

# “Referral Marketing - An Innovative Approach in Management Education”

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## REFERRAL MARKETING – AN INNOVATIVE APPROACH IN MANAGEMENT EDUCATION

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### Abstract

Referral marketing is using People as the new media for reaching prospective customers. Existing theory, as analyzed by Literature review indicates that this new phenomenon called Referral marketing has its origin in the Corporate world. In the context of Higher education in general and Management education in particular, the competition between institutions, is intensifying. The application of Referral marketing in higher education is an underresearched area outside the U.S.A. In Education, students are seen as the customers. Some authors view the corporates as the customers of institutions and students as products. Education being a service and is people based, referral marketing is suitable. Offering incentives to encourage referral behaviour is being practiced. This study is about, how incentives influence referral behaviour and the impact of Age, Center (location), Gender, Educational background, Family income, and Family size of the referring student on the referral behaviour. Experimental design was used with one control group, to nullify the effect of extraneous variables. The control variable is the incentive. The responses were analyzed by SPSS software. Based on the results conclusions were drawn and the implication for Institutions are suggested. There is significant difference in the response of students as to whether they will canvass among friends and unknown people, with regards to Age and Center where the students belong to. The institutions can make use of Referrals in their marketing efforts. The scope for further research is also proposed.

**Key words:** Referrals, Education, Incentives, Students.

*It was the fifth consecutive year that India had emerged at the top position among the number of foreign students studying in the US.*

Mr. David Mulford, the US Ambassador to India

### Introduction

In the current globalised scenario, India is seen as a market with good potential for marketing education by Foreign Universities. Referral marketing is making use of students currently pursuing courses, to bring in potential students.

This can be an innovative tool in marketing of Service like education. The following study analyses whether Referrals' behavior can be influenced by incentives. As more and more foreign universities are wooing students of Indian origin to pursue courses offered by them, referral marketing may be an Innovative tool in their marketing efforts.

### 1. Literature review

What is **referral marketing**? There is substantial literature on the significance of Referral or Word of Mouth (WOM) in a broader marketing and buyer behavior context (e.g. Sheth, 1971; Haywood, 1989; Buttle, 1998).

Arndt's (1967) definition of WOM communication is often used:

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Oral person-to-person communication between a receiver and a communicator, whom the person perceives as independent, regarding brand, product or a service. There are two particular issues that arise from this definition. First, it involves face-to-face, oral contact between a communicator and a receiver. This needs updating in the context of electronic forms of communication; for example, the Internet is a growing source of recommending and complaining communications (Buttle, 1998). Equally letters, faxes and e-mail could represent WOM opportunities. Second, the communicator is perceived to be independent of the product or service under discussion. As the consumer becomes increasingly cynical about the true independence of third party advice (Culligan, 1995), WOM can be more influential than well-researched printed sources of product information such as *Which?* (Herr et al., 1991). Paradoxically, companies are increasingly attempting to harness the power of WOM by intervening in the recommending process. **Relationship marketing proponents advocate incentives to customers for recommending friends and families, and the development of reciprocal referrals among organizations.** Member get member (MGM) schemes are commonplace; network marketing relies almost entirely on the use of personal contacts to develop sales. It can be argued that recommendations based on such activities are not fully independent but do seem to have an effect on WOM activity (Bayus, 1985; Payne et al., 1995). This led (Buttle, 1998) to conclude that:

Perhaps all that distinguishes WOM is that it is uttered by sources who are assumed by receivers to be independent of corporate influence.

Under conditions of high purchase-related risk, a buyer is much more likely to purchase from a supplier/salesperson who has invested the time necessary to develop a close relationship with that customer (Johnston and Lewin, 1996).

A large body of literature in the popular press and in sales-related publications (Alessandra and Barerra, 1993; Corder, 1996) has emphasized the importance of referrals and/or recommendations from current customers (students for our study). For example, one business reported 60% of their new business came from referrals (Jones and Sasser, 1995).

Other research, examining direct salespeople, found that they perceived referrals as the most important method of obtaining new customers (Raymond and Tanner, 1994). While this study was not conducted in a business-to-business selling environment, it does suggest that referrals and/or recommendations can be extremely useful in finding new buyers.

