). Therefore, online impression is an important aspect which influences what teenagers would like to share on the internet. Thus, we hypothesize that:

H5a. COC has a greater impact on eWOM intentions among teenagers with higher (vs lower) online impression motivations.

H5b. SOC has a greater impact on eWOM intentions among teenagers with higher (vs lower) online impression motivations.

H5c. Internet usage has a greater impact on eWOM intentions among teenagers with higher (vs lower) online impression motivations.

3. Methodology
3.1 Overall approach
We followed a similar approach used in prior research dealing with consumer socialization and teenagers (e.g., Bristol and Mangleburg, 2005; Fan and Li, 2010) where data were collected from school students. We prepared a questionnaire based on previously validated measurement items from previous research.

3.2 Instrument development
We adopted multi-item measures from the existing literature and modified some of the statements to suit the study context (see Table AII). We used a four-item instrument from
the work of Moschis et al. (1984) to measure socio- and COCs, a four-item instrument from Boush et al. (1994) and Rosenberg (1989) to measure self-esteem. The main construct of eWOM intentions was measured using six statements based on the behavioral intentions instrument by Venkatesh et al. (2003). The eWOM intentions scale included statements on intentions to generate as well as to transmit eWOM. We provided few examples to explain and clarify the general meaning of eWOM to our participants (e.g., discussion about movies, shopping, restaurants, purchasing gifts, and sports equipment on the internet and social media). All items were measured on a seven-point Likert scale. In addition, we measured several control variables such as student’s age, grade, number of family members, profession/job of parents (e.g., private, government, and professional), and family type (e.g., single parent, nuclear, and joint family). We also controlled for whether a respondent has a social media profile (yes/no), uses instant messaging apps (yes/no), and has an e-mail account (yes/no). A pre-test was conducted with 50 respondents to ensure clarity of statements and verify whether the sample population (teenagers) was able to understand the measures correctly.

3.3 Sample and data collection
The relevant sampling frame for this study is teenagers, so we collected data from school students (e.g., Fan and Li, 2010). Before administering the final survey, relevant ethics approval and permissions were obtained from an institutional committee and school authorities. The printed questionnaires were given to the students from six English medium schools from different regions in India (four schools from North India and two schools from South India). Students were informed about the purpose of the research and were assured of anonymity. Students were from Grades 8 to 12 and many of them were the active users of the internet and social media. The school administration and staff assisted in distributing and collecting the printed survey.

Overall, 908 students participated and completed the printed questionnaires in a classroom setting. A total of 797 useable responses were used in the final analyses. The average age of students was 14.8 years and the sample included 42.2 percent females (see Table AI).

4. Data analysis and results
A partial least square (PLS) approach for structural equation modeling (SEM) was used for data analysis because it was suited for predictive applications, and more importantly, the latent variable scores were required for further mediation analysis (Hair et al., 2016). SmartPLS 3.2.4 software was used for PLS-SEM analysis (Ringle et al., 2015). The multi-group analysis (MGA) approach was used for the moderation analysis and the mediation analysis was done using PROCESS tool (Hayes, 2013).

Since this study uses survey data, we evaluated the potential problem of common method variance (CMV) (Podsakoff et al., 2003). The respondents were assured of anonymity and no personal information was collected. The Harman’s single-factor test revealed that the first-factor accounts for only 22.6 percent of the total variance. Also, we used the marker-variable technique and found that the difference between the original and CMV-adjusted correlations was very small (less than 0.03) for all the relevant constructs (Lindell and Whitney, 2001). Thus, we conclude that the CMV biases are not substantial.

4.1 Measurement model
The measurement model was evaluated by determining composite reliability (CR), item reliability, convergent and discriminant validity. Using bootstrapping procedure with 5,000 resamples, all the outer loadings of constructs were found to be statistically
significant (Table AII). The values of CR index were above the recommended value of 0.7 and the values of average variance extracted (AVE) were above the recommended value of 0.5 (Hair et al., 2016), which confirmed the satisfactory reliability for the latent variables.

For discriminant validity, we observed that each indicator’s loading was higher than all of its cross-loadings with other latent variables. Also, the square root of the AVE for each construct was greater than the inter-construct correlations (Fornell and Larcker, 1981, Table AIII). Thus, the reliability and validity of the constructs were established.

4.2 Structural model
The structural model was estimated using the bias-corrected and accelerated bootstrapping procedure with 5,000 resamples. The $Q^2$ value (0.044) for the predictive relevance of model was within acceptable levels (Hair et al., 2016). To assess the overall model fit, the standardized root mean square residual (SRMR) was used as an index for model validation. The values below 0.08 are considered favorable (Hu and Bentler, 1999). The model estimation with PLS provided SRMR value of 0.067, and the estimation with PLS provided SRMR value of 0.045, which indicates an overall acceptable goodness-of-fit of the model.

The PLS results for the hypothesized relationships are given in Table I. The COC has a significant positive relation with eWOM ($H1a$: $b = 0.12, p < 0.01$), and SOC has a negative (marginally significant) association with eWOM ($H1b$: $b = -0.10, p < 0.10$). Also, self-esteem ($b = 0.1, p < 0.01$) and internet usage ($b = 0.12, p < 0.01$) have a significant positive relationship with eWOM.

4.3 Mediation analysis
The serial mediation was tested using PROCESS (Hayes, 2013; Model 6) with the latent variable scores obtained from PLS analysis along with age as a covariate (Table I). The mediation via self-esteem and internet usage for the relationship between SOC and eWOM is not significant due to the presence of 0 in the confidence interval. But in case of serial mediation, the lower limit of confidence interval (CI = [0.000, 0.002]) ends at 0, which suggests possibility of partial serial mediation ($H4b$).

Further, self-esteem mediates the relationship between COC and eWOM. However, the indirect effect of COC on eWOM via internet usage is not significant, partly because of the absence of a significant effect of COC on internet usage. The overall sequential mediation via self-esteem and internet usage is significant and negative. The negative sign is due to the
negative association between self-esteem and internet usage \( (b = -4.613, p < 0.01) \). This is similar to the earlier findings on the adult population, where people spent more time on the internet to compensate for their low self-esteem (Kraut et al., 2002). Also, the contrast analysis of these mediation effects indicates that mediation via self-esteem alone is significantly higher than the serial mediation via self-esteem and internet usage \( (CI = [0.007, 0.033]) \).

The effect size for mediation analysis was calculated in two ways. First, the ratio of the indirect effect to the total effect (mediation ratio) \( PM = (0.018/0.105) = 0.171 \), signifies that 17.1 percent of the total effect of COC on eWOM is mediated by self-esteem and internet usage. Second, the ratio of indirect effect to the direct effect \( RM = (0.018/0.087) = 0.21 \), indicates that the total indirect effect is roughly one-fifth of the direct effect. Though it should be noted that the total indirect effect is the sum of specific indirect effects and one of the indirect effects (via serial mediation path) has a negative sign. In such cases, there are no clear guidelines on interpreting the proportion-based effect sizes (Preacher and Kelley, 2011).

4.4 Moderation analysis

To test the moderating effects of online impression, a MGA was performed in SmartPLS, which calculates the differences in path coefficients between the two selected groups. The result is considered significant at 5 percent level if the \( p \)-value is either smaller than 0.05 or greater than 0.95 (Hair et al., 2016). The results show that online impression moderates two of the three hypothesized relationships. Adolescents from COC families display relatively higher eWOM intentions in high (vs low) online impression condition \( (H5a: p = 0.96) \). However, online impression does not moderate the relationship between SOC and eWOM \( (H5b, p = 0.37) \). Interestingly and in contrast, adolescents with similar internet usage report lower eWOM intentions in high (vs low) condition. \( (H5c: p = 0.03) \). This means that even if teenagers are spending more time on the internet, they do not display proportionately higher eWOM intents.

5. Discussion

The purpose of this study was to explore and investigate the effects of socialization agents (i.e. parents), self-esteem and online impression on teenagers’ eWOM intent. The findings of this study are in line with the two main research objectives. The analysis reaffirms the complex interplay among distinct factors representing nature (individual-level factors like self-esteem and internet usage) and nurture (parents) perspectives. The two types of parent-child interactions (communication patterns) have significant but opposite effects on eWOM intent. COC positively affects eWOM and its effects are routed via serial mediation by self-esteem and internet usage. However, SOC is negatively related to self-esteem, internet usage, and eWOM. We find that SOC has a negative but insignificant effect on internet usage, which shows that control strategy of parents is somewhat successful in reducing the time their children spend on the internet. Interestingly, SOC significantly reduces the eWOM intentions, probably because parents are watching what teenagers are sharing online (Youn, 2008), hence resulting in low eWOM. We also notice that relationship between SOC and self-esteem is negative in direction, but it is not significant, which is opposite to findings in past research (Huang, 1999). Perhaps, it indicates that regardless of discouraging environment at home, today’s teenagers can gather support from their peers or other avenues like the internet where they can compensate for their low self-esteem. Another possible explanation is that India is a collectivistic society, where teenagers are more likely to be part of a peer group, which takes care of their social and emotional needs.

The findings further suggest that adolescents who have a positive view of themselves (high levels of self-esteem) are more likely to share eWOM content about their consumption behavior and experiences. Teenagers who spend more time on the internet display higher propensity to create or share eWOM. Furthermore, the results assert the importance of
online impression for teenagers, which acts as a moderator in key relationships leading to eWOM. The interesting moderating results hint that higher internet usage leads to higher eWOM intentions, but this direct relationship is moderated by the perceived importance of online reputation. Adolescents may be spending a lot of time on the internet, but concerns for good online reputation determine the creation or sharing of eWOM. Perhaps, the prominence of a good online image explains why teenagers prefer new social media platforms like Instagram and Snapchat over Facebook (IANS, 2017).

5.1 Theoretical implications
This study utilizes the psychology research perspective of nurture (family communications and internet usage) and nature (self-esteem and online impression) to investigate the complex interplay between the two ideologies and how they influence the eWOM intentions of teenagers.

First, from a nurture perspective, the two distinct parenting styles have a significant and opposite impact, which suggests that the potential eWOM activities of teenagers are dependent on the prevailing atmosphere at home. Our research reaffirms the primacy of parents in the context of online behavior (Maccoby, 2007). Similarly, higher internet usage also increases eWOM intent, but the “nature” factors self-esteem and online impression are the other two key intervening characteristics that determine the teenagers’ eWOM motivations. Overall, individual factors representing “nature” are more dominant in the context of eWOM. This should not come as a surprise as the teenage period is often marked with a rebellious attitude and independent thinking, which is clearly reflected in their online behavior.

