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# QRBD

## QUARTERLY REVIEW OF BUSINESS DISCIPLINES

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## FROM THE EDITORS

This issue of *Quarterly Review of Business Disciplines* begins with the research of Pavel Slutskiy (Thailand), Enric Ordeix, and Josep A. Rom (Spain). They explore management of client expectations and assurance satisfaction in the media relations services sector. Talha Harcar and Daniel Smith write about the impact of consumer attitudes and purchasing decisions based on NCAA corporate sponsorship – specifically the case of AT&T sponsorship. Felix Abeson takes us in a different direction in his paper about advertising tendencies during an economic downturn in degree granting institutions in the Maryland University System. His research delves into advertising dollars in comparison to student enrollments.

Our next two papers take us to Ghana and Chile as Abednego Okoe, Rhodalene Amartey, and Helen Arkorful interview clients about sanitary conditions in the community around some of Ghana's top rated hotels and its impact on corporate image. Macarena Urenda's paper introduces us to female representation in Chile's 2013 Presidential elections and how the election of a woman into this most important position filters down to women in business and women in general. Our final paper, written by Gary DeBauche, Rodney Oglesby, and Dale Steinreich define a sound strategy for contributing to a retirement plan that even a layman can understand.

Margaret A. Goralski, *Quinnipiac University*, Editor-in Chief

Kaye McKinzie, *University of Central Arkansas*, Associate Editor

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## **CLIENTS' EXPECTATIONS MANAGEMENT AND SATISFACTION ASSURANCE IN MEDIA RELATIONS SERVICES**

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### **ABSTRACT**

In order to market and promote the services that they provide PR-agencies need to utilize marketing techniques that are different from those used in product marketing. When analyzing the ways PR-agencies tend to work with their clients, one can relate to the concept of service quality management (SQM). Agency's customers compare perceived service with expected service. The authors examine various approaches to service quality assessment and introduce an innovative multiplier system for assessing the newsworthiness of media events for media-relations services. This multiplier can be used by PR-agencies to negotiate and manage client's expectations and reduce the risk of dissatisfaction with provided services.

*Keywords:* Media-relations, PR-agency management, Service Quality Management, PR-Effectiveness

### **INTRODUCTION**

Public Relations (PR)-agencies are businesses that provide services to clients. Services (including those provided by PR-agencies) have some significant features that distinguish them from goods. In order to market and promote services that they provide, agencies need to utilize marketing techniques that are different from those used in marketing products. PR-agencies' efforts in marketing their services are closely connected to their other functions, these efforts are embodied in every activity of an agency, and in particular - in customer relations and interactions.

Marketing of PR-agencies can be approached as a part of the overall management strategy based on the relationship with the client. The effectiveness of interaction between an account manager and a client's representative is largely determined by the fact that both client and agency are both professionals who speak the same language and have more or less the same level of knowledge and expertise on the subject of their interaction. Contact occurs most often in a very intense and close interaction when the client's interest is much at stake. In this case, the shared experience can either hinder or facilitate the long-lasting relationships.

It should be noted that nowadays technology plays a major role in changing the way agencies and clients communicate in the process of providing services. There is an increasing number of "virtual" agencies, that bring together in one project experts from different regions or even countries. Sometimes the team members never even meet offline, which may pose another challenge for the agency management. But this can also pose challenges for customers, who have more concerns about the quality of the services that they will get from people they never get to meet in person.

The importance of communication on the one hand and the virtualisation of communication on the other form new requirements for the system of interaction between the client and the agency. The client - agency communication is especially important within the context of the formalisation and documentation of all related business-processes. The agency must provide clients with a lot of documents: presentations, invoices, contracts, reports, inquiries, analytical observations and other materials. It should be done promptly and without creating any problems to the clients. One possible strategy is to provide a flawless service of precise deliveries which consists of a well-coordinated process flow.

Formalisation of communication is in fact one of the benefits that clients get from working with agencies. It has a positive effect on the degree of awareness about the entire PR-process and the situation in general. Formal offers clearly define specific tasks, detailed reports indicate the level of performance - all of this creates a sense of order, accountability and structure. The degree of formalisation, convenience of solutions to practical problems of communicating with an agency often become key elements of satisfaction or dissatisfaction for the client. None of the check-points should be delayed and both the content and the quality should not prevent the implementation of the subsequent chain of check-points and events.

In this sense there might be a lot of minor issues and questions that can seriously affect the quality of the interaction between the agency and its client. An example of such questions could be the following: what does the client do and what do the agency's employees do at every stage of the PR-process or campaign? What should be the means of communication between them (using e-mail or other form of non-personal interaction) or what form of interpersonal interaction should be appropriate (whether it is enough to send the invoice by fax or for a particular client it will be better to hand it over personally)? How will the relationship between the client and the agency change in case the staff is replaced on one or the other side?

The role of relationships in the business of PR-agencies is increasingly recognised as a fundamental factor, it is a customer-oriented process related to the whole business, and not only to its particular units, functions or features. The organisation of the communication process with the client has become a necessary strategic element, that determines not only the external relationships, but also communication within the agency itself.

### **Service quality management in public relations agencies**

In fact, when analysing the ways PR-agencies tend to work with their clients, we can relate to the concept of service quality management (SQM). In general, customers compare perceived service with expected service in which if the former falls short of the latter the

customers are disappointed (Engelbrecht, Gödde, Hartard, Ketabdar & Möller, 2009; Palmer 2010).

If we apply the SQM model to PR-agencies, we can identify two aspects of the perceived quality of services. According to (Gronroos, 2000) service qualities are categorised in two broad areas: technical quality and functional quality. The first is the *quality of the process* (technical quality), which refers to the way the service is provided (in the case of PR-services it refers to the ways agency justifies research results, provides timely reports during the campaign, the staff is professional, friendly and available). The second is the *quality of the result* (functional quality) which denotes the overall process of the service, it refers to what exactly the agency did according to specifications and reference.

The perceived quality can be influenced by three major elements: managing expectations, managing current processes and events and managing the image of the agency. Another important element of this model is image of the service organisation. Image has a direct and close relation with service quality of a service firm (Gronroos, 1990; Lehtinen & Lehtinen, 1991). All these spheres belong to the domain of the agency's external marketing efforts.

However, it is also important to pay close attention to the quality management within the agency, i.e., the internal management of quality components. That is the reason why Gronroos (1990) also included in the model of service quality two components: *quality of service development* and *quality of service delivery*.

The quality of development in the work of an agency can refer to how well the proposal was thought-out, justified, and reasoned. Of course, the quality of the implementation and delivery is how the service provided meets the specification of an approved assignment. It is quite obvious that the poor quality of planning and implementation leads to constant disruptions during a campaign, delays, and other problems related to the violation of the terms of execution of certain programmes; necessitates constant correction of the large and small mistakes that inevitably lead to a deterioration of the relationship between the agency and the client.

An essential prerequisite for all subsequent discussions of the concept of quality management in PR-services will be as follows. Service is consumed when it is being produced. That is, the process of production and the process of its sale, consumption is inseparably linked organically and happens simultaneously. In addition, customer expectations are formed, as a rule, on the basis of their experience of communication with other agencies, which can be both positive and negative. In other words, in most cases consumers are influenced by personal experiences and background.

Because uniform standards of PR-services do not exist, customer expectations can vary. Clients compare their ideas about the use of services with their expectations. Of course, if the performance does not meet expectations, customers lose all their interest in the agency; if the perceived quality meets or exceeds expectations, then prospects for co-operation arise and the cost of agency services becomes less of a priority in the assessment of the performance. In this regard, it should be noted that because services of different agencies are not easily compared to each other directly in quality, the client less frequently complains about high prices. Tailor-made

individual services, of which PR-agencies are an example, are in general less price sensitive in comparison to goods, because the substitution effect is not as strong (Frank, 2008, p. 118).

When aiming for the purchase of services in a specific price-range, a client that faces the inflated price offer just goes away without signing the contract. At the same time, the agreement between an agency and a client can be reached, and a contract signed, only if the price in the proposal meets the budget requirement. The price therefore can influence the purchasing decision, but price as a factor influencing satisfaction and thus the relationship between the client and the agency is secondary at best. At the same time, dissatisfaction with the quality of the paid (or partially paid ) services tends to weaken the reputation of the agency. That is why a service provider must identify as precisely as possible the needs and expectations of its client. Unfortunately, the quality of services is very difficult to assess by both the agency and the client, and it is even more difficult to identify objective indicators of quality that would satisfy both parties.

Discussions on this topic start with the obvious fact: customers will be satisfied if they get what they want, where they want and as much of it as they want. Thus, there is an objective need to translate these necessities to the language-specific management decisions. One of these attempts has been made by Parasuraman, Zeithaml and Berry (1985, 1988). Their SERVQUAL service quality model attempts to show the salient activities of the service organisation that influence the perception of quality (Frost & Kumar, 2000). Moreover, the model shows the interaction between these activities and identifies the linkages between the key activities of the service organisation or marketer which are pertinent to the delivery of a satisfactory level of service quality. The links are described as gaps or discrepancies: that is to say, a gap represents a significant hurdle to achieving a satisfactory level of service quality (Ghobadian, Speller & Jones, 1994). The model of service quality attempts to reflect the basic requirements for the expected quality of service.

The SERVQUAL authors originally identified ten elements of service quality, but in later work (Parasuraman, Zeithaml & Berry, 1993), these were collapsed into five factors - reliability, assurance, tangibles, empathy, and responsiveness - that create the acronym RATER. Below we propose the edited version of the quality dimensions and description of the gaps in relation to the practice of PR-agencies:

Dimension 1. Reliability. Agency's ability to fulfil its promises and to respond to the comments on shortcomings and mistakes; the ability to act strictly in accordance with the agreements and decisions made. Experience demonstrates that PR-agencies' clients consider reliability as one of the most important parameters of the quality of communication services. This is understandable if we bear in mind that the majority of customers perceive PR as a costly part of their activities and as a fairly risky investment. That is why they closely relate reliability to the essence of the PR-service and in general - to the activities of the agency.

Dimension 2. Assurance. This is by no means a friendly smile imitation, as imitation is not the quality. Rather, it is knowledge, courtesy, helpfulness of the staff and the reputation of the agency. Customers pay for personal attention to their company and to

themselves personally. Service is expected to be provided individually. The feeling of significance from getting the service or just choosing a service provider is an important component of the PR service experience. Human need for attention and recognition is of paramount importance. To purchase respect, of course, is impossible, but one cannot make long-term and successful sales and services without respect for the customer.

Dimension 3. Tangibles. Particular attention is given to people and means of communication. Turning people in this parameter is logical, but at the same time humans are largely carriers of quality parameters listed below. Appearance and dress, manner of communication, speech quality are important aspects of perceived professionalism and the general perception of quality of the agency's work.

Dimension 4. Empathy. The ability of agency staff to put themselves in the client's shoes, to accept their point of view on issues that seem to be paramount to them, to take care and pay attention to each individual request. This should obviously include such qualities of the agency's staff as openness, the ability to find a common language, and the ability to communicate without the use of jargon.

Dimension 5. Responsiveness. Willingness of PR-agencies to respond quickly to unexpected requests of the customer. This can also be related to compensation, i.e., the agency's ability to correct mistakes with minimal disruption to the client.

The gap between customer expectations and perception of PR-services occurs when there is one or more of the following gaps (Seth & Deshmukh, 2005):

Gap 1: between consumer expectations and agency management perceptions. Managers working with the agency on the project do not always correctly identify exactly which components of PR-services are on the top priority list for their client. Oddly enough, here the most competitive strengths of the agency can do a disservice. For example, knowing that the strongest point of the agency is creativity, the project manager may believe that this quality is a dominant component in the relationship with the client, while the latter would be more interested in the turnaround time, costs, or attention to personal experience of media interaction.

Gap 2: between management perception and service quality specification. Most often, the gap, and thus the problems arise in the case where the quality requirements are formulated too vague, ambiguous, or, on the contrary, when these requirements are defined with such sufficient precision and clarity and so well articulated that they become unrealistic for execution. It is clear that the quality standards of this kind have no practical meaning.

Gap 3: between service quality specification and service delivery. This gap most often occurs when the agency personnel is under-qualified, when the agency is overloaded with work, and/or the psychological climate within the agency is too tense. It should be remembered that the customer service at the agency involves not only comfortable interface in the planning and implementation of PR-campaigns, but also optimal,

comfortably organised workflow, the ability to quickly contact the right person in the agency, as well as the time to offer a cup of good coffee, and many other details. Provided in a timely manner flawless-looking documents, including invoices, contracts, reports, clippings, memos on meetings, and a plethora of other important papers should be attributed to the specific qualities.

Gap 4: between service delivery and external communication. Customer expectations are in many ways shaped by the messages that the agency disseminates to the public, under the influence of personal image of some personalities or agency professionals, who can be public or sufficiently well-known characters. The concern is that if the agency has allowed itself to promise exclusive terms in their work, it must be very precisely formulated for a particular client - what exactly is meant. This becomes obvious if we take into account that the agent's services are not standardised to the same template of exclusivity. Different clients have varying goals and objectives, and that means that different specialists from the agency staff may be involved in the project.

Gap 5: between expected service and experienced service. This gap addresses the difference between consumer's expectation and perceived service. This gap depends on size and direction of the four gaps associated with the delivery of service quality on the agency's side.

Comparing the dimensions and gaps in quality, the criteria of quality evaluation can be added to this model. The sample list can be as follows:

Criterion 1: The service is easy to get. The practice of PR-agency's relationship and communication with the client should be built from the perspective of customer service. This system requires minimum of negotiation, preparation and approval of the brief, notes on the results of the meetings. In addition, agency's clients must have an absolutely clear idea of who is their contact person in the agency for each particular concern they might have for the project. Of course, these employees should be readily available via a variety of communication channels.

Criterion 2: Agency representatives describe and explain their actions in the language of the customer, these explanations accurately reflect what is going on.

Criterion 3: The agency's staff has the required skills and knowledge.

Criterion 4: The agency's staff is courteous, respectful and caring.

Criterion 5: The services are accurate and stable.

Criterion 6: The agency does not follow basic standard procedures, instead it employs a creative approach to problem-solving and customer satisfaction.

Criterion 7: Tangible measurable components of PR-services reflect its quality. This criterion includes the location of the office and the agency, its hardware, the speed of

decision-making, the timing of the execution of services, and the tradition of communication with customers.

Criterion 8: Understanding or knowledge of the customer.

Criterion 9: Credibility. The agency is committed to the development of cooperation at the strategic level, and it becomes a long-term partner for the customers. The client can rely on the agency, and its employees, as they are really eager to strive for market success of the customer and even for career growth of their staff. The agency is a good friend that at any moment can give sensible advice and consultation.

If the above mentioned criteria from the client's point of view are within the limits of acceptable or expected level of quality, then there is very small chance that the client will form the impression of the agency as a remarkably good or poor. Such an agency for the client will be neither bad nor good - just mediocre, as many other agencies. Only in those cases where the perceived quality is outside the expectations (the neutral zone), the client feels a sense of satisfaction or, on the contrary, disappointment.

It is obvious that some elements of the service may cause positive or negative response, or not cause any reaction of the consumer at all. Because customers' needs arise and change depending on various circumstances, for the most effective marketing of the agency the strategy of its customer relations should be clearly defined. On the basis of this understanding Cadotte and Turgeon (1988) offered a typology of the service performance elements. They proposed to classify the elements of service (customer relationship management). The distribution of elements in their service classification can help to develop an effective strategy of quality:

1. *Critical elements of the service.* These elements generally form the smallest neutral zone of expectations. They are the main factors that have a direct impact on the relationship with the client. Expectations of the critical elements must be satisfied in the first place, because they are based on the minimum standards that are acceptable to customers. These elements are called critical because they cause either positive or negative reaction depending on whether or not a minimum standard is met. A PR-agency can be forgiven for ignoring these standards only in very critical situations. In PR services the critical elements in particular include the competence of staff, clarity of interaction with the client, the transparency of this interaction, the deadlines, the availability of agency staff, clarity of the language in which cooperation is carried out, the quality of documents's design.
2. *Neutral elements of the services.* These have the most neutral expectation zone and do not have a significant impact on the relationship with the client. These elements include the colour of the walls in the office of the agency, the presence or absence of parking lots.

Both critical and neutral factors affect one of the most important marketing advantages of a successful agency - customer loyalty. Most of the mid-size and small PR-businesses are built on repeat sales. It is much wiser (and cheaper) to exert maximum effort to retain most of the existing customers than to rely on attracting new ones. Each of the existing customers should be

viewed as a potential lifetime customer for the agency, as the main marketing asset. Satisfied customers tend to lead to new customers, so by losing the client, the agency has undermined its market. The longer the agency keeps the client, the higher the value of this marketing asset becomes.

However, the loyalty has a transitory nature, and it is the reason to turn the service relationship with customers in a sustainable corporate strategy. A good level of professionalism in relations with each client increases the perceived quality and value of both intangible and tangible components of the services. So, the essential feature of marketing PR-services is to treat clients as a marketing asset, and even more than that - as part of the organisation, part of the agency. For PR-agency customer retention is a key element of survival.

### **Customer satisfaction and PR-agency performance evaluation**

For each agency there comes a time when a customer stops using the services of the agency and terminates the contract, or does not extend it. This can happen for a variety of reasons. For example, the optimisation of communication budgets and reduction in the expenses for PR-activities, even along with the decision to sacrifice the existing system of communication processes.

Another reason could be a change of management on the client side, when the new management starts with reviewing agreements with sub-contractors. Both of these factors are risky, but hardly manageable. The third reason for the termination of the agency appears to be more important and therefore deserves a closer look - it is dissatisfaction with the work of the agency.

The problem here is that the client and the agency do not always have the same view on the problem of assessment and evaluation of performance. The client often asks the question of whether the achieved result is the best possible. Sixty per cent of the journalists who were invited to the event have written a positive review - is it a good result, or could the percentage be higher? Is the agency to blame for not reaching 75%? How much publicity would be a good result for the allocated budget? These questions do not have easy answers.

The issue of performance evaluation as a part of effectiveness assessment is traditionally one of the key topics in the theory and practice of public relations. It becomes more acute when considering client and PR-agency relationships. On the one hand, customers clearly need quantitative evaluation and measurable indicators to be able to compare various initiatives, timing of actions, and to check the delivered results against expectations.

But agencies need a reliable system of evaluation too, perhaps even more than their clients. Although the initiative to introduce measurable indicators to assess performance more often comes from the client, for the agency this question is no less important. Effective methodologies for evaluating PR-activities can help to avoid conflicts in relations between customer and PR-agency. If the results are evaluated and both parties can accept them, then the agency's position is less vulnerable. Agencies are primarily interested in using performance measurement systems that allow them to find a common language with their clients and to avoid

cognitive dissonance generated by the conflict of overrated expectations with reality. If clients' expectations are adequate, then the chances of dissatisfaction are lower. Compliance with customer expectations and the possibility to pre-negotiate and agree on these expectations are the key to successful long-term cooperation with the customer. In this sense, the PR should act as manageable sphere of activity, which is subject to the same administrative requirements as other areas of managerial work.

Evaluation methods should be quantifiable, but at the same time they should help to avoid situations when customers begin to compare PR with advertising, where the results can be measured directly, for example, in terms of financial performance, or using statistics. The effectiveness of PR-activities cannot be measured by direct assessment of sales or incoming calls. For advertising such instruments are acceptable, but in the field of PR, they simply do not work. Thus, regardless of the specific practical problem, the issue of PR effectiveness evaluation naturally raises the question of criteria and indicators.

As an introductory remark it should be noted that the scope of practical PR-activities performed by agencies is too wide to fit a uniform system of the evaluation of results. Even if we focus solely on the work of agencies, the fact that agencies are different from one another in their approach to work will make developing a single unified method of evaluation hardly possible.

Although the question of classification of PR-services had been raised repeatedly by various authors, in order to address the issues discussed in this paper we propose to distinguish between three types of agency services: a) strategic communications consulting, b) event management and c) media-relations. Naturally all of these three areas are closely related and overlap each other, and often one agency works in all three directions, sometimes providing services of all three types to the same customers.

Despite a certain artificiality and superficiality of the proposed classification it is easy to see where the boundaries are. Consulting service operates under the general laws of consulting business, where the unit of measurement of success is improvement - positive trend observed in the measured parameter as a result of the proposed solutions implementation. Consulting services too are individual and specific for creating a universal system of effectiveness evaluation. When it comes to long-term work, for example, in the field of strategic reputation management consulting, we are likely to be faced with the need to conduct large-scale research on the effects of PR. In addition, consulting business in general is well described and studied, and approaches to communication consulting are in many ways similar to the approaches to other consulting spheres, for example, legal or financial consulting.

With the events management service things are more complicated, since assessing the quality of an event organisation process can be very subjective. But compliance with the approved scenario, lack of conflicts and mishaps, the overall level of service, successful delivery deadlines and other quality parameters of the agency's work along with the level of client's general satisfaction are all indicators of the event's success.

From our point of view, the most perspective area for developing and implementing more refined approaches to evaluation is media-relations. We define and understand this field in the

broadest sense of the word - as generating managed publicity, working with media for the purpose of informing the public. And this is how most customers worldwide understand the basic function of public relations, no matter what PR-practitioners say about their strategic role in the long-term success of the business. If we consider a single tactical action in media-relations, its effectiveness should be as a rule quite amenable to precise evaluation.