Hebron, (1989) has argued for a marketing approach in higher education; otherwise there has been relatively little published research outside the USA on the marketing aspects of activity in educational institutions, including those offering Master of Business Administration degrees (MBAs).

This seems strange in view of the increasing competition among them as providers of services and the importance of some of the issues to the health and even survival of some of these institutions in the present climate.

Almost all organizations offering MBA degrees necessarily have management expertise and most have marketing expertise, since these subjects are taught on their courses. It is somewhat ironic that some of the current market offerings appear to suggest that their organizations have made insufficient use of their own internal marketing resources. Moreover, there appears to be a lack of awareness of the marketing process required to develop a product such as an MBA.

Duncan (1982) suggests that educational establishments do not really practice marketing, and that what is carried out tends to be rudimentary. In a recent review of marketing in service industries, Edgett and Parkinson (1983) point out that it is now generally accepted that the marketing of services is sufficiently different from the marketing of physical products to deserve separate treatment. The four unique characteristics that distinguish services are intangibility, inseparability, perishability and heterogeneity. By their nature, services cannot be touched, tasted or possessed; this leads to consumer difficulty in evaluating an intangible service offering.

A service is inseparable from the source of the service; production and consumption take place simultaneously. Services are perishable since they cannot be stored; yesterday's course vacancy

cannot be sold. Heterogeneity simply means that services are difficult to standardize; this makes it difficult to control quality. Services differ considerably in the extent to which they are people-based or equipment-based. Educational courses including MBAs (other than those by distance learning) are usually heavily people-based; the staffs are part of the product.

Assael (1981) suggests that the buyer's decision-making processes vary with the type of decision, and that the more complex and expensive decisions are likely to involve more buyer deliberation. Consumers go through complex buying behavior when they are highly involved in a purchase and they are aware of significant differences between brands. Marketing MBA programmes clearly involves the selling of an expensive product (in terms of both money and time), significant brand differences and infrequent buying (Murray K.B., 1991). It is suggested that, in the face of greater risk and uncertainty, services customers engage in extended decision processes. There is a distinctive information acquisition pattern for service customers; personal sources of information become particularly important.

Higher education (HE) marketing is still in its infancy in many parts of the world. Its future appears to be in jeopardy because of a three-pronged crisis. First, is the formidable obstacle of internal resistance to marketisation in HE manifesting itself in attitudes and public responses to the idea of marketing HE (Foskett, 1995). Second, is the failure of HE to identify itself with a specific product, epitomized in the battles between competing positions whether HE should primarily be about research or teaching. Third, is the failure of HE to domesticate the marketing idea and make it into a home grown philosophy (Gray, 1991) resulting in the utilization and application of marketing ideas based on borrowed wisdom from the business sector.

**Marketing in HE is still a relatively underdeveloped concept** in many parts of the world. Despite its acknowledged significance in the face of new challenges, it has not yet become fully embedded within the strategic operations and vision of many HE institutions especially in the universities of the less developed world. The belief that marketing is about advertising and promotion remains dominant at key levels of university administration. Its role as a model for developing products and services wanted and needed by university customers remains largely unrecognizable in many HE institutions. In addition, the failure to domesticate the idea of marketing and a continued use or misuse of the marketing idea on the basis of borrowed wisdom from the business sector, poses yet another serious threat to its viability in the peculiar HE environments of universities across the world. Inevitably, attitudes towards HE marketing have remained negative especially among academics. As long as HE does not interrogate these issues, the prospects for success remain bleak. Etzel et al. (1997) have identified three critical conditions to be met in applying this philosophy to marketing in the education sector. First is a complete focus on students' needs in developing qualifications and programmes that satisfy those needs. This requires concerted market research as an integral aspect of the development of curriculum. Second is the need for an integrated effort through co-ordinated activities to ensure that different aspects of the university focus on the same mission: that of delivering students' needs. Third is the related issue of developing a goal achievement orientation. In marketing terms, the success, the quality, and the entire outcome of the university experience should be determined by the extent to which the institution has satisfied its customers.

