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ABSTRACT

Recent years have witnessed a resurgence of academic and practitioner interest in the way companies interact with their customers. While there has been considerable scientific progress in the understanding of market orientation and buyer-seller relationships, limited attention has been given to the concept of closeness to the customer. Specifically, there has been no valid measure of the construct as a whole. This paper reports the development of a valid 28-item measure (called *CLOSCUS*) for assessing industrial firms' closeness to the customer. The development of the scale is based on field interviews as well as statistical analyses of two independent samples from different sides of the buyer-seller dyad. Results indicate that seven factors underlie the 28 items. These are related to product, service, and process quality (two factors), flexibility in dealing with customers (one factor), and the way of interacting with customers (four factors), respectively. Based on the *CLOSCUS* scale, closeness to the customer is shown to impact on a customer's commitment, trust, and satisfaction. It is also demonstrated that closeness to the customer is both conceptually and empirically distinct from market orientation which contradicts some marketing researchers' prior statements. The paper concludes with some experiences from applications of the scale in a number of German companies.

The past decade has witnessed a strong resurgence of academic as well as practitioner interest in the way companies interact with their customers. Academic research related to this issue includes (1) work on companies' market (or customer) orientation (Kohli and Jaworski 1990; Kohli, Jaworski, and Kumar 1993; Narver and Slater 1990) including the construct's organizational antecedents (Day 1994; Jaworski and Kohli 1993; Narver and Slater 1991; Ruekert 1992) as well as its effect on business performance (Deshpandé, Farley, and Webster 1993; Jaworski and Kohli 1993; Narver and Slater 1990; Slater and Narver 1994), (2) work related to customer-supplier relationships (Anderson, Hakansson, and Johanson 1994; Dwyer, Schurr, and Oh 1987; Heide and John 1992; Morgan and Hunt 1994; Parvatiyar, Sheth, and Whittington 1992; Sheth and Parvatiyar 1993; Webster 1992), and (3) work exploring the consequences of customer satisfaction for firms (Anderson, Fornell, and Lehmann 1994; Anderson and Sullivan 1993).

While there has been considerable scientific progress related to market orientation and buyer-seller relationships, very little attention has been given to the concept of *closeness to the customer*. The notion of being close to the customer has been gaining increasing attention among practitioners since Peters and Waterman (1982) identified closeness to the customer as one of the distinctive features of America's best-run companies (see, e.g., Bertrand 1989). Getting closer to the customer has recently been among the most important objectives driving changes in major companies' organizational structures, systems, and cultures (e.g., Simon 1991). The *MIT Commission on Industrial Productivity* posits a positive relation between closeness to the customer and a company's performance: "All of the successful firms that we observed are making a concerted effort to develop closer ties to their customers" (Dertouzos, Lester, and Solow 1990, p. 119).

1993 for descriptions of the concept) in the U.S. and to its European counterpart, the *European Quality Award*, in Europe. Criticism of these TQM concepts has emphasized, among other things (see Dimitroff 1993 for an overview), that running TQM programs requires a lot of work (see, e.g., *Quality Progress*, March 1991, p. 83, May 1993, p. 51). On the other hand, there is a controversial debate whether running TQM programs is associated with any benefits at all (see, e.g., Hill 1993; Mahajan, Sharma, and Netemeyer 1992; Powell 1995). According to an empirical study, "out of 500 firms surveyed, less than a third were accomplishing anything" (*OR/MS Today*, August 1994, p. 18) with their TQM efforts. Mahajan, Sharma, and Netemeyer (1992) convincingly argue that it is unjustified to expect the *Baldrige Award* to be a predictor of the financial success of a firm.

What other performance measures are appropriate for TQM programs then? Kordupleski, Rust, and Zahorik (1994) suggest that TQM projects should adopt a more customer-oriented perspective. This requirement is consistent with the core values of the *Baldrige Award* emphasizing customer orientation of all quality management efforts (see, e.g., National Institute of Standards and Technology 1994, p. 2). Against this background, a scale for measuring closeness to the customer might be a very useful tool for assessing one of the most important benefits of TQM programs. The scale might be an important academic contribution to the field of TQM which has been largely dominated by managerially oriented writers. Recently, Dean and Bowen (1994) built a case that management practice in the field of total quality management could benefit from incorporating theoretical work. More specifically, Morgan and Piercy (1991) emphasized the necessity of a stronger interaction between marketing and TQM. These statements underline the importance of our study.

which have had a significant influence on work in the field of relationship marketing and on studies on manufacturer-distributor relationships in marketing channels: transaction cost theory and resource dependence theory. In the sequel, we will briefly discuss both of these theories and relate them to the subject of our study.