It has been more than 30 years since Grunig (1983) noted that a key contribution to the problematic image of PR is the lack of objective evaluation methodology of PR-programs. The flip side of the same problem is the absence in the majority of PR-programs and projects of any clear and measurable goals. Too often the wording which occurs in the plans and proposals differ in breadth, inaccuracy, and vagueness. The consequence of this is the prevailing distrust of the results of the agency as a little run and poorly controlled forecasting. Poorly defined goals, such as “increasing the awareness” and “correcting the attitude” are easy victims of excessively wide interpretation. What part of the target group of the public should be made aware? What is the current level of awareness? What are the expected changes in the percentage of awareness? Without clear and precise goals it is impossible to measure the effectiveness. Grunig and Hunt (1984, p. 122) state that what PR-practitioners usually refer to as their target is typically a set of ill-defined, unreasonable and unmeasurable effects of communication.

The list of problematic issues in determining the effectiveness of PR-activity of the company is quite large - ranging from setting measurable goals and to the evaluation criteria of media-relations. It is not surprising that among the clients themselves and the public-relations specialists there is a general perception that determining the effectiveness of PR-activities is extremely difficult, if not impossible. There is even a joke: “The effectiveness of PR is equal to the sum of money invested multiplied by the eloquence of the PR-agency.”

The problem, however, is not simply in creating Key Performance Indicators (KPI) or measurable indicators. This problem is partially solved in the framework or macro-model of evaluation (Macnamara, 1992), which introduced the revolutionary concept of inputs, outputs and outcomes.

There are two major obstacles on the way to a wider implementation of complex multi-level system of measurement: the resistance of agencies and clients resistance. For agencies an important element of differentiation of their services is their own trademark approach and copyrighted evaluation methodology. This obviously contradicts the logic of the introduction of industrial standards. Such an individual approach to the assessment of the effectiveness of PR-activity is inevitably based on a number of arbitrary assumptions. These assumptions are based on the vision which is fundamental to the agency. For example, Fleishman-Hillard Vanguard – a PR agency based in Moscow- suggest to measure reach by doubling the circulation since “one copy is read by more than one person.” The reality however is that such multipliers have been proven over and over to not exist generally.

Ogilvy's in their valuation technique likewise formulate some assumptions about the existence of a correlation between a number of variables. In particular, according to their methodology, a printed material without any illustration is 7% less efficient than the illustrated material, and the reference to competitors or mentioning them in the text reduces the

effectiveness by 7-14 %. Such assumptions can be well-founded if they are based on the results of specific studies or a clear understanding of the characteristics of the market. Meanwhile, without the appropriate convincing justification such assumptions may seem at least debatable. For example, references to competitors in the article may or may not reduce the effectiveness of the material. On the contrary, “thoughtful” audience can perceive such a text as more objective and analytical, and thus more trustworthy and deserving of attention.

Customers, in turn, are used to the traditional indicators. One of these methods familiar to clients is the AVE (Advertising Value Equivalent), an indicator of the results of PR activities for placement of materials in the media over the cost of advertising materials of the same volume. The evaluation is determined by the total volume of all publications and calculated costs of advertising in the same amount in the same publications. This method is a frequent target for criticism.

Indeed, comparing PR with advertising is incorrect for a variety of reasons. On the one hand, the journalistic material is accepted as more reliable by the audiences compared to advertising. It makes the impression of an independent, objective opinion. On the other hand, editorials, unlike advertising, are not fully under the control of the customer and can contain a variety of contradictory or questionable judgments, mixed opinions, etc. The mention in the press, even the most favourable, does not perform the same functions as advertising, it has a completely different information and communication value, as compared to the effect of advertising and advertising exposure. Experts have long warned about the disadvantages of using the AVE and do not recommend its use as a method of reliable evaluation. Meanwhile about 50% of all agencies worldwide are still using the AVE and the complete rejection of this measure will confuse both the industry professionals and clients.

Apparently, the solution may be in the fact that the AVE along with the assessment of other factors such as the tone of publication, the presence of the key themes in the message, reference to keynote speakers etc., altogether should make the evaluation more complex and amenable to further analysis. One of such proposed complex solutions is Weighted Media Cost (WMC) (Jeffrey, Jeffries-Fox & Rawlins, 2010) - the practice of utilising the cost of media to the broadcast time or print/internet space occupied by a client as an objective market proxy number for comparative analysis against historical performance, against objectives, or against competitors. The absolute number itself has no meaning or value beyond that of any index used for comparisons of any kind. Proper use includes the subtraction of all negative coverage; assigning costs to only the space or time occupied by an organisation; using audited, negotiated media costs to the extent possible; and refraining from claims that WMC scores are outcomes of public relations campaigns. A score derived from Weighted Media Cost could be referred to as a Weighted Media Cost Index, especially when utilised without dollar signs.

This concept applies indirect comparison of publicity and advertising that appears in the dynamic relation to PR-purposes and competition in the density of the brand presence in the message, the visibility of posts, influence of the source, the size of the audience. In fact, this is an expanded and slightly modified AVE with all its questionable traits. Regardless of the output that needs to be measured, Advertising Value Equivalents (AVEs) should not be included. AVEs

have been widely discredited, and the use of Advertising Value Equivalents (AVEs) was abolished as a legitimate approach.

### **Setting expectations in media-relations services by using expectations multipliers**

Public relations agencies need to measure and report their results if they hope to keep their clients. Evaluation methods that they use need to be effective, productive and innovative. Any system of PR-activities evaluation must be related to planning, as it should allow one to formulate the expected results at the stage of preparation of PR-activity. Evaluating the effectiveness means comparing the results achieved with the intended outcomes.

Conflicts of misunderstanding and lack in transparency of PR evaluation are the result of the poorly formulated goals. And experience demonstrates that it is in the interest of the PR-agency not to gloss over the situation, expecting that the basis of evaluation is subjective. It is better to discuss at the very beginning of the project how the results will be measured and assessed.

Although it is necessary to define strategic goals and objectives of PR-activities, it is also necessary to define the objectives in terms and concepts that can then be used as criteria for evaluating effectiveness. For this purpose PR-goals must be properly formulated. One should strive to set goals that can be quantified, and to demonstrate a holistic approach to evaluation, covering both traditional and social media, and take into account the changes in awareness, attitudes and behaviour of key publics. It should be noted that agency's clients often prefer to focus on how PR impacts company's business (sales or market share, attraction of investments or number of new job applications).

Meanwhile, in reality, all of these variables are influenced by too many factors that cannot be directly controlled by PR - ranging from internal factors (e.g., failure in pricing policy, poorly organised system of distribution, wrong investment decisions) to external factors (government regulation, economic cycles, the expansion of foreign brands, etc). It is therefore necessary to draw borders of the area of direct responsibility of PR as a function, and within these boundaries to evaluate the results of the PR-agency efforts.

We emphasise here that the holding of such boundaries does not mean making PR decisions in isolation from other managerial issues. Naturally, PR-activities are closely linked to marketing and corporate management, HR, etc. At the same time, the assessment of PR activities needs to be directly related to the criteria that can evaluate PR results.

In a simplified sense, media-relations can be boiled down to a variety of ways of increasing media presence and generating publicity, as it is not always easy to find out exactly which objectives are pursued by the customer. For the client eventually to get exactly what he really wants (and it may differ from the goals he declares), the PR-agency needs to put some extra effort into investigating the real rationale.

Thus, in order to ensure maximum compliance of the services delivered and to meet the client's expectations, it is necessary for both the client and the agency to reach mutual agreement

and shared understanding of the expected result. To do this it is important to formulate the basic parameters and to set quantitative measurable goals at the very beginning of the planning stage. The problem though remains, that client and agency may have different ideas of what an expected result for a particular activity in a particular situation should be.

To solve this problem, we propose to conduct a preliminary assessment of the event's (inject's) potential at the planning stage. This assessment will be taken into account when forming managerial expectations and evaluating the results. This assessed factor can be called the multiplier of information potential (or newsworthiness potential) and it reflects the possibility of using an occasion or an event (news inject, in other words) to generate publicity. Assessment is reflected in the multiplier. It reflects the obvious idea that different events in the client's life have different potential for generating publicity. For example, a new model of the product is likely to generate more interest from the press if compared to a minor improvement of the existing product. Information that had been kept secret is more newsworthy than official confirmation of what had already leaked out.

Obviously, this assessed publicity potential is influenced by various factors - such as participation of the authorities, the presence of keynote speakers from abroad, etc. Depending on the presence or availability of these and also on other multiple factors, as well as on combinations thereof, information potential may vary from high to medium to low.

Information potential multiplier, or newsworthiness coefficient, can be a key tool in the assessment of agency's performance, especially if used in the combined evaluation of other quantitative indicators.

This assessment needs to be negotiated with the client, justified and confirmed by reasoning. In case of a change in key newsworthiness parameters (for example, the lack of confirmation from the keynote speaker), multipliers may be modified in the appropriate direction.

And the multiplier is needed precisely for negotiating what results should be expected and perceived as satisfactory or not satisfactory if the potential of the occasion is taken into account. This multiplier can be given a quantifiable character - the higher the potential of the event, the lower is the multiplier, which is inversely proportional to the newsworthiness. For example, for a highly newsworthy occasion the multiplier can be 0.5, while for the occasion with an average capacity it can be set as 1.5, and for the occasion with a low potential - 2.0.

In this case, if an inject is given a low estimate, the achievement of high results, for example, in the number of publications in the media, is more valuable than the same coverage for a more newsworthy event. The multiplier reflects the obvious correlation between inject's or event's potentials to generate publicity and the effort required from the agency to make it happen. Because working with injects with low newsworthiness potential requires more effort from the agency, it deserves more praise; and even more modest results should be perceived as satisfactory. Same results for an occasion of high potential may be, on the other hand, disappointing.

Accordingly, similar or even identical quantitative results obtained from events with different newsworthiness potential reflect differences in the effectiveness of the agency's work with these injects. Conversely, the apparent differences in the quantitative results of coverage of the injects with different potentials do not mean that in one case the agency worked worse, and in the other - better. These differences merely reflect the differences between the newsworthiness potential of the information injects. Newsworthiness multiplier may be used to assess these quantitative impacts as a percentage of responses to the media invitation, or the percentage of output materials relative to the number of the media representatives who attended an event, etc.

Here it is important to stress that the multiplier itself can be and always is totally arbitrary, but it is absolutely valid as long as it reflects the difference in newsworthiness between different events and is agreed upon by both the client and the agency in advance.

The second point that we offer for the client and the agency to agree upon at the planning stage is a prioritised media list, which justifies the selection of media (the argument for an agreed criterion for media selection). This may include the choice of the regional or national media, matching media to the target publics etc. At this stage media in the list are ranked by priority from the point of view of specific injects from high, to medium, and low priority. For example, for a local or regional event it can be important to take into account such factors as the high value of the local newspaper as compared to the national issue of a “big” newspaper.

Given the rate of information potential (newsworthiness) and the media priority decisions, client and agency may proceed to harmonise key performance indicators by which performance will be assessed. These indicators should be transparent and reflect all aspects of the measurements (data sources, their selection criteria and methodology for the analysis). Such indicators can include the following:

- the effectiveness of work with the media list that is operationalised in the percentage of journalists who attended the event;
- the percentage of published materials from the total number of selected media by priorities;
- the total amount of publicity (weight ratio);
- the qualitative indicators that reflect the content side of the published materials. The quality of publicity is based on the level of compliance of content to the key messages (how many of the reported materials reflected the key messages in the journalistic text).

Using the multiplier can take us to the next level of working with more sophisticated indicators - for example, assessing the agency's work with media list given the event's newsworthiness. For instance, an event has been rated as average (medium level of newsworthiness) and it was given a 1.5 multiplier. One hundred invitations were distributed and 20 journalists confirmed participation. The effectiveness of the agency's work with the media list can be calculated with the ratio of confirmations to invitations sent by the following formula:

$$\text{confirmations/invitations} * \text{multiplier} = 20/100 * 1.5 = 0.3$$

If the newsworthiness of the event is lower, the multiplier could be set as 2, and the same confirmation rate will be equal to a higher effectiveness. This reflects a greater contribution of the agency in providing the same quantitative results under less favourable conditions:

$$\text{confirmations/invitations} * \text{multiplier} = 20/100 * 2 = 0.4$$

Similarly, one can find the parameter to reflect the percentage of published materials to the approved priorities in the ranked media list (quality of publicity). For a client it is important not only to get a certain number of references in publications, but it is even more important to ensure that the communication tasks are fulfilled and that the target publics are reached.

The quality of publicity is a breakdown of publications in the media by categories depending on the priority. The indicator reflects the effectiveness of the agency's work with the media depending on the importance and usefulness of a specific media for the given inject (occasion or event). This parameter is calculated by the number of publications within each priority media category. The indicator can also be used in combination with the newsworthiness potential factor (newsworthiness multiplier). It will then assess the publicity given the level of newsworthiness potential. For example, 35% of output in high-priority media for the event with newsworthiness multiplier of 2.0 can be expressed as follows:

$$\text{number of publications/number of media in the priority group} * \text{multiplier} = 0.35 * 2 = 0.7$$

This indicator reflects the effectiveness of the agency in getting the event of a low newsworthiness potential in the top-priority media.

The next factor is the quality of content, i.e. the key themes of relevant publications (key messages). This parameter can be calculated as an extent to which the content represents key messages (how many of them are reflected in the journalistic materials). This factor is lowering multiplier too, i.e. if only one of four key points is mentioned in a particular publication, the quality of the publication content cannot not be higher than 0.25. Of course while evaluating the quality of the content one should consider not only the number of key points, but also the opinion expressed, and the general tone of the publication.

## CONCLUSION

The proposed method of multipliers also suffers from a certain arbitrariness. However, the task that is performed using multipliers is not associated with increased levels of objectivity in assessment, rather it is aimed to improving the consistency of management expectations of the agency and the client. It is not an evaluation device, but a tool for negotiation and client relations management.

This performance evaluation system that takes into account objective factors together with indicators that reflect the fact that media-relations can be viewed as a process that consists of several measurable blocks or elements. The understanding of these elements define the relationship between the client and the agency. These relations have a partner character and the main difficulty in maintaining them lies in the ability to isolate various group factors from each

other and to understand the contribution of each element provided by each party to the cumulative effect. Of course, the task of getting the most transparent assessments is associated with some simplifications and approximations.

Meanwhile, the acknowledgement of the fact that the effectiveness of media-relations (whether for a single event, inject, or a lengthy campaign) depends not only on how the agency operates and how efficient it is, but also on the level of newsworthiness of the event that the clients want to have covered. By acknowledging this interdependence, the client and the agency have the opportunity to agree on mutual expectations and avoid conflicts in the evaluation of results.

This practice allows greater coordination and satisfaction for the client from the experience of cooperation with the agency. In the long-term, stable relationships which are based on profound positive impressions are formed over a long period of interacting with the agency.

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## **NCAA CORPORATE SPONSORSHIP: DOES IT IMPACT CONSUMER ATTITUDES AND PURCHASES? THE CASE OF AT&T SPONSORSHIP**

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### **ABSTRACT**

This paper examines the effectiveness of corporate sponsorship in National Collegiate Athletic Association (NCAA) sanctioned sporting events and attempts to examine consumer attitudes and purchase intentions towards companies such as AT&T that sponsor NCAA sporting events. This paper addresses four key concepts: consumer awareness of sponsorship; the perceived fit between sponsorship and the sponsoring company; consumer attitudes towards the sponsoring brand; and consumer purchase intention toward the sponsoring brand. Research results indicate that approximately 44.9 percent of respondents are aware of AT&T sponsoring NCAA sanctioned sporting events. In addition, research indicates that consumer attitudes towards the sponsoring brand have a strong direct relationship with purchase intention toward the sponsoring brand. Furthermore, results indicate that sponsoring brand equity has a positive effect on attitudes toward the sponsoring brand; and corporate sponsorship helps sponsoring firms increase brand equity; and sponsored organization recognition has a favorable impact on consumer purchase intention toward the sponsoring brand.

*Keywords:* Sport Sponsorship, Consumer Attitudes, Purchase Intention, Sports Marketing

### **INTRODUCTION**

Sponsorship is a cash and/or in-kind fee rewarded to a property which may be a sports, arts, entertainment, or non-profit event in return for access to the commercial potential associated with that property (Meenaghan, 1991). Although sponsorship enables a corporation to communicate with their customers and deliver increased awareness, brand building and propensity to purchase, unlike other advertising media, sponsorship cannot communicate specific product attributes.

Corporate sponsorship has become an essential marketing tool in the highly congested marketing communication world and is now considered one of the most important tools for a corporation's marketing communication strategy. In fact, research indicates that sponsorship can be a highly cost-effective means of marketing communication (Benett, 1999; Marshall & Cook, 1992; Meenaghan, 1991; Thwaites, 1995).

Sponsorship enables a corporation to achieve numerous goals including increasing brand awareness (Cornwell, Roy, & Steinhard, 2001; Dean, 2002); enhancing brand recall and loyalty, and developing a positive attitude toward the sponsor (Cornwell, et al., 2001); developing a positive affect towards the company and their products and services; assessing consumer purchase intentions and; boosting sales (Gwinner & Swanson, 2003); and developing a halo of goodwill (IEG, 2011); (Meenaghan, 2001; Rifon, Choi, Trímble, & Li, 2004; Speed & Thompson, 2000). As Levin, Joiner, and Cameron (2001) and Neijen, Smit, and Moorman (2009) indicated a corporation can benefit from sponsorship by associating its brand with a specific event. Furthermore by sponsoring corporate events such as sporting events, causes, the arts, festivals and annual events, etc., firms can create a positive image of commitment to corporate social responsibility (CSR) with their customers, which has a positive influential effect on its customers (Chomvilailuk & Butcher, 2010). Finally, sports sponsorship enables a firm to link the aspiration and passion of its customers to specific sporting events (Arun, 2004; Kim, 2010).

Transparency and accountability are two of the greatest obstacles sponsors face in the field of sponsorship. As corporations increase their investment in sponsorship, they will be subject to more stakeholder financial scrutiny and review in order to accurately determine the effectiveness of sponsorship activities (Meenaghan, 2013).

Though sponsorship has several benefits it requires a large investment, firms cannot always be sure that their sponsorship programs are effective. Previous studies indicate that consumers are often confused or have misperceptions about official sponsors (Meenaghan, 1996). Thus official sponsors may face a marketing challenge whereby they have to ensure that their customers recognize them as the sponsor and develop a favorable attitude towards their brands (Pitt, Parent, Berthon, & Steyn, 2010; Schmitz, 2005). Interestingly, the effect of sponsorship on consumer company identification and brand attitude were found to be greater in firms that ranked high in corporate social responsibility reputation than in firms that ranked low in corporate social responsibility reputation (Lii & Lee, 2012).

Corporate sponsorship is a very lucrative business. Total global sponsorship expenditures, made by event organizers were \$55.1 billion in 2013, up from \$46.3 billion in 2010. In fact, industry projections estimate 2014 sponsorship expenditures to be \$55.3 billion dollars (IEG, 2014). According to IEG's 29<sup>th</sup> annual year-end industry review and forecast, in North America, the total dollars spent on corporate sponsorship has grown from \$17.2 billion (2010) to \$20.6 billion (2014 projected). Although corporate sponsorship dollars have increased annually from 2010 to 2014, the growth rate of sponsorship dollars has actually declined from 5.5% (2010) to 4.3% (2014 projected), (IEG, 2014). Similar to North America, the growth rate globally has declined from a 5.1% increase in 2010 to 4.1% (2014 projected), (IEG, 2014). Globally in 2013, 70% of these sponsorship dollars were spent on sporting events, 10% on entertainment, 9% on causes, 4% the arts, 4% festivals and annual events, and 3% associations and memberships. In North America, the numbers were somewhat similar: 69% for sporting events, 10% for entertainment, 9% for causes, 4.5% for arts, 4.2 % for festivals, and 2.8% for associations (IEG, 2014). The annual growth rate of sponsorship versus other advertising tools has seen a slight decline from 5.5% (2011) to 4.3% (2014 projected). Globally, this number has also declined from 5.1% in 2011 to 4.1% (2014 projected) (IEG, 2014).

As discussed previously, corporate sponsorship is still experiencing a steady growth rate; however corporate sponsors have begun to utilize other marketing alternatives such as: digital media, social media, and mobile applications. Sports sponsorship remains the largest sponsorship category for corporations although its dominance has declined in recent years as corporations invest advertising dollars in other non-traditional media venues such as social media and mobile applications (Meenaghan, 2013).

The aim of this study is to develop a theoretical model that helps better explain consumer behavior within the context of existing sponsorship marketing literature. This study examines the role of sponsorship on purchase intention towards the sponsoring brand, awareness of the sponsorship and factors effecting consumer attitudes toward the sponsoring brands. This study's emphasis is intended to provide sponsors and marketers with a point of departure for understanding specific consumer characteristics and purchase intention towards the event sponsor and its brands. A conceptual model was developed to explain three key items: (1) awareness and sponsored organization recognition (2) the relationship between sponsored organization recognition, perceived fit, sponsoring brand equity and attitudes toward sponsoring brand (3) the importance of sponsorship factors effecting purchase intention. As such, understanding sponsorship's role and function for consumer purchase intentions of the product and/or service is the main focus of this paper.