**The emergence of marketing in Higher Education (HE):** Most educational institutions now recognize that they need to market themselves in a climate of competition that for universities is frequently a global one, and substantial literature on the transfer of the practices and concepts of marketing from other sectors to HE has been developed (Gibbs, 2002). For example, Nguyen and Le Blanc (2001) focused on the image and reputation of the institution and referred to the crucial role these factors played in the development of market positioning – they drew on the well-established concepts and theories in business sector marketing for their study. Binsardi and Ekwulugo (2003), who claimed that “a centrally important principle of marketing is that all marketing activities should be geared towards the customer”, also relied on the literature used in business sector marketing, and applied it to the context of higher education.

Literature on education marketing, which originated in the UK and US in the 1980s was theoretical-normative in nature and was based on models developed for use by the business sector (Oplatka and Hemsley-Brown, 2004). Books of this type have continued to be available throughout the 1990s, and to date.

The literature included books and manuals on how to market institutions (e.g. Kotler and Fox, 1985; Gibbs and Knapp, 2001) and how to apply well-established above-the-line (advertising) and below-the-line practices (e.g. public relations) used in the business sector, to HE (e.g. Davies and Scribbins, 1985; Keen and Warner, 1989).

Research that began to emerge in the 1990s interpreted marketing within the narrower definition of marketing communications, and was based on the assumption that in order for any HE institution to market itself successfully managers would need to examine the decision-making process and potential students' search for information. Therefore, researchers conducted studies of the content of the print communications available for applicants (Mortimer, 1997; Gatfield et al., 1999; e.g. Hesketh and Knight, 1999). There was also much debate about who the customers of HE were: "students can be either considered as customers (with courses as the higher education products) or as products with the employers being the customers" (Conway et al., 1994). There was also some resistance to the notion of students as consumers.

For example Barrett (1996) lamented that "It is both regrettable and ominous that the marketing focus, explicitly borrowed from business, should be accepted and even welcomed". Such comments serve to highlight increasing concern regarding the marketisation of HE through the use of business terminology, which served to emphasise that HE was rapidly being regarded a business, like any other. In some cases, opponents of the introduction of market forces in education believe that the business world morally contradicts the values of education; therefore, they would argue that educationalists ought to oppose any form of marketing in their institution. Later, it was recognized that higher education was not a product, but a service, and the marketing of services was sufficiently different from the marketing of products, to justify different approaches (Nicholls et al., 1995). For example, Mazzarol (1998) focused on the nature of services and services marketing, and he highlighted the key characteristics that provided a basis for services marketing: the nature of the service i.e. that education is "people based", and emphasized the importance of relationships with customers.

Business sector marketing theory, and associated definitions of the concepts of marketing developed by well-established authors in the field – particularly Kotler (e.g. Kotler and Fox, 1985; Kotler and Armstrong, 2003; Kotler, 2003) – have continued to be used to underpin research by authors of papers on education marketing (Ivy, 2001; Nguyen and LeBlanc, 2001; Klassen, 2002; Maringe and Foskett, 2002; Binsardi and Ekwulugo, 2003). Kotler and Fox (1985) provided a definition of education marketing as early as 1985, stating that marketing in the context of education was: "the analysis, planning, implementation and control of carefully formulated programs designed to bring about voluntary exchanges of values with a target market to achieve organizational objectives". Some of the earlier definitions concentrated on "product marketing" for example Kotler and Fox's (1985) definition stated that students were the "product" and employers were the customers, whilst Levitt (1980) also viewed a university's offerings as products (Binsardi and Ekwulugo, 2003). Later in the 1990s higher education marketing was defined within the services marketing definition, for example Mazzarol (1998) highlighted the key characteristics that provide services marketing based on the nature of the services using theory developed by well-established researchers in business management (e.g. Zeithaml et al., 1985; Parasuraman et al., 2004). The recognition that HE was one of the service industries further shows that some authors in the field were anxious to ensure that HE was recognized as a business: a service sector business.

There was much interest by researchers in the relationship marketing model, and the rapid development in services marketing in recent years also seems to have gained some ground. However, there is still much research to be done to explore these models in the context of HE. For example work by others (Zeithaml et al., 1985; Parasuraman et al., 2004) offers much potential for application to the HE sector. Finally, more recent developments in customer relationship management

(CRM) which have emerged in markets where a relationship marketing model has been followed, also seems to provide potential for research in the HE context.