Transaction Cost Theory

Developed primarily by Williamson (1975, 1979, 1985, 1991) based on Coase's (1937) classical work, transaction cost theory (TCT) constitutes a blend of institutional, organizational theory, and contract law. TCT makes the transaction the basic unit of analysis. A transaction occurs "when a good or service is transferred across a technologically separable interface" (Williamson 1985, p. 17). Unlike neo-classical economic theory, TCT is built on the assumption that transactions have potential costs associated with them. These transaction costs include the "costs of planning, adapting, and monitoring task completion" (Williamson 1985, p. 2), in other words the "costs of drafting, negotiating, and safeguarding an agreement" (Williamson 1985, p. 20). TCT holds that transaction costs become significant in the presence of transaction-specific assets (i.e., assets dedicated to a particular relationship involving sunk costs that would be nonrecoverable in the event of termination) and (environmental and/or behavioral) uncertainty.

The basic tenet of TCT is that for each transaction the mode of governance that minimizes transaction costs should be selected. In its original form (Williamson 1975), TCT framed the decision problem as a choice between a spot-market form of transaction ("market") and complete vertical integration ("hierarchy"). According to TCT, internalizing a transaction is relationship based on trust through his behavior becomes relevant. Thus, we may preliminarily think of closeness to the customer as a way of interacting with customers through which a supplier can forge the development of a hybrid institutional arrangement (based on trust) with a customer rather than conducting exchange through purely market-based mechanisms.

As we mentioned before, this preliminary view of closeness to the customer goes beyond the TCT framework in which the mode of governance chosen depends on transaction and market properties. From a transaction cost perspective, one might argue that asset specificity and uncertainty might act as moderators in the relationship between closeness to the customer and properties of the relationship such as the customer's trust. One might argue, then, that uncertainty and asset specificity not only have a positive impact on the development of a hybrid mode of governance (e.g., a relationship) as opposed to pure market exchange, but also have a positive influence on the supplier's possibility to forge the development of a relationship through his behavior. The basic argument behind the moderating effect hypothesis is that in an environment characterized by high uncertainty and the presence of significant specific assets, customers seek to establish relationships with their suppliers to a larger extent than in other environments. The customer, then, will be more likely to respond to a supplier's attempt to establish a close relationship than in situations where uncertainty and specificity are low. This perspective will be evaluated when we analyze the criterion-related validity of the closeness to the customer construct.

The basic idea, thus, is to bridge the distance between interdependent organizations. Scott (1987, p. 186) refers to these mechanisms as "bridging strategies" which have to be distinguished from "buffering strategies" (Thompson 1967), the latter being more internally oriented.

RDT distinguishes a large variety of bridging strategies (see Pfeffer and Salancik 1978) the most basic being compliance with external constraints. As closeness to the customer is intuitively associated with meeting customers' requirements (which will be supported by the conceptualization to be developed subsequently), closeness to the customer, in the language of RDT, has elements of a compliance strategy. Pfeffer and Salancik (1978, p. 95) emphasize, however, that mere compliance may not be a viable strategy in the long run as organizational autonomy may be lost progressively and, thus, long-term survival may be threatened. Some of the more complex bridging strategies suggested by Pfeffer and Salancik (1978) also have a lot in common with our intuitive understanding of closeness to the customer. This is especially true for the strategy of "establishing collective structures of interorganizational behavior" (Pfeffer and Salancik 1978, p. 143). This strategy encompasses, for example, "agreements to behave in certain ways" (social norms) and building up interorganizational relationships based on extended information exchange and trust (Pfeffer and Salancik 1978, p. 144/145).

In summary, RDT provides a suitable framework for our study of closeness to the customer: Customers are social actors in a firm's environment controlling at least two resources that are critical for the firm's survival, i.e. money and information. A firm's effectiveness, in the RDT

Simon 1991; Thomas 1988). There also seems to be widespread agreement that having reliable information on customers is a crucial element of closeness to the customer (e.g., Bertrand 1989; Thomas 1988; Simonson 1993).

Field Interviews

Field interviews were carried out prior to the collection of data in order to specify the domain of the construct. They consisted of in-depth interviews with 30 managers of European companies. Using qualitative methods such as exploratory interviews prior to a large scale survey is consistent with recommendations by Churchill (1979), Deshpandé (1983), and Sieber (1973).