Second, a majority of consumer socialization research has examined the direct effects of FCP on relevant outcomes (Bristol and Mangleburg, 2005). But, the conclusions in this study from the sequential mediation analysis (for concept-oriented families) and moderation via online impression enunciate the complex and dynamic interactions involved in the socialization process of children. Also, the presence of positive moderation by online impression confirms the importance of a good and well-accepted image for teenagers, which can be attributed to the importance of peers (another socialization agent). In fact, for similar FCP and self-esteem levels, online reputation appears to be the differentiating motivator for teenagers’ eWOM participation. The psychosocial development theory (Erikson, 1994) regards adolescence as a crucial stage of development because it is a transition phase from childhood to adulthood. Adolescents’ self-esteem plays a major role in their actions leading to the development of a self-image or a distinct social identity (Rosenberg, 1989). Our findings support the relevance of self-esteem and online identity for potential eWOM activities. Hence, the research validates the psychosocial development theory in an online context and makes a meaningful contribution by asserting the importance of “online identity” in the adolescence phase.

Finally, while extensive research exists on the consequences of eWOM and motivations to engage in eWOM (King et al., 2014), this study concentrates on the antecedents that build the essential foundations of the potential eWOM behavior of adolescents. Hence, it addresses a critical research gap on how eWOM behavior of teenagers is determined by social and personal influences. Further, it also contributes to the literature of developmental psychology by asserting the role of parents and personality on teenagers’ online behavior.

5.2 Managerial implications
Apart from the academic offerings, this study suggests actionable recommendations for practitioners. Adolescents constitute a vital consumer segment for many industries such as apparels, fast food, online gaming, and electronic gadgets. We provide some meaningful insights into their potential eWOM behavior. The results indicate that higher internet usage leads to higher eWOM intentions, which may further require adolescents to spend more time...
on the internet to create or consume eWOM. Thus, we notice a domino effect of the increasing internet usage resulting in higher eWOM intentions. Hence, marketers should focus on having a strong digital presence on relevant platforms where teenagers spend most of their time to induce eWOM activities about their products.

A good online reputation is another important factor that determines the eWOM participation of teenagers. So, online marketing communications should include content that helps in enhancing online image. For example, social cause-related marketing (e.g. the Ice Bucket Challenge) or some innovative challenges (e.g. Mannequin Challenge) can be an integral part of the overall marketing efforts, which have shown higher chances of acceptance among teenagers.

The communication style of parents determines the expected behavior of children. In this study, we find that almost half of the sample population reported the presence of SOC communication patterns among parents. Many Indian parents are skeptical about the internet and do not favor internet usage among their children, except for educational purposes (Soman, 2016). Therefore, marketers should tailor marketing communications to change this mindset of parents. Marketers can modify their communication strategy to convey the benefits of the internet and educate parents about the immense positive possibilities of the internet.

Teenagers across the world are showing more similarities than differences in their behavior and attitude. For example, they display striking similarities in their eating habits, attitude toward aspirational brands, clothing, and online activities such as listening to streaming music and social media usage (Offer et al., 2013). This study is an attempt to identify the antecedents of the adolescents’ eWOM behavior in India, and we contemplate that our findings will find equal applicability to adolescents from various cultures and geographies.

5.3 Limitations and further research
This study has some limitations, which offers the opportunity for future research. First, the study is cross-sectional and does not measure the important effects over time. For example, how do eWOM intentions change over a period of time, when one’s online image is already established? Therefore, a longitudinal approach in further research can address this issue and strengthen the results. Second, this study administered the survey in English, which is not the native language of Indian teenagers. However, we did collect the data from schools where education is imparted in English. Going forward, we recommend the use of translated instruments in the local/regional language to cover a larger sample to broaden the scope and robustness of the findings. Third, the underlying purpose of using the internet (e.g. academic, entertainment, social bonding, or purchasing products) may influence whether an individual undertakes eWOM activities or not. Adolescents browsing online resources to complete a school project (as compared to making an online purchase) are less likely to do any eWOM activities. This study does not examine this particular aspect of what is the purpose of being online, which can be an interesting research extension. Similarly, from the customer engagement point of view, sharing information of products on social media (e.g. Facebook) among known peers could be different from discussing the product in an online forum or e-commerce website. So, including different types of eWOM in diverse environments can be additional research extensions.

Internet usage is also dependent on the price of accessing the internet. The majority of Indian consumers access the internet through their mobile phones where data usage charges apply (Singhi and Jain, 2016). However, due to fierce competition among telecom firms, disruptive pricing strategies may gradually turn cost barriers insignificant. What happens when the barriers to internet access are removed? Will cheaper and easier access to the internet lead to higher eWOM, or will the exposure to ever-increasing marketing
communications change parents’ mindsets? The answers to these questions present interesting and unexplored areas for further research. Finally, in this research, we took the perspective of nature vs nurture, which is a very broad canvas. Going forward, the inclusion of other factors such as heredity (DNA), more personality characteristics (e.g. Big Five personality traits), and the place of internet usage (school vs home) may be investigated in further research.

Note
1. We also refer to teenagers as adolescents or teens in this study.

References


Further reading


Appendix

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Category</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>458</td>
<td>57.8</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>335</td>
<td>42.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>793</td>
<td>100.0</td>
</tr>
<tr>
<td>Age</td>
<td>12 years</td>
<td>55</td>
<td>7.0</td>
</tr>
<tr>
<td></td>
<td>13 years</td>
<td>196</td>
<td>24.8</td>
</tr>
<tr>
<td></td>
<td>14 years</td>
<td>213</td>
<td>27.0</td>
</tr>
<tr>
<td></td>
<td>15 years</td>
<td>117</td>
<td>14.8</td>
</tr>
<tr>
<td></td>
<td>16 years</td>
<td>119</td>
<td>15.1</td>
</tr>
<tr>
<td></td>
<td>17 years</td>
<td>82</td>
<td>10.4</td>
</tr>
<tr>
<td></td>
<td>18 years</td>
<td>8</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>790</td>
<td>100.0</td>
</tr>
<tr>
<td>Internet usage (hours/day)</td>
<td>0-1</td>
<td>473</td>
<td>59.3</td>
</tr>
<tr>
<td></td>
<td>1-2</td>
<td>195</td>
<td>24.5</td>
</tr>
<tr>
<td></td>
<td>2+</td>
<td>129</td>
<td>16.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>797</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table AI. Descriptive statistics of sample population

Note: The total sample size is 797, but, not all respondents have reported all characteristics
### Measurement items

<table>
<thead>
<tr>
<th>Factor</th>
<th>Loading</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet usage (minutes)</td>
<td>1.00</td>
<td>–</td>
</tr>
<tr>
<td>Concept-oriented communication (Moschis et al., 1984)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>My parents ask me what I think about things I do for myself</td>
<td>0.68</td>
<td>5.18</td>
</tr>
<tr>
<td>My parents ask me for advice about doing things</td>
<td>0.70</td>
<td>6.15</td>
</tr>
<tr>
<td>My parents ask me about things that they do for themselves</td>
<td>0.80</td>
<td>9.93</td>
</tr>
<tr>
<td>Socio-oriented communication (Moschis et al., 1984)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>My parents tell me not to do certain things</td>
<td>0.88</td>
<td>3.31</td>
</tr>
<tr>
<td>My parents complain when I do something that he/she does not like</td>
<td>0.66</td>
<td>3.11</td>
</tr>
<tr>
<td>My parents tell me that I am not allowed to do certain things</td>
<td>0.63</td>
<td>2.08</td>
</tr>
<tr>
<td>Self-esteem (Boush et al., 1994; Rosenberg, 1989)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I feel good about myself as a person</td>
<td>0.73</td>
<td>13.08</td>
</tr>
<tr>
<td>I can do many things well</td>
<td>0.80</td>
<td>22.51</td>
</tr>
<tr>
<td>I am looking forward to the future</td>
<td>0.74</td>
<td>13.78</td>
</tr>
<tr>
<td>I take a positive attitude toward myself</td>
<td>0.78</td>
<td>19.46</td>
</tr>
<tr>
<td>eWOM intentions (Venkatesh et al., 2003)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How likely are you to share or post about such activities on internet?</td>
<td>0.75</td>
<td>25.71</td>
</tr>
<tr>
<td>How likely are you to start a discussion about such activities on internet?</td>
<td>0.73</td>
<td>21.80</td>
</tr>
<tr>
<td>How likely are you to post your reviews, recommendation or feelings about such activities on internet?</td>
<td>0.79</td>
<td>36.77</td>
</tr>
<tr>
<td>If one of your friends has shared or posted about his/her activities, which you like, then how likely are you to share or forward it further on the internet?</td>
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<td>15.86</td>
</tr>
<tr>
<td>If one of your friends has shared or posted about his/her activities, then how likely are you to comment on it or participate in further discussion on the internet?</td>
<td>0.73</td>
<td>24.84</td>
</tr>
<tr>
<td>If one of your friends has shared or posted about his/her activities, then how likely are you to post your views or feelings about it on the internet?</td>
<td>0.79</td>
<td>34.87</td>
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</table>

**Table AII.** Reliability and validity indices for the measurement model

<table>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tr>
<td>(1) Concept-oriented communication</td>
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</tr>
<tr>
<td>(2) Socio-oriented communication</td>
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<td>(3) eWOM intentions</td>
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<td>(4) Self-esteem</td>
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</tr>
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<td>(5) internet usage</td>
<td>0.04</td>
<td></td>
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</tr>
</tbody>
</table>

**Table AIII.** Discriminant validity (Fornell- Larcker criterion)

**Note:** For discriminant validity, the diagonal elements presented in italics are the square roots of AVE

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Stakeholder engagement in corporate reporting: towards building a strong reputation

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Abstract

Purpose – The purpose of this paper is to explore the extent to which organisations engage with stakeholders about social and environmental issues. The authors establish where the designers of these reports source the information reported.

Design/methodology/approach – This was an exploratory study that employed a qualitative research design. Interviews with 24 individuals from 15 organisations in New Zealand that are involved with the writing of sustainability reports were conducted. In addition documents were analysed from a number of organisations to allow for triangulation.

Findings – Findings indicate that engagement with stakeholders was important and one of the main purposes was to have a licence to stay in business. It was also found that managers do prioritise the saliency of issues. Generally, stakeholders do not get involved in the decision making pertaining to environmental issues in organisations.

Research limitations/implications – The sample investigated in this study was relatively small so generalisation of the results would be difficult. However, these in depth interviews did provide insights that can be used in further study using large samples and in different countries.

Originality/value – This is the first time that the designers of annual reports were interviewed. They have knowledge of the extent of stakeholder engagement with firms.

Keywords New Zealand, Stakeholder engagement, Sustainability report, Corporate reputation, Social and environmental

Paper type Research paper

Introduction

The annual report is a powerful instrument for any company. It fulfils a company’s obligation to report to its stakeholders on its performance and to disclose significant information for valuing past and future performance. The annual report is also the perfect platform for a company to communicate its company strategy to its stakeholders, and is easy to access as it is available on line in most organisations. By utilising this means of communication, a company can manage its reputation and earn credibility by demonstrating to stakeholders that it is engaging in comprehensive and well-considered strategizing (Kohut and Segars, 1992).
According to Gurau (2013, p. 533), “the development of a stable environmental reputation requires a long term strategic perspective, as well as the credibility, reliability and responsibility of company’s messages and actions”.