This paper is comprised of seven sections. The first section presents an introduction and review of the essence of sponsorship, the use of sponsorship events, and the present trends of sponsorship. Section two examines NCAA event sponsorship. Section three focuses on the literature review of sponsorship. Section four contains the research model and explains the hypothesis formed, based on the literature review. Section five contains the methodology questionnaire design, measurement of variables and data collection. Section six presents the data analysis and research results. Finally, section seven discusses the conclusions, limitations and future research recommendations.

### **NATIONAL COLLEGIATE ATHLETIC ASSOCIATION (NCAA) EVENT SPONSORSHIP**

The NCAA Corporate Champions and Corporate Partners program supports all 89 NCAA championships. Corporate partners are granted a wide variety of benefits for participating in this partnership, including exclusivity around the use of NCAA logos, designations and championship tickets. Through the NCAA Corporate Champion and Corporate Partner programs, sponsoring companies provide a direct, positive impact on the academic and developmental opportunities afforded to over 400,000 student-athletes each year.

The NCAA Corporate Champion and Corporate Partner Programs were first introduced in 1984 and are dedicated to excellence and committed to developing marketing and promotional activities surrounding NCAA Championships. Some of America's top corporations participate in the program and emphasize the role of athletics and academics in our society by supporting NCAA youth programs, student-athlete awards, and scholarship initiatives. In 2002-03 the program was restructured to consist of two specific tiers of marketing and promotional rights – Corporate Champions and Corporate Partners. Presently official NCAA Corporate Champions

are comprised of AT&T, Capital One, and Coca Cola. Official NCAA Corporate Partners include: Allstate, Buffalo Wild Wings, Buick, Burger King, Enterprise, Infiniti, Kindle Fire, LG, Loews, Nabisco, Northwestern Mutual, Reese, Unilever and UPS.

AT&T is the NCAA's longest standing sports corporate sponsorship partner. AT&T sponsors NCAA sporting events for both men's and women's events such as basketball, golf, and football. AT&T is one of ten corporate sponsors that are considered top tier NCAA sponsors. Since 2001 AT&T has maintained its sponsorship relationship with the NCAA. AT&T was selected for this study because it is the longest standing NCAA sponsor, and because it is also one of the largest in terms of dollar expenditures (Smith 2011). In 2012 AT&T paid between 175 and 180 million dollars on US sports sponsorship. Although not officially published, it is estimated that AT&T pays the NCAA millions of dollars per year in event sponsorship dollars (Jacobson, 2013).

### **LITERATURE REVIEW**

Considerable research has already been done in the field of sponsorship. Dardis (2009) emphasized the importance of a goodness of "fit" message and repeated message exposure to the customer for the sponsored event. Cornwall and Coote (2005) utilized social identity theory to assess consumer identification with a sponsored event, and purchase intention with non-profit groups. Grohs and Reisinger (2005) researched the importance of sponsorship image, goodness of "fit," and sponsor reputation. Similarly, Hamlin and Wilson (2004) researched cause related marketing, and the degree of "fit" between sponsoring corporations, and their brand identity in customer relationship management campaigns. Rifon, et al., (2001) identified sponsor motives such as altruism and reputation management to determine message congruence and consumer influence.

Madrigal (2000) researched consumer identification of sponsor and found that identification with a particular team affects sponsor influence and consumer purchase intentions. Harris (2000) examined consumer purchase intentions towards sponsored brands by reviewing alliances between sports fans and sports teams. Speed and Thompson (2000) utilized a classical conditioning model to understand consumer attitudes and perceptions of sponsor-property fit. Johar and Pham (1999) researched sponsor reputation and brand-event fit, noting that more popular sponsors in the marketplace are often misidentified as being an event sponsor. Gwinner and Eaton (1999) assessed how a sporting event activity can enhance a brands image via sponsorship. They concluded that if an event could be made more prominent, the resulting image transfer that the sponsor was trying to achieve would be more successful. Cornwall, Humphreys, Maguire, Weeks, and Tellegen (2003) examined the level of sponsor recall, concluding that consumer recall is stronger for sponsors with good "fit," rather than sponsors with lesser "fit." Olson and Thjømmøe (2003) researched sponsorship involvement with brand information, finding that consumers who had additional brand information tended to have stronger attitudinal changes towards sponsors. Finally, Becker-Olsen and Simmons, (2002) examined attitudes towards the sponsor and the effects of good "fit" on firm equity, noting positive congruence or goodness of "fit" tends to influence consumer attitudes as much as one year later (Woodside & Summers, 2012).

### **Sponsored Organization Recognition**

Petty, Cacioppo, and Schumann (1983) show that the importance of attitude toward the event creates a favorable customer response. Burke and Edell (1989) demonstrate that positive feelings about an ad positively affect a consumer's opinion of the advertised brand, and conversely, negative feelings negatively impact a consumer's affinity towards a brand. d'Astous and Bitz (1995) determined that consumers who considered an event to be attractive also considered the event would have a stronger impact on the sponsoring organizations' image. Crimmins and Horn (1996) suggested that corporations can benefit from consumers that have a strong affinity for an event (Speed & Thompson, 2000). Grohs, Wagner, and Vsetecka (2004) researched consumer identification with a specific activity via their engagement with a sponsored event. Cornwell and Coote (2005); Daneshvary and Schwer (2002); Meenaghan (2001); and Harris (2000) show a significant link between the sponsored event and the sponsoring brand.

### **Sponsoring Brand Equity**

Consumers may form a strong sense of attachment with the sponsoring firm when consumers become emotionally attached to the sponsoring firm's product (Gwinner & Eaton, 1999; Sirgy, Lee, Johar, & Tidwell, 2007). In addition, these associations may then be reflected in consumer awareness of the brand, and create a greater preference for the brand and lead to additional consumer purchases of the brand (Tripodi & Sutherland, 2000; Woodside & Summers, 2012). In addition, firms try to create an association between the brand and the event (Levin, et al., 2001; Meenaghan, 2001; Neijen, et al., 2009) in order to create brand preference and brand purchase (Morales, 2005).

When a brand is associated with a specific event, the event can be associated with a group of brand associations and the event may also become indirectly related with the brand (Keller, 1993). Sponsorship also makes it possible to categorize a market by target audience interests and thus improves the linkage of the brand to a high profile event or group (Crimmins & Horn, 1996, Kim, 2010). In the case of the grocery industry, most consumer purchase decisions are made at the point-of-purchase (Harris, 2000), and thus effective promotional strategies are vital because on-package promotions help influence consumer decision making (Johar & Pham, 1999). However, literature also suggests as brand loyalty increases, competitive action declines (Johar & Pham, 1999).

### **Perceived Fit between the Sponsored Event and the Sponsor**

Meenaghan (1991, 1996), Pitt, et al. (2010), and Schmitz (2005) remind us that quite often consumers who are exposed to a sponsor's message do not recall, identify, or recognize the sponsors and develop a favorable attitude toward the brands. Thus, it is imperative that the sponsoring firm create an effective message through the sponsorship event and make sure that there is a good fit between the sponsored event and the event sponsor. When there is a close fit between the event sponsor and the sponsors of the event, consumers tend to improve their attitude towards the sponsor positively and also have higher purchase intentions (Becker-Olsen, 2003; McCarthy & Erwin, 1998; Roy & Cornwell, 2003; Speed & Thompson, 2000).

When there is a perceived “fit” between the sponsoring firm and the brand, improved results in sales and profits can be observed. Speed and Thompson (2000) indicate that the level of “fit” is positively related to a consumer’s willingness to consider the sponsoring firm’s product. Individual activities or events are found to be possessed of particular personality attributes in the public mind and much sponsorship activity is directed towards garnering a ‘rub-off’ effect to the company or its products through associating with a particular sponsorship event or activity” (Meenaghan, 1983).

Koo, Quarterman, and Flynn (2006) used schema theory to determine whether similar information about a sponsor’s products results in more positive consumer behavior towards sponsoring firms. Shani and Sandler (1996) researched the depth and width interest of sponsored events and also categorized these events as: global (Olympics); international (Tour De France); national (NCAA Final Four); regional (Big East Conference); and local (high school football).

Attitudes towards the sponsored event to its brand are more favorable when the event property and sponsoring corporation are known to the consumer in either image or functionality (Gwinner & Eaton, 1999). Research suggests that there is a fit between consumer perceptions of sponsoring event and sponsoring firm (Gwinner & Eaton, 1999; Meenaghan, 2001; Speed & Thompson, 2000). Specifically, when customers positively perceive a sponsor-event fit, consumer attitudes towards the event are improved (Cornwell et al., 2003; McDaniel, 1999). Additionally, sponsor-event fit tends to influence consumer memory and recall of the event sponsor (McDaniel, 1999). Crimmins and Horn (1996); Otker and Hayes (1987); Stipp and Schiavone (1996) emphasize the importance of congruence or good “fit” between and sponsor and the sponsored property or event.

### **Awareness of Sponsorship**

For many companies participating in sponsorship activities, the primary goal is to enhance brand awareness (Yong, Kyoungtae, Cathryn, & Tae Hee, 2008). Recent academic research has concentrated on various factors which affect respondent associations of sponsored events in order to better explain sponsorship effects. More specifically examined memory and sponsorship to understand sponsorship effects (Meenaghan, 2013). Guner and Harcar (2012) addressed consumer awareness and brand sponsorship for corporations sponsoring athletic stadiums. Approximately 70% of respondents were aware of local corporations that sponsored local teams in the greater Pittsburgh area.

Consumers may form a strong sense of attachment with the sponsoring firm when consumers become emotionally attached to the sponsoring firm’s product (Gwinner & Eaton, 1999; Sirgy et al., 2007). In addition, these associations may then be reflected in consumer awareness of the brand, and create a greater preference for the brand and lead to additional consumer purchases of the brand (Tripodi & Sutherland, 2000).

### **Attitude and Purchase Intentions toward Sponsoring Brand**

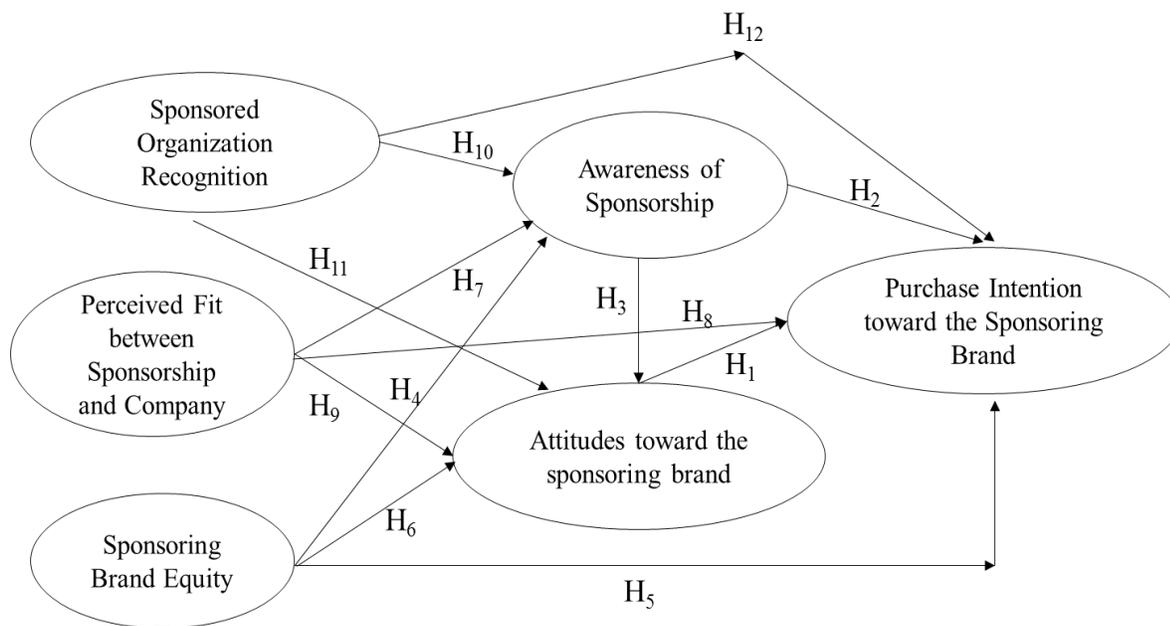
Javalgi, Traylor, Gross and Lampman (1994) and Stipp and Schiavone (1996) determined that sponsors with a more favorable image tend to have more positive response to their sponsorship activities than sponsors with a less favorable image identified those respondents pro-

social perceptions of the sponsor tend to favorably impact the sponsor’ image (Speed & Thompson, 2000; Stipp & Schiavone, 1996). Guner et al., 2012 found that consumer recognition of and preference for sponsoring brand is affected by the level of involvement with the event as well as the respondents’ demographic characteristics.

### RESEARCH MODEL and HYPOTHESIS

The conceptual model, operational definitions, and measurement items were developed based on theoretical foundations adopted from the literature review.

Figure 1: Sponsorship Initial Conceptual Model



The evidence gathered from the above literature review, permits us to suggest the following hypotheses:

- H1: Attitudes toward the sponsoring brand has a strong direct relationship with purchase intention toward the sponsoring brand.
- H2: Awareness of sponsorship has a positive effect on purchase intention toward the sponsoring brand.
- H3: Awareness of sponsorship has a positive effect on attitudes toward the sponsoring brand.
- H4: Sponsoring brand equity has a positive effect on awareness of sponsorship.

H5: Sponsoring brand equity has a positive effect on purchase intention toward the sponsoring brand.

H6: Sponsoring brand equity has a positive effect on attitudes toward the sponsoring brand.

H7: Perceived fit between sponsorship and company has a positive effect awareness of sponsorship.

H8: Perceived fit between sponsorship and company has a positive effect on purchase intention toward the sponsoring brand.

H9: Perceived fit between sponsorship and company has a positive effect on attitudes toward the sponsoring brand.

H10: Sponsored organization recognition has a positive effect on awareness of sponsorship.

H11: Sponsored organization recognition has a positive effect on attitudes toward the sponsoring brand.

H12: Sponsored organization recognition has a positive effect on purchase intention toward the sponsoring brand.

These hypotheses gave us the foundation for completing our analysis and developing our sponsorship model.

## **RESEARCH METHODOLOGY**

### **Questionnaire Design and Measurement of Variables**

A questionnaire was developed to collect data based on the relevant literature. The questionnaire consisted of four categories and was pretested for content validity, face validity, and precision of the questions and instructions prior to being administered. The questionnaire was comprised of seven sections. The first section measured sponsored organization recognition, in the second section, the respondents were asked to express their perception about sponsoring brand equity, the third section of the questionnaire was designed to measure matching of sponsorship and company, the fourth section measured the attitude toward sponsor, the fifth section of the questionnaire was designed to gauge whether consumers were aware of the sponsorship, the sixth part was developed to determine purchase intention of the sponsor company product/services and the last section was comprised of questions regarding the respondent's demographic background.

Table 1 shows the operational definitions of the research variables. For each variable, a multiple-item scale was developed where each item was measured based on a 5-point Likert scale, ranging from 1—"Strongly Disagree" to 5—"Strongly Agree." Seven items were used to

measure sponsored organization recognition and brand equity, four items were used to measure fit between sponsorship and company, three items were used to compute attitude toward sponsorship and purchase intention whereas awareness with the event sponsors were assessed by only two items.

**Data Collection**

Data for the study were collected as part of a larger study through self-administered questionnaires from randomly selected adults (18 years or older) who reside in the Beaver, Alleghany,

Table 1. The Operational Definitions of the Research Variables

<b>Research Variable</b>	<b>Operational Definition</b>	<b>Previous Research Scale</b>
<b>Sponsored Organization Recognition (SOR)</b>	<ol style="list-style-type: none"> <li>1. NCAA Basketball is extremely important in my daily life</li> <li>2. I usually attend NCAA basketball games</li> <li>3. I frequently watch NCAA games on TV</li> <li>4. I am strong supporter of NCAA basketball</li> </ol>	Guner, Harcar, and Altintas, 2014; Speed and Thompson, 2000; Woodside and Summers, 2012.
<b>Sponsoring Brand Equity (SBE)</b>	<ol style="list-style-type: none"> <li>1. AT&amp;T brand is reliable</li> <li>2. AT&amp;T provides good value for money</li> <li>3. I would recommend AT&amp;T to others</li> <li>4. AT&amp;T is different from competing brands</li> <li>5. I like AT&amp;T</li> <li>6. I have a favorable opinion of AT&amp;T</li> <li>7. I am loyal to AT&amp;T</li> </ol>	Ahluwalia, Burnkrant and Unnava, 2000; Dahl, Manchanda and Argo, 2001; Guner and Harcar 2012; Sen, Gurhan-Canli and Morwitz 2001; Woodside and Summers, 2012.
<b>Perceived Fit Between Sponsorship and Company (PF)</b>	<ol style="list-style-type: none"> <li>1. The overall fit between AT&amp;T and NCAA is clear</li> <li>2. The overall fit between AT&amp;T name and NCAA is logical</li> <li>3. The overall fit between AT&amp;T and NCAA is readily apparent</li> <li>4. It makes sense to me that AT&amp;T sponsors NCAA</li> </ol>	Grohs, Wagner and Vsetecka, 2004; Speed and Thomson 2000; Guner and Harcar 2014; Woodside and Summers, 2012.

<p><b>Attitude toward Sponsoring Brand (ASB)</b></p>	<ol style="list-style-type: none"> <li>1. AT&amp;T sponsorship makes me more favorable toward the sponsor.</li> <li>2. AT&amp;T sponsorship would improve my perception of the sponsor.</li> <li>3. AT&amp;T sponsorship would make me like the sponsor more.</li> <li>4. Sponsorship of AT&amp;T to NCAA positively influenced how I felt about AT&amp;T</li> <li>5. It is good that AT&amp;T sponsor NCAA</li> </ol>	<p>Speed and Thomson, 2000.</p>
<p><b>Awareness of Sponsorship (AS)</b></p>	<ol style="list-style-type: none"> <li>1. I was aware of AT&amp;T's sponsorship to NCAA earlier.</li> <li>2. I am pretty sure AT&amp;T's sponsors to NCAA.</li> </ol>	<p>Woodside and Summers, 2012.</p>
<p><b>Purchase Intention (PI)</b></p>	<ol style="list-style-type: none"> <li>1. I am most likely to purchase the products/services from AT&amp;T</li> <li>2. I would consider buying the product/service from AT&amp;T if I need a product of this kind</li> <li>3. AT&amp;T sponsorship encourages me to use AT&amp;T's products/services a lot.</li> <li>4. It's possible for me to buy the product /service from AT&amp;T</li> </ol>	<p>Benett, 1999, Cornwell and Coote, 2005; Guner and Harcar 2012; Woodside and Summers, 2012.</p>

Butler and Washington counties in Pennsylvania. These counties are located within an hour drive from the University Pittsburgh. The University of Pittsburgh basketball team is a well-known basketball team in NCAA. A total of 300 questionnaires were hand-delivered to the residents of these counties during the NCAA basketball season 2013. Completed surveys were later collected. After a four-week data collection process, 278 usable ones were retrieved for data analysis. Sample geographic profiles are shown in Table 2.

Table 2. Geographic Profile of Respondents

County	Frequency	Percent
Beaver	109	39.2
Allegheny	90	32.4
Butler	47	16.9
Washington	22	7.9
Other	10	3.6
Total	278	100.0

## **DATA ANALYSIS and RESEARCH RESULTS**

Descriptive statistics were executed using the Statistical Package for the Social Sciences (SPSS) for Windows, version 21. A Structural Equation Modeling (SEM) technique was used to examine the proposed model. SEM technique permitted assessment of association between variables in the model which contained more than one dependent variable as in our hypothesized model (Figure 1). SEM was performed using the statistical software AMOS version 21. Model modification was concluded when the model was considered to be the most appropriate fit with the data.

Several indices were used to assess the fit of the model. First the maximum likelihood chi-square statistic, chi-square/degree of freedom ratio is used to evaluate the fit between the hypothesized statistical model and the actual data set. The Chi-square values between 1.0 and 2.0 indicate good fit, values between 2.0 and 3.0 indicate satisfactory fit, and values less than 1.0 indicate over fit. Secondly the goodness-of-fit index (GFI), the adjusted goodness-of-fit index (AGFI) used to measure absolute fit of the model. Conventional interpretation for these fit indices (AGFI and GFI) is that values of .95 or greater indicate excellent correspondence between the hypothetical model and the actual data, and values between .85 and .90 indicate reasonable model fit (Browne & Cudeck, 1993). The third index is the Comparative Fit Index (CFI) which is used to assess incremental fit. Values close to 0 indicate poor fit, values between 0.90 and 0.95 indicate satisfactory fit, values greater than 0.95 indicate good fit and CFI = 1 indicates a perfect fit. The fourth index used was the Root Mean-Square Error of Approximation (RMSEA). This index is a measure of how well the model approximates the data by determining the lack of fit of the model to the sample covariance matrix, expressed the discrepancy per degree of freedom which indicated absolute fit of the model. A RMSEA value of less than .05 is required to claim good fit, values around .08 indicate fair fit, and values approaching .10 indicate poor fit (Marsh, Balla, & MacDonald, 1988). Lastly the normed fit index (NFI) and the Tucker-Lewis non-normed fit index (TLI) were used to measure the correspondence between the hypothetical model and the actual data, and values between .85 and .90 indicate a reasonable model fit (Browne & Cudeck, 1993; Hu & Bentler, 1999).