A Harvard professor David Garvin (1980) has said:

*"An institution's actual quality is often less important than its prestige, or reputation for quality, because it is the university's perceived excellence, which, in fact, guides the decisions of prospective students and scholars considering offers of employment, and federal agencies awarding grants."*

Philip Kotler (2000) has said "Image is Power". Few would deny having a positive image in the marketplace is an asset. Of course image, by itself is useless unless backed up with reality of quality products and service.

Often, in their zeal to make sure all external audiences are covered, image analysts forget about many of their most important constituencies... their internal audiences i.e. current students (at various levels of study).

**Expand the role of underutilized resources in prospective student enrolment i.e. the Current students; prospective students want to hear from current students.** What are the dimensions sought after by the potential students? This will form a basis on which the referrals can canvass. These parameters have to be framed into the questionnaire. Describe your institution's internal and external strengths and weaknesses: Which of the strengths are of most benefit to students? Which are the most marketable? (Regis McKenna, 1992). The questions were based on the strengths of Management institutions like Faculty, Infrastructure, Placement, National brand image etc.

The purchase of an international higher education can be considered high involvement, due to its high cost, high personal relevance, variety of different alternatives available and time taken to make the decision (Gray, 1991).

Evidence also indicates that newspaper and television advertisements are not as effective in initiating the purchase of services with enduring benefits, e.g. higher education, since these services are more expensive and require the consumer to be more involved (Zeithaml et al., 1985). A number of studies suggest that word-of-mouth communication is the most important information source for many services and can reduce risk for high involvement services since it gives the consumer the opportunity to receive clarification and feedback. Consequently, students may go to great length (go to university fairs in another city) to secure a first-hand personal source rather than rely on impersonal sources, e.g. mass media. The main function of impersonal sources of information for this type of service is, therefore, to direct students to personal sources of information. The information is then confirmed with close family members and friends (Hill, Romm and Patterson, 1991).

The relationship of target market audience members with peers (friends, acquaintances, counselors, family, etc.) contributes toward marketing decisions. You should consider ways to influence these seemingly "secondary" (indirect) audiences as ways to reach primary targets.

What methodology shall be adopted? Joseph S. Chen, Kay Hei-Lin Chu, Wu-Chung Wu (2000) suggest a longitudinal study measuring students' perceptions in improving attendance. So, we decided to use Experimental design with one control Group.

Referral value can be defined as the individual customer's contribution to the service provider's goals due to his or her referral behavior. It is reflected in the number and quality of potential customers the user of a certain service can reach and influence with positive, negative, or neutral information within a certain period of time (Herrmann and Fuerderer, 1997). The costs the service provider faces due to the customer's referral behavior, plus customer-specific costs associated with the service provider's referral management, should also be considered.

So we try to provide incentives to referring students and the type of incentives they prefer can be obtained by a questionnaire and analyzing the Factors from the responses.

The impact of incentives on referral behavior and Whether the impact of incentives on persons referring other students, is influenced by the students age, gender, financial background, educa-

tional background etc., can be concluded out of a before & after study with a control group and the incentive obtaining maximum factor loading, being the control variable

## 2. Statement of the Problem

What is the impact of incentives on enrolment of students in higher education with specific reference to Post Graduate degree course in management? Is referring other students taking place, being influenced by incentives in higher education with specific reference to Post Graduate degree course in management? Whether the impact of incentives on persons referring other students, is influenced by the students age, gender, financial background, educational background, Location etc.?

## 3. Aim of the study

To determine whether students' referral behavior is being influenced by incentives and whether the impact of incentives on persons referring other students, is influenced by the students age, gender, financial background, educational background etc.?

## 4. Data collection

### 4.1. Methodology

The respondents were divided into two groups in each center, one experimental and one control group. Their responses were collected before and after the control variable, the preferred incentive was exposed to them. For determining the preferred incentives a separate tool was used to collect responses from all centers and incentive with maximum factor loading was used in the study. The methodology is Experimentation design – Pre-test-Post test study with one control group (To nullify the effect of extraneous variables). Questionnaire was used as the tool and was developed out of Literature review.