A critical question related to the selection of appropriate informants to be used in the interviews. One possibility would have been, of course, to interview marketing managers of industrial firms, thus tackling closeness to the customer from the supplier's perspective. Recent research by Deshpandé, Farley, and Webster (1993) revealed, however, that marketing managers' assessment may not be appropriate for our purposes. As Deshpandé, Farley, and Webster (1993, p. 32) put it: "... self reporting on such matters as customer orientation is potentially insufficient, so data from customers are required."

In view of these findings, this study conceptualizes closeness to the customer from the customer's perspective. We therefore chose respondents that were involved in the management of supplier relationships at a senior level. A wide variety of industries including machinery, chemicals, automobiles, pharmaceuticals, original equipment manufacturing, and of closeness to the customer. All the interviews were audiotaped with the interviewees' permission.

A first finding from the field interviews is that managers clearly agree with the Peters and Waterman (1982) perspective in that quality is an important component of closeness to the customer. Besides product and service quality, respondents strongly emphasized the quality of customer-related business processes such as the handling of orders (see, e.g., Shapiro, Rangan, and Sviokla 1992 for a detailed analysis of problems that may occur during the order management cycle). As a purchasing vice-president of a consumer electronics company reported:

> In most of our supply markets, it is quite easy, today, to find suppliers with high-quality products which provide excellent services to their customers. Closeness to the customer, to me, means more than that. It includes the quality of customer-related processes. Deliveries have to be exactly on time, and it must be easy to place orders. In other words, a supplier that is close to the customer must be easy to do business with.

Additionally, many respondents expressed the opinion that flexibility in dealing with customers is an important component of closeness to the customer. This echoes Albers and Eggert's (1988) assertion that closeness to the customer also includes process-related attributes of a supplier. Consider, for example, the following statement by a senior purchasing manager in a machinery company:

> Closeness to the customer really comes to the point when unforeseen things happen, when, for example, we need to change the technical specification of a product some time after the order has been placed, or when we have to change the delivery schedule. No supplier is able to deal with all of these problems the way the customer would like him to. There are suppliers, however, where almost every minor unforeseen change causes big problems, and these are definitely not close to the customer.

> solved by the salespeople. In many situations we know the responsible people in the supplier's production plant and we contact them directly.

This aspect of closeness to the customer obviously corresponds to Kanter's (1991) requirement of "making customers real to all employees" (p. 9).

Interviews also indicated that closeness to the customer is associated with some other aspects of the supplier's interaction with customers. As an example, a number of interviewees suggested that it is important that suppliers provide information to their customers openly and early. The following statement by a purchasing manager of a pharmaceutical company illustrates this point:

> Closeness to the customer means, among other things, to inform a customer about anything that is relevant to him or may become relevant in the future. For example, I do not want to be informed after the decision to change a product has been made. Closeness to the customer, to me, means to inform the customer prior to a decision that certain options are being discussed.

An important issue with respect to closeness to the customer relates to the construct's level. In principle, the construct might be conceptualized (1) at the company level (i.e., as a feature of a company), (2) at the business unit level corresponding to the usual conceptualization of market orientation (see, e.g., Kohli, Jaworski, and Kumar 1993; Narver and Slater 1990), or (3) at the level of the customer-supplier dyad (i.e., as a feature of a specific relationship), respectively. This issue was also discussed with the interviewees. There was general agreement that, although some companies generally tend to exhibit a higher degree of closeness to the customer than others, the construct contains many relationship-specific facets. Most of the interviewees emphasized that the interaction-related aspects of closeness to the customer are probably relationship-specific to a significant extent. Thus, a single interaction dimension. As all of the academics involved agreed that the *SOCO* (selling orientation - customer orientation) scale (Saxe and Weitz 1982) for measuring individual salespeople's customer orientation contains some items that appropriately capture the salespeople-related part of the interaction component, eight items from this scale were included in the set of items.

This item pool was subjected to two pretests. The first pretest was conducted to reveal problems in the wording of the items. A brief questionnaire containing the items was sent to the 30 interviewees. They were asked to complete the questionnaire for one specific supplier which they selected freely. Also, they were asked to point out any items that were ambiguous or otherwise difficult to answer. Three items were eliminated as a result of this pretest.