The reliability of the construct of the model was calculated using the formula proposed by Fornell and Larcker (1981). The construct reliability was accomplished when the results of several indices conclude that the model fitted with the data. Convergent validity was achieved when the estimated standardized factor loadings in the model were significantly different from zero (Holmes-Smith, Coote, & Cunningham, 2006).

### **Socio-Demographic Characteristics of the Sample**

A total of 134 females and 144 males completed the survey. Respondents were fairly educated; post university graduates comprised 6.1% of the respondents, 32.7% had a college degree, while 32.7 % had some college or technical school education, 28.5% graduated from high school or less. Approximately 20 % of the respondents were 25 years old or younger, 14.4 % were between the ages of 25 and 34, 36.7 % were between the ages of 35-44, 21.2% were between the age of 45-59 and the rest were older than 60 (7.6%). With regard to occupation, homemakers accounted for 7.6% percent; full time positions 29.1%, part time workers 25.2%,

self-employed 10.8%, students 11.9% and retired 15.5%. Of the respondents, 17.6% had annual household incomes less than \$30,000, 22.3% between \$30-45K, 22.7% \$46-60K, 18% \$61-75K, 9.4% \$76-100K, 5.8% \$101-150K and about 4.3% came from households with annual incomes \$151,000 or over. Thirteen percent of respondents were single person families, 22.7% were from two person families, 29.9 % were from three person families, 21.6% four person families, 9.0% five person families, and 3.6 % were from six or more person families.

Table 3. Sample Respondents Demographic Profile

<b>Characteristics</b>	<b>Frequency</b>	<b>Relative Frequency (%)</b>
<b>Education (n=278)</b>		
Less than high school	16	5.8
High school	63	22.7
Technical school	51	18.3
Some college	40	14.4
College graduate	91	32.7
Graduate school	17	6.1
<b>Gender (n=278)</b>		
Male	144	51.8
Female	134	48.2
<b>Age Group (n=278)</b>		
Less than 25	56	20.1
25-34	40	14.4
35-44	102	36.7
45-59	59	21.2
60+	21	7.6
<b>Income (n=278)</b>		
Less than \$30K	49	17.6
\$30-\$45K	62	22.3
\$46-\$60K	63	22.7
\$61-\$75K	50	18.0
\$76-\$100K	26	9.4
\$100-\$150K	16	5.8
More than \$150K	12	4.3
<b>Occupation (n=278)</b>		
Homemaker	21	7.6
Student	33	11.9
Part-time employed	70	25.2
Full-time employed	81	29.1
Self-employed	30	10.8
Retired	43	15.5
<b>Household size (n=278)</b>		
Single person	37	13.3
2 people	63	22.7
3 people	83	29.9
4 people	60	21.6
5 people	25	9.0
6 and more people	10	3.6

### Confirmatory Factor Analysis for Sponsorship Model

Table 4 itemizes the criterion cut-off used to evaluate the goodness of fit relative to the observed data. The final structural model of NCAA sponsorship in relation with AT&T found acceptable the data fit well to the model ( $X^2$  58.657,  $n = 278$ ,  $X^2/df = 2.79$ , Goodness of Fit Index (GFI)=0.846, Adjusted Goodness of Fit (AGFI) = 0.873, The Comparative Fit Index (CFI) = 0.927, Root Mean-Square Error of Approximation (RMSEA) = 0.056, Normed Fit Index (NFI) =0.873 and Tucker-Lewis coefficient TLI=0.932). As a result of this evidence we can conclude that goodness of fit statistics for sponsorship model passed the test of all above mentioned criteria.

Table 4. Goodness of Fit Statistics for Sponsorship Model

Model/Construct	$X^2/df$	GFI	AGFI	CFI	RMSEA	NFI	TLI
Recommended Value	$\leq 3.00$	$\geq 0.85$	$\geq 0.85$	$\geq 0.90$	$\leq 0.08$	0.85-0.95	0.85-0.95
Sponsorship Model	2.79	0.846	0.873	0.927	0.056	0.873	0.932

As indicated in Table 4, the measurement model demonstrated a fairly good fit with the data collected. Consequently, we can evaluate the sponsorship properties of the measurement model in terms of reliability, discriminant validity, and convergent validity. Therefore, the analysis supported the convergent and discriminant validity of the measures.

### Reliability and Internal Validity Tests

In this study, the internal consistency (Cronbach's  $\alpha$ ) for the 25-itemscale was 0.865. To test the appropriateness of factor analysis, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was conducted. The KMO was 0.867, which is very near to the perfect level, 0.92. Bartlett's test of sphericity reveals significance at a level of 0.000 (Chi-square = 58.657).

The variance-extracted estimates (VES) range from 46 % for awareness of sponsorship to 85% for attitudes toward sponsoring brand. The estimates of awareness of sponsorship do not exceed the 50 % rule of thumb suggesting insufficient, however acceptable convergence (Hair, Black, Babin, Anderson, & Tatham, 2006). Also note that all variance-extracted estimates are greater than the corresponding inter-construct squared correlation estimates in Table 5 (second column). Consequently, this data analysis does not indicate any problems with discriminant validity. Furthermore, examination of standardized residuals and modification indices did not show the addition of other paths that would meaningfully expand the fit of the sponsorship model.

Table 5. Reliability, Variance Extracted Estimates and Discriminant Validity of the Sponsorship Model.

	Variance Extracted Estimates (VES)	SOR	SBE	PF	ASB	AS	PI
SOR	0.54	1					
SBE	0.63	0.02	1				
PF	0.56	0.01	0.15	1			
ASB	0.85	0.02	0.18	0.29	1		
AS	0.46	0.05	0.12	0.10	0.18	1	
PI	0.69	0.00	0.29	0.18	0.27	0.1	1

The construct reliability (CR) was projected to evaluate internal consistency of the measurement model. The result supports reliability and validity of constructs. We examined the reliability of each of the composite constructs by using Cronbach's alpha. These are represented in last column of Table 6. Cronbach's alpha analysis allowed the identification of six factors that were tested for reliability and validity by means of exploratory and confirmatory factor analysis. Construct reliability values were all acceptable, close to 0.7 or above, indicating high internal consistency of the latent constructs.

### Factors Affecting Sponsorship Model Exploratory Factor Analysis

Using the 'factor analysis' module in SPSS, the "factors affecting sponsorship" were analyzed. The principal components' method for initial factor extraction with the criterion Eigenvalue greater than 1 and Varimax method of rotation was practiced. Sample size is an element that can affect the adequacy of the factor models. It has been suggested (Hayes, 1992) that the sample size should equal at least 10 times the number of variables; for large numbers of variables the proportion is decreased to five. In similar studies, samples of size approximately 200 were chosen (Parasuraman, Zeithaml & Berry, 1988) while in this study a sample size of 278 was used. All the items were first factor analyzed. Rotated factor loadings were examined assuming different numbers of factors for extraction. Excluding three items from Sponsoring Brand Equity construct "*I like AT&T*", "*I have a favorable opinion of AT&T*" and "*I am loyal to AT&T*" all the sponsorship responses could be combined into the analysis. Table 6 depicts the rotated factor loadings for the items based on six-factor extraction without these three statements. The summation of the percentage variances is 55.28 that represent the percentage of variances of all 25 statements expounded by the six factors.

Factor loadings for each item ranged from .632 to .948. The final research constructs and corresponding measurement items are presented in Table 6.

Table 6. Results of the Exploratory Factor Analysis

<b>Model Constructs</b>	<b>Factor Loadings</b>	<b>R<sup>2</sup></b>	<b>% of Variances</b>	<b>Cronbach Alpha</b>
<b>Sponsored Organization Recognition (SOR)</b>			15.35	.834
1. NCAA Basketball is extremely important in my daily life	.925	.85		
2. I usually attend NCAA basketball games	.946	.87		
3. I frequently watch NCAA games on TV	.789	.57		
4. I am strong supporter of NCAA basketball	.707	.52		
<b>Sponsoring Brand Equity (SBE)</b>				
1. AT&T brand is reliable	.668	.45		
2. I would recommend AT&T to others	.869	.74		
3. I am loyal to AT&T	.891	.79		
4. AT&T is different from competing brands	.731	.510		
<b>Perceived Fit Between Sponsorship and Company (PF)</b>			8.16	
1. The overall fit between AT&T and NCAA is clear	.775	.62		
2. The overall fit between AT&T name and NCAA is logical	.738	.54		
3. The overall fit between AT&T and NCAA is readily apparent	.759	.58		
4. It makes sense to me that AT&T sponsors NCAA	.729	.52		
<b>Attitude toward Sponsoring Brand (ASB)</b>			19.76	.867
1. AT&T sponsorship makes me more favorable toward the AT&T Corporation.	.714	.52		
2. AT&T sponsorship would improve my perception of the sponsor.	.831	.68		
3. AT&T sponsorship would make me like the sponsor more.	.902	.84		
4. Sponsorship of AT&T to NCAA positively influenced how I felt about AT&T	.838	.69		
5. It is good that AT&T sponsor NCAA	.872	.75		
<b>Awareness of Sponsorship (AS)</b>			4.56	.645
1. I was aware of AT&T's sponsorship to NCAA earlier.	.747	.55		
2. I am pretty sure AT&T's sponsors to NCAA.	.692	.49		
3. I read and watch news about AT&T's sponsorship to NCAA on media.	.632	.41		

4. I know other corporate sponsors for NCAA.	.681	.46		
<b>Purchase Intention (PI)</b>			7.45	.743
1. I am most likely to purchase the products/services from AT&T	.842	.70		
2. I would consider buying the product/service from AT&T if I need a product of this kind	.835	.69		
3. AT&T sponsorship encourages me to use AT&T's products/services a lot.	.948	.81		
4. It's possible for me to buy the product /service from AT&T	.724	.63		

### Sponsorship Conceptual Model SEM Results

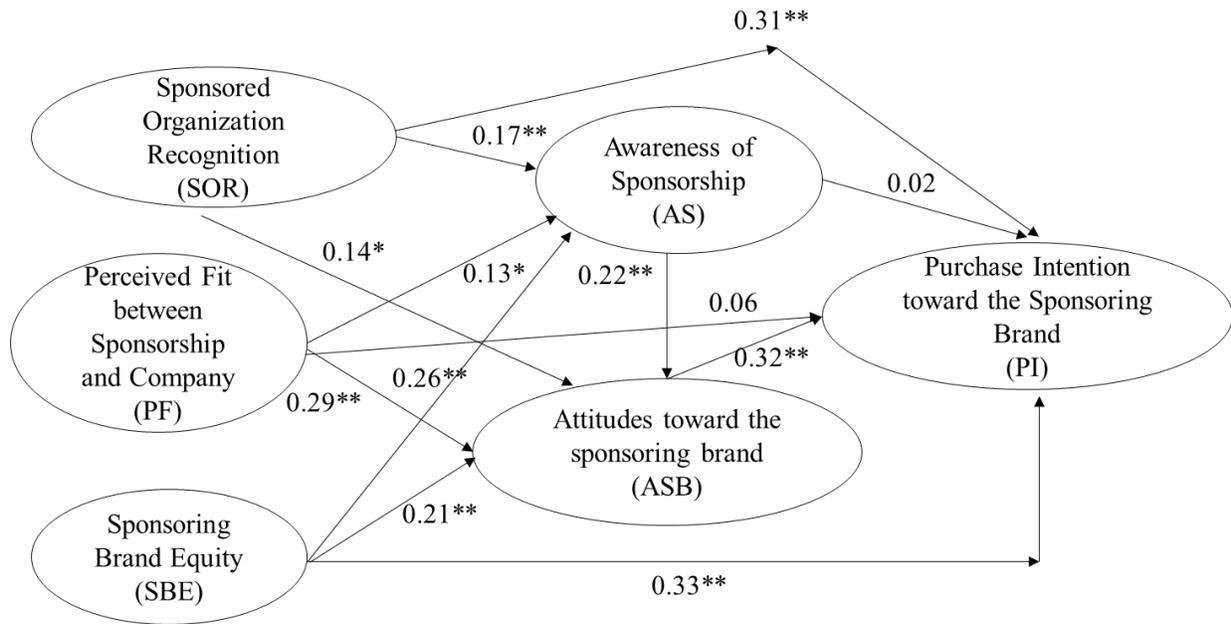
Figure 2 displays the path diagram with the resulting entirely standardized structural parameter estimates comprised on the paths. The estimation of the structural model shows that all but two hypotheses were supported (Table 7). The exceptions are awareness of sponsorship and perceived fit between sponsorship and company on the purchase intention of sponsoring brand (H2;  $\gamma = 0.02$ ,  $t = 0.39$ ,  $p > 0.05$  and H8;  $\gamma = 0.06$ ,  $t = 1.12$ ,  $p > 0.05$ ).

It is worthy to remark that awareness of sponsorship does not have a direct effect on purchase intention toward the sponsoring brand. But, this variable has a positive indirect effect on purchase intention through attitudes toward the sponsoring brand, (H3;  $\gamma = 0.22$ ,  $t = 4.02$ ,  $p < 0.01$ ). As expected, sponsoring brand equity and attitudes toward sponsoring brand have strong positive effects on purchase intention toward the sponsoring brand (H5;  $\gamma = 0.33$ ,  $t = 6.22$ ,  $p < 0.01$ , H1;  $\gamma = 0.32$ ,  $t = 5.23$ ,  $p < 0.01$ ). The effects of sponsoring brand equity have a relatively strong direct relationship with awareness of sponsorship and attitude towards sponsoring brand (H4;  $\gamma = 0.26$ ,  $t = 4.17$ ,  $p < 0.01$ , H6;  $\gamma = 0.21$ ,  $t = 4.13$ ,  $p < 0.01$ ).

Perceived fit between sponsorship and company has a positive effect on attitudes towards sponsoring brand toward the sponsoring brand (H9;  $\gamma = 0.29$ ,  $t = 5.04$ ,  $p < 0.01$ ). Additionally sponsored organization recognition on purchase intention toward sponsoring brand has a significant positive effect (H12;  $\gamma = 0.31$ ,  $t = 5.85$ ,  $p < 0.01$ ). Sponsored organization recognition contributes positively to both awareness of sponsorship and attitudes toward the sponsoring brand (H10;  $\gamma = 0.17$ ,  $t = 2.99$ ,  $p < 0.01$ , H11;  $\gamma = 0.13$ ,  $t = 2.22$ ,  $p < 0.05$ ). Perceived fit between sponsorship and company has a marginal impact on awareness of sponsorship (H7;  $\gamma = 0.13$ ,  $t = 2.02$ ,  $p < 0.05$ ).

Overall, provided that ten of the twelve estimates are consistent with the hypotheses, the study results maintain the theoretical model, with a caveat of the two paths that are not supported.

Figure 2. Sponsorship Conceptual Model SEM Results



\*Significant at p=.05 \*\*Significant at p=0.01

Table 7. Results of Estimation Structural Model

Hypotheses	Path to	Path From	Coefficient	t-value
H <sub>1</sub>	ASB	PI	0.32	5.23
H <sub>2</sub>	AS	PI	0.02	0.39
H <sub>3</sub>	AS	ASB	0.22	4.01
H <sub>4</sub>	SBE	AS	0.26	4.17
H <sub>5</sub>	SBE	PI	0.33	6.22
H <sub>6</sub>	SBE	ASB	0.21	4.13
H <sub>7</sub>	PF	AS	0.13	2.12
H <sub>8</sub>	PF	PI	0.06	1.12
H <sub>9</sub>	PF	ASB	0.29	5.04
H <sub>10</sub>	SOR	AS	0.17	2.99
H <sub>11</sub>	SOR	ASB	0.14	2.23
H <sub>12</sub>	SOR	PI	0.31	5.85

### CONCLUSIONS

This paper examined consumer awareness and the brand preference, attitudes and perceived fit of a corporation that sponsors NCAA sanctioned sporting events. The results suggest that attitudes towards the sponsoring brand have a positive effect on consumer purchase intentions and attitudes towards the sponsoring brand. In addition, sponsoring brand equity has a positive effect on the awareness of sponsorship, consumer purchase intentions, and attitudes

towards the sponsoring brands. Also, the perceived fit between sponsorship and the sponsoring firm have a positive effect on awareness of sponsorship, and attitudes towards the sponsoring brands. Finally, recognition of the sponsoring organization has a positive effect on awareness of sponsorship, attitudes towards the sponsoring brand, and consumer purchase intention toward the sponsoring brand. The results of this study indicate that it is evident that consumers have a high tendency to develop more positive attitudes towards the firm or brand sponsoring the NCAA sporting event. Therefore, firms should consider sponsoring events in order to increase consumer awareness, purchase intentions, and brand equity.

Confirmatory factor analysis for the sponsorship model confirmed all the relationships in the model with two exceptions. Reliability and internal validity of the data has been tested, it can be concluded that this model is in fact a good fit for the suggested model. Cronbach's alpha reliability test also supports convergent and discriminant statistical validity measurements of the model.

It can be concluded that awareness of corporate sponsorship does not have a direct effect on consumer purchase intentions, but rather an indirect effect on consumer purchase intentions through attitudes towards the sponsorship brand. Overall, this model confirms the initial research hypothesis that consumer attitudes towards the sponsoring brand have a strong direct relationship with consumer purchase intentions of the sponsoring brand.

This research confirms previous research (Gwinner & Eaton, 1999; Gwinner & Swanson, 2003, Harris, 2000; Meenaghan, 2001; Sirgy et al., 2007) that when consumers are emotionally attached to a sponsor and identify with its sponsored event, it leads to a strong consumer sense of attachment with the sponsors' brands. In addition, our findings confirms previous research which indicates that positive attitudes towards a sponsor are related to favorable consumer purchase intentions of sponsoring firms products (Gwinner, 1997; Guner et al., 2014; Pope & Voges, 1999; Speed & Thompson, 2000). Also, our findings support previous research that suggests it is important for sponsors to reinforce the relationship between the sponsoring event and its brand or sponsored properties (Fullerton, 2007, Harcar & Guner, 2012). In addition, it is important to emphasize the key role that congruence or good "fit" plays in consumer related perceptions of sponsor attitudes (Woodside & Summers, 2012).

Some of the limitations for this study are that it was only conducted in a limited geographic area (Western Pennsylvania) and it only examines one already well known large corporation. In future research it may be necessary to test the model for more than one corporation and compare the results of different sponsoring companies. More specifically future research should focus on other aspects such as international sporting events, lesser known firms, weaker known brands (Kim, 2010) and brand recall and home country national pride (Smith & Kim, 2006).

Also more research is needed to assess a firm's return on investment for sponsorship activates, as well as to better understand the actual impact of event sponsorship on sales, customer loyalty and preference, as well as brand equity development. In addition, this paper does not address whether factors such as gender, education, age, and income affect consumer

preferences towards sponsorship. More specifically, do demographic profiles of consumers and an event impact brand equity (Lii & Lee, 2012).

In addition, this event sponsorship model from an international perspective (Singh, 1995) might be tested for other countries engaged in sports event sponsorship. Likewise, this sponsorship model can be examined for specific international events such as Formula 1, the World Cup, the Olympic Games, Tennis Grand Slam and Golf's Grand Slam which are traditionally sponsored by multinational corporations.

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## **ADVERTISING TENDENCIES OF DEGREE GRANTING INSTITUTIONS IN THE MARYLAND UNIVERSITY SYSTEM: A PERIOD OF ECONOMIC DOWNTURN**

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### **ABSTRACT**

This study examines the advertising tendencies of degree granting institutions in the University System of Maryland during period of economic downturns. The purpose of this paper therefore is to determine how much degree granting institutions in the University System of Maryland spend on advertising during the period of economic downturn and the effect on enrollment. Data were collected from the University System of Maryland 2008 Joint Chairmen's Report (JCR) on Advertising and the Maryland Higher Education Commission (MHEC) enrollment report. Regression statistical analysis was used to analyze the data.

*Keywords:* Advertising Tendencies, advertising expenditures, economic downturns, colleges, universities, enrollment

### **INTRODUCTION**

Colleges and Universities which have been described for many years as social institutions are now forced to behave like businesses, and higher education is increasingly been seen as a service industry. Like businesses, colleges and universities are faced with competition, and they have to convince prospective students that their institutions are better than their competitors. Like firms, colleges and universities have a product (service) to offer, and some colleges and universities have started treating students as customer. The competition between colleges and universities for students and resources is believed to be one of the elements that have led to the growing interest in marketing and the shift in colleges and universities' focus towards customer and the educational marketplace (Flavian & Lozano, 2006 Newman, 2002; Oplatka, Foskett, & Hemsley-Brown, 2002). There are however some colleges and universities that still show low levels of market orientation and low levels of management emphasis on marketing orientation (Hammond, Webster & Hammon, 2006).

Because of the focus towards customers and the educational marketplace, colleges and universities have to deal with the issue of advertising and advertising during periods of economic downturns. Colleges and Universities, like firms, also have to make decisions as to which budget to cut during periods of economic downturns. Since budgets are short during period of economic downturns, marketing communications (advertising and some other promotional activities) are in some cases viewed as an expense instead of investment. Advertising therefore according to Deleersnyder, Dekimpe, Steenkamp, & Leeftang (2009) is among, some of the first expenditures to be cut during period of economic downturns.