### 4.2. Unit of study

Unit of the study – MBA full time students with diverse under graduate background from 10 centers in the states of Tamilnadu and Pondicherry, in southern India (Salem, Coimbatore, Madurai, Tiruchirappalli, Tanjavur, Tirunelveli, Ooty, Guindy (Chennai), Vellore, Pondicherry), of both the genders.

### 4.3. Pilot study

Pilot study will enable the researcher to find out whether

1. The objectives of the study are being properly outlined.
2. The tools (Questionnaire) designed are relevant & proper.
3. The parameters covered by the tools (Questionnaire) are rightly understood, direct, clear and pointed.
4. The adequacy of Parameters to realize the objectives of the study.

Pilot study was done with 50 students and the above mentioned points were found to be true.

### 4.4. Reliability test

Reliability of the Tool was tested by using SPSS and cronbach's alpha was found to be 0.85. A reliability measure of 0.6 (cronbach's alpha) is considered good (Nunnally, 1978).

### 4.5. Number of respondents

500 students for arriving at the incentives as control variables. 1000 students for Pre test and Post test design with control group as per frequency matching.

## 5. Hypotheses

H1. There is no significant difference in the responses of students as to whether they will canvass among friends, with regards to age of students and center where the students belong to.

H2. There is no significant difference in the responses of students as to whether they will canvass to relatively unknown people, with regards to age of students and center where the students belong to.

H3. There is no significant difference in the responses of students as to whether they will canvass among friends, with regards to gender, educational qualification, family income and family size.

H4. There is no significant difference in the responses of students as to whether they will canvass to relatively unknown people, with regards to gender, educational qualification, family income and family size.

## 6. Data analysis

### 6.1. Factor Analysis to identify control variables

Factor analysis was used to summarize the responses of students on a number of variables. Principal component analysis was used.

Four factors were extracted. These factors had an Eigen value of more than one. The first factor loads heavily on the responses of students as to **discount in fees and Industrial visits being considered as proper**. This factor may be labeled as **Ethical Perception of incentives** by the respondent students.

This factor is chosen as the control variable for the next level of primary data collection – Experimental design with control group.

### 6.2. Experimental Design

In the experimental design there were two groups of students in each center. The Experimental group and control group. The control variable was exposed only to the Experimental group. It was a Pre and Post Test (Before and After) Design. Control group was arranged as per frequency matching method. The number of male and female students were arranged to be the same. This is to avoid the effect of extraneous variables. The variation in responses is due to the effect of different treatments and not due to preexisting dissimilarities.

Frequency matching was done on the gender of respondents available at the center and randomization where every unit of study has equal chance of getting into any of the groups, was applied. The responses were collected and SPSS software was used to analyze the data collected. Cross tabulation, analysis of variance to compare means and regression to model the causal relationship between the responses as dependent variable and demographic parameters as independent variables were used.

### 6.3. Hypotheses testing

Based on One way Analysis of Variance (ANOVA) with SPSS software and the ANOVA tables obtained point at a significance level of 0.05.

Table 1

ANOVA table 1(with regards to center)

		Sum of Squares	df	Mean Square	F	Sig.
Canvass to friends	Between Groups	39.207	9	4.356	7.258	.000
	Within Groups	593.582	989	.600		
	Total	632.789	998			
Canvass to unknown people	Between Groups	29.911	9	3.323	3.219	.001
	Within Groups	1020.102	988	1.032		
	Total	1050.013	997			

Table 2

## ANOVA (with regards to age)

		Sum of Squares	df	Mean Square	F	Sig.
Canvass to friends	Between Groups	20.475	10	2.047	3.294	.000
	Within Groups	612.283	985	.622		
	Total	632.758	995			
Canvass to unknown people	Between Groups	19.605	10	1.961	1.873	.045
	Within Groups	1029.862	984	1.047		
	Total	1049.467	994			

Table 3

## ANOVA (with regards to family income)

		Sum of Squares	df	Mean Square	F	Sig.
Canvass to friends	Between Groups	3.649	3	1.216	1.957	.119
	Within Groups	588.660	947	.622		
	Total	592.309	950			
Canvass to unknown people	Between Groups	7.111	3	2.370	2.252	.081
	Within Groups	995.941	946	1.053		
	Total	1003.053	949			