Often included in the annual report, is the sustainability report (sometimes referred to as an integrated report) which reports on the social and environmental performance of the company. It is well documented that social performance influences corporate reputation and that corporate social responsibility (CSR) influences an organisation’s market valuation (Brammer and Pavelin, 2006; Orlitzky et al., 2003). However, it is not always a given that simply reporting on social and environmentally responsible activities will have the desired positive effect among stakeholders. Brammer and Pavelin’s (2006) study demonstrated the need to achieve a “fit” between the types of corporate social performance and the organisation’s stakeholder environment. Therefore, a strong record of environmental performance may enhance or damage reputation depending on whether the firm’s activities “fit” with environmental concerns in the eyes of stakeholders. Firms thus need to engage with stakeholders to obtain insights into stakeholder expectations so that these can be satisfied (Donaldson and Preston, 1995). In this way, the corporate brand reputation of the organisation should be positively influenced as both the stakeholder and managers’ needs are satisfied.

By demonstrating responsiveness and accountability to stakeholders with regard to social and environmental issues, one would hope that the corporate reputation would flourish and the organisation’s market performance would benefit. “Good corporate governance and accountability should focus on addressing these social, environmental, economic and ethical expectations” (Unerman and Bennett, 2004, p. 685). However, it is only through consultation and engagement that it is possible for managers to develop an understanding of their stakeholders’ expectations. For stakeholder engagement to lead to meaningful accountability and for social responsibilities to be taken seriously, mechanisms need to be employed which allow stakeholders’ views to feed into the organisations’ decision-making process and which will ensure that organisations are held accountable to stakeholders’ expectations. According to Bhattacharya (2016), co-creation activities will help stakeholders feel good about the organisation and they will be less susceptible to negative information and develop feelings of loyalty. It is therefore important for the organisation to communicate and demonstrate transparency, authenticity and credibility. The annual report is the ideal medium for this and acts as a marketing communication vehicle targeted at various stakeholders.

While there have been many studies on stakeholder theory and related areas Maignan et al. (2011), on sustainability (or green marketing) (Kumar, 2016; Hult, 2011) and annual reports (Bebbington et al., 2008), there are few studies that deal with stakeholder engagement as an input into social and environmental reporting. To close this gap, the objective of this study is to explore the extent to which organisations engage with stakeholders about social and environmental issues. There is a need for stakeholder consultation prior to publication of annual reports including social and ethics reporting as an aspect of corporate reputation management. Because annual reports reflect what the organisation is doing with regard to social and environmental issues, we establish where the designers of these reports source their information, and what the role of the various stakeholders are in the information reported. In particular we want to answer the following research questions:

**RQ1.** From an organisational perspective, what is the importance and purpose of stakeholder engagement?

**RQ2.** Do managers prioritise the saliency of the social and environmental issues?

**RQ3.** Do the stakeholders influence the decision making in organisations on social and environmental issues?
This paper is structured as follows. We present the literature that informs this study, which includes a brief discussion of holistic marketing, corporate reporting, marketing communications, stakeholder theory and stakeholder engagement. The methodology applied is then discussed, followed by the presentation of the findings and discussion of these. The paper concludes with a summary and conclusion of the findings and recommendations to practitioners.

Literature review

This study is informed by the holistic marketing literature, corporate reporting, marketing communications, stakeholder theory and stakeholder engagement literatures.

Holistic marketing

Marketing programmes are characterised by processes and activities that recognise their breadth and interdependencies. This is known as the holistic marketing concept which acknowledges that the scope and activities of marketing are very broad. Included in holistic marketing are internal marketing, integrated marketing, relationship marketing and performance marketing (Kotler and Keller, 2016). Social and environmental issues are important elements of performance marketing. Organisations are increasingly adhering to a triple-bottom line performance evaluation, a concept coined to reflect the growing tendency of stakeholders to evaluate organisational performance on the basis of economic prosperity, environmental quality and social justice. Organisations need to become agile, adaptive, and aligned in balancing people and the planet with profitability (Cronin et al., 2011).

Managers today are considering the social and environmental effects of marketing activities and programmes. In response to being socially and environmentally responsible, organisations have developed CSR programmes, implemented green marketing initiatives and practiced sustainability as strategic marketing tools. Green marketing contains the basic elements of marketing (e.g. product, price, distribution and promotion) combined with the goal of reducing environmental impact (Oyewole, 2001). CSR is a company’s activities and status related to its perceived societal or stakeholder obligations (Sen and Bhattacharya, 2001). Sustainability’s basic premise is that organisations have a responsibility to satisfy the human needs and wants while preserving nature (Luo and Bhattacharya, 2006).

There is a need for marketing to develop a stakeholder orientation rather than a customer orientation. According to Maignan et al. (2005), organisations should stimulate a sense of bonding between themselves and stakeholders by emphasising the fact that both the business and stakeholders share similar concerns. A key step in doing this is to obtain the issues that stakeholders are concerned with and providing them with information on how the organisation is performing in those areas of concern. Corporate reporting is one way of doing this.

Corporate reporting

Stanton et al. (2004, p. 58) classify an annual report as a “statutory formal communication vehicle between a publicly listed corporation and its interested constituencies” which comprises quantitative information, narratives, photographs, tables and graphs. Reports are commonly divided into two sections, with the statutory required financial statements usually assigned either to a rear section, or to a separate volume. The larger up-front section contains mainly voluntary disclosures. Annual reports may give an organisation many marketing advantages such as identity and reputation management, competitive advantage, customer loyalty and financial benefits from investors. Thus, it is important for the content of these reports to be relevant to stakeholders. The annual report is an important communication tool as it is accessible to all stakeholder groups and is trusted by stakeholders more than other communication tools (Dumitru et al., 2015). Despite the annual
report being one of the prime communication vehicles that an organisation can use to communicate with its stakeholders, there has been a clear and transparent failure to hold corporations to account for their social, environmental and sustainability performance. (Gray, 2013). “Corporate social reports” and “sustainability reports” have been frequently criticised for their overly managerial approach (O’Dwyer, 2002, 2005; Owen et al., 2000). This has led to a number of significant adverse social and environmental ramifications. These include legitimating a mistaken belief in the sustainability of businesses’ operations and permitting unsupported claims (Brown and Deegan, 1998; Campbell, 2000); promoting and sustaining the “business as usual” agenda (Brown and Dillard, 2014; Larrinaga-González and Bebbington, 2001); ignoring or glossing over the views of a wider group of stakeholders (Arche et al., 2011; Owen et al., 2001; Unerman and Bennett, 2004); and, at best, conveying weak versions of sustainable development (Gray, 2010; Milne and Gray, 2013; Moneva et al., 2006). Stakeholders use these reports to evaluate whether the firm’s governing body has tackled the social, environmental, economic and financial issues that impact on the business or not. The annual report can be used as an effective stakeholder communications vehicle to build stakeholder trust and engagement.

Marketing communications
Companies formulate marketing communication strategies through a process of proactive messaging and positioning around their brands (that is their products, services and people). This ensures that a continuous supply of information reaches all key stakeholders. The role of the annual report is to manage the relationship between the stakeholder and the organisation as “relationship management is believed to contribute to organisational legitimacy, as managing its long-term relationships contributes to stakeholder satisfaction and shapes the organisation’s reputation” (Deephouse, 2000, p. 1093). Marketing communication that meets the specific needs of the receiver increases value and loyalty (Peltier et al., 2006); influences purchase behaviour (Gilliland and Johnston, 1997) and develops positive associations about the brand (Keller, 2009), leading to a positive reputation. Marketing communications should be in line with stakeholder expectations and good quality communication is timely relevant and reliable (Mohr and Spekman, 1994), accurate, complete and credible (Mohr and Sohi, 1995). An understanding of all stakeholder perceptions of the organisation is critical so as to align communication with brand messages to prevent any contradictions (Einwiller and Will, 2002). Substantial investment in corporate communications spending to create awareness has a positive effect on an organisation’s reputation.

Stakeholder theory
Stakeholder theory prescribes that an organisation should run to benefit all those that have a stake in it. The stakeholder theory literature shows that there are a range of perspectives regarding “who and what really counts” (Mitchell et al., 1997) and can be categorised as descriptive/empirical, instrumental and normative (Donaldson and Preston, 1995). In general, though, stakeholder theory recognises that organisations have a range of stakeholders who can have differing and potentially conflicting interests. This puts organisations in a complicated and potentially compromised position. Stakeholder theory literature has presented frameworks and principles that provide a means by which organisations can categorise and prioritise stakeholders and their claims (Benn et al., 2016). Our study draws on normative stakeholder theory which aims to improve the moral conduct of organisations, enabling them to make the “best” decision based on what is believed to be morally just/fair. According to Ozanne and LeCren (2011) there are consequences for organisations that have good social and environmental strategies. These include increased trust and commitment from internal and external stakeholders, favourable supplier decision criteria, and increased customer satisfaction.
Stakeholder engagement

Through effective stakeholder engagement, the organisation may discover how value is perceived by stakeholders and know how to leverage resources to achieve this value. In order to ascertain what the different stakeholders’ needs and expectations are, the company needs to engage with the stakeholders and earn their trust. Dentchev and Heene (2004) suggest that organisations should convey consistent information signals over time that stakeholders believe, share and trust. This implies that management needs to understand which stakeholders are legitimate. The act of determining what is legitimate and defining stakeholders is a subjective and contestable process where people’s perspectives play an important role in how stakeholder engagement is approached.

Whilst managers might spend more resources on those stakeholders who greatly affect/influence the organisation, several researchers have disagreed with this rationale, arguing for a different approach based on what they believe is morally just. For example, Phillips (1997) applies the “Principle of Fairness” to argue that obligations to stakeholders should be in proportion to the benefit accrued. Gibson (2000) contends that organisations should demonstrate ethical partiality to stakeholders just as individuals show partiality to others through reciprocity, reparation and gratitude. Rowan (2000) argues that in situations where duties conflict, the organisation should fulfil the duty that will show the greatest respect for persons.

Noland and Phillips (2010) identify two competing perspectives in stakeholder theory literature regarding what is believed to be “proper” stakeholder engagement. One group of scholars draws on the work of moral and political philosopher Jürgen Habermas, arguing that stakeholder engagement must not include (for the most part) strategic motivation to ensure its moral legitimacy. They differentiate between two types of stakeholder engagement: “strategic” and “moral”. Strategic engagement stems from strategic intentions, whereas moral engagement aims to break down communication barriers resulting from power differences and strategic motivations in order to reach an agreement.