## **Purpose of the Study**

Even though there are some studies on firms' advertising during recession and economic downturns (Graham & Frankenberger, 2011, Kamber, 2002, Ozturan & Ozsomer 2011, Ozturan, Ozsomer & Pieters 2014), there is a limited body of work in the area of advertising higher education (Anctil, 2008; Gibbs, 2007; Hall, 1980). Studies that examine the advertising of colleges and universities during economic downturns and the effect on enrollment are scarce.

The purpose of this study therefore, is to determine how much degree granting institutions in the University System of Maryland spent on advertising during the period of economic downturn (2007-2009) and the effect on enrollment.

## **LITERATURE REVIEW**

Since there is paucity of studies in the area of colleges and universities (higher education) advertising tendencies and advertising during period of economic downturns and the effect on enrollment, and because colleges and universities are behaving like businesses, literatures of studies done on industries—firms, will be reviewed for this study.

There is a reasonable body of work in the area of marketing higher education that focus on marketing planning (Maringe & Foskett, 2002), marketing techniques and strategies (Naidoo & Wu, 2011; Zaksa, 2012), strategic marketing (Kotler & Fox, 1995, marketing mix (Ivy, 2009; Gajic, 2012) marketing communications in general (Klassen, 2002), positioning and corporate identity (Gray, Fam & Llanc, 2003; Melewar & Akel, 2005), branding (Bennett, Ali-Choudhury, & Savani, 2007; Chapleo, 2011), university selection requirements and student satisfaction (Palacio, Meneses & Perez Perez 2002; Veloutsou, Paton, & Lewis, 2005).

## **The Role of Advertising**

A primary role of advertising is to generate awareness of a firm's products and services, and to make consumers aware of how a company's products and services are different from those of its competitors. A key message is that awareness is crucial for a product to be included in a consumer's consideration set (Mittra & Lynch, 1995; Nedungadi, 1990). Advertising is also used to brand a firm. Advertising, one of the most visible and important communication tools that are available to a firm, communicates the features, advantages, and benefits of a product in a way that will motivate customers and prospective customers to buy the product. Advertising is also among the first to be cut during period of economic downturns (Deleersnyder et al. 2009).

## **Advertising Budget During Period of Economic Downturns**

Increasing budget for advertising may be a hard sell during period of economic downturns. Advertising professional has argued against this practice, suggesting that expenditures during economic downturns ought to be increased (Biel, 1998; Dhalla, 1980; O'Toole, 1991). Most firms are motivated to reduce their marketing communication budgets during times of economic downturns. Some studies have shown that there were declines in net expenditures during period of economic downturns (Deleersnyder et al. 2009; Picard, 2001), and that managers are pressured to

reduce or eliminate spending during period of economic downturns (Srinivasan, Rangaswamy, & Lilien 2005). Tellis & Tellis (2009) sum up a number of arguments in favor of reducing or eliminating marketing communication expenditure during economic downturns, but emphasize that most of them can be disproved.

Cutting advertising during period of economic downturns lowers stock market performance and provides opportunities for private label growth, which in turn threaten a firm's long-term health (Lamey, Deleersnyder, Dekimpe, & Steenkamp, 2007). There is indeed proof that increased advertising expenditure by firms during period of economic downturns has a stronger positive effect on their performance than increased advertising during period of economic expansion (Steenkamp & Fang 2011). Put differently, firms can use economic downturns as an opportunity to strengthen their long-term position and performance (Srinivasan et al. 2005).

### **Benefits of Advertising During Period of Economic Downturns**

The study by Ozturan et al. (2014), challenges the ideas that market orientation creates inertia, inhibits learning when “the going gets tough” (Grewal & Tansuhaj, 2001), or is merely the “cost of competing” (Kumar, Jones, Venkatesan & Leone, 2011). In contrast, Ozturan et al. (2014) proposed and show that market orientation gives firms the focus to explore and exploit the opportunities economic downturns provide. According to them, managers in marketing-oriented firms refrain from following the crowd in cutting advertising spending during economic downturns and instead retain or even increase spending. The results of the Ozturan et al. (2014), study highlight the qualitatively different relationships that market orientation facets have with advertising spending and business performance. According to them, responsiveness activities during economic contraction benefit a firm's business performance by increasing advertising spending.

The benefits of advertising from the studies referenced so far can be pronounced, particularly during period of economic downturn. That is, “advertising in contractions is significantly more effective than advertising in expansions in building market share and profit” (Steenkamp & Fang 2011, p. 638). Firms that increase their advertising spending during economic contractions experience higher sales, market share, and earnings during and after the contraction along with higher long-term stock price performance compared with those that cut back on advertising spending (Deleersnyder et al. 2009; Tellis & Tellis 2009).

It is worth noting that not all industries are affected similarly by an economic contraction (Deleersnyder, Dekimpe, Sarvary, & Parker 2004). According to Kohli & Jaworski (1990), variations in industry turbulence can arise as a result of several heterogeneous sources: competitive intensity, demand turbulence, and technology turbulence. These statements apply to colleges and universities because higher education is now seen as a business.

According to Binsardi & Ekwulugo (2003), an important principle of educational marketing is that all marketing activities are directed to consumers. Conway, Mackay & Yorke (1994), state that students can either be considered consumers (through training courses viewed as products of the educational system), or products for the business environment viewed as consumer. There are wide-ranging literature focusing on a variety of items that define the marketing concept

in higher education, starting with the educational marketplace and customer needs (Brown & Scott, 2008; Teixeira, Rosa & Amaral, 2004), and going on to specific topics, such as the marketing mix and educational marketing strategies (Cowburn, 2005; Ho & Hung, 2008; Ivy, 2008).

### **RESEARCH QUESTIONS**

RQ1. How much do the universities in the University of Maryland spend on advertising from 2007 to 2009?

RQ2. What is the relationship between advertising spending and enrollment?

### **METHODOLOGY**

The data for the ten degree granting institutions in the University System of Maryland that are included in this study were collected from the University System of Maryland 2008 Joint Chairmen's Report on Advertising. The data for enrollment (2007 to 2008) were collected from the University System of Maryland 2008 Joint Chairmen's Report on Advertising, and the actual enrollment data for 2009 were collected from the Maryland Higher Education Commission (MHEC) enrollment report because the 2009 enrollment data report in the University System of Maryland 2008 Joint Chairmen's Report on Advertising was projected numbers.

Even though data (advertising expenditure and enrollment) for each institution included in this study are shown, the combined totals of enrollment for the ten institutions were used for statistical analysis. Regression statistical analysis was used to analyze the data.

### **FINDINGS**

RQ 1: How much do the universities in the University of Maryland spend on advertising from 2007 to 2009?

Table 1 shows the amount spent on advertising by each of the ten degree granting institutions in the University System of Maryland that is included in the study. As can be seen in the table, University of Maryland University College spent more (\$50,000,000.00) for the three years, and Coppin State University spent the least amount (\$220,206.00) for the three years.

Overall, the majority of the universities included in the study maintained or increased advertising expenditure during a period of economic downturns (2007 to 2009). Table 2 shows the percentage change in advertising expenditure.

**University System of Maryland  
2008 Joint Chairmen’s Advertising Report Supporting Data**

Table 1. Total Expenditure (FY 2007 to FY 2009)

	Fiscal 2007	Fiscal 2008	Fiscal 2009	<b>Total</b>
Bowie State University	108,990	180,402	161,757	<b>451,149</b>
Coppin State University	42,318	17,888	160,000	<b>220,206</b>
Frostburg State University	143,288	202,495	247,737	<b>593,520</b>
Salisbury University	196,113	153,617	215,000	<b>564,730</b>
Towson University	1,310,140	1,421,855	1,689,957	<b>4,421,952</b>
University of Baltimore **	894,117	836,206	351,533	<b>2,081,845</b>
University of Maryland Baltimore County	2,315,425	2,202,330	1,179,215	<b>5,696,970</b>
University of Maryland College Park	336,501	480,512	1,213,373	<b>2,030,386</b>
University of Maryland Eastern Shore	90,103	114,118	114,118	<b>318,339</b>
University of Maryland University College	14,600,000	17,400,000	18,000,000	<b>50,000,000</b>

Table 2. Percentage Change in Advertising Expenditures

Institution	Fiscal 2007	Fiscal 2009	CHANGE
BU	108990.00	161757.00	<b>48.41</b>
CSU	42318.00	160000.00	<b>278.09</b>
FSU	143288.00	247737.00	<b>72.89</b>
SU	196113.00	215000.00	<b>9.63</b>
TU	1310140.00	1689957.00	<b>28.99</b>
UB	894117.00	351533.00	<b>-60.68</b>
UMBC	2315425.00	1179215.00	<b>-49.07</b>
UMCP	336501.00	1213373.00	<b>260.59</b>
UMES	90103.00	114118.00	<b>26.65</b>
UMUC	14600000.00	18000000.00	<b>23.29</b>

RQ 2: What is the relationship between advertising spending and enrollment?

Table 3 shows the Enrollment for FY 2007 to 2009. The 2007 and 2008 numbers were taken from the 2008 Joint Chairmen’s Advertising Report and the actual enrollment numbers were taken from the Maryland Higher Education. Table 4 shows the percentage in enrollment.

Table 3. FTE Enrollment (FY 2007 to FY 2009)

		<b>Actual 2007</b>	<b>Actual 2008</b>	<b>Actual 2009</b>	<b>Total Undergrad/Grad 2007-2009</b>	<b>Total Combined 2007-2009</b>
Bowie State University	Undergraduate Graduate*	3,503 658	3,725 592	4,400 1,217	<b>11,628</b> <b>2,467</b>	<b>14,095</b>
Coppin State University	Undergraduate Graduate*	2,694 365	2,652 348	3,301 500	<b>8,647</b> <b>1,213</b>	<b>9,860</b>
Frostburg State University	Undergraduate Graduate*	3,850 313	3,931 334	4,755 630	<b>12,536</b> <b>1,277</b>	<b>13,813</b>
Salisbury University	Undergraduate Graduate*	6,236 301	6,495 334	7,557 647	<b>20,288</b> <b>1,282</b>	<b>21,570</b>
Towson University	Undergraduate Graduate*	13,717 1,630	14,425 1,630	17,148 4,029	<b>45,290</b> <b>7,289</b>	<b>52,579</b>
University of Baltimore **	Undergraduate Graduate*	1,356 2,045	1,576 2,045	3,004 3,261	<b>5,936</b> <b>7,351</b>	<b>13,287</b>
University of Maryland Baltimore County	Undergraduate Graduate*	8,268 1,023	8,260 1,151	9,947 2,923	<b>26,475</b> <b>5,097</b>	<b>31,572</b>
University of Maryland College Park	Undergraduate Graduate*	23,193 6,048	23,984 6,619	26,542 10,653	<b>73,719</b> <b>22,895</b>	<b>96,615</b>
University of Maryland Eastern Shore	Undergraduate Graduate*	3,326 233	3,216 232	3,922 511	<b>10,464</b> <b>976</b>	<b>11,440</b>
University of Maryland University College	Undergraduate Graduate*	11,929 4,811	11,732 5,273	24,284 13,063	<b>47,945</b> <b>23,147</b>	<b>71,092</b>

\*Graduate (Non-1<sup>st</sup> Professional)

\*\*Includes UB Law school students which were not reported separately

Table 4. Percentage Change in Enrollment

NAME	UG2007	UG2009	G2007	UG2009	G2009	UGCHANGE	GCHANGE
BSU	3,503	4400	658	4400	1217	<b>25.61</b>	<b>84.95</b>
CSU	2,694	3301	365	3301	500	<b>22.53</b>	<b>36.99</b>
FSU	3,850	4755	313	4755	630	<b>23.51</b>	<b>101.28</b>
SU	6,236	7557	301	7557	647	<b>21.18</b>	<b>114.95</b>
TU	13,717	17,148	1,630	17,148	4,029	<b>25.01</b>	<b>147.18</b>
UB	1,356	3,004	2,045	3,004	3,261	<b>121.53</b>	<b>59.46</b>
UMBC	8,268	9,947	1,023	9,947	2,923	<b>20.31</b>	<b>185.73</b>
UMCP	23,193	26,542	6,048	26,542	10,653	<b>14.44</b>	<b>76.14</b>
UMES	3,326	3922	233	3922	511	<b>17.92</b>	<b>119.31</b>
UMUC	11,929	24,284	4,811	24,284	13,063	<b>103.57</b>	<b>171.52</b>

Table 5 displays the Ordinary Least Squares (OLS) estimates of the impact of advertising on undergraduate enrollment within the University System of Maryland. Based on the regression coefficient on log advertising I can infer that advertising has significant effect on undergraduate enrollment. The regression coefficient on log advertising (0.322898) is statistically significant at the 5 percent level. The Durbin-Watson statistic (2.291888) is significant at the 5 percent level indicating that variables in model are not serially correlated. The coefficient of determination (R-Squared) is 0.409802, indicating that the model explained roughly 41 percent of the relationship between advertising and undergraduate enrollment, The F-Statistic is 5.554769; it is statistically significant at the 5 percent level. This indicates that the estimated regression meets the attributes of a good model.

Table 5. Regression Results for Undergraduate Enrollment

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	5.270313**	1.959935	2.689025	0.0275
Log Advertising	0.322898**	0.137004	2.356856	0.0462
Diagnostic Tests				
R-squared	0.409802	Mean dependent variable		9.861539
Adjusted R-squared	0.336027	S.D. dependent variable		0.837067
S.E. of regression	0.682080	Akaike info criterion		2.249516
Sum squared residual	3.721863	Schwarz criterion		2.310033
Log likelihood	-9.247582	Hannan-Quinn criterion		2.183129
F-statistic	5.554769	Durbin-Watson stat		2.291888
Prob. (F-statistic)	0.046184			

\*\* indicates statistical significance at the 5 percent level

Table 6 presents the cross-section estimates of the impact of advertising on graduate enrollment within the institutions in the University System of Maryland. The result indicates that advertising has significant effect on graduate enrollment. The regression coefficient on log advertising is 0.608475 with p-value of 0.0026. This result suggests that advertising account for

graduate enrollment by approximately 61 percent. The coefficient of determination (R-Squared) is 0.698223, implying that the model explained roughly 70 percent of the relationship between advertising and graduate enrollment within the University System of Maryland. The F-Statistic is 18.50961, and statistically significant at the 1 percent level. This statistic indicates that the estimated model possess and meets the attributes of a good model.

Table 6. Regression Results for Graduate Enrollment

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	-0.399299	2.023268	-0.197353	0.8485
Log Advertising	0.608475***	0.141431	4.302279	0.0026
Diagnostic Tests				
R-squared	0.698223	Mean dependent variable		8.252493
Adjusted R-squared	0.660500	S.D. dependent variable		1.208446
S.E. of regression	0.704121	Akaike info criterion		2.313122
Sum squared residual	3.966286	Schwarz criterion		2.373639
Log likelihood	-9.565611	Hannan-Quinn criterion		2.246735
F-statistic	18.50961	Durbin-Watson stat		2.634522
Prob. (F-statistic)	0.002608			

\*\*\* indicates statistically significance at the 1 percent level.

Table 7 presents the cross-section estimates of the impact of advertising on combined enrollment (undergraduate and graduate) within the institutions in the University System of Maryland. The result reveals that advertising accounts for roughly 38 percent changes in combined enrollment. The regression coefficient on log advertising (0.377673) is statistically significant at the 5 percent level of significance. The coefficient of determination (R-Squared) is 0.579819, suggesting that the model explained roughly 58 percent of the relationship between advertising and graduate enrollment within the USM. The F-Statistic is 11.03943 and statistically significant at the 1 percent level. This statistic shows that the estimated regression possesses and meets the attributes of a good model.

Table 7. Regression Results for Combined Enrollment

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.728138**	1.626118	2.907624	0.0197
Log Advertising	0.377673**	0.113669	3.322564	0.0105
Diagnostic Tests				
R-squared	0.579819	Mean dependent variable		10.09820
Adjusted R-squared	0.527297	S.D. dependent variable		0.823097
S.E. of regression	0.565908	Akaike info criterion		1.876084
Sum squared residual	2.562011	Schwarz criterion		1.936601
Log likelihood	-7.380422	Hannan-Quinn criterion.		1.809697
F-statistic	11.03943	Durbin-Watson stat		2.342220
Prob. (F-statistic)	0.010500			

\*\* indicates statistically significance at the 5 percent level

## CONCLUSIONS

As can be seen, the findings of this study shows that majority of the universities included in the study maintained or increased advertising expenditure during a period of economic downturns (2007 to 2009). The result also shows that advertising has significant positive effect on enrollment. In order for a college or university to increase its enrollment, it must look for a way of promoting its product (in this case service), and other services it offers. Colleges and universities must effectively communicate with their target market.

Investment in advertising through its effect on potential students increases colleges' and universities' enrollment; create economic value by positively influencing their future enrollment. As can be seen in Table 7 advertising accounts for roughly a 38 percent change in combined enrollment. Economic downturns alter marketplace conditions. If the reaction is to cut advertising expending, those colleges and universities that maintain or increase prerecession advertising level will enjoy a larger share of a decreasing pool of total advertising dollars. According to Tellis and Tellis (2009), as many firms cut back, the number of messages shrinks, which increases the probability of exposure, attention, persuasion, and purchase. Also, Albion & Farris (1981) argue that consumers may be more sensitive to advertising and promotion during recession.

Advertising during economic downturns could serve to make prospective students feel more comfortable and secure at a time when potential students' confidence in the economy and job market are low. This is not to say that universities and colleges should depend on advertising only to increase enrollment. There are other forms of promotional tools, such as personal selling—representatives visiting high schools and educational fairs, publicity, public relations, etc. Words of mouth (WOM) should also be mentioned because many potential customers seek for the advice of their family and friends before they purchase because they want to decrease the possibility of making a bad purchase decision.

The higher education sector is facing intense enrollment problems as competition intensifies. According to Veloutsou et al. (2005) institutions are increasingly engaged in professional marketing activities. Their study concluded that the final chance to sell the goods and clinch the sale is still greatly influenced by informational sources under the direct control of the university. This is what colleges and universities must be doing even during a period of economic downturns.

## SUGGESTIONS FOR FUTURE RESEARCH

Future research should compare state colleges and universities that advertise during the period of economic downturn and those that did not advertise during the same period and determine the effect on enrollment.

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## **COMMUNITY SANITATION AND CORPORATE IMAGE IN THE HOSPITALITY INDUSTRY: A CASE OF GHANA'S TOP RATED HOTELS**

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### **ABSTRACT**

A congenial physical environment is a critical success factor in the hospitality industry. This study explores the influence of community sanitation on the relationship between corporate identity and corporate image in the hospitality industry in Ghana. In-depth interviews were employed among clients in two of Ghana's best hotels (a five and four star hotels respectively) situated in a local community. The results indicated that while a blend of a perfect servicescape and perfect community environment is ideal, hotels can still insulate themselves from the less than perfect community environment and still develop a favorable corporate image based on the right strategies. Common themes identified in the strategies include: spick and span immediate environment, appealing servicescape, neatly-dressed employees and excellent customer service. The implication is that the hospitality industry should leverage the controllable factors to create a competitive advantage while they seek to minimize the threats they face.

*Keywords:* Ghana, corporate identity mix, corporate image, corporate sanitation, business operations

### **INTRODUCTION**

Corporate image is a critical success factor in the performance of organizations (Fombrun & van Riel, 2004). Antecedents of a good image include stakeholders' experiences of corporate behavior (MacMillan, Money, Money, Downing, & Hillenbrand, 2005). Several positive outcomes with regards to stakeholder behavior emanate from a favorable reputation (Ardend, 2009). Theorists such as Balmer and Greyser (2006) posit that, the development of a favorable corporate image is predicated upon the establishment of consistent synergy between brand management activities including the use of the corporate identity mix and customer experiences of regular business activities. Thus, uncontrollable variables in the immediate environment such as community sanitation are not factored into the equation. In spite of the reasonableness of these propositions, Melewar and Karaosmanoglu (2006) argue that they have largely not been tested empirically.

Post, Preston and Sachs (2002) established a positive correlation between corporate image and reputation on one hand and stakeholder behaviors on the other, which ultimately lead to favorable revenue performance and cash flow. Roberts and Dowling (2002) add that the positive correlation further results in tangible market assets for the organization and cushions it against crises moments or errors by the organization. Money and Hillenbrand (2006) have diagrammatically integrated the evolution and consequences of corporate image and reputation which represents the modern appreciation of corporate image and reputation in the extant literature. Money, Hillenbrand, Day and Magnan (2010) incorporated the organizational and individual levels proposed by Brown, Dacin, Pratt, and Whetten (2006) into the model.

Amongst researchers and practitioners alike, the proper use of terms such as corporate image, corporate reputation, corporate identity and corporate brand is contentious (Pitt & Papania, 2007). The relationship between corporate identity mix (i.e. corporate brand) and corporate image has been hampered by different ways the two concepts are operationalized (Pitt & Papania, 2007). Corporate brand has been studied at the firm level i.e. what firms do to project the corporate brand (Aaker, 2004) while corporate image is usually studied at the individual level, i.e. examined through individual feelings and thoughts about firms (Money et al, 2010; Walsh, Mitchell, Jackson and Beatty, 2009). However Walsh et al. (2009), examined marketing, image and reputation, operationalized at the individual level. The study therefore focuses on the relationship between corporate brand and corporate image at the individual level, examining it in the context of the hospitality industry in Ghana that corporate brand serves as an antecedent of corporate image which in turn favorably influences stakeholder behaviors.