The second pretest was conducted to find out whether the items really reflected aspects of the supposedly underlying construct closeness to the customer. Fifty purchasing managers were surveyed. Each respondent was asked to classify the remaining 58 items into the following three categories: (1) "clearly representative", (2) "somewhat representative", and (3) "not representative" of closeness to the customer. Items which were rated "clearly representative" by at least 60% and "not representative" by at most 5% of the respondents were retained in the item pool (see Saxe and Weitz 1982 for an application of a similar pretest). Forty-four items remained after this pretest. Twelve of these were related to quality, six pertained to flexibility, and 26 tapped the interaction component.

The questionnaire contained questions concerning one specific supplier of the company. The remaining 44 items supposedly capturing the construct under consideration were part of the questionnaire. It also contained a number of items related to constructs needed for validation purposes.[4)] The respondents were essentially free in selecting the supplier for which they filled out the questionnaire. To avoid, however, that every respondent selected his or her favorite supplier, respondents were randomly assigned to one of three groups. The groups were asked to report on a supplier with which they were (1) highly, (2) moderately, and (3) less satisfied, respectively.

Sample 2

The second sample, which was used for cross-validating the scale developed on the basis of sample 1, was collected from the supplier side of the dyad. One of the considerations that prompted this decision was the desire to analyze the scale's properties in a variety of settings (see also remarks by Michaels and Day 1985 concerning the *SOCO* scale). A list of 500 companies was generated on an n^{th} name basis using the membership directory of the *German Association of Machinery Companies and Original Equipment Manufacturers (Verband Deutscher Maschinen- und Anlagenbau e.V.)*. Each of these companies was telephoned to identify a senior manager in marketing or sales who was willing to participate in the study. This was achieved in 356 cases.

These 356 individuals were sent a questionnaire together with a personalized letter. In order to enhance the readiness to fill out the rather lengthy questionnaire, respondents were promised a report summarizing the major findings of the study. Additionally, the association sent a letter to each of the managers asking for his or her participation in the study. After

Yi, and Phillips 1991; Gerbing and Anderson 1988). We used the *WLS* (Weighted Least Squares) method in *LISREL VIII* (Jöreskog and Sörbom 1993) for parameter estimation. This method yields asymptotically efficient parameter estimates under very general distributional assumptions (Browne 1984).

In the second stage, the properties of the measure are analyzed based on sample 2. Using more than one sample in the process of measure development has been strongly recommended by Churchill (1979). Measures such as *SERVQUAL* (Parasuraman, Zeithaml, and Berry 1988) and *MARKOR* (Kohli, Jaworski, and Kumar 1993) have also been developed on the basis of multiple samples. Sample 2 is also used to assess to what extent closeness to the customer and market orientation are distinct constructs. As sample 2 does not meet the sample size requirements for *WLS* estimation (see Jöreskog and Sörbom 1989), parameters were estimated by means of the *ML* (Maximum Likelihood) approach.

Measure Development

As a first step, the factor structure of the three components was analyzed separately. All items pertaining to the same component of closeness to the customer were submitted to an exploratory factor analysis. Following a recommendation by Anderson and Gerbing (1993), we do not report the results of these preliminary analyses, but briefly summarize them. Solutions were subjected to oblique rotation to allow for intercorrelations among the factors. Items with high loadings on more than one factor were eliminated.

For the quality component, the analysis revealed two factors: (1) product and service quality, and (2) quality of customer-related business processes. The flexibility component was found recommended by Anderson and Gerbing (1993) and Bagozzi, Yi, and Phillips (1991) as an assessment of indicators' convergent validity. An additional requirement was an average variance extracted of at least .5 and a composite reliability of at least .7 (see, e.g., Bagozzi and Yi 1988; Bagozzi and Baumgartner 1994). In situations where at least one of these requirements was not met, the corresponding factor's indicator with the lowest individual item reliability was eliminated unless considerations of content suggested otherwise.

These procedures led to a reduced set of 29 items which were subjected, all together, to an exploratory factor analysis. It clearly revealed the necessity of further deleting an item related to the flexibility component having high loadings on several factors. An exploratory factor analysis of the remaining 28 items revealed seven factors with every item having the highest loading on the factor to which it had originally been assigned.

These 28 items were analyzed by means of a confirmatory factor analysis model with seven underlying factors. The results of this analysis, together with some additional validity and reliability information, are summarized in Table 1. All of the items exhibit reasonably high reliabilities. Also, all of the Coefficient Alpha values exceed Nunnally's (1978, p. 274) threshold value of .7 which is an additional sign for sufficient reliability. Additionally, all average variances extracted except one and all of the composite reliabilities exceed the previously mentioned threshold values of .5 and .7, respectively.