However, others have argued that the strict segregation between strategic and moral engagement is illogical. They contend that morality and strategy cannot be separated. Instead, moral behaviour and stakeholder engagement must be interwoven and integral to the firm’s strategy if it is to achieve “real” success. This idea is grounded in the belief that the purpose of organisations and the capitalist system within which they operate is to create value for all stakeholders. As such, a “proper” strategy is said to be one that incorporates moral concerns. Those that hold this view are not only dissatisfied with the idea of organisations exercising stakeholder engagement for purely strategic reasons, but also argue that the distinction between strategy and morality is logically unnecessary. In relation to social and environmental issues, this would be consistent with the view that the relationship is win-win, creating value for both the organisation and its stakeholders and gaining importance or “buy-in” to the idea of sustainability.

In general, “stakeholder engagement is understood as practices the organisation undertakes to involve stakeholders in a positive manner in organisational activities” (Greenwood, 2007, p. 315). This is in contrast to Noland and Phillips (2010, p. 40) who state that it “is used to recommend a type of interaction that involves, at minimum, recognition and respect of common humanity and the ways in which the actions of each may affect the other”.

A stakeholder-committed organisation may still act out of self-interest. Thus, the process of engagement should be recognised as independent of individuals’ intentions and virtue, as well as of the fairness of the outcomes. It is based on this rationale that Greenwood (2007) suggests stakeholder engagement (when separating it from the intentions and outcomes) is “morally neutral” or “unaligned”, which is notably different to being understood as “amoral” or “value-free” which stakeholder engagement is not. Hrasky and Smith (2008, p. 419)
believe that the “corporate communication function” can “enhance corporate value by maintaining and enhancing a positive corporate reputation through improved corporate reporting”, as reputation “is influenced by the way in which the company projects its image via behaviour, communication and symbolism”.

Methodology
The research employed a qualitative research design (Bryman, 2012). One-to-one semi-structured interviews (both face-to-face and telephone) were conducted. The interview guide was developed from the literature reviewed. It consisted of 14 questions, covering all the areas of the literature review and the three research questions.

A purposive sample of organisations which publicly declared their adherence to sustainability best practices was approached, and a total of 24 individuals involved in the design and compilation of sustainability reports from 15 organisations in New Zealand participated in the interviews. These respondents are shown in Tables I and II.

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<th>State services</th>
<th>SOE</th>
<th>Private</th>
<th>NGO</th>
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<td>1</td>
<td></td>
<td>2</td>
<td></td>
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<tr>
<td>Sustainability consultant (SC)</td>
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<td></td>
<td></td>
<td>2</td>
<td></td>
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<tr>
<td>Sustainability manager</td>
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Table I. Research participants classification summary

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<tr>
<th>Job title</th>
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<th>Description</th>
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</thead>
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<td>Private</td>
<td>Infrastructure and construction</td>
</tr>
<tr>
<td>Accounting/finance manager 2</td>
<td>Public</td>
<td>SOE (power)</td>
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<td>AIS1 (director)</td>
<td>Private</td>
<td>IT/IS vendor</td>
</tr>
<tr>
<td>AIS2 (senior consultant)</td>
<td>Private</td>
<td>IT/IS vendor</td>
</tr>
<tr>
<td>Chief information officer 1</td>
<td>Public</td>
<td>State services</td>
</tr>
<tr>
<td>Chief information officer 2</td>
<td>Public</td>
<td>State services</td>
</tr>
<tr>
<td>Chief information officer 3</td>
<td>Private</td>
<td>Infrastructure and construction</td>
</tr>
<tr>
<td>Chief information officer 4</td>
<td>Private</td>
<td>Grocery</td>
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<tr>
<td>Chief information officer 5</td>
<td>Private</td>
<td>Banking</td>
</tr>
<tr>
<td>Environmental manager/advertise 1</td>
<td>NGO</td>
<td>Environmental</td>
</tr>
<tr>
<td>Environmental manager/advertise 2</td>
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<td>Environmental</td>
</tr>
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<td>State services</td>
</tr>
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<td>Public</td>
<td>State services</td>
</tr>
<tr>
<td>Environmental manager/advertise 5</td>
<td>Public</td>
<td>State services</td>
</tr>
<tr>
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<td>Public</td>
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<tr>
<td>Sustainability manager 4</td>
<td>Private</td>
<td>Banking</td>
</tr>
</tbody>
</table>

Table II. Research participant list
The interviewees were all knowledgeable and highly experienced designers of annual reports. All interviews were recorded and then transcribed. The transcriptions were analysed in batches of five, with findings from each group being used for iterative comparison with the previous group to ensure that all nuances of the identified phenomena were captured. The coding of the data used O’Dwyer’s (2004) process for organising data: the codes (third tier) were grouped and categorised based on topic (top tier) and frames (second tier), as informed by the literature detailed in this study’s theoretical framework.

In addition, documents from the organisations were analysed to provide a means of triangulation (Creswell, 2013). The document analysis included examination of various publications and websites that provided information on social and environmental accounting (SEA), and stakeholder engagement. Primarily this included annual reports and standalone sustainability reports of the different organisations. It also extended to overseas parent/group reports. Documentation produced by the New Zealand government, SEA vendors and sustainability consulting firms who provide services to New Zealand organisations, and material from New Zealand industry groups such as the sustainability business network was also consulted. The documentation gathered identified conforming and conflicting perspectives.

Findings and discussion

Importance and purpose of stakeholder engagement

Stakeholder engagement was acknowledged by respondents as important, contributing to both social and environmental responsibility and accountability. In terms of responsibility, as the following respondent commented, there is a link between stakeholder engagement and the ability for organisations to retain their social licence as well as a link to resource availability:

The way I think companies often find out about what the longer-term risks are to their resource availability or their licence to operate in their community is to find out through their stakeholders to bring those issues up. If your stakeholders are telling you it’s incredibly unpopular and you’re killing orang-utans, you could probably foresee some extra regulations or sanctions on the company, like the resource you’re relying on is going to get really expensive, you might lose market share – you’re just being stupid. There’s a lot of money to be made in the short term from being stupid. Some corporations choose to make short-term profits at the expense of long-term success and I think that’s unfortunate, upsetting (SM2).

From an accountability perspective, engagement helps inform the design of the communications, recognising that the annual report is ultimately for a range of stakeholders, including shareholders, staff and other external stakeholders:

So, we engage with them directly to get their feedback on us specifically. Then we use that to inform the reporting and the communications that we’re doing. We might have a particular focus in our annual report or in our annual sustainability report, and then we’d obviously take into account those things that our stakeholders are finding more and more relevant and start to focus on those more strongly, because ultimately we produce those reports for our shareholders, for our broader stakeholders, for our own staff. From that broader stakeholder perspective, I suppose it’s important to listen to what they think is important because that’s who we’re ultimately writing it for (SM4).

Prioritising the saliency of issues

However, they had also recognised the importance of prioritising/assessing the saliency of issues through materiality that also factors in the urgency of claims. Organisations assess the significance of claims, as opposed to the significance of the stakeholder per se. Notably,
though, the following respondent recognises that as claims are prioritised, stakeholders (who make these claims) are likewise prioritised:

“There are a lot of hot issues as well and we rank them according to urgency. So, we’ve got to address some stuff around water pretty quickly, whereas we probably don’t need to address issues around biodiversity at the same level of urgency. So, that would push it up the ranking – and push those stakeholders up the ranking (SM1).

Although a number of respondents were frustrated with the level of emphasis placed on deriving economic value from sustainability initiatives, the underlying reasons they gave for engaging with stakeholders nonetheless echoed the same reasons and motivations for approaching accountability and responsibility. As their organisations/clients strive for legitimacy within society, stakeholder engagement offers them a way to create, at best, mutually beneficial and mutually acceptable solutions. Despite respondents having held the view that annual reports were written for a broad range of stakeholders, shareholders were ultimately prioritised. This finding supports the study of Benn et al. (2016). Whilst shareholders are readily recognised (by academics and practitioners) as one group of stakeholders who hold perspectives regarding the social and environmental responsibilities and accountabilities of organisations, they play a dual role. Shareholders are also the owners of a company; the prevailing view of business is that generating wealth for shareholders (whilst it can lead to win-wins for both the business and its stakeholders) is the “main purpose”. Respondents, therefore, saw engagement as an opportunity to advance sustainability initiatives that supported a business case. Stakeholder engagement was used as a mechanism to signal to their stakeholders that their organisation/client was willing to listen and respond to their needs, since this is part of being a good corporate citizen and is required in order to obtain legitimacy within society. It was also more clearly used as a stakeholder management tool, particularly when the business had already decided the outcome and used “engagement” to advance their agenda rather than as a mechanism to empower stakeholders to influence decisions that affected them. This highlights the pluralistic context of SEA and a contradiction within the business case framing, where respondents attempt to “balance” stakeholders’ interests and “balance” the social, environmental and economic dimensions as they strive to be sustainable/remain a good corporate citizen while prioritising the business’s shareholders. These finding support the views of Gibson (2000) and Phillips (1997).

One respondent, for example, described a situation where stakeholder engagement enabled his organisation to achieve buy-in to predetermined outcomes. The business had already decided to close down a branch since it was not bringing in enough revenue. Closing down the branch was going to particularly impact the residents in the area. He described the importance of balancing community and shareholder expectations and viewed engagement as matter of consultation, limiting the ability of stakeholders to sway decisions. He differentiates this from deep consultation, aware that deep consultation can cause certain expectations within the community to arise as a result of the process. In this instance, stakeholders might believe the branch would not actually be closed down as a result of their feedback. Instead, the purpose of “consultation” was to minimise the impact of the business decision: the organisation had actually already decided that the branch was in fact going to close:

“I think there’s an expectation that if the community is deeply consulted on that then it will sway decisions, which may or may not be the case, but there may be a legitimate need. I think there’s a fine line in doing so, given the other consultation that goes on with shareholders and particular stakeholders and that kind of thing on actually what we can deliver, so it’s balance, it’s very much balance (SM5).

Similarly, some respondents who hold a more critical framing of social and environmental issues shared their experience as a stakeholder/citizen, commenting on their frustrations
with current practice, which extended to their interaction with the New Zealand Government. The following respondent, for example, described how his organisation (an environmental NGO) had obtained a grant for a “prominent researcher” to bring the entire team—his research assistant and these pathologists, to give evidence to (commission X). However, he stated:

We found out later that before [the research team’s] evidence was heard, before the pathologist slides were shown and copies presented to them, before [the commission] had even started to take evidence from witnesses, they had commissioned background papers, which weren’t at that stage publicly available. And, later when we did get access to them, one of the background papers was—I wouldn’t say just critical, but condemning, the work of [the research team] and disregarded it […] There was criticism of [the lead researcher’s] trials that he had answers for, but the problem was, while [the researcher] was here, what they could’ve have done is said, “Look, it’s interesting in what you have said. However, others have claimed that […]” Then given [the researcher] a chance to give his reasons as to why he believes this wasn’t valid, but they never did that […] (EMA1).