### **Why the Hospitality Industry?**

The hospitality industry in Ghana has received a huge amount of attention in the country's economic development strategy since the 1980s. There has been tremendous increase in both the number of tourist arrivals and tourist expenditure resulting in a corresponding increase in public as well as private investment actively in the respectively hospitality sub-sectors. The hospitality sector now serves as the third largest earner of foreign exchange, only behind mineral and cocoa exports (Ghana Tourists Board, 1999). The hospitality sector is made up of a broad category of sectors within the service industry including lodging, restaurants, transportation, event planning, and theme parks, among others. The lodging sector is the most important since the majority of the other services are largely provided by most standard hotels.

The growth in the hospitality sector can also be witnessed in the expansion of activities in the hotel industry. For instance in 1989, the total number of hotels approved and licensed by Ghana Tourists Board (now Ghana Tourists Authority) was 273. According to Ghana Tourists Board Report (1999), this figure rose to 730 by 1998. In 2014, the number of hotels listed in the Quarterly Report of the Authority exceeded 1,600. The contribution of the hospitality industry to the overall growth of Ghana's economy therefore cannot be overemphasized. La Beach Hotel and La Palm Royal Beach Hotel are two of Ghana's best hotels and are rated as four and five star hotels respectively. Smith, Zimmerman, and Mihelcic (2008), assert that environmental sanitation influences public perception of organizational identity. Environmental sanitation is therefore seen as moderating the effect of the corporate identity mix on corporate image. This is especially relevant in the hotel industry where the role of physical evidence in image building is critical.

The study has two main objectives: (a) to explore the relationship between corporate identity mix and corporate image and (b) to determine how community sanitation moderates the influences of corporate identity mix on corporate image. The study is subsequently structured as follows: First we discuss the relevant theories and empirical findings on corporate identity and corporate image. Second, data collection and instrumentation are explained which is followed by discussion of the results. We finalize this paper by summarizing and drawing conclusions on the study.

## **LITERATURE REVIEW**

### **Daily Business Operations**

Business operations comprise the dealings of an organization with its stakeholders including customers, suppliers, and employees with regards to everyday activities such as product delivery. Distinction has to be made between deliberate and conscious marketing activities (e.g. branding or advertising) and everyday business operations activities, with the latter embarked upon with the aim of delivering value to stakeholders. Deliberate marketing activities on the other hand, are aimed at influencing stakeholders and raising awareness of business operations activities. This distinction is relevant as it makes it possible for the determination of the degree of importance of deliberate marketing activities and customer experience of business operations in the development of corporate image and reputation. MacMillan, Money, Downing, and Hillenbrand (2005b) report that stakeholder experiences of business operations represent critical antecedents of corporate image and reputation.

### **Corporate Identity Mix**

According to Aaker (2004) corporate identity mix is a tool employed by managers to expose the corporate brand to its external stakeholders so as to create unique mental associations that provide favorable organizational assessment by stakeholders. Marketing researchers like Keller (2008) posit that corporate identity mix should lead to distinctive corporate brand beliefs, which in turn would have a direct impact on corporate image and reputation.

Corporate identity helps to communicate the many facets of an organization to its external stakeholders including who they are, what they stand for, and what they do. Melewar and Karaosmanoglu (2006), identified several sub-components of the corporate identity concept and these include activities which are directly controllable by organizations such as corporate design and communications. Melewar and Jenkins (2002), observed that there is huge debate regarding the nature of the corporate identity concept and the attendant challenge of researching it. The consensus however is that the corporate identity mix is a sub-component of intentional firm activities involving brand elements such as the name, logo product features, logo and physical evidence that uniquely distinguishes one firm from the other (Aaker, 2004). The corporate identity mix therefore serves as an antecedent to corporate image. This study seeks to provide an in-depth measure of the sub-components of the corporate identity mix and its link with corporate image.

## **Corporate sanitation**

Smith et al. (2008) recount the evolution of cleanliness dating back as far as the Neolithic period. She argues that while waste is considered to be part of human existence, it is quite difficult to change behavior in waste management. George (2008) adds that culturally societies seek to void waste especially human waste. People associated with handling of waste therefore tend to have low social status. This negative association is extended to the corporate entity and subsequently affects the corporate image. Thus, while the poor sanitation has negative health implications resulting in 1.8 million deaths a year (United Nations World Population Projects [UNWPP] Report, 2011), its negative implications for corporate image is equally dire (Aaker, 2004). The corporate identity mix and business operations of organizations are therefore subject to the influences of their respective sanitation environment (MacMillan, Money, & Downing, 2005a). This study therefore seeks to understand the moderating role of corporate sanitation in the relationship between corporate identity and corporate image.

## **Corporate Image**

Corporate image is explained as the perception that stakeholders have of an organization (Bromley, 2002). Persistent image of an organization form its reputation. Fombrun (1996, p. 72) for example, defines corporate reputation as ‘a perceptual representation of a company’s past actions and future prospects that describes the firm’s overall appeal to all of its key constituents when compared with other leading rivals.’ Perceptions of the past and future are as a result of an endless list of stakeholder experiences with the organization and future scenarios. Money et al. (2010), argue that while these experiences do not allow themselves for easy comparison between organizations, the overall appeal (comprising both positive stakeholder trust and emotion) of an organization does. Corporate image therefore is about trust and emotion towards an organization. This study adopts its conceptualization of corporate image in terms of emotions and trust. While organizations do not have control over stakeholders’ emotions and trust, organizational activities engaged in overtime help influence their reputation.

Corporate image refers to the beliefs consumers hold about the organization as a result of intentional branding activities engaged in by the organization (Keller, 2008). Davies and Chun (2002) consider corporate image as the set of characteristics stakeholders associate with an organization. As Aaker (2004) pointed out, corporate brand equity lies in the distinctive and favorable beliefs stakeholders hold towards an organization. Indeed, as far back as 1975, Fishbein and Ajzen indicated that beliefs are antecedents to favorability and behavior. In line with their strategic vision, organizations must consider stakeholder expectations, their own values and competitor positioning in order to help develop a distinctive corporate image. While the formation of corporate image is decided at the strategic level, the corporate identity mix plays a critical role in translating it into a series of tactical activities (Keller, 2008).

## **Relationship between Business operations, Corporate identity mix and Corporate image**

Money et al. (2010) propose an integrated framework of corporate identity mix and corporate image and reputation which is an extension of Money and Hillenbrand (2006). The framework proposes corporate identity mix as having direct influence on corporate brand beliefs

(a proxy for corporate image) which also influences corporate reputation. Corporate identity mixes include corporate messages, physical presence and visual identity. Organizations are in total control of the elements of the corporate identity mix and can vary them at will. Business operations on the other hand evolve out of customer regular experiences of a firm's operations. Changes in business operations can only be experienced by the customer in the long term (Fombrun & van Riel, 2004). Elements of corporate identity mix are therefore tactical in nature compared to the more relational features of business operations. Money et al. (2010) operationalize corporate identity mix at the individual level and measures it in relation to customer experiences of branding activities instead of the organization's perspective of its activities, Customer experiences with regard to corporate identity mix are operationalized as antecedents of corporate image.

## **RESEARCH METHODOLOGY**

### **Research Context and Sampling**

The purpose of the study is to investigate the relationship between corporate identity and corporate image within the context of a negative sanitation environment in Ghana's hospitality industry. The framework was tested with customers of four and five star hotels in Ghana. The choice of the sample was because the hotels are closely situated in the same local community hampered by sanitation challenges. Despite the challenges associated with the location, these hotels seem to enjoy favorable corporate image. The hospitality sector is made up of service organizations and therefore exhibit unique features especially relating to the branding of services. The hospitality sector is a high contact organization and requires a high level of interpersonal interaction which necessarily takes place between the employees of the organization and the customers in a very clean physical environment and ambience. Cretu and Brodie (2007) pointed out that corporate image become more relevant when higher levels of service exist. High level and very loyal corporate customers of the two hotels were therefore selected and in depth interviews carried out which facilitated the investigation of the main constructs of corporate identity matrix and corporate image especially within the context of a poor community environment.

### **Population and sampling**

The population included customers of La Beach Hotel and La Palm Royal Beach Hotel. The researchers interviewed a total of twelve high level customers of these hotels. Consistent with Bodet and Chanavat (2010), six females and six males were selected to offer gender balance and a structured interview guide was employed by the researchers. The use of the interview guide was aimed at ensuring that relevant questions were asked. The study relied on the purposive sampling method to select the participants. An average of 15 to 20 minutes was spent on each customer and the interview was recorded with a Sony IC Recorder. Notes were also taken to complement the recorder in the event of a technology failure. The study investigated three constructs used in corporate image which included: (1) corporate identity mix, (2) business operations, and (3) corporate image.

## **Data collection and Instrumentation**

On the basis of the framework developed by Money et al. (2010) which employs corporate identity mix, business operations, corporate brand beliefs (proxy for corporate image) and corporate reputation to establish a relationship, in-depth interviews were conducted with high profile customers of the hotels to gain new understanding of their experiences with the corporate identity mix. To fulfill the purpose of the study, a case study approach was adopted. The case study approach has been criticized on the basis that it does not allow for transferability of findings. However, according to Yin (2003), this approach allows for in-depth knowledge to be gathered in a qualitative exploratory study.

Participants were assembled and questions asked in an interactive manner which made it possible for them to talk freely with other group members. The main theme and sub-themes ensure that the interviewer organizes his thought processes in asking questions even in unplanned encounters. As Corbetta (2003) stated, semi- structured interviews allow the interviewer to organize the various questions and the wording at his discretion. The interviewer can ask questions the way he considers appropriate and to seek clarification if he is not satisfied with a particular answer as well as imposing his own style on the interaction.

With the type of interview decided upon, we sought to establish reliability of performance in a systematic manner, by focusing on obtaining relevant data. Effort was made to obtain favorable interview conditions. Problems associated with research interviewing including asking the questions, listening, and interviewees answering in full, recording the answers and ensuring accurate feedback on the findings. Efforts were therefore made to carefully read the interview questions to interviewees in a neutral tone while emphasizing certain important words (e.g. corporate identity and corporate image) to help interviewees understand the questions. Researchers fully understand that answers should be interesting if good questions are asked. They were also aware that a researcher should not lose his focus even if the participant sounds disinterested and bored as the most monotonous answers can be very revealing. In situations where the participants delayed in responding to a particular question, ample time was given for them to answer. This is very relevant since participants are responding to the question for the first time. Participants may be pondering over the questions and therefore the interviewer remained silent to allow them to do so. In situations where replies to the questions asked conflicted with other previous answers, interviewers drew participants' attention to their previous answers and asked for clarification, this was willingly done. As a qualitative study therefore, the data was iteratively collected and analyzed.

## **DISCUSSION OF FINDINGS**

The findings are presented in accordance with the model relating to corporate identity and corporate image. The paper focuses on corporate identity mix, business operations, and corporate image.

### **Corporate Identity Mix**

Based on the interviews conducted, corporate identity mix is regarded by almost all participants to be very influential in the image they have of the hotels. Corporate identity mix was interpreted differently by the participants as follows:

“..... For me, it relates to the physical appearance of the hotel, how attractive the buildings are.”

“... the way the hotel presents itself to me matters a lot, from how spacious the car park is, to the neatness and comfort of the room and the taste of the food, even if the entire community is dirty.”

Participants therefore do not seem to place much premium on the locations of these hotels but rather the service environment, physical evidence, service employees, spacious car park, among others. Both corporate identity mix and business operations are found to impact on corporate image supporting previous research in the area (MacMillan et. al., 2005b; Money et al., 2010; Walsh & Beatty, 2007).

### **Business Operations**

While the corporate identity plays an important role in attracting the participants to the hotel, the experience of the bank operations had more influence in shaping their perception of the hotel. Participants placed more premiums on the operations of the hotel. Some of the responses were:

“... I consider the way I am received and treated by the hotel as the most important, well that is what sticks in my mind when I think of the hotel even more important than the physical structures. What is the use of a logo when the services are poor?”

“ABSOLUTELY: my coming back and telling others about the particular hotel depends mainly on how I am treated. No Kidding. If the services are lousy, I would NEVER come back again.”

This finding is not surprising and further supports the finding by Money et al. (2010) that long standing customers in a professional service relationship tend to consider their everyday business relationship as more important than the deliberate corporate identity activities. That is, what individuals think, feel and experience about the hotel branding is as a result of the corporate identity mix and business operations of the hotel (Money et. al. 2010). In doing so, business operations were found to have a bigger direct influence on corporate image than corporate identity mix.

### **Link between Corporate Identity and Corporate Image**

Most of the participants thought that corporate identity mix had a direct influence on the image of the hotels. All of the participants had positive image of the two hotels in spite of the fact

they expressed dissatisfactions with the sanitation situation in the community. They attributed the favorable corporate image the hotels are enjoying to their corporate identity mixes including the architecture, spacious car parks, neat surroundings, bright colors and the beautiful ambience. Some of the responses were as follows:

“... I like my hotel a lot because the environment is neat, the buildings and the entire settings are pleasing to the eyes. I just love it. My only problem is when I use the La township road to the hotel. ...I hate the environment.”

“As for me my hotel is up there with the big players. I mean they have it all... the buildings, the appearance of their staff, the neat rooms and spacious car park and all that. I like the beach area too except the broader community which is not all that cool.”

Deliberate corporate identity mix impact on corporate image as the study shows. Investments made in corporate identity mix can therefore be justified with respect to the impact that they have on corporate image (MacMillan et al., 2005b; Money et al., 2010; Walsh and Beatty, 2007). This finding strengthens the view held by many scholars that daily business operations should be consistently integrated into corporate identity mix (deliberate branding activities) of organizations and the necessary investments made to create synergy. In other words, the marketing and operational functions must collaboratively work together in a consistent manner to create a positive corporate image of the organization.

### **The Link between Business Operations and Corporate Image**

All of the participants believed that the daily business operations of the respective hotels have more impact on their corporate image building than the corporate identity mix. Some responses are as follows:

“Whilst I applaud the hotel for the good facilities, I am even more impressed with the prompt service, the courteous manner in which the workers attend to me. Personally, this is why this hotel is the best.”

“I don't dispute the importance of a nice environment. I am rather more enthused with the kinds of service I receive, and the way I am treated at the hotel. It speaks volumes.”

“When I went to La Beach Hotel the first time, I was impressed with the physical facilities but I had a negative image of the hotel because of the way I was treated by one of the staff. It took other visits to the hotel before I overcame the initial misgivings.”

According to MacMillan, et al. (2005), business operations are more substantial with regards to their impact with customers and have a long established record of impacting image and reputation. The findings are again consistent with previous researches in diverse contexts. Positive image results in positive behavior. Participants are willing to continue doing business with these hotels due to the favorable image they enjoy.

## **The mediating role of Corporate Sanitation**

The mediating role of the community sanitation construct was found to be very minimal, thus having little impact on the corporate image of these hotels. Supportive customer behaviors are seen as representing the consequences of corporate image. Here are some comments:

“... the hotel’s appearance has had a favorable impression on me even though it is not situated at Trassacco Valley or Cantoments,”

“As for me my hotel is up there with the big players. I mean they have it all... the buildings, the appearance of their staff, the neat rooms and spacious car parks and all that. I like the beach area too except the broad bigger community which is not all that cool.”

This finding supports the view held by Walsh and Beatty (2007) that it is positive image that results in positive behavior and not the location. This is however in contrast to the assertions by other writers who postulate that the location or the environment can have an impact on the image of an organization (Smith et al., 2008).

On the basis of the research, it was realized that the results of the study supports the model proposed. Corporate identity mix and business operations have more influence on corporate image than the environment in which the hotels are located. The two constructs therefore simultaneously impact corporate image.

## **CONCLUSIONS**

This study brings together corporate identity mix and corporate image in a simple framework that is qualitatively investigated. The study provides the following contributions:

First, the results of the study demonstrate the impact of corporate identity mix and business operations on corporate image. This result provides evidence for the value of corporate identity activities in business operations in developing corporate image and its consequences. Second, the outcomes show evidence of the relative importance of corporate identity activities and business operations. Within the context of high level existing customers of two high rated hotels, the results indicate that corporate identity mix has a lesser impact on corporate image than business operations. Scholars can further test the relative importance of these activities in different contexts and situations. Third, the study shows that the mediating role of community sanitation had little impact on corporate image if a favorable corporate identity mix and business operations were actively promoted in the organization.

Practitioners can benefit from the insights gleaned from the study. Lessons on the use of successful corporate identity mix and effective business operations can be learnt which will positively affect corporate image and limit any negative role of the physical environment. The findings also have implications for the marketing literature. Some researchers have argued that corporate sanitation is critical in corporate brand image building. Whilst this argument has been acknowledged in the context of the moderating effects of community sanitation, the study further

suggests that this can be overcome by the use of appropriate corporate identity mixes and business operations.

Our research has a major limitation that provides avenues for further research. The study employed the qualitative approach which inherently makes it impossible to generalize the findings. The qualitative in-depth analysis of corporate identity mix and business operations and their impact on corporate image may be quantitatively tested by future scholars striving to further close the gap between the study of corporate identity and corporate image and the role of the physical environment in corporate image building.

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## **POLITICAL PARTICIPATION AND FEMALE REPRESENTATION IN CHILE'S 2013 PRESIDENTIAL ELECTION**

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### **ABSTRACT**

Ever since Chile's return to democracy, at the beginning of the 1990's, electoral participation in the country has been on a steady decline. This phenomenon is consistent with that of many countries in the world, especially in democracies that have allowed voluntary voting. Because of this, it is not clear that this disaffection for politics is a problem in and of itself, even if many analysts contend that it may be (Chuaqui, 2005; Contreras et al., 2013) when considered alongside other behaviors characteristic of Chilean idiosyncrasy.

In regards to gender composition and political participation, in Chile more than half of the population is made up of women. However, they only occupy 12.7% of popular representation seats. On the other hand, even if Chilean congresswomen make up only 13% of the upper house and 14.5% of the lower house, compared to a Latin American average that surpasses 20%, both candidates who made it to the second round in the last presidential election, in accordance to the current political Constitution, were women, and subsequently, the first seat in Chile is once again occupied by a woman.

This paper tackles the problem of the general population's diminishing participation in parliamentary and presidential elections - only 46.5% of the electorate voted in the last election, this being the lowest recorded participation rate despite recent modifications to electoral legislation which sought to raise it. It also attempts to explore the reasons that might explain the apparently contradictory phenomenon that, considering such a low representation of women in political power in Chile, it was two women who disputed the presidency of the Republic in the last elections held in November and December 2013. Finally, it also speculates about a correlation between the low participation of citizenry at the polls and the triumph of women in spite of the scarce representation of Chilean women in seats of power.

*Keywords:* Chile, women, politics, abstention

### **INTRODUCTION**

To understand the steady decline in electoral participation, it is necessary to recall some historical facts. The first of them being that even if once a republic characterized by a high voter participation, which was seen by public opinion as a sign of civic maturity, this electoral tradition was interrupted in the recent past by the military coup of 1973. The coup saw the Armed Forces intervene in the democratic power structure during the fourth of socialist President Salvador Allende's (elected by a little over a third of the popular vote in the 1970) six years in office. During his term, the country quickly arrived at a political polarization between the governing coalition,

known as Unidad Popular (People's Unity), that propitiated a government model very similar to that of Cuba, with the nationalization of education and the country's natural resources and a statist stance on ruling, and the right wing, which had lost the presidential election by a narrow margin and had united with the center political forces represented primarily by the Democracia Cristiana (Christian Democracy) party. This ideological estrangement, with the presence of extremist forces on both sides, one of them promoting a socialist revolution that justified violence and the other calling for military forces to take control of the government, polarized the country. As a result of this crisis, on September 11, 1973, the Armed Forces staged a coup which led to military governance, under the rule of General Augusto Pinochet, for a period of 17 years. On October 5, 1988, following the approval in 1980 of a new Constitution, a referendum was held which was won by the "No" option, meaning the rejection of continued rule by General Pinochet and the installment of a system of democratic elections to elect a President and a new Parliament.

This is how in March of 1990, after 17 years, a democratically elected President took office, backed by a political coalition known as *Concertación*, that included the center and center-left forces, excluding the Communist party. The other great coalition was constituted by an alliance of the two main Chilean right-wing parties that had been created upon the return of democracy. The *Union Demócrata Independiente* (UDI, Independent Democratic Union) and *Renovación Nacional* (National Renovation). This in accordance to the bipartisan system instituted by the 1980 Constitution that attempted, in a model similar to that of the United States, to achieve a system with two large coalitions by making it necessary for smaller parties to ally and concert in order to attain governance. Since then, the presidential, parliamentary, and municipal elections have seen a continued decrease in voter participation. It is worth mentioning that the electoral laws in effect at the time established voluntary voter registration for people over 18 years of age, but, once registered, participation in the election became mandatory.

As a result of the growing congressional concern over the decreasing number of voters, as well as with public polls showing a growing disaffection towards political activity, an amendment to the electoral law was passed, which consisted in switching from voluntary to automatic registration, and from mandatory to voluntary voting. With this, it was hoped that the electoral roll would increase, especially considering that the voting population had seen a shift toward an older demographic, as young Chileans were not turning out en masse to the polls. This new law was published by the *Diario Oficial* (Chile's public journal) on January 31 2012.