The chi square statistic associated with the seven factor model is significant ($\chi^2 = 602$, df = 329, $p < .001$). It has been argued, though, that the chi square statistic should be interpreted cautiously (see, e.g., Bagozzi and Yi 1988; Bagozzi and Baumgartner 1994; Bentler 1990).

Table 1

CONFIRMATORY FACTOR ANALYSIS RESULTS - SAMPLE 1

Factor /	Item	Factor Loading [a]	Average Variance Extracted	Composite Reliability	Coefficient Alpha
F_1	1	.73***	.62	.88	.86
	2	.77***			
	3	.69***			
	4	.93***			
F_2	5	.73***	.61	.86	.86
	6	.80***			
	7	.81***			
	8	.78***			
F_3	9	.55***	.44	.75	.74
	10	.74***			
	11	.72***			
	12	.63***			
F_4	13	.82***	.63	.89	.89
	14	.76***			
	15	.82***			
	16	.83***			
	17	.73***			

An issue that remains to be addressed is the dimensionality of the closeness to the customer construct. Our previous discussion is based on the understanding that the seven factors relate to a single higher order construct. Second order confirmatory factor analysis (Bollen 1989; Jöreskog and Sörbom 1989) was used to analyze this issue. Within this model, a single higher order factor is supposed to underly the seven factors previously identified. Thus, the model to be analyzed contains 28 indicators, seven first order factors associated with them and one second order factor which is directly linked to the seven first order factors but not to any of the indicators. A reasonable overall fit of the model to the data was observed ($\chi^2 = 659$, df = 343, GFI = .96, AGFI = .95, CFI = .95, 21 out of 406 standardized residuals of the items' covariance greater than 2.0 in magnitude, no non-linearities in the Q-plot of standardized residuals). Additionally, the second order factor explains 51 % of the first order factors' variance, on average. The overall coefficient of determination (Jöreskog and Sörbom 1989) of these equations was .87. All of the parameter estimates related to the association between the second order factor and the first order factors were significant at the .001 level with t-values ranging from 6.29 for F_1 to 10.31 for F_5. In summary, these results suggest that the seven factors identified are adequately modelled as dimensions of a single higher order construct.

Table 2

ESTIMATED CORRELATION MATRIX OF *CLOSCUS* FACTORS

	F_1	F_2	F_3	F_4	F_5	F_6	F_7
F_1	1.00						
F_2	.44	1.00					
F_3	.52	.58	1.00				
F_4	.43	.54	.60	1.00			
F_5	.34	.38	.48	.57	1.00		
F_6	.23	.38	.51	.48	.65	1.00	
F_7	.13	.20	.36	.34	.55	.60	1.00

Table 3

RELATIONSHIPS[a] BETWEEN *CLOSCUS* FACTORS
AND CUSTOMER'S COMMITMENT, TRUST, AND SATISFACTION

	commitment	trust	satisfaction
F_1	.07	.13**	.24***
F_2	.07	.20***	.14**
F_3	.17***	.14**	.17**
F_4	.35***	.19***	.19***
F_5	.24***	.33***	.14**
F_6	.12**	.12**	.11*
F_7	.01	.02	.00
R^2	.60	.64	.53
F-statistic	54.39***	67.50***	41.48***

a: Table entries are standardized regression coefficients (beta coefficients).
*: Parameter estimates/test statistics are significant at the .05 level.
**: Parameter estimates/test statistics are significant at the .01 level.
***: Parameter estimates/test statistics are significant at the .001 level.

moderating effect is assessed on the basis of the significance of the estimated regression coefficient associated with the interaction term.

As there are five moderating variables and 21 relationships (see Table 3), a total of 105 moderated regression analyses had to be run. Of the 105 relevant estimated regression coefficients, 89 had a positive sign, and 16 had a negative sign. Of the 89 estimates with positive signs, 33 were significant at the .001 level, 14 were significant at the .01 level, 11 were significant at the .05 level, and eight were significant at the .1 level. The remaining 23 estimated coefficients were not significant. Among the 16 negative estimates, only three were significant at the .05 level. The strongest positive moderating effects were observed in connection with the factor product technology-related complexity.

In summary, these results provide strong evidence for *CLOSCUS'* nomological validity as well as for the TCT-based arguments concerning moderating effects on the relationships between *CLOSCUS* factors and the customer's commitment, trust, and satisfaction.