He continued to explain that this manner of engagement, between the stakeholder and the NZ Government, was a result of political pressure. In particular, he stated, “we formed a view that there was political pressure to have a (commission) and there was another pressure [from businesses] to have them come up with a resolution that would still allow (their plans) to go through”. While the results/findings of this study mainly provides greater insight into the relationship between stakeholders and business organisations (which includes state-owned enterprises), it became evident that such tensions also exist between government and their stakeholders. The following respondent (also from an environmental NGO), for example, expressed this view:

The consensus of opinion amongst business and government is that looking after the environment costs money. Therefore, you have to have economic growth in order to provide the money, so we can be more “clean” if you like […] It doesn’t actually address the major problem of sustainability (EMA2).

He went on to explain how business and government practice is based on classical and neoliberal economics “whose primary objective is economic growth, which means ever expanding production and consumption of goods and services” and “doesn’t address the problem of scale”, unlike:

Ecological economics […] [which] deals with the problem of scale—the scale of the economy as a whole […] [It deals with] firstly, the ability of the environment as a whole to absorb all the waste and the waste includes carbon emissions, which of course are creating quite a lot of, well from our point of view, human-induced climate destabilisation. And the other aspect, of course, is the destruction of biodiversity or habitats and species and the regeneration of resources (EMA2).

He agrees with “ecological economics (as it) sees the environment as limited”. Even though practice acknowledges that resources/natural capital is limited, interpretations and expectations of sustainable development and sustainability reporting vary. He emphasises that the “human economy, if you like, has to work within those limitations” to avoid overconsumption/unsustainable practices. Through this comparison he illustrates how the various approaches to sustainable development “come back to this definition of sustainable development” and how we would like to see more reporting that addresses “the major problem of sustainability”:

I’ve never seen anywhere where we get annual reports of the state of the world from the point of view of ecological footprints—that’s an area that needs to be looked at […] we had a report just recently in the NZ Herald—a double page—saying that the rate at which we were eating up the planet means that we would need two planets by 2050, you know that the rate at which we are using up resources is doubling probably every seven to eight years (EMA2).
Stakeholders and decision-making

One cannot assume that engagement with stakeholders indicates that stakeholders are highly involved in decision making. Given the organisation-centric approach to social and environmental issues and lack of stakeholder involvement in decision-making, there are limitations as to voluntary engagement, reporting and sustainable/responsible business practices. The following respondent, for example, who provides sustainability consulting services to a range of organisations indicated that businesses generally follow no particular plan to engagement, though they have a general awareness of the benefit:

There is an organisational commitment in terms of what we should do, what we should report on. And, then it becomes quite ad hoc, so it's then “oh, who should we talk to?” rather than it being kind of that structured approach. And, part of that, who they end up talking to, will often be who they’ve got a relationship with, who can give them a good whack or say nice things about them. And it tends to be much more, usually, talking to advocates or people they know. There is that self-selection aspect to it, rather than the more scientific approach, that we will speak to this person and this person and this person (SC2).

To illustrate the ad hoc nature of this commitment, the following respondent described how he was still “working through the mechanism” of feeding the issues raised by stakeholders from the stakeholder engagement process through to the annual or sustainability report. The benefit of stakeholder engagement was described as being able to “just give (them) a steer”. Specifically, the respondent stated:

In terms of taking it into a sustainability report I'm just working through the mechanism at the moment because I don't really know about the consultation process in an area that we actually do quite well. So, what I'm trying to do is just come up with a framework which we can take all of this stuff we already know and translate it to GRI and potentially once I've done that I might get a focus group together of some stakeholders of some description maybe one from each of that list I've talked to excluding media [...] I don't know [...] I haven't really thought about it that much (SM5).

Another respondent described how their organisation has “a pretty good handle” on stakeholders’ issues, implying that there isn’t that much need for continuing to engage outside of the regular course of business:

Yeah, pretty much. Basic, yeah. It's very [...] you know, the thing is that we’ve got a pretty good handle on these issues – they're not new to us. You know, we're already involved in a lot of stuff with councils, trying to work through problems (SM1).

Even “expert” consultants who provided sustainability consulting services to other organisations highlighted the lack of engagement within their own firm. Instead, their organisation would speak on behalf of the stakeholder in the sense that they would specify what they believe stakeholders would be interested in. As the following designer also indicated, their organisation would often assume what their stakeholders are interested in due to the lack of “bandwidth” – resources to carry out engagement with their stakeholders:

We aren't doing a huge amount of external stakeholder engagement at this point. In the Global CSR report, there is a really lovely stakeholder engagement table [...] and I would say that, for consistency’s sake, probably 80% of that would apply. However, what we haven’t done, and it has just been a question from [...] just not having the bandwidth to go out and do it, is to go and talk to all our clients and talk to other stakeholders and things. So, I would say that we are getting a “1” on that. We talk to our people and we work with our suppliers (SC2).

Summary and conclusion

This study’s objective was to find answers to three questions. The first was “from an organisational perspective, what is the importance and purpose of stakeholder engagement?” We found that engagement with stakeholders was important and the...
purposes were to have a licence to stay in business because they are seen as legitimate in society, have access to resources and it helps inform the design of the annual report. The second question is “do managers prioritise the saliency of the social and environmental issues?” our findings show that organisations do prioritise the saliency of issues by assessing their significance and urgency of claims. As owners of the company, shareholders were prioritised. The third question asked if the stakeholders influence the decision-making in organisations on social and environmental issues. Our findings indicate that stakeholders are not involved in decision-making as a general rule as organisations adopt an organisation-centric approach to social and environmental issues. The aim was to steer the decisions in a certain way as the direction of the company’s strategy was already decided.

The practice of stakeholder engagement presents stakeholders as external to the organisation. Stakeholders are dependent on the organisation’s willingness to both be accountable and attend to stakeholders’ concerns outside of what is required through legislation. Citizen/stakeholder power is low with regard to social and environmental issues. Stakeholder engagement as an idea appears to be mere rhetoric; organisations manage stakeholders as a result of the business need to maintain their social licence to operate and to help guide them in their mutually beneficial social and environmental responsibilities and accountabilities. While stakeholder engagement is regarded as “crucial”, there is a critical difference between going through the “ritual” of participation/engagement and having the power to affect the outcome in terms of organisational accountability and responsibility. The organisation evidently makes the decision as to which stakeholders are engaged (who), the process of engagement (how), in line with the purpose (why) that is dependent on the business case. While there does not yet appear to have been a backlash from stakeholder communities, it can be expected that in the near future they will become aggrieved if organisations are seen to merely pay them lip service and their corporate identity will be questions and their reputations suffer as a consequence. Once that trust of the stakeholders is broken, it will be very hard to regain it.

It is important for organisations to understand that their reputation is built stakeholder perceptions of the organisation’s behaviour. It is therefore prudent for the organisation to focus on developing strategies that is seen by stakeholders to be of value to them and society as a whole. Engaging with stakeholders can focus on the issues that are of concern to them, and therefore it would be easier for organisations to express these issues in their annual reports, thus helping to build better reputations.

Recommendations for practitioners
The annual report is an important opportunity for the organisation to communicate its social and environmental impact. The annual report usually focusses on the organisation’s financial performance, its strategy and its governance of risk. Organisation leadership has the freedom of choice when it comes to deciding on what parts of the organisation’s social and environmental strategy that it wants to express. It is here where we recommend engagement with all stakeholders prior to writing the report in order to establish what issues are important to them and how they see the role the organisation in the handling of these issues. The organisation must be fully aware of the macro environmental issues that they face because the economic, social, environmental and political debate is something that they cannot control but can influence in some way. This dialog becomes important as the organisations social and environmental strategies and its corporate citizenship is perceived as important to its reputation perceived by stakeholders. It is therefore in the organisation’s interest to consult with stakeholders at an early stage who are ultimately going to judge them and have an influence on their future performance.

We recommend the following approach: first, identify all stakeholders that are involved in your organisation directly or indirectly in some way. Second, prioritise the stakeholders
by the saliency of the issues involved. Third, contact and engage with them about environmental and social issues in the order of priority. Fourth, make a list of their claims and/or demands, and explore ways they want these resolved. Fifth, discuss these issues with decision makers internally in the organisation and establish strategy, taking into account risks, environmental and social issues as well as financial constraints. Last, decide what and how to report on these issues in the annual report.

No study is without limitations. The sample investigated in this study was relatively small so generalisation of the results would be difficult. Future studies should use larger samples and conduct research in different countries.

References


Further reading


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Price and in-store promotions in an emerging market

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Abstract

Purpose – The purpose of this paper is to evaluate the influence of price and products on the promotion (through in-store temporary displays) on consumer sales in an emerging market context (i.e. Brazil) in different regions with contrasts in the market and store formats analyzed.

Design/methodology/approach – The data originate from retail market audits conducted over three years and are broken down by a region and a channel for a product category that has experienced increased competition and growth and is highly distributed throughout the analyzed regions and channel formats (i.e. the ready-to-drink juice category). This study uses a panel vector autoregression framework and an impulse-response function to determine the effects on sales over time.

Findings – The results suggest that price sensitivity and the effects of promotions on sales vary with the type of store format rather than through structural differences between regions with lower vs higher levels of economic development in an emerging market.

Practical implications – Managers should consider differences in store format more than the heterogeneity among regions when making price and promotion decisions. Additionally, this paper highlights the importance of in-store product visibility through temporary displays of promoted products, especially in smaller stores in an emerging market.

Originality/value – By considering the challenges of managing a consumer brand for which market heterogeneity is key, this paper extends the current research by contrasting consumer price and in-store promotion decisions across two heterogeneous regions and store formats within an emerging market.

Keywords Promotion, Store formats, Emerging markets, Price, Consumer packaged goods

Paper type Research paper

Introduction

The increasing competition caused by globalization, the high growth in certain emerging markets and the stagnation of some developed economies have motivated consumer packaged goods (CPGs) manufacturers to focus on emerging markets (Forbes, 2011; Kumar et al., 2015). Because these markets evolve from the periphery to the center, it is necessary to understand the implications of these markets’ features for marketing (Sheth, 2011). Indeed, an understanding of the requirements for brand success in emerging markets is essential to achieving business growth through marketing initiatives (Burgess and Steenkamp, 2013; Sheth, 2011).

Emerging markets such as the BRIC countries (Brazil, Russia, India and China) are important in the current economy, but a rigorous research-based understanding of these markets remains limited (Narasimhan et al., 2015). The prior literature on the effects of marketing-mix activities has focused largely on high-income and developed countries (Burgess and Steenkamp, 2006; Kumar et al., 2015; Malhotra, 2012; Malhotra and Dash, 2013), which present more homogenous characteristics in terms of regions and retail formats.
In contrast, in emerging markets, market heterogeneity is a key characteristic that companies must acknowledge (Sheth, 2011). Thus, there is evidence that a brand's success in an emerging market could be based on the extent to which its marketing mix is customized to specific market characteristics (Kumar et al., 2015).

Some studies in this field emphasize that the effects of marketing-mix strategies that are popular in developed markets are not as effective in emerging economies, where unorganized retailers with smaller, independently owned stores prevail (Kumar et al., 2015; Venkatesan et al., 2015). Further, variables such as price and elasticity of demand are expected to be higher for these markets than for developed economies due to consumers' budget constraints (Burgess and Steenkamp, 2006).