### **ELECTORAL MODIFICATIONS**

However, the results were not as expected. The first elections to test this electoral modification were the municipal elections of 2012, in which the whole of the country had to elect mayors and city council members. It had the highest abstention rating in Chile's civic history, with little over 40% of the electorate turning out to vote. This did not improve much during the 2013 parliamentary and presidential elections. In the first round, a little over 48% of voters participated and in the second round participation was just above 42%, the lowest number in Chilean electoral history considering the number of registered voters (*La abstención histórica...*, 2013).

According to a survey conducted by the magazine *El Sábado* (Cabezas, Gaete, & Ruiz, 2013), in which a group of electoral experts were asked about possible reasons for such high

abstention, much of the population could be described by five non-voter stereotypes:

1. **The anti-systemic:** an ideologized voter who does not consider voting a real alternative. As described by one interviewee: “They are politically active youngsters, with an interest in public affairs but who are critical of the current system because they consider it unfair” (Cabezas, et al., 2013, pg. 17). This type of voter, according to another expert, feels that voting has no impact on his life. This vision is concordant with the UNDP report, which observes a dissonance between the Chileans' personal projects and the institutions of the state (González et al., 2012).
2. **The uninterested:** This voter-type “does not even ask themselves whether to vote or not.” It is something that is simply not a part of his life. He thinks, either way, his individual condition will not change. According to one expert, this is an individualist type which is not largely concerned with the problems of the community. They do not see the point of concerning themselves with something as arid and unproductive as politics. In the updated version of Chino Rios' “*no estoy ni ahí*” (Allusion to the former Tennis world champion Marcelo “Chino” Rios, who was characterized by this phrase to show his apathy.), this group is considered by the interviewed experts as socio-economically transversal but more abundant in the middle and lower classes, as education is a fundamental factor for political engagement. The better educated a person is, the more likely he is to vote. This is thus exemplified by one of the experts: “it is like when the movie theater is not showing anything that interests you, and that's what happens in countries with voluntary voting, except for phenomena like Obama that move the masses” (Cabezas, et al., 2013, p. 18)
3. **The obliged:** People who got registered in the 1988 referendum and who for 20 years participated in the elections, partly out of a sense of duty, partly because it was mandatory. When the law changes they do not vote any more. According to one of the experts, this part of the electorate did not have an ideological motivation, and was influenced mostly by advertising. These non-voters are mostly males between 40 and 60 years of age, coming from middle and lower social strata.
4. **The widower:** There were nine candidates in the last presidential election, an unprecedented happening in the history of Chile, representing the most diverse ideological tendencies and social groups. As none of the candidates obtained over 50% of the vote, a second round was staged between the two most popular candidates, both of them women. This group of non-voters, identified as widowers, is composed of those who became so attached to their first round candidate - or in some cases their primary election candidates - that they could not put their trust in any of the competing alternatives. This is usually the case with voters that felt a special reason to go and vote for a specific person, without whom, to them, the exercise lost its meaning.
5. **The disillusioned:** they might have believed in democracy but constant disillusionment taught them to mistrust its capacity to bring forth joy. In the lower classes it is usual to find this type of citizen, who mistrusts the politicians' intentions. “They all steal,” “They all lie,” “Nobody cares about us,” “We'll have to work tomorrow as always,” are some of the expressions that ratify this sentiment. The disillusioned have some commonalities with the uninterested, but

what sets him apart is his emotionality. Frustration is more connected with anger and that is why sometimes they annul their votes in order to manifest their rage against the system.

### **POLITICAL INSTITUTIONS AND SOCIAL UNREST**

The latter type reflects a rising mistrust in political institutions and a social unrest that is hard to explain, as it contrasts with the fact that on many dimensions, Chilean public institutions are positively evaluated in international comparisons. As a matter of fact, Chile's political stability and economic handling are generally appreciated throughout the world. The vision that the world at large has of Chile is usually better than what Chileans have of themselves and their institutions. And even if this could be explained as an idiosyncratic trait of Chileans, it is not less true that a permanent mistrust towards its institutions is a complexity for any country. A further facet of the complexity of citizen disaffection, expressed in electoral abstention and a low attachment to parties and coalitions, is its stark contrast with the healthy situation of many public institutions. According to the Res Publica Chile group,

We Chileans mistrust our fellow men and, especially in recent years, our public institutions, which confirms the low social valuation of communal systems. It is in the midst of this mistrust that public demonstrations emerge as an alternative, or even a replacement of traditional politics, as a tool to decide large-scale social issues. Today the number of the politically disenchanted appears to rise higher than those who want to become actively involved in the electoral process. (Contreras et al., 2013, p. 41)

This increase in the popularity of protests and demonstrations, led in its fervor to former student leaders running in the parliamentary election for seats in the house of deputies, which would seem to pose another paradox, as those who more actively rejected traditional politics now start joining its ranks.

A further paradox lies in the fact that, despite being a country that achieved over the last 20 years a rate of growth never before seen in its history (Corbo, 2012), there are many aspects of the country in which there's a visible lag when compared to similar nations. One of them is that, while the presidential office will, in March, be once again held by a woman, there is an overall low participation-rate by women in positions of power when compared to other Latin American countries. To try and understand an apparently contradictory social and political phenomenon, it is again necessary to recall some historical context.

### **WOMEN IN CHILE**

In Chile, women represent over half the population. Strictly speaking, they make up 53% of the electorate. As we have said, however, only 12.7% of them occupy seats of popular representation and Chilean women became able to vote only a little over 60 years ago, on January 8, 1949. Under the presidency of Gabriel González Videla, women gained a voice and a “vote” in society... at least in theory, as seats of power remained in the hands of men, this being - to a lesser extent - a reality that is still current.

A mere 14 years ago, for the first time two women put their names on the presidential ballot:

Gladys Marin of the Communist party and Sara Larrain of the Ecologist party. It was 1999 and they were facing a highly polarized election between socialist Ricardo Lagos, the eventual winner, and Joaquin Lavín, of the UDI. Both women had a very poor electoral performance, Marin with a 3.91% and Larrain with a 0.44%.

Six years went by before Michelle Bachelet reattempted the feat and was elected as the first woman President in the history of Chile. Now it will again be she who will assume the seat on March 11 2014, having won on a second round of voting against Evelyn Matthei, who was the first woman nominated for the presidency by the right wing coalition *Alianza por Chile*.

An increasing presence of women in representative and politically influential seats, however, does not guarantee that gender barriers have diminished. On the contrary, experts in the field like the Chile21 foundation's executive director, María de los Angeles Fernández, warn us about how that growth generates a deceitful situation which winds up hiding gaps in equality. "These are women who go out of the norm. They're exceptional and it can even be a matter of concern that their visibility hides that this triumph only happens on the surface, because the precarious situation of women continues unchanged from the point of view of the data" (Faúndez, 2013, p. 5). And the data is eloquent: In Chile, the current situation of women in positions of power is as follows: at the executive level, 27.2% of the offices are held by women (Six out of 22 ministers. This figure corresponds to the administration of President Sebastián Piñera, whose term will expire in March 2014.). At the legislative level, a mere 13.9% of the seats are held by women (13% of the Senate, 14% of the House of Deputies, when the global average is 19.7% and the regional average is 22.6%) (Faúndez, 2013). At the local level, the number reaches 23%, distributed between 12.7% mayors and 24.9% city council members. At the judicial level, female judges represent 36.6%, and 18.2% of court districts are presided over by a woman. Only 2.7% of embassies are directed by women and just 5.1% of universities are led by a female rector, meaning three out of 59.

In the private sector the breach is even larger. Finance - Central Bank and Insurance Companies - retail, mining and wood pulp industries, are the areas where there are the fewest women in positions of power. And regarding salary, in Chile women earn on average 34.5% less than men: while employed women received an average compensation of \$300,026 CLP, men earn \$458,157CLP. This in spite of 38.8% of families being headed by a woman, as established by the CASEN poll (Survey of socio-economical characterization conducted by the Government of Chile), which also shows that in almost 60% of these homes, a woman is the only adult (Faúndez, 2013).

This view is shared by the current head of the SERNAM (National Women's Service), Loreto Seguel, who points out that "there are advances, a different Chile is starting to show, but the cultural changes cannot stop there" (Faúndez, 2013, p. 5), because Chile, despite these changes, continues to be a country with a labor system created for men and by men. This, however, is natural when it is considered that until a few years ago the percentages of insertion in the workforce were very low. The participation of women in the work market has forced an important quantitative development, but there is still a qualitative factor that is owed them: the rise of women to higher positions is difficult. At higher levels there is a very strong gender breach, an invisible barrier between women and decision-making positions. There is another factor that continues to play a part in all of this: machismo (García, 2013, para. 5). This is expressed in the way in Chile that most

of the domestic burden still falls on women, which greatly complicates the chances of working women with children to be able to deliver on both fronts. But besides chauvinism, there are other elements that left women outside of politics and decision making, focusing mainly on their families. In Chile, awareness has been raised on the need for public policy that is able to change this scenario and there have been important efforts, like extended postnatal leave, but the development of a policy of work conciliation at a country wide scale is still an urgent necessity.

In synthesis: while female participation in power in Chile is below the regional average - only 13% on the upper house and 14% on the lower house, with a Latin American average over 20% - the first office of the country will be assumed by a woman, Michelle Bachelete, who ran against another woman, Evelyn Matthei. How can we understand this phenomenon?

For some analysts (Lupano Perugini & Castro Solano, 2011), this occurrence has to do with two issues, an emotional and a political one. Emotional from the social point of view, as Chileans tend to project in women a motherly figure, close to rejoicing and protection, which generates, one way or another, an affective bond between the citizenry and the candidate. A bond that is not generated by traditional politicians, the vast majority of whom have been men, who have throughout the years provoked an estrangement between the general population and political party's representatives. In effect, women seem nowadays to represent a view more in accordance with how citizens see politics, and female leadership seems better suited to their expectations:

Different studies have shown that women serving in political positions have a growing acceptance by voters (Carroll, 1985; Darcy, Welch, & Clark, 1987). Benze and Declerq (1985), synthesize the characteristics that voters usually prefer: strong but not aggressive women, who show a professional profile and who are not especially attractive physically." Uriarte and Ruiz (1999) maintain that female politicians are more open to dialogue, less authoritarian, and have a better capacity to integrate their subordinates. Benze and Declerq (1985) conducted an analysis of campaign spots and concluded that while most men emphasize their toughness, women usually accent their capacity for compassion.

In Argentina, D'Adamo, García Beaudoux, Ferrari, and Slavinsky (2008) conducted a study exploring the predominating perceptions in public opinion of female leadership, especially of women who run in political campaigns. Their results show that the majority of people consider that while there is no difference between the leading styles of men and women, the latter focus more on more difficult social issues and are criticized more due to the existing prejudice against them. Lastly, they consider some attributes that women can use to their advantage during campaigns: "showing intelligence and ability to negotiate, patience, firmness, determination and knowing how to exploit their feminine characteristics regarding their capacity for empathy and comprehension" (Lupano Perugini & Castro Solano, 2011, p. 142).

## CONCLUSIONS

This work analyzes citizen disaffection expressed in electoral abstention and the low identification of the population with political parties and coalitions in Chile. Chileans mistrust their neighbors and, increasingly in recent years, their public institutions, which confirms the low appreciation held for social systems. Along with this growing disaffection with the democratic

process, there is the paradoxical phenomenon that despite having achieved enormous economic growth in the last 20 years, there are aspects in which there are notable delays when compared to similar countries. One of them is the low participation of women in seats of power. It is a fact that women face more difficulties in their political careers, being conditioned by a familial and professional overload in a cultural scene “made for men and by men.” These issues notwithstanding, the President of Chile will once again be, starting in March, a woman.

This paradox can be interpreted from an emotional and a political perspective. Emotionally, Chileans project in women a motherly figure, which generates affective bonds between the citizenry and the candidate, something that does not happen with traditional politicians, most of them men, who throughout the years have provoked estrangement between the general population and political parties and representatives.

From a political point of view, women seem to represent nowadays a view that is more in line with the citizens’ political expectations. Different studies show that women occupying political posts have growing approval amongst the voters, and that the characteristics they tend to prefer are strength but not aggressiveness, having a professional career and not being too physically attractive. Female politicians are more open to dialogue, less authoritarian, and have more capacity to integrate their subordinates and usually accent their compassion. There would seem to be specific attributes that favor women when displayed in political campaigns: showing intelligence and negotiation skills, patience, firmness and knowing how to exploit their feminine characteristics regarding their capacity for empathy and comprehension. Despite a lack of research confirming these affirmations in the Chilean context, the descriptions made by different researchers seem to perfectly fit the candidates of the last election, in particular the elected president Michele Bachelet.

Finally, once the obstacles obstructing access to political power are overcome, the characteristics of women seem to respond better to the cultural stereotypes, and emotional and social needs, of the Chilean voter in the current political context, than those of men, giving the former a greater and richer connection to citizens.

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**LONG TERM MOVING-AVERAGE INVESTING:  
A SOUND STRATEGY FOR DEFINED CONTRIBUTION RETIREMENT PLANS?**

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**ABSTRACT**

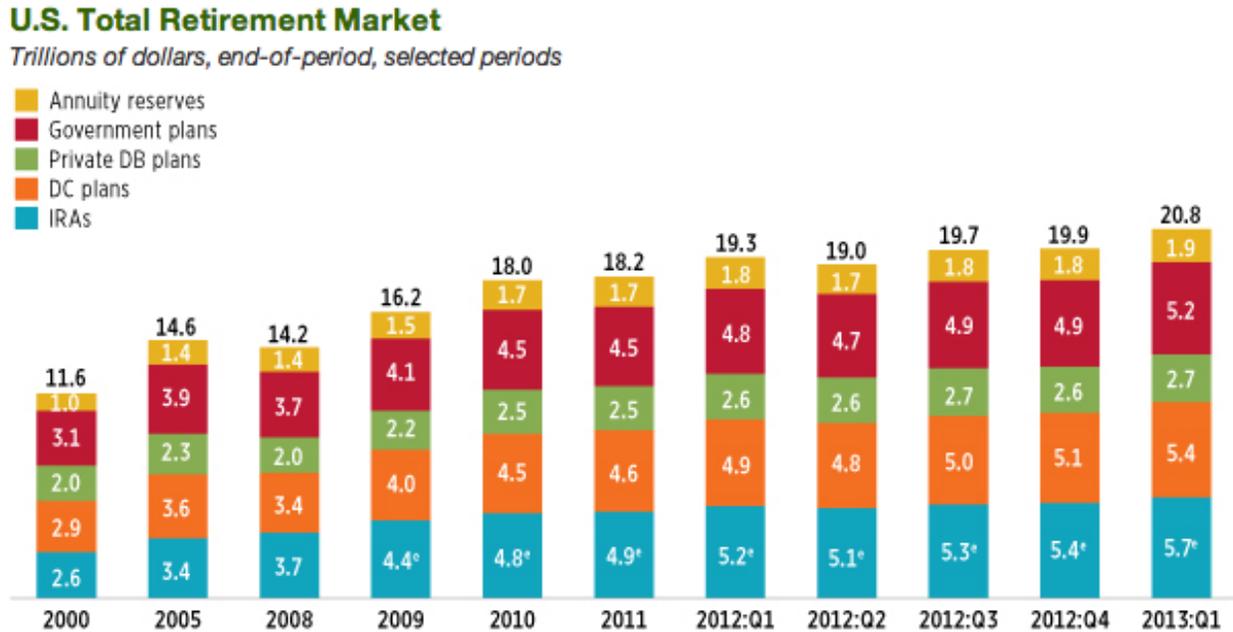
Market timing is a strategy of making buy and sell decisions of financial investments by attempting to predict future market prices through measures of value, market sentiment (bullish/bearish), or moving averages. This study examined the use of the Simple Moving Average (SMA) as an investment guide for employees, having little financial understanding, who are individually responsible for the investments of their personal defined contribution retirement plan. Specifically, the study examined four simple moving averages (SMAs) as a tactical (market) timing strategy for making buy and sell decisions for individuals that have defined contribution plan assets, such as 401(k) plans, 403(b) plans, 407 plans, along with Individual Retirement Accounts (IRAs). The results of the four SMAs (10-month SMA, 12-month SMA, 15/40-weekly SMA, and 50/200-daily SMA) were compared against a buy/hold strategy. The results of this historical post-hoc examination determined that employing the SMA to trigger the decision to be invested or not invested in mutual funds was significantly better than the traditional buy and hold strategy.

*Keywords:* Simple moving average investing, moving average investing, defined contribution plan investment strategy, buy and hold investing

**INTRODUCTION**

There are two basic types of retirement benefit plans: defined benefit and defined contribution. In a defined contribution plan, the employee is responsible for investing pre-tax dollars into a fund family of mutual funds approved by the employer. The employee is responsible, or at risk, for choosing how those pre-tax dollars should be invested. And, of course, there is no guaranteed payout benefit when you retire; what you end up with depends on how well your investments perform. On the other hand, a defined benefit plan is a retirement account for which the employer is at risk for a set payout when the employee retires. For this study, our focus centers on an investment strategy for those individuals who have U.S. defined contribution plan assets, *such as 401(k) plans, 403(b) plans, 407 plans, along with Individual Retirement Accounts (IRAs).*

Figure 1. - U.S. Retirement Assets



The dollar amount of “U.S. Retirement Assets” from 2000 through the first quarter of 2013 (Holden & Bass, 2013, p. 2).

Of the \$20.8 trillion in the U.S. retirement market assets for the first quarter of 2013, \$11.1 trillion, or 53.4%, were designated as “Defined Contribution Plans.” For 2012, \$5.3 trillion, or 50.5% of the dollar amount in “Defined Contribution Plans” were invested in mutual funds for retirement (Investment Company Institute, 2013b, p 2). We consider these are the individuals that require an investment strategy that is easy to follow and removes the psychological emotions of investing.

Therefore, since these individuals serve as their own investment advisors, this paper’s focus is on determining a quantitative investment strategy that incorporates a simple trend following methodology that not only minimizes a significant drawdown in the value of financial assets but also removes the psychological emotions involved in making investment decisions. (*Drawdown, as defined in this paper, is the peak-to-trough decline an investor would experience in an investment. As an example of a drawdown, the S&P 500 Index, declined 36.77% in 2008 alone.*)

## LITERATURE REVIEW

Virtually all retirement mutual funds, utilized for employee’s investment options, are composed of numerous corporate stocks acquired by the mutual fund to diversify holdings and meet the fund investment objective. Each mutual fund investment option is composed of various individual stock positions. The value of an individual stock (held by a mutual fund) is determined by two factors, value and sentiment (Shefrin & Statman, 1994). Most textbooks on Corporate Finance will define a stock’s “value” as the present value of the expected dividend and terminal

value discounted at an appropriate rate; yet sentiment is more “mushy” and can be classified as either “bullish” or “bearish.” It is the “sentiment” that causes the market to move away from “value.” We have seen what happens when sentiment begins to deviate from value, markets can drop in spite of positive economic news, and gain with negative news.

We recall the extremely “bullish” sentiment of the “dot-com” craze, and wonder how did we go so wrong? However, being extremely “bullish” on technology stocks is not new. In the early 1900s the “wireless telegraph” was the newest technology and investors threw caution to the wind “...trying to reap fortunes from the much heralded field... it would be... impossible to estimate the amount of money that has been thrown away by usually sane... people during the past ten years” (Shaw, 1908, p. 631). Following those years of bullish sentiment of the early 1900s was, of course, the bearish sentiment resulting from the crash in 1929.

“Market timing” involves the detection of changing sentiment and subsequently riding the Bull or Bear to increase returns beyond those achieved through a traditional “buy and hold” strategy. Friedman (1953) and Fama (1970) were among the first to research “technical analysis” as a method for trading stocks and forecasting price movements. The forecasting of price movement through the use of technical analysis continues to remain controversial in the literature with influential studies concluding that technical analysis is not useful; while other studies indicate a positive effect upon portfolio returns. Market timing (technical analysis) has long been the subject of much debate and discussion. Various technical analysis “decision rules” have been examined and tested on the stock market, with most indicating that the decision rules do not result in returns higher than the buy and hold strategy. Further, if we include transaction costs, returns could actually be negative (Fama & Blume, 1966; Jensen & Benington 1970).

The stumbling block for technical analysis is the “efficient markets hypothesis.” The efficient markets hypothesis implies that technical analysis adds nothing to returns because the current price reflects all available relative information. Investors compete to capitalize on their unique understanding of the common knowledge of a stock’s price history and in doing so they drive stock prices to a point where the expected rate of return is commensurate with risk, i.e. normal returns (Fama, 1970). The efficient market hypothesis would imply that technical analysts can only achieve superior returns by identifying stocks that react slowly to market information, providing a window of opportunity for the leveraging of returns, an impossible condition if you are operating in an “efficient” market.

In examining whether a market timing strategy is ever a viable alternative to value analysis or to the efficient market theory (where prices often exhibit a random behavior and are not predictable with consistency), Malkiel (2004) noted that the best predictor for a mutual fund to consistently outperform the market, such as the S&P 500 was through low fund expenses and low turnover rate, not a value approach or a market timing strategy. However, other studies have concluded that some simple investment market strategies will outperform a buy-and-hold approach. Shen (2002) noted, with real-time price data from 1970 to 2000, that a low spread between the P/E ratio of the S&P 500 and interest rates did outperform a buy-and-hold strategy. In addition, Fisher and Statman (2006) noted that a Bullish Sentiment Index strategy between 1962 and 2002, switching from TSY Bills to stocks when the bullish sentiment index is lower than its median and vice-a-versa, outperformed a buy-and-hold strategy, and resulted in a higher Sharpe Ratio.