Table 4

CONFIRMATORY FACTOR ANALYSIS RESULTS - SAMPLE 2

Factor / Item		Factor Loading [a]	Average Variance Extracted	Composite Reliability	Coefficient Alpha
F_1	1	.55***	.38	.70	.71
	2	.55***			
	3	.59***			
	4	.75***			
F_2	5	.77***	.54	.82	.82
	6	.72***			
	7	.75***			
	8	.69***			
F_3	9	.61***	.40	.72	.74
	10	.65***			
	11	.68***			
	12	.60***			
F_4	13	.82***	.63	.89	.89
	14	.84***			
	15	.79***			
	16	.78***			
	17	.72***			

In summary, the *CLOSCUS* scale has been found to exhibit adequate fit and sound psychometric properties in an independent sample. Specifically, the seven factor structure underlying the 28 items was found not to be the result of an overfitting to sample 1 as discriminant validity between the factors was also evident in sample 2.

When comparing the two constructs of market orientation and closeness to the customer, conceptual differences become evident. Consider, for example, the definition of market orientation provided by Kohli and Jaworski (1990, p. 6):

> Market orientation is the organizationwide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organizationwide *responsiveness* to it.

As is obvious from this definition, market orientation focuses more on processes inside the organization. This is also true for Narver and Slater's (1990) conceptualization of market orientation according to which interfunctional coordination is one of the components of market orientation. The emphasis on internal features of the organization is also highlighted by the statement by Narver and Slater (1990, p. 21) that "(m)arket orientation is the *organization culture* (emphasis added) ... that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers ...". Closeness to the customer focuses more on the way a company acts in direct contact with its customers. It refers, thus, to the front-end of marketing activities (i.e., the boundary-spanning activities). This is, of course, not to say that the two constructs are unrelated. The point we would like to clarify here is that they are conceptually different.

Table 5

ESTIMATED PAIRWISE CORRELATIONS BETWEEN *CLOSCUS* AND *MARKOR* FACTORS

		CLOSCUS						
		F_1	F_2	F_3	F_4	F_5	F_6	F_7
MARKOR	intelligence generation	.09	.07	.13*	.17**	.07	.22***	.18**
	intelligence dissemination	.10	.12*	.09	.04	.16**	.13*	.23***
	responsiveness	.14*	.18**	.13*	.17**	.18**	.27***	.30***

*: Parameter estimates are significant at the .05 level.

**: Parameter estimates are significant at the .01 level.

***: Parameter estimates are significant at the .001 level.

rate their company's closeness to the customer consistently higher (sample 2) than customers rate their suppliers (sample 1) on the *CLOSCUS* items. Although the mean values from the two samples may not be compared directly, as the two samples are not matched, this observation gives us at least a hint that Deshpandé, Farley, and Webster's (1993) observation may apply to *CLOSCUS* as well. Further research on this issue is needed.

Finally, it should also be of interest to analyze the properties of *CLOSCUS* in connection with multi-informant samples which has been done for the *MARKOR* scale by Kohli, Jaworski, and Kumar (1993).

Substantive Issues

Our research seems to have important implications for the field of relationship marketing. There has been a lot of conceptual work in this area. Also, researchers have identified and operationalized many constructs for describing different aspects of buyer-seller relationships. From a managerial point of view, however, the question what a supplier can do to forge the development of a good relationship with a specific customer is especially important. This is where our research fits into the relationship marketing context. Closeness to the customer may well be a key construct for answering this question. This is obvious from the strong effects of most of the *CLOSCUS* factors on the customer's commitment, trust, and satisfaction (see Table 3).

Another important implication from this research for the field of relationship marketing relates to the theoretical bases for studying relationships. Our research has revealed that transaction cost theory is highly appropriate for deriving variables upon which the effects of orientation's impact on financial performance measures have been ambiguous. While Jaworski and Kohli (1993) and Narver and Slater (1990) found substantial positive effects, a study by Narver, Jacobson, and Slater (1993) based on panel data indicates that market orientation was not significantly related to a business's ROI. A possible explanation for this ambiguity is that financial performance depends on so many factors that it is difficult to control even the most important ones within a survey-based analysis. The discussion on market orientation's outcomes might benefit from using factors that, supposedly, do not depend on so many other antecedents. Narver and Slater (1990) and Jaworski and Kohli (1993) analyzed relationships between market orientation and customer retention rate and organizational commitment, respectively. Closeness to the customer should be added to these possible outcomes of a market orientation.