In the context of the marketing mix, price promotion activities have received considerable attention in the literature (Currim and Schneider, 1991; Pauwels et al., 2002; Srinivasan et al., 2004). In emerging markets, price promotions are key to increasing sales, as CPG companies have had difficulty serving price-sensitive and resource-constrained mass markets (Burgess and Steenkamp, 2006). The effects of price and promotional activities may differ between emerging markets and developed economies and should be further investigated (Kumar et al., 2015). Thus, this study investigates the effect of price and in-store temporary displays of promoted products on sales in the Brazilian retail market. Previous studies analyzing the effect of marketing-mix variables in an emerging economy have been conducted in a single geographic region, which is an important gap, especially because emerging markets are heterogeneous (Sheth, 2011). The features of these markets differ depending on the region in the country. Therefore, to extend the current research in this field, this study compares the effects of price and promotions on two different regions in Brazil (i.e. the northeast and southeast regions) that have stark economic contrasts.

This study also contrasts two different retail formats in those regions: corporate self-service (CS), such as large supermarket chains, and traditional full-service (TF), such as mom-and-pop (grocery) stores. Indeed, a brand must consider several differences between CS and TF stores when designing its marketing-mix strategies because of the different patterns observed for the effectiveness of such strategies in these two formats (Venkatesan et al., 2015).

This paper also elaborates on the relevance of three main factors for this investigation. First, structural disparities among different geographic regions in an emerging economy make price decisions and promotional intensity efforts particularly challenging. Second, the prevalence of non-traditional channels that offer convenient neighborhood shopping can cause price sensitivity to be different from that of large, self-service stores. Finally, price decisions reflect an economic perspective, whereas in-store temporary displays could allow promoted products to have greater in-store visibility; thus, understanding the effects of such displays on sales could benefit both CPG and retail companies. The focus of this paper is to understand the effects of price and in-store promotions from the perspective of a brand manufacturer that sells its products to consumers through different retail formats and in different regions. The proposed research questions are as follows:

**RQ1.** Do the effects of price and in-store promotions (i.e. products on promotional display) vary in different regions in an emerging market?

**RQ2.** How do the effects of price and in-store promotions (i.e. products on promotional display) vary in two different retail formats (i.e. CS and TF stores) across different regions?

The following section contextualizes the market heterogeneity in Brazil. Then, the literature related to price and in-store promotions is reviewed, and the hypotheses, data and empirical model are described. Finally, this study concludes by discussing the results of the model estimation and managerial implications.
Study context: market heterogeneity in Brazil

The definition of an emerging market varies depending on the institution that proposes classifying countries based on some specific criteria (Burgess and Steenkamp, 2006). Following Morgan Stanley Capital International and the World Bank, this study uses this term to refer to markets such as the BRIC countries (Brazil, Russia, India and China) and some members of the Association of Southeast Asian Nations as predominantly reflecting a balance between a country’s economic development as indicated by the gross national income per capita (GDI) and the accessibility of its market. These heterogeneous markets can grow at a faster pace than the so-called frontier markets, but they do not meet the standards of a developed economy.

Brazil is an emerging market with a good mix of heterogeneous regions and retail formats, which makes it an interesting context (among emerging economies) for a multichannel and cross-regional study. The southeast region features the greatest spending per household, US$ 26,739, while the northeast region the lowest, US$ 14,974 (Euromonitor, 2014a). Additionally, the southeast region has the highest urbanization rate, 92.95 percent, whereas the northeast region features the lowest, 73.13 percent (IBGE, 2010). However, both consumer markets are representative: the northeast region has the second-largest population, with approximately 54 million people, just behind the southeast region, which has approximately 82 million (IBGE, 2011). The southeast region’s total expenditure in 2013 was US$ 723 billion, ranking it first among consumer markets, while the northeast market was ranked third (Euromonitor, 2014b). These regions’ representative consumer markets, their contrasts with each other and their potential for companies have motivated researchers to examine how these factors impact business strategies, mainly in the marketing field.

In terms of retail formats, the retail environment in emerging markets is more fragmented than in developed markets due to the prevalence of small, owner-managed stores. Manufacturers must market through different retail channels, ranging from smaller owner-managed (TF) to larger corporate stores (CS) (Venkatesan et al., 2015). The role of full-service stores in Brazil is not as strong as in China or India but is far stronger than in the USA and Europe (Diaz et al., 2012; Venkatesan et al., 2015). In 2016, according to Nielsen, sales through TF stores represented 17.1 percent of the total sales through grocery channels. Moreover, in Brazil, stores classified as TF have both an area of the store where products are located behind the clerks and shelves that consumers can browse by themselves, which include temporary displays. Further, the differences between the TF and CS formats (e.g. store size and ownership) and the competition among CPGs for store space and to provide temporary displays across both retail formats indicate the importance of our study.

Related literature

In the marketing-mix context, price has a substantial impact on sales volume and revenues (Bijmolt et al., 2005) and plays a key role in generating profits and ensuring a company’s long-term survival (Indounas and Avlonitis, 2009; Taher and Basha, 2006). On a similar level of relevance, sales promotions generally represent a significant share of the marketing budgets of many CPG companies (Srinivasan et al., 2004) and they are viewed as temporary incentives that leverage consumers’ brand choice (DelVecchio et al., 2006).

Authors defend sales promotions as a tool to achieve short-term results (Alvarez and Casielles, 2005; Blattberg et al., 1995; Ehrenberg et al., 1997; Gupta, 1988; Rothschild, 1987; Srinivasan et al., 2004). The impact of promotions on sales can be augmented by placing promoted products in temporary displays because customers usually pay attention and put more weight on offers (Farris and Ailawadi, 2013). Indeed, these displays have a considerable effect on brand sales (Bemmaor and Mouchoux, 1991; Chandon et al., 2009; Pauwels et al., 2002): displays that present promoted products can enhance not only the brand choice but also visual attention (Chandon et al., 2009).
Sales promotions and the price level can stimulate a consumer to purchase a brand for the first time, which can then lead to larger, persistent effects (Alvarez and Casielles, 2005; Bronnenberg et al., 2000; Ehrenberg et al., 1997). However, some authors have noted certain disadvantages of sales promotions, including decreases in brand loyalty and quality perception and increases in price sensitivity and brand switching (DelVecchio et al., 2006; Gedenk and Neslin, 2000; Keller, 1998). Thus, the effects of promotions on long-term sales can be positive or negative (Ailawadi et al., 2006; Ataman et al., 2010; Foekens et al., 1998; Jedidi et al., 1999; Keane, 1997).

Additionally, the previous literature has demonstrated the importance of in-store promotions for sales volume in grocery stores (Collins-Dodd and Louviere, 1999; Kaufman et al., 2006; Klink and Smith, 2001; Montgomery, 1975; Rao and McLaughlin, 1989; Volckner and Sattler, 2006). Marketing variables such as price and promotions can have distinct effects on CS and TF, the two different retail formats in emerging markets (Venkatesan et al., 2015).

Hypotheses
The hypotheses are related to the effects of price and promotions through temporary in-store displays in different regions (i.e. northeast vs southeast regions) and retail formats within these regions (i.e. CS vs TF).

Conventional wisdom states that the price elasticity of demand is expected to be higher in regions with budget constraints (Burgess and Steenkamp, 2006), and consumption in Brazil can be affected by budget effects (Kamakura and Mazzon, 2013). Because the northeast is a less developed region (Euromonitor, 2007), we expect that price sensitivity will potentially be higher in this region than in the more developed southeast region, regardless of the channel type. Thus, we propose the following hypothesis:

H1. In CS and TF stores, the price sensitivity is higher in the northeast market than in the southeast market.

The level of unplanned purchases and shopping trip objectives vary across retail formats (Bell et al., 2011). More specifically, these characteristics can vary between CS (large stores with a wide variety of products and price promotions) and TF stores (smaller stores with a limited product assortment and higher prices). In emerging markets, shoppers may shop for groceries in both CS and TF stores if there are a variety of channels offering different benefits. As shown by Venkatesan et al. (2015), although these different store formats are located close to each other in Brazil, TF stores are more convenient for consumers to access than CS stores because there are many more of them; however, products are often cheaper in large CS stores due to their high-volume sales. These aspects are clear when observing supercenter stores and everyday low-price retailers such as Wal-Mart (Cleeren et al., 2010; Singh et al., 2006). These stores offer a wide assortment and promotions based on a “one-stop-shopping” concept, including a variety of products and categories that cannot be found at smaller neighborhood supermarkets and TF stores. Additionally, because TF stores have lower availability of brands, lower in-store brand competition is expected than in CS stores (Chernev, 2003). Greater product availability might lead to higher price sensitivity for CS store consumers. Indeed, consumers can easily compare prices among a range of brands because of the self-service format, whereas in TF stores, price comparisons between brands are limited because fewer products are available for consumers to browse by themselves. Although consumers can easily navigate between different TF stores to find lower prices and better promotions, one advantage of TF stores in emerging markets is convenient shopping for time-constrained shoppers, which could lead to less price sensitivity in this store format than in CS stores (Venkatesan et al., 2015). Furthermore, in an emerging market, the location of TF and CS stores near each other can lead them to serve...
similar consumer segments because “CS stores are not located only on the edges of urban areas but are relatively evenly dispersed within the urban areas” (Venkatesan et al., 2015, p. 650). Thus, we propose the following hypothesis:

**H2a.** In both the northeast and southeast regions, the price sensitivity is higher in CS than in TF stores.

Given the structural characteristics prevalent in the CS format, the importance of product visibility and in-store marketing can also lead to a greater effect on sales of promoted products on temporary display. Thus, we propose the following hypothesis:

**H2b.** In both the northeast and southeast regions, the effect on sales of an increase in temporary displays of promoted products is higher in CS than in TF stores.

The category analyzed in this study (i.e. ready-to-drink juice) has enjoyed a significant consumption increase in recent years, motivated mainly by “new middle class” consumption (Estadão, 2013). The “new middle class” is currently emerging in Brazil’s northeast market, thereby providing opportunities for companies (Atsmon et al., 2012; Souza and Lamounier, 2010). Therefore, companies are repositioning their brands in accordance with the increased interest in product categories not previously consumed by this population (Souza and Lamounier, 2010).

In-store temporary displays of promoted products can help brands gain visibility, which is important for emergent categories such as juice. In-store displays that provide exposure for products beyond their category-related shelves can increase the visual attention and thereby influence consumer behavior at the point of purchase (Chandon et al., 2009). However, previous research has found that in-store marketing activity may influence consumers only to a certain extent because not all in-store attention drives choice (Chandon et al., 2009). Thus, in-store displays that identify discounted products could drive choice because of the attractiveness of a price promotion in addition to visual attention. Further, the ready-to-drink juice category is considered more developed and concentrated in the southeast, although competition in the northeast has been increasing due to recent developments. Thus, we propose the following hypothesis:

**H3.** In CS and TF stores, the effect on sales of an increase in temporary displays of promoted products is higher in the northeast than in the southeast.