Even though theory and research suggests that there is no gain from the use of technical analysis, Frankel and Froot (1990a) found that professional traders include technical analysis in forecasting the market. This trend toward technical analysis is more clearly demonstrated by visiting one of the many internet financial sites where technical analysis tools are just a click away e.g. <http://finance.yahoo.com>. Obviously the frequent upgrading of technical analysis services is a response to the demand for technical analysis tools and competition among the financial information service providers. The trend toward readily available technical analysis tools and data has significantly empowered even the average investor. Schrass, Bogdan and Holden (2012) estimated that 44% of American households were investing in mutual funds in 2012.

The main objective of technical analysis is to identify a market trend and invest accordingly. Technical analysis results in an investor investing in the stock or market when it is trending upward and selling a stock or being on the sidelines when the market is trending downward. If the market begins to trend the technical analysis tools provide signals indicating the direction of the trend. The investor's action, driven by the indicators, reinforces the identified trend. With so many investors relying on technical tools, it is possible for the technical traders to "move" the market in the direction of the trend, providing a self-fulfilling prophesy. Froot, Scharfstein, and Stein (1992) termed this self-fulfilling nature of technical trading, a "speculative bubble." Conrad and Kaul (1988) found that weekly returns were positively auto-correlated with technical trading activities. In a related study Frankel and Froot (1990b) suggested that the overpricing of the dollar (US) in the 1980s could be due to the influence of technical analysis. Shiller (1984, 1989, 2005) found that irrational investor behavior resulted in market volatility. Further, Shiller (1989) suggested that the October 1987 world-wide stock market "crash" may have been the result of technical analysis. Fama and French (1989) proposed a "mean reverting model" to explain the movement of stock prices, finding that returns become strongly negative for a 3–5 year horizon. Evidence of technical analysis leveraging the direction of a stock movement was provided by De Bondt and Thaler (1985, 1987) who found that stocks which experienced a significant downward trend over a 3-5 year period experienced returns above the market during following years. Further, that stocks which experienced strong returns tended to experience returns below the market in following years.

Other studies have shown that some fundamental data like price earnings ratio, dividend yields, business conditions and economic variables can predict to a large degree the returns on stocks (Breen, Glosten, & Jagannathan, 1990; Campbell, 1987; Campbell & Shiller, 1988, 1989; Fama & French, 1989). Lo, Mamaysky & Wang (2000) examined "American share prices" for the period 1962-1996 finding that technical patterns were unusually recurrent and sufficient to lead to trading gains; a finding confirmed by Oglesby and DeBauche (2009, 2010) who found that utilizing Exponential Moving Averages (EMA) and/or the P/E ratio to make trading decisions yielded higher gains, provided the investor with lower risk, and a higher Sharpe Ratio. Specifically, the market timing strategy based on EMA outperformed all other strategies tested (P/E, Dividend Yield and buy-and-hold).

As can be seen, a trend following approach to determine when to buy and sell financial assets is not a new investment strategy. Michael Covel's book (2005), *Trend Following: How Great Traders Make Millions in Up or Down Markets*, dealt with trend following, or market timing. Jeremy Siegel's (2008) book, *Stocks for the Long Run: The Definitive Guide to Financial Market Returns & Long-Term Investment Strategies*, analyzes the use of a 200-day simple moving average

(SMA) in timing the Dow Jones Industrial Average (DJIA). His approach bought the DJIA when it closed at least 1% above the 200-day SMA and sold the DJIA and invested in Treasury Bills when it closed at least 1% below the 200-day SMA. He concludes that this investment timing strategy improves the absolute and risk-adjusted returns over a buy-and-hold strategy. When all transaction costs are included (taxes, bid-ask spreads, commissions), the risk-adjusted returns are still higher when employing market timing, though timing falls short on an absolute return measure.

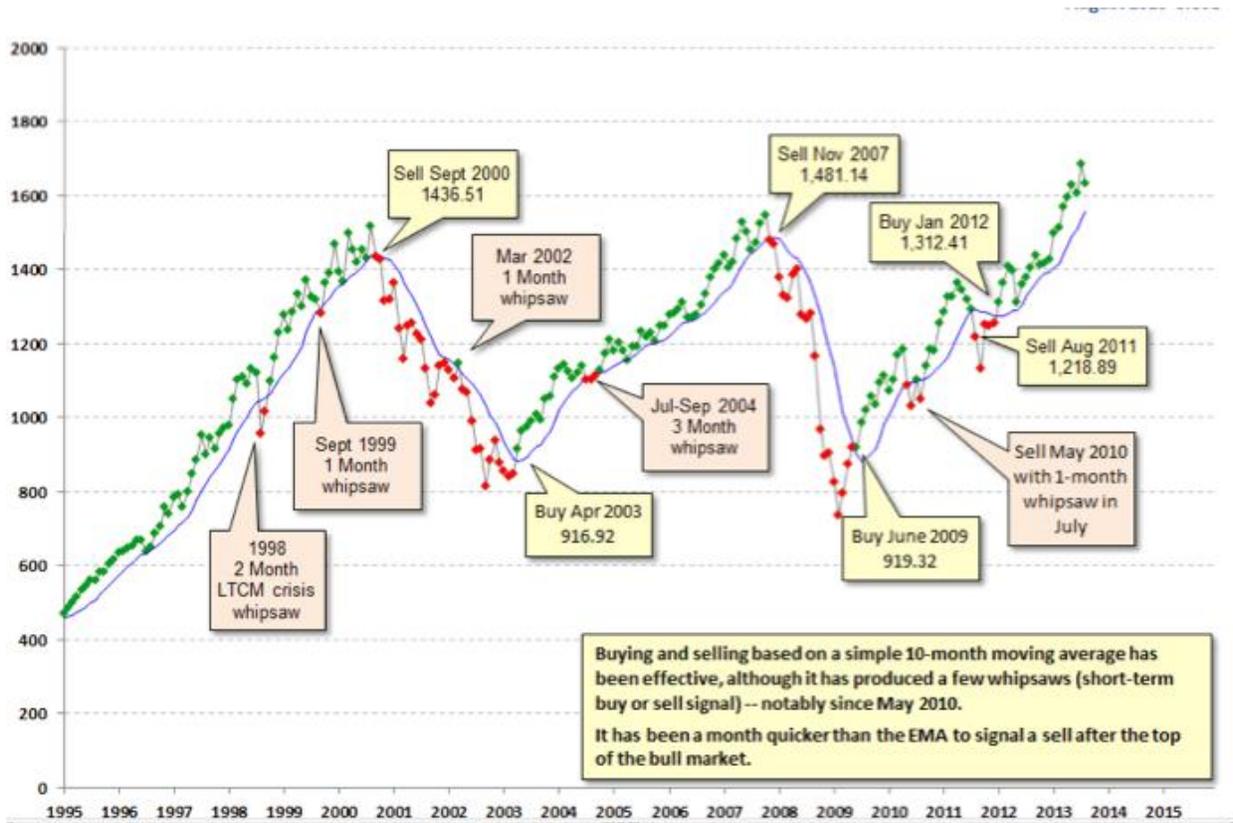
Faber (2013) uses the monthly equivalent of Jeremy Siegel's (2008) 200-day SMA, which is the 10-month SMA and a 12-month SMA. Faber's investment approach is to remain or purchase an equity index, such as the S&P 500, when the monthly close of the index is above the 10- or 12-month SMAs. When the 10- or 12-month SMAs are below the equity index, the investor moves to a cash position. He concludes that the 10- or 12-month SMA improves the return over a buy-and-hold strategy. However, Faber and Richardson (2009, p. 146) in examining the most recent 15-years concluded that a trend following model (10 or 12 month SMA) did underperform a buy-and-hold strategy during the 1990s. Further, the authors stated that the ability of the 10- or 12-month SMA model to add value to a portfolio must be incorporated over the course of the entire business cycle.

Doug Short (2013a) in his "Moving Averages Month-End Update" on the psychology of momentum signals states that market timing as an investment strategy works because of a human trait. That is, individuals want to imitate successful investment behavior. When individuals hear of others making money in the stock market, they purchase stocks. When the stock market trend changes from bullish to bearish, successful investors sell early. The imitators of such a pattern eventually turn the previous bullish trend (buying equities) into a bearish trend (selling equities).

Prechter and Parker (2007) propose that in the financial realm investors are ignorant of what other investors will do. Therefore, the pricing of investments is mostly motivated by the unconscious herding instincts of investors. In other words, prices of investments are induced by mood impulses, waves of optimism and pessimism, of investors in the aggregate to buy and sell stocks.

The following Figure 2 of the S&P 500 monthly closes since 1995, developed by Doug Short (2013), shows that a 10-month SMA strategy would have insured that investors did participate in most of the bull markets while reducing losses during bear market.

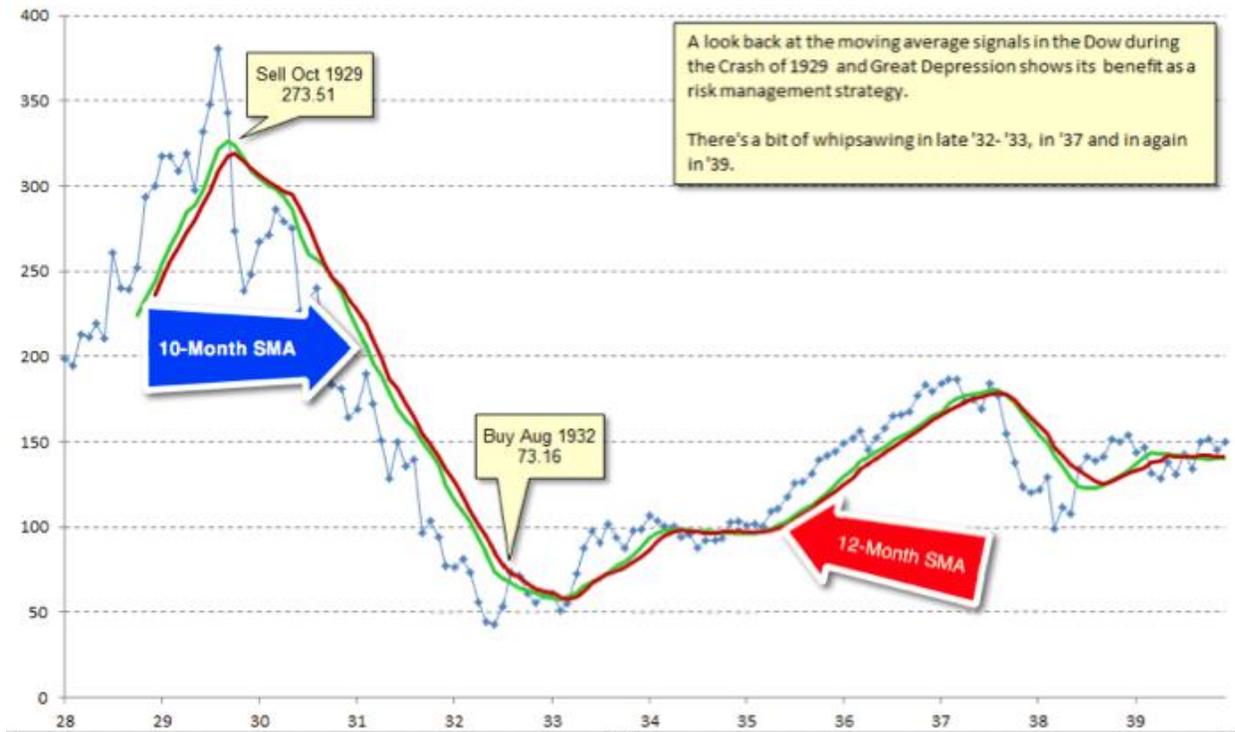
Figure 2. – S&P 500 monthly close since 1995 with 10 month simple moving average



Short's conclusion is that buying and selling based on a 10-month SMA is an effective, simple investment strategy. His strategy can be summed up as follows: Buy when monthly price > 10-month SMA and Sell and move to cash when monthly price < 10-month SMA. Therefore, from Figure 2, these simple moving-average signals have a good track record for potential long-term gains while avoiding major losses. Of course, these simple moving averages are not foolproof timing signals, but they essentially took investors out of equity positions during the 2000-2002 and 2007-2009 bear markets and have captured significant gains since the initial buy signals after the March 2009 low.

In Figure 3, Short (2013b) looks back at the 10- and 12-month SMA averages in the Dow Jones Industrial Averages (DJIA) during the "Crash of 1929 and the Great Depression."

Figure 3. Dow Jones monthly close 1928-1940 with 10 month and 12 month moving averages



The above chart illustrates the investment merits of both the 10- and 12-month SMA approach. An investor would have received a sell signal based on both the 10- and 12-month SMA on October 1929. Subsequent to the next buy signal, the DJIA declined 73.25%. In other words, an investor following this investment timing strategy would have avoided a 73.25% drawdown from October 1929 to August 1932. The strategy did render a buy signal in August 1932; however, the strategy did have four subsequent sell signals that did produce whipsaws.

### MEASUREMENT

A moving average trading system is one of the most popular and easy to use investment tools available to an investor. The system is simple, and, since it is mechanical, it removes the emotions involved in making subjective, investment decisions. The system employs two basic trading rules: (1) Buy Rule: Buy when the price > moving average and (2) Sell Rule: Sell when the price < moving average. To determine the most profitable moving average, we tested the following averages of SPY: (1) 10-month SMA, (2) 12-month SMA, (3) 15/40 weekly SMAs, and (4) 50/200 daily SMAs. SPY is an exchange trade fund (ETF) that seeks to provide investment results that, before expenses, generally correspond to the price and yield performance of the S&P 500 Index. ETFs are bought and sold like stocks. Investors can employ traditional stock trading techniques; including stop orders, limit orders, margin purchases, and short sales.

This study utilized back testing by employing a tool available on the “Exchange Traded Funds (ETF) Replay” website (2013) to measure the performance of each of the above moving average from January 2003 to August 2013. Performance returns were based from the first moving

average cross over point. That is, if the price of SPY is above its respective moving average, a buy occurs. If the price of SPY is below its respective moving average, a sell occurs and the proceeds are moved into Barclays Short-Term (3 month) Treasury Bill (SHV) Exchanged Traded Fund. All performance returns are total returns, which includes dividends and distributions. Taxes and commissions are excluded because the focus is on tax-deferred retirement plans. In addition to calculating the compounded annual growth rates (CAGR) for each moving average, we also calculated the Sharpe Ratio, Coefficient of Variation, and the maximum drawdown.

The following Table 1 provides the performance results (CAGR, Sharpe Ratio, and Coefficient of Variation) for the 10-month SMA, 12-month SMA, 15-40 weekly SMA, and the 50-200 daily SMA.

Table 1. Results for long term moving-average market timing strategy  
January 2003 to August 2013

	10-Month Simple Moving Average	12-Month Simple Moving Average	15/40 Weekly Simple Moving Average	50/200 Day Simple Moving Average
SPY Market Timing Strategy Cross-Over Date <sup>1</sup>	October 31, 2007	July 31, 2009	October 5, 2007	October 19, 2007
SPY's CAGR <sup>2</sup>	8.11%	10.91%	9.14%	9.04%
Buy/Hold's CAGR <sup>2</sup>	3.78%	6.84%	3.64%	4.07%
Sharpe Ratio <sup>3</sup>	.58	.86	.69	.76
Coefficient of Variation (CV) <sup>4</sup>	1.54	1.15	1.44	1.30

**Notes:** <sup>1</sup>Performance returns are based from the first “Moving Average Cross-Over Point.” That is, if the SPY is above its respective moving average, a switch to the SPY will occur. If the SPY is below its respective moving average, a switch to Barclays Short-Term (3 month) Treasury Bills (SHV) Exchange Traded Fund (ETF) will occur. All returns are total, which includes dividends and distributions.

<sup>2</sup>CAGR is the “Compounded Annual Growth Rate” that is calculated from the first Moving Average Cross-Over Point.

<sup>3</sup>Sharpe Ratio measures return to risk. It is useful in comparing two or more investment alternatives (strategies) in terms of risk-adjusted returns. A higher ratio means that investment returns are being compensated for the risk taken. The Sharpe ratio is calculated as follow:  $(r_p - r_{SHV})/\sigma_p$ . Where:  $r_p$  = Performance return (CAGR);  $r_{SHV}$  = Return on Barclays Short-Term (3 month) Treasury Bills;  $\sigma_p$  = Standard deviation. A good rule of thumb is that risky asset classes should have Sharpe ratios that cluster around 0.20, while a diversified portfolio is around 0.40.

<sup>4</sup>The Coefficient of Variation (CV) allows one to determine how much volatility (risk) you are assuming in comparison to the amount of return you can expect from an investment. Therefore, the lower the ratio of standard deviation to its mean return, the better the risk-return tradeoff is. The CV is calculated as follows:  $(\sigma/CAGR)$ . Where:  $\sigma$  = Standard deviation of total returns and CAGR is the compounded annual growth rate.

The results show that the best performing average is the 12-month SMA with a CAGR of 10.91%, Sharpe Ratio of .86, and Coefficient of Variation of 1.15. The 12-month SMA outperformed the Buy/Hold strategy, 10-month SMA, 15-40 weekly SMA, and the 50-200 daily SMA in all categories.

The following Table 2 provides the total number of trades and maximum drawdowns for the 10-month SMA, 12-month SMA, 15-40 weekly SMA, and the 50-200 daily SMA.

Table 2. Total number of trades and drawdowns for long term moving-average market timing strategy  
January 2003 to August 2013

	10-Month Simple Moving Average	12-Month Simple Moving Average	15/40 Weekly Simple Moving Average	50/200 Day Simple Moving Average
Trades <sup>1</sup>	9	8	7	7
Maximum Drawdown for Timing Strategy <sup>2</sup>	(16.7%)	(16.7%)	(17%)	(17.3%)
Maximum Drawdown for Buy/Hold <sup>2</sup>	(48.8%)	(46.3%)	(54.6%)	(54.7%)

**Notes:** <sup>1</sup>Total number of trades (buys and sells) from the first “Moving Average Cross-Over Point.”

<sup>2</sup>Maximum Drawdown is the percentage drop an investor would experience from the high (based on the daily closing prices) to a sell signal.

The results from Table 2 reveals that the 12-month SMA had a maximum drawdown of 16.7%, which was the lowest of the SMAs. The lowest maximum drawdown for a Buy/Hold strategy was 46.3%.

## CONCLUSIONS AND RECOMMENDATIONS

This study examined four simple moving averages (SMAs) as a tactical (market) timing strategy for making buy and sell decisions for individuals that have defined contribution plan assets, such as 401(k) plans, 403(b) plans, 407 plans, along with Individual Retirement Accounts (IRAs). The results of the four SMAs (10-month SMA, 12-month SMA, 15/40-weekly SMA, and 50/200-daily SMA) were compared against a buy/hold strategy.

To determine the merits of this tactical timing strategy, we tested four moving averages of SPY, which is an exchange-traded fund that acts as a proxy for the S&P 500, back to 2003. We back-tested each of the four simple moving averages (SMAs) using the software provided by “ETF Replay” to determine which, if any, of the moving averages achieved superior results to a buy/hold strategy. (ETF Replay only allowed back-testing for a period of ten years.) In essence, the SPY was purchased when its price > SMA; SPY was sold and proceeds moved to SHV (Barclays Short Term (3 month) Treasury Bills ETF) when its price < SMA.

We found that the 12-month SMA achieved superior results to the 10-month SMA, 15/40-weekly SMA, 50/200-daily SMA, and a buy/hold strategy. In particular, the 12-month SMA had a compounded annual growth rate (CAGR) of 10.91% versus the Buy/Hold strategy of 6.84%. The 12-month SMA had a Sharpe Ratio of .86, which was superior to the other moving averages. In addition, the coefficient of variation for the 12-month SMA was lower than the other three moving averages. Further, the maximum drawdown for the 12-month SMA was (16.7%) versus (46.3%) for the Buy/Hold strategy.

**The results of the study bring us to the following conclusion:**

Investors, with limited investment/financial acumen, can employ the SMA as an investment tool to leverage returns in their individual retirement portfolios. Specifically the findings indicate that:

- The 12-month SMA leads to returns in excess of a Buy/Hold strategy when traded according to the decision criteria presented.
- The 12-month SMA leads to lower drawdowns and volatility than a Buy/Hold strategy when trades according to the decision criteria presented.
- The 12-month SMA leads to positive risk-adjusted rates of return as measured by the Sharpe Ratio.

**The study leads to the following recommendations:**

- Since this study was limited to ten years of back-testing data, then future research may want to focus on longer time horizons for tactical trading effects.
- Since this study waited until SPY crossed above its respective SMA before making the first purchase, then future research may want to focus on an immediate purchase of SPY if it is above its respective SMA.
- Since this study employed non-leveraged ETFs, then future research may want to incorporate leveraged (derivatives) ETFs along with inverse ETFs.
- Since this study employed only one asset class of ETFs on the buy side, then future research may want to incorporate additional asset classes of ETFs, such as international equities, international bonds, emerging market equities, and commodities.

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