It should also be interesting to find out about organizational antecedents and performance outcomes of closeness to the customer. Jaworski and Kohli (1993) and Narver and Slater (1991) analyze organizational antecedents of market orientation. Constructs such as interdepartmental connectedness, formalization, centralization, and departmentalization (see Jaworski and Kohli 1993) are also potential antecedents of closeness to the customer.

There is an implicit hypothesis in the Peters and Waterman (1982) chapter on closeness to the customer that the construct is positively related to business performance. This hypothesis should be evaluated on the basis of the measure developed in this article. As becomes obvious from the *CLOSCUS* items, closeness to the customer incurs costs. It should be interesting, therefore, to analyze the structure of the relationship, if any, between closeness to the customer and profitability. One might argue, for example, that, from a certain level on, an additional increase in closeness to the customer increases the supplier's utility to a smaller

Mittelstand (see Simon 1992). It has proved to be most valuable when it is used periodically (twice a year, say) to monitor trends in closeness to the customer. Managers typically have very little confidence in self-assessment: In all of the six companies, it was decided to have customers assess the degree of closeness to the customer.

In two of the companies, closeness to the customer was assessed relative to the principal competitors. Managers felt that this analysis yielded useful competitive intelligence. Customers' readiness to provide the required judgments about their suppliers' competitors was usually high except for a few cases in which respondents refused to reveal to a supplier how they thought about his competitors.

Interestingly, the *Mittelstand* companies consistently outperformed the large companies in every component of closeness to the customer with the exception of the product and service quality factors. This observation, though based on a few cases only, seems to confirm a previous statement by Simon (1991) that the *Mittelstand* companies, sometimes referred to as "hidden champions" (Simon 1992), achieve a high degree of closeness to the customer.

In summary, *CLOSCUS* has proved to be managerially useful. The instrument has a variety of potential applications. Besides assessing a company's or a business unit's closeness to the customer, it can help in pinpointing areas requiring managerial attention and action to improve closeness to the customer. Although additional work is needed to achieve a thorough understanding of closeness to the customer, the author feels that the results reported here are an encouraging first step towards this objective.

6) Because of space limitations, we do not present details of these constructs' measurement in this paper. The constructs were measured by five, three, and two items, respectively. Items were taken from the literature. Coefficient Alpha values are .79, .76, and .87, respectively.

7) Again, we do not present details concerning the measurement of these constructs because of space limitations. They were measured by means of three, three, two, three, and four items, respectively. Coefficient Alpha values are .67, .65, .77, .62, and .70, respectively.

8) The second order factor analysis previously described was also done on the basis of sample 2. As the results were very similar to the ones obtained in the first sample, we do not report them here.

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APPENDIX A
CLOSCUS SCALE

Scale Items[a]	Sample 1		Sample 2	
	Mean	Standard Deviation	Mean	Standard Deviation
Product and Service Quality (F_1)				
1. This supplier frequently fails to meet our quality requirements. (R)	2.07	1.46	1.92	1.42
2. This supplier's products have a high quality.	4.27	1.08	4.58	1.19
3. We frequently complain about this supplier's products. (R)	3.86	1.32	2.41	1.45
4. This supplier provides excellent services.	4.05	1.02	4.36	1.18
Quality of Customer-Related Business Processes (F_2)				
5. This supplier usually keeps deadlines he has promised.	4.57	1.47	5.20	1.31
6. We find this supplier easy to do business with.	4.99	1.31	5.38	1.27
7. It often takes a lot of time to solve seemingly minor issues with this supplier. (R)	2.20	1.35	1.74	1.10
8. Most of the time, this supplier's deliveries are on time.	4.18	1.38	4.27	1.25
Flexibility in Dealing with Customers (F_3)				
9. If we change a product specification some time after the order has been placed, this supplier is usually able to deal with the change at low costs.	3.45	1.86	4.02	1.46
10. This supplier is so flexible that, most of the time, unforeseen problems can quickly be solved.	4.14	1.35	4.23	1.20
11. If we have a special product requirement, this supplier is usually flexible enough to deal with it.	4.25	1.37	4.40	1.15
12. This supplier often has problems if we require a special delivery schedule. (R)	3.29	1.45	3.08	1.23

APPENDIX A (continued)