**Research design and data**

The data for this study ranged over a period of three years – from January 2011 to January 2014 – and are broken down by region (i.e. northeast and southeast) and channel (i.e. CS and TF). These data originate from store audits conducted by a relevant global market research firm and were made available to the researchers through a beverage company. The beverage segment was selected for this study because of its relevance in the retail market and its distribution characteristics. This segment was the third largest in terms of revenue generated in the Brazilian retail market in 2013 (Nielsen, 2014a). In addition, because beverage products are commercialized in a wide range of channels and situations, they are accessible to many types of consumers (Venkatesan et al., 2015). Within the beverage category, the ready-to-drink juice category was selected for this study because of its market growth and movement. In recent years, the juice market has experienced a positive variance. From 2012 to 2013, juice had the largest market increase, representing 11.7 percent of sales volume (Euromonitor, 2015). Moreover, this category demonstrated market dynamics through increasing competition (Euromonitor, 2015). This market context is therefore an interesting one to model the effects of marketing variables.
The data are shown at the SKU (stock-keeping unit) level, which is where many marketing decisions in retail, such as price and sales promotions, are made and implemented (Wilbur and Farris, 2014). The variables in our data correspond to the SKU, month, unit sales of the leader, unit sales of competitors, relative unit price and in-store temporary promotion displays. Although we include more than one brand manufacturer, we analyze the effects of the variables from a market leader perspective in order to examine a similar pattern in terms of the brands’ execution level in different contexts.

It is relevant to clarify that the promotion data considered in this study are aggregated. No discrimination regarding the type of promotion in temporary displays occurred at the moment of purchase. The variable indicates the presence (or lack) of promotions offered by retailers. The following example clarifies the meaning of the weighted distribution of display promotions (WDDP): if an SKU has a 10 percent WDDP in a determined period, the SKU was promoted to consumers through temporary displays at the 10 percent most important retail stores for that specific product category.

**Method**

The data in this study are classified as multivariate temporal. First, the database is established temporally on a monthly level, as shown in Table I, and second, it contemplates a wide range of information for each category. Third, the database includes information from the northeast and southeast Brazilian markets.

Unit sales to consumers of a relevant SKU are measured by cases of 24 8-oz units. In-store promotions is a measure of the percentage of stores where a given SKU is on promotion, which indicates the activation of a promotion at the point of sale. Relative unit price is a measure of the SKU price (to consumers and weighted by ounces) divided by the average price in the relevant category (to consumers and weighted by ounces). Finally, the top three manufacturers are not necessarily the same for the different channels and areas.

Based on the characteristics of the data, a vector-autoregressive (VAR) approach was used in this study, as the use of VAR to analyze temporal series has been recommended by various authors (Dekimpe and Hanssens, 1995; Pauwels, 2004). Indeed, the marketing literature recommends the use of multivariate models such as VAR to analyze temporal series due to its ability to examine the relationship between marketing variables (Dekimpe and Hanssens, 1995; Pauwels, 2004).

**STATA® software** was used to develop the model following the methodology of Love and Zicchino (2006) and the emerging market effect method of Venkatesan et al. (2015). In these studies, fixed effects can be correlated to dependent variables, and a coefficient bias

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<table>
<thead>
<tr>
<th>Variable</th>
<th>Northeast</th>
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<td></td>
<td>Self-service</td>
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<td></td>
<td>(46 SKUs)</td>
<td>(43 SKUs)</td>
<td>(51 SKUs)</td>
<td>(34 SKUs)</td>
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<td>Mean</td>
<td>SD</td>
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<td>494.39</td>
<td>95.52</td>
<td>386.39</td>
<td>50.20</td>
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**Notes:** 

1. Unit sales to consumers (cases of 24 8-oz units) of a relevant SKU; 
2. Percentage of stores where a given SKU is on promotion, which shows the activation of a promotion at the point of sale; 
3. SKU price (to consumers and weighted by ounces) divided by the average price in the relevant category (to consumers and weighted by ounces). The top three manufacturers are not necessarily the same for the different channels and areas. Table I summarizes the operationalized variables.
MIP
36,4

can occur. Like previous studies, we used the forward mean-differencing procedure to address this issue. Another concern is month-specific fixed effects, especially for sales volume and SKU price. To eliminate these effects, we centered the mean of the forward-differenced dependent variable across all SKUs in each month (Love and Zichino, 2006; Venkatesan et al., 2015). Next, we checked for stationarity in the data. By using the Dickey-Fuller test, we identified that the unit root was a concern for the sales and price variables, so we used the first-order criteria: Akaike information criteria (AIC) and Bayesian information criteria (BIC). For both identifiers, the smallest observed AIC and BIC values for a one-period lag suggested a first-order VAR. We then included sales, price and promotions in a panel VAR:

\[
\begin{bmatrix}
\Delta \text{Sales}_{hjt} \\
\Delta \text{Price}_{hjt} \\
\Delta \text{Promo}_{hjt}
\end{bmatrix}
= \begin{bmatrix}
\alpha_{1j} & \alpha_{2j} & \gamma_{1j} \\
\alpha_{3j} & \gamma_{2j} & \gamma_{3j} \\
\end{bmatrix}
+ \begin{bmatrix}
\beta_{11j} & \beta_{12j} & \beta_{13j} \\
\beta_{21j} & \beta_{22j} & \beta_{23j} \\
\beta_{31j} & \beta_{32j} & \beta_{33j} \\
\end{bmatrix}
\times \begin{bmatrix}
\Delta \text{Sales}_{hj,t-1} \\
\Delta \text{Price}_{hj,t-1} \\
\Delta \text{Promo}_{hj,t-1}
\end{bmatrix}
+ \begin{bmatrix}
\epsilon_{1hjt-1} \\
\epsilon_{2hjt-1} \\
\epsilon_{3hjt-1}
\end{bmatrix}
\times \text{Seasonality}_{t} + \begin{bmatrix}
\text{comp}_{11} \\
\text{comp}_{21} \\
\text{comp}_{31}
\end{bmatrix}
\times [\text{Competitor}_{1hj,t-1}] + \begin{bmatrix}
\text{comp}_{12} \\
\text{comp}_{22} \\
\text{comp}_{32}
\end{bmatrix}
\times [\text{Competitor}_{2hj,t-1}]
\]

The structure aims to replicate the first stage of Venkatesan et al.’s (2015) model. \(\Delta \text{Sales}_{hjt}\) represents the first difference of unit sales for SKU \(i\) in channel \(j\) in month \(t\) for area \(h\). \(\Delta \text{Price}_{hjt}\) is the first difference of the relative price\((1)\) for SKU \(i\) in channel \(j\) in month \(t\) for area \(h\). \(\Delta \text{Promo}_{hjt}\) is the log of the percentage of stores with products on promotion through in-store temporary displays for SKU \(i\) in channel \(j\) in month \(t\) for area \(h\). Seasonality is a dummy variable for winter in the southeast, which features lower temperatures than the northeast during this time of the year. Competitors’ sales represent the category unit sales for the top three largest manufacturers in area \(h\) for month \(t\) in channel \(j\). Finally, the vector \(\{\epsilon_{1hjt-1}, \epsilon_{2hjt-1}, \epsilon_{3hjt-1}\}\) is the normally distributed random error.

The fixed effects \(\{\alpha_{1j}, \alpha_{2j}, \alpha_{3j}\}\) accommodated the heterogeneity among the SKUs, and the month fixed effects \(\{\gamma_{1j}, \gamma_{2j}, \gamma_{3j}\}\) control for seasonality. Unobserved correlation among the variables is accommodated by specifying a common covariance matrix for the errors. Random errors are normally distributed with a zero mean and a common covariance matrix \(\Sigma\). The coefficients \(\beta = \{\beta_{11j}, \beta_{12j}, \ldots, \beta_{33j}\}\) estimate the lagged, reinforcement and feedback effects among in-store marketing and sales (Venkatesan et al., 2015).

Furthermore, in order to estimate the long-term effects of price and promotions on sales, we applied the impulse-response factor after estimating the panel VAR. Thus, we estimated the time it takes for the dependent variable to revert to its mean after being shocked by a price promotion or extra effort at the point of purchase (Pauwels et al., 2002).

Results
The results of the VAR model are shown in Table II grouped by store format. Initially, taking sales volume as the dependent variable for CS and TF stores in the northeast region, we observe that sales volume is influenced by price, in-store promotions and competitors’ sales volume. For CS stores, an increase in price results in a negative change in sales volume (\(\beta_{121} = -0.09, p < 0.10\)) (cases of 24 8-oz units). However, price shows no significant statistical impact on sales...
through TF stores in the northeast region. On the other hand, an increase in the number of stores using temporary displays of promoted products results in an increase in sales volume ($\beta_{132} = 3.46, p \leq 0.01$). In northeast, an increase in sales volume for competitor 1 results in a decrease in sales for both CS ($\text{comp}_{111} = -3.98, p \leq 0.05$) and TF stores ($\text{comp}_{112} = -5.79, p < 0.10$). For competitor 2, the impact of an increase in sales volume results in a decrease in sales volume for TF stores ($\text{comp}_{122} = -12.17, p < 0.10$). However, the sales volume of competitor 2 is not significant for CS stores. In southeast, the results for both competitors are not significant.

Turning to the southeast region, sales volume results are influenced by price only in CS stores ($\beta_{121} = -0.10, p < 0.1$). In addition, sales volume is influenced by promotions at the point of sale in TF stores ($\beta_{132} = 1.01, p \leq 0.05$).

**Discussion and implications**

In this section, the differences observed in the effects of price and in-store promotions for CS and TF stores are discussed first, followed by a comparison of the northeast and southeast regions. Overall, the results demonstrate that sales volume is influenced mainly by price and promotions based on the structural differences between the channel formats rather than regional specifics.

In order to test the hypotheses and account for the modeled actions and reactions over time, we used the impulse-response function to determine the impact of price and an in-promotion shock (impulse) on the market leader’s sales derived from the estimated VAR coefficients. According to Pauwels (2004, p. 600), impulse-response functions “simulate the over-time impact of a change (over its baseline) to one variable on the full dynamic system.” This function estimates the total future sales using the results obtained across the endogenous variables in the dynamic VAR panel. Using the same model as Venkatesan *et al.* (2015), we carried out the impulse-response function with six periods ahead ($t + 6$) to reflect the long-term elasticity.

To determine the effect of price and in-store promotions on sales over time for the significant coefficients shown in Table II, the change in average sales volume in the six months following the price or in-store promotion is shown, as suggested in the literature (Venkatesan *et al.*, 2015), and the results are presented in Figures 1 and 2. The persistently positive results of in-store promotions on sales in TF and the negative results of price in CS stores represent non-convergence. Indeed, both marketing variables for in-store promotions and price show short-term results (i.e. immediate effects) in the same direction (positive) but divergent results when considering the persistence of the effect. This persistence divergence is aligned with previously published studies on developed economies (Ataman *et al.*, 2010; Foekens *et al.*, 1998; Jedidi *et al.*, 1999; Keane, 1997; Nijs *et al.*, 2001). Figure 1 illustrates the effect of price on sales for CS stores in the southeast and northeast regions.