Table 4

## ANOVA (with regards to educational qualification)

		Sum of Squares	df	Mean Square	F	Sig.
Canvass to friends	Between Groups	.962	3	.321	.504	.680
	Within Groups	628.553	988	.636		
	Total	629.515	991			
Canvass to unknown people	Between Groups	5.813	3	1.938	1.845	.137
	Within Groups	1036.633	987	1.050		
	Total	1042.446	990			

Table 5

## ANOVA (with regards to gender)

		Sum of Squares	df	Mean Square	F	Sig.
Canvass to friends	Between Groups	1.046	3	.349	.549	.649
	Within Groups	631.743	995	.635		
	Total	632.789	998			
Canvass to unknown people	Between Groups	5.307	3	1.769	1.683	.169
	Within Groups	1044.706	994	1.051		
	Total	1050.013	997			

Table 6

## ANOVA (with regards to family size)

		Sum of Squares	df	Mean Square	F	Sig.
Canvass to friends	Between Groups	4.219	3	1.406	2.233	.083
	Within Groups	624.119	991	.630		
	Total	628.338	994			
Canvass to unknown people	Between Groups	6.611	3	2.204	2.110	.097
	Within Groups	1033.924	990	1.044		
	Total	1040.535	993			

H1. There is significant difference in the responses of students as to whether they will canvass among friends, with regards to age of students and center where the students belong to.

Reject H1

H2. There is significant difference in the responses of students as to whether they will canvass to relatively unknown people, with regards to age of students and center where the students belong to.

Reject H2

H3. There is no significant difference in the responses of students as to whether they will canvass among friends, with regards to gender, educational qualification, family income and family size.

Accept H3

H4. There is no significant difference in the responses of students as to whether they will canvass to relatively unknown people, with regards to gender, educational qualification, family income and family size.

Accept H4

There is no significant difference in the response of students as to whether they will canvass among friends and unknown people, with regards to gender, Educational qualification, Family income and family size.

There is significant difference in the responses of students as to whether they will canvass among friends and unknown people, with regards to age and center where the students belong to.

## 7. Conclusion

The results of ANOVA indicate that there is no significant difference in the responses of students as to whether they will canvass among friends and unknown people, with regards to gender, educational qualification, family income and family size.

There is significant difference in the responses of students as to whether they will canvass among friends and unknown people, with regards to age and center where the students belong to.

The significance for institutions from this study is that existing students when they are used as referrals, the incentives have no significant impact on the referral behaviour with regards to gender, educational qualification, family income and family size.

Male and female students are not influenced by incentives before and after they were exposed to the incentive. Similarly demographic parameters like educational qualification, family income and family size, have not influenced the referral behaviour before and after they were exposed to the incentive.

Age and center (i.e. the Location of the students) seem to influence referral behaviour before and after they were exposed to the incentive.

Institutions can design their marketing efforts with such insights and make use of the underutilized and highly productive tool – Referral marketing.

### **7.1. The advantages**

1. Existing students are underutilized resources in enrolling potential students.
2. The existing students are under no compulsion to refer potential students but can do so voluntarily and earn while they learn.
3. The institution can understand how the institution's resources like faculty, infrastructure, placement record, brand Image etc. are perceived by existing students as worthy to refer potential students. Only satisfied customers bring in more customers.

### **7.2. The limitations**

1. The students may be of the opinion that their primary job is to learn and not doing marketing of any sort.
2. They may not have good opinion on an institution marketing its courses aggressively.
3. They may feel their credibility may be at stake.

### **7.3. The applications**

Our research results can be applied in Referral marketing, an area assuming importance in today's globalised world, as in a highly competitive environment i.e. higher education in general and management education in particular.

Innovative incentives can be offered to existing students to refer prospective students.

### **7.4. Scope for further research**

Further studies can be done on whether the students are exploited to act as referrals. Is there a subtle pressure on students to refer prospective students?

Is the image of the institution affected by its marketing efforts? What is the need for a good quality institution to market its courses?

These questions can be answered by further research.

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