Scale Items[a]	Sample 1 Mean	Sample 1 Standard Deviation	Sample 2 Mean	Sample 2 Standard Deviation
Openness to Suggestions from Customers (F_6)				
22. This supplier welcomes our suggestions concerning his business policy.	3.10	1.98	4.08	1.56
23. This supplier usually involves us into his new product development teams.	2.93	1.97	3.42	1.47
24. This supplier is very open to our suggestions concerning process improvements.	3.91	1.78	4.72	1.57
25. This supplier usually responds to our suggestions slowly, if at all. (R)	3.17	1.68	2.23	1.49
Customer Interaction of Non-Selling / Marketing Employees (F_7)				
26. Most of this supplier's general managers regularly interact with us.	4.46	1.78	4.52	1.69
27. Many of this supplier's employees in manufacturing regularly interact with us.	3.67	1.95	3.92	1.50
28. Many of this supplier's employees in engineering regularly interact with us.	3.55	2.00	4.05	1.66

a: All items employ 7-point scales with anchors strongly agree (7) / strongly disagree (1) with no verbal statements for scale points 2 through 6. The items are shown in the wording corresponding to data collection in sample 1.
b: Items were adopted from the SOCO-scale (Saxe and Weitz 1982).
(R) denotes reverse coded item.

APPENDIX C

ITEM COVARIANCE MATRIX BASED ON SAMPLE 2

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
1	2.03																											
2	.68	1.43																										
3	.77	.59	2.11																									
4	.57	.62	.65	1.40																								
5	.65	.42	.42	.54	1.72																							
6	.53	.30	.44	.48	.82	1.62																						
7	.61	.19	.70	.38	.75	1.00	1.21																					
8	.14	.57	.71	.60	.96	.70	.63	1.55																				
9	.48	.45	.68	.55	.48	.44	.42	.39	2.14																			
10	.32	.27	.61	.55	.49	.31	.40	.20	.68	1.44																		
11	.48	.39	.50	.56	.48	.52	.47	.41	.57	.74	1.33																	
12	.31	.35	.75	.54	.42	.38	.22	.27	.54	.72	.60	1.51																
13	.31	.28	.40	.35	.34	.22	.17	.24	.43	.33	.32	.38	1.20															
14	.43	.27	.38	.62	.35	.47	.29	.52	.56	.42	.47	.50	.85	1.43														
15	.63	.36	.47	.57	.29	.21	.20	.16	.51	.44	.41	.46	.90	.74	1.42													
16	.23	.38	.32	.47	.37	.35	.23	.35	.38	.17	.29	.09	.87	.82	1.13	1.36												
17	.45	.32	.42	.47	.41	.39	.26	.37	.52	.39	.33	.17	.83	.75	.84	1.18	1.77											
18	.32	.29	.29	.39	.37	.31	.40	.28	.37	.29	.33	.32	.53	.61	.54	.39	.62	2.02										
19	.24	.26	.40	.34	.56	.49	.41	.43	.48	.43	.28	.47	.69	.78	.72	.47	.59	.98	2.34									
20	.13	.28	.18	.32	.31	.29	.23	.22	.31	.33	.40	.29	.36	.42	.29	.41	.32	1.11	1.22	1.27								
21	.43	.19	.29	.53	.44	.40	.27	.29	.23	.22	.19	.11	.71	.89	.67	.62	.70	.76	1.35	.69	2.10							
22	.44	.28	.23	.28	.37	.22	.24	.20	.46	.40	.39	.43	.48	.41	.32	.47	.52	.75	.81	.67	.61	2.43						
23	.31	.18	-.02	.43	.42	.50	.37	.44	.30	.27	.22	.18	.59	.68	.74	.38	.78	.52	.67	.48	.68	1.12	2.16					
24	.49	.13	.30	.39	.29	.22	.14	.27	.39	.30	.33	.27	.47	.53	.42	.59	.52	.74	.69	.71	.64	1.25	1.43	2.46				
25	.23	.43	.35	.25	.32	.33	.21	.29	.46	.49	.41	.59	.67	.92	.61	.72	.77	.80	.87	.79	.72	.95	.94	1.38	2.21			
26	.25	.20	.18	.27	.43	.36	.22	.32	.44	.21	.24	.17	.43	.50	.19	.29	.18	.81	.92	.66	.78	.94	.88	.92	.68	1.86		
27	.19	.25	.24	.20	.37	.30	.27	.30	.42	.17	.11	.11	.31	.39	.42	.36	.39	.62	.72	.42	.47	.59	.61	.50	.47	.92	2.25	
28	.21	.16	.21	.23	.34	.28	.16	.30	.32	.18	.07	.13	.35	.33	.36	.31	.42	.61	.51	.39	.59	.63	.79	.47	.97	.94	1.39	2.16