Figure 2 illustrates the effect of in-store promotions on sales for TF stores in the southeast and northeast regions.

<table>
<thead>
<tr>
<th>Coefficient</th>
<th>Mean</th>
<th>Lagged sales ($\beta_{hj}$)</th>
<th>Lagged price ($\beta_{hj}$)</th>
<th>Lagged promo ($\beta_{hj}$)</th>
<th>Lagged seasonality ($s_{ij}$)</th>
<th>Lagged sales competitor 1 ($\text{comp}_{1ij}$)</th>
<th>Lagged sales competitor 2 ($\text{comp}_{2ij}$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume</td>
<td></td>
<td>Northeast ($h = 1$)</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Self-service ($j = 1$)</td>
<td>Full-service ($j = 2$)</td>
<td>Self-service ($j = 1$)</td>
<td>Full-service ($j = 2$)</td>
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<tr>
<td>Coefficient</td>
<td>Mean</td>
<td>Lagged sales ($\beta_{hj}$)</td>
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<td>Lagged sales competitor 2 ($\text{comp}_{2ij}$)</td>
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</tr>
<tr>
<td>Lagged sales ($\beta_{hj}$)</td>
<td>Mean</td>
<td>$-0.10^*$</td>
<td>$-0.12^{**}$</td>
<td>$-0.12^{**}$</td>
<td>$-0.28^{***}$</td>
<td>$-3.98^{**}$</td>
<td>$-5.79^*$</td>
</tr>
<tr>
<td>Lagged price ($\beta_{hj}$)</td>
<td>Mean</td>
<td>$-0.09^*$</td>
<td>ns</td>
<td>$-0.10^*$</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
</tr>
<tr>
<td>Lagged promo ($\beta_{hj}$)</td>
<td>Mean</td>
<td>ns</td>
<td>$3.46^{***}$</td>
<td>ns</td>
<td>$1.01^{***}$</td>
<td>ns</td>
<td>ns</td>
</tr>
<tr>
<td>Lagged seasonality ($s_{ij}$)</td>
<td>Mean</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
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</tr>
<tr>
<td>Lagged sales competitor 1 ($\text{comp}_{1ij}$)</td>
<td>Mean</td>
<td>$-3.98^{**}$</td>
<td>$-5.79^*$</td>
<td>ns</td>
<td>ns</td>
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</tr>
<tr>
<td>Lagged sales competitor 2 ($\text{comp}_{2ij}$)</td>
<td>Mean</td>
<td>ns</td>
<td>$-12.17^*$</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
</tr>
<tr>
<td>Notes:</td>
<td></td>
<td>ns, not significant at $p \leq 0.10$.</td>
<td>$^* p \leq 0.10$; $^{<strong>} p \leq 0.05$; $^{</strong>*} p \leq 0.01$.</td>
<td></td>
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</tbody>
</table>
For CS stores, price increases in comparison to the market price decrease sales volume in the northeast (−0.09, p < 0.05) and in the southeast (−0.10, p < 0.10). As shown in Figure 1, the confidence interval of the impulse-response curves between the two regions indicates that the effect of price does not differ in either the northeast or the southeast. In addition, despite the greater negative effect over time in the southeast, we cannot state that the southeast region (−0.10, SD 0.05) has statistically greater price sensitivity than the northeast region (−0.09, SD 0.05). Following what has been reported in the previous literature (Pauwels, 2004; Venkatesan et al., 2015), we analyzed the impulse-response functions to test the hypotheses for significant VAR coefficients. TF stores showed no sensitivity to price reductions, since we did not observe a significant effect of price. Consequently, there is no evidence to support H1, which affirms that price sensitivity is higher in the northeast region than in the southeast for CS and TF stores.

Hence, the idea that regions with different levels of development in an emerging market can lead to differences in the responses to some marketing-mix elements (Burgess and Steenkamp, 2006; Sheth, 2011), such as price to consumers, is not confirmed in this research. A possible rationale for this result could be the greater brand competition within the CS store format based on the larger shelf space that provides exposure to the whole category, which can include both store brands and national brands. Indeed, consumers have more product options in a CS store than in a TF store (Chernev, 2003) and are easily able to compare prices (Venkatesan et al., 2015). Considering that TF stores showed no sensitivity to price, whereas the results show a significant coefficient in CS stores, this finding supports H2a, which indicates that CS stores are more price sensitive than TF stores.

In turn, the estimation results also reveal that temporary displays of promoted products have no significant effect on sales volume for CS stores but do for TF stores; thus, H2b could not be confirmed. A possible rationale for this result may be linked to CS stores’ substantial

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**Figure 1.**
Price effect on sales volume in CS stores in the northeast and southeast regions

**Figure 2.**
Effect of in-store promotions (through in-store temporary displays) on sales volume in TF stores in the northeast and southeast regions
shelf space, which allows retailers to provide exposure to the whole product category (Venkatesan et al., 2015). Hence, CS stores are more likely to have temporary displays for SKUs that are offered in the category’s shelf space, thereby reducing the impact of temporary displays on sales. However, one major concern among TF stores is product visibility as a consequence of the restricted amount of available store space, the stores’ layout and the limited product assortment. In some cases, products are even stored behind the counter to optimize a store’s internal space. Since TF stores in the analyzed market have both an area that consumers can browse by themselves (including temporary displays) and products available behind the clerks (Venkatesan et al., 2015), temporary displays can also be used to present SKUs that are not available in the area of the store where the specific category is offered. Considering that in-store promotions can raise the visual attention to products (Chandon et al., 2009), their higher elasticity in TF stores is understandable.

Finally, the larger store environment in CS stores allows them to present more temporary displays of promoted products than TF stores. That is, the visual impact of a temporary display could be more difficult to achieve in a larger environment with greater in-store competition across a multitude of brands, SKUs and temporary displays than in a smaller store environment with less space and fewer products and displays. In these smaller stores, the fewer temporary displays of promoted products that are easily accessible to shoppers should have a greater visual impact.

In relation to this rationale for not finding a significant effect of temporary displays in CS stores, we did not find evidence supporting H3, which refers to the effect on sales of temporary displays of promoted products in CS and TF stores in the northeast vs the southeast. Further, we did not find significantly different patterns for the effect of temporary displays in TF stores in the northeast and southeast regions. Although we found a higher mean for TF stores in the northeast (3.46, p < 0.01) than for those in the southeast (1.01, p < 0.05), for which the rationale could be in line with previous published studies (Alvarez and Casielles, 2005; Ataman et al., 2010; Blattberg et al., 1995; Ehrenberg et al., 1997; Pauwels et al., 2002; Rothschild, 1987; Srinivasan et al., 2004), we did not find a significant difference in the impulse-response curves between the two regions. Considering a 90 percent confidence interval of the impulse-response curves, the area of overlap between the northeast and the southeast regions is minimal (see Figure 2). Therefore, it cannot be inferred that TF stores in the northeast region experience a greater effect on sales of temporary displays promoted product than those in the southeast. Thus, we also did not find support for H3 from the perspective of TF stores.

Conclusion and discussion

Two main conclusions follow from the empirical investigation of the effects on sales of price and in-store temporary displays of promoted products across two different regions and channel formats of an emerging market. First, from a price and promotion perspective, this study highlights that structural differences in store format (i.e. CS and TF) could be more important than differences between regions within an emerging market. Second, the in-store visibility provided by temporary displays of promoted products, especially in smaller stores such as TF stores, could be important in an emerging market.

Greater sensitivity in the northeast market was expected as a result of the lower level of economic development in the region. However, price sensitivity in CS stores showed no significant difference between the northeast and southeast regions. When comparing the price sensitivity for CS and TF stores, the results align with previous studies. CS stores’ greater product availability and in-store competition, higher levels of unplanned purchases and the ease of price comparisons (Bell et al., 2011; Chernev, 2003; Venkatesan et al., 2015) also corroborate our finding of greater price sensitivity in CS stores than in TF stores. In-store temporary displays of promoted products provided the expected positive effect on sales volume in TF stores, leading to the idea that the greater visibility provided by in-store
promotions is important because TF stores have limited space, and consumers may have difficulty visualizing products (Chandon et al., 2009; Shah et al., 2015; Venkatesan et al., 2015).

In summary, these results contribute to the literature, as we show that price sensitivity and the effectiveness of temporary displays are influenced mainly by store formats and not by specific aggregate-level contrasts between different regions in an emerging market. Because TF stores in Brazil also have in-store displays, this study shows a relevant effect of these promotions on sales in this channel, whereas we could not find a significant effect for CS stores. This finding is important for the domain of promotions and visibility at the point of sale, as visual attention can lead to higher sales in a smaller store environment but not in a larger store environment with several brands on temporary promotional display. Overall, the results support the previous findings of Bronnenberg et al. (2000) that the effects of promotion characteristics in emerging markets and developed economies may be distinct. This study is important for managers because Brazil’s northeastern market has experienced many changes and developments as CPG companies and large corporate retailers have begun to target the region (Nielsen, 2014b). Many multinational corporations have entered this market to target middle-class consumers (Prahalad, 2004). These companies may be tempted to customize their prices and in-store promotions through temporary displays based on regional differences in order to generate sales. However, our study shows that they should consider the structural differences in store formats to tailor their prices and promotions in an emerging market.

In terms of the limitations of this study, the analysis could not be broken down by the types of promotions offered through temporary displays, given the type and source of the available data. Additionally, although the data – which are at the SKU level and broken down by region and channel format – allow us to estimate the model to test the proposed hypotheses, the scope of the study is limited to one emerging market (Brazil) and one product category (ready-to-drink juice). The movement of different categories on the shelf may vary across the two formats and categories for display may not be the same between the CS and TF formats as the latter can be largely visited due to the convenience shopping. Additionally, we used secondary data to model the effect of price and promotions on sales, and we did not focus on contrasting shopper behavior between regions with different structural differences in an emerging market. Finally, while we have examined market effects corresponding to the analyzed category, regions and channels based on the competitor’s sales variable, we did not include specific economic factors that could lead to different consumer responses to changes in prices and promotions. Future studies could test variations in the effects of price and promotions according to the type of promotion offered through temporary displays (e.g. sampling, price discounts, coupons and free products), potentially different shopper behavior characteristics, specific economic factors and different product categories based on different store formats and regions within an emerging market by designing experiments, conducting surveys or modeling secondary data that account for these variations. Given the scarce amount of prior research in this area, we believe that our study contributes to the discussion of the effectiveness of marketing-mix elements in different regions and store formats in an emerging market where heterogeneity is crucial.

Note
1. For the relative unit price, the units are ounces.

References


**Further reading**


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