NASON

PROCEEDINGS

MACROMARKETING SEMINAR XIV

August 9-13, 1989

The University of Toledo
Toledo, Ohio 43606-3390

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Program Chairman
Robert Mittelstaedt
University of Nebraska

Arrangements Chairman
Thomas A. Klein
The University of Toledo

CONTENTS

<u>Preliminary Program</u>
(8-1-89)

Fourteenth Annual Macromarketing Seminar
The University of Toledo
August 10-13, 1989

<u>Wednesday, August 9, 1989</u>

1 p.m. - 7 p.m.	Check in at Radisson Hotel - Toledo, 101 N. Summit Street. Pick-up proceedings, final program, and information Room #436, Radisson Hotel TIME OPEN FOR READING OF PAPERS
7:30 p.m. - 9 p.m.	Dinner for those interested to be arranged
9 p.m. - midnite	Hospitality Room #436, Radisson Hotel

<u>Thursday, August 9, 1989</u>

9 a.m. - 1 p.m.	Check in at Radisson Hotel-Toledo Pick-up proceedings, final program, and information. Room #436, Radisson Hotel TIME OPEN FOR READING OF PAPERS Luncheon on your own
1:30 p.m. - 3:15 p.m.	Session A Room #202, Seagate Centre

OPENING REMARKS

Program Chairman: Robert Mittelstaedt, University of Nebraska
Arrangements Chairman: Thomas A. Klein, University of Toledo

THE DIVERSITY OF MACROMARKETING CONCERNS
Chairman: Robert W. Nason, Editor, <u>Journal of Macromarketing</u>, Michigan State University

A.1 A Critical Review of the Broadened Concept of Marketing: The Case of Political Marketing. Louis M. Seagull, Pace University

A.2 Marshall's Principle of Continuity and Economic Chivalry: Neglected Contributions to Macromarketing Theory. Donald F. Dixon, Penn State-Great Valley

B.1 ~~A.3~~ An Integrative Assessment of Retail Evolution: An Inquiring System Perspective. Kenneth R. Evans, John W. Barnes, and John L. Schlachter, Arizona State University.

3:15 p.m. - 3:30 p.m.	Break and Refreshments
3:30 p.m. - 5:00 p.m.	Session B Room #202, Seagate Centre

DEVELOPMENTS IN MACROMARKETING THEORY:
Chairman: Stanley J. Shapiro, Simon Fraser University

A3 ~~B.1~~ A Macroanalytic Study of Post-Industrial Society. Alladi Venkatesh, University of California - Irvine.

B.2 Post-Modern Culture, Marketing and the Consumer. A. Fuat Firat, Appalachian State University.

B.3 An Extended Paradigm for the Evaluation of Marketing Theory. Kathleen R. Whitney and Dale F. Duhan, Michigan State University

5:00 p.m. - 6:00 p.m.	FREE TIME
6:00 p.m. - 7:30 p.m.	Maumee Bay and River Boat Ride, Hors d'oeuvres and Cash Bar, Arawanna Star - pick up at foot of Jefferson Avenue
7:30 p.m.	Dinner Riverview Room, Ricardo's Riverfront Restaurant River Level, One Seagate (Owens-Illinois headquarters) 400 N. Summit Street After Dinner Options: Various riverfront taverns, some open air
11:00 p.m.	Hospitality Room #436, Radisson Hotel

Friday, August 11, 1989

8:00 a.m.	Board University of Toledo Bus, Front of Radisson Hotel
8:30 a.m. - 9:00 a.m.	Continental Breakfast - Porchview "Tour" of Campus, Room #5009, Stranahan Hall (CBA Building), Bancroft Campus
9:00 a.m. - 10:30 a.m.	Session C Room #107, Stranahan Hall PERSPECTIVES ON MARKET PROCESSES Chairman: Eric Shaw, Florida Atlantic University C.1 The Matching Process for Positive Externalities of Consumption. Jack M. Cadeaux, University of Alabama. C.2 On the Genesis of Market Structures. William H. Redmond, Bowling Green State University. C.3 Cooperation Versus Competition: The Reward Structure Determines Behavior. Paul A. Herbig, Indiana University.
10:30 a.m. - 11:00 a.m.	Coffee Break
11:00 a.m. - 12 noon	Session D Room #107, Stranahan Hall DEREGULATION OF MARKET ACTIVITIES Chairman: Robert Loewer, San Jose State University D.1 The Deregulation of the Norwegian Advertising Market: An Institutional Approach. Thorolf Helgesen, Norwegian School of Management. D.2 The Impact of Transportation Deregulation on Marketing Costs. Paul D. Larson, University of Oklahoma.
12:00 noon	Board University of Toledo Bus
12:30 p.m. - 1:30 p.m.	Buffet Luncheon Manos Greek Restaurant, 17th and Adams Street

1:30 p.m.	Board University of Toledo Bus
1:45 p.m. - 3:30 p.m.	Docent Led Tour and Free Time Toledo Museum of Art, 2445 Monroe Street
3:30 p.m.	Board University of Toledo Bus
4:00 p.m. - 5:00 p.m.	Session E Room #202, Seagate Centre

PERSPECTIVES ON CONSUMER BEHAVIOR
Chairman: Luis Dominguez, University of Miami

E.1 Culture Based Macrosegmentation. Sudhir H. Kale and Roger P. McIntyre, Arizona State University.

E.2 Men Care Only about Computers and Women about Fashion: Only in America? James W. Gentry, University of Nebraska, Patriya Tansuhaj, Washington State University, Joby John, Bentley College L. Lee Manzer, Oklahoma State University, Bong-Jin Cho, Keimyung University, and Gary Ko, University of Nebraska.

5:00 p.m. - 7:00 p.m.	FREE TIME (Hardy Souls can visit "Rally By The River", Toledo's TGIF in Promenade Park)
7:00 p.m.	Session F Odelot's, 415 Madison Avenue

Cocktails and Buffet Dinner

METAMARKETING AND SPACE: A GRAVE MATTER
Chairman: Thomas A. Klein, University of Toledo
Guest Presentation: Porter Parapluie, Balderdash Polytechnic University

After dinner option: Cakewalking' Jazz Band at Tony Packo's Saloon, 1902 Front Street (Transportation provided)

11:00 p.m.	Hospitality Room #436, Radisson Hotel

Saturday, August 12, 1989

8:30 a.m. - 9:00 a.m.	Continental Breakfast Room #202, Seagate Centre
9:00 a.m. - 10:30 a.m.	Session G Room #202, Seagate Centre PERSPECTIVES ON ECONOMIC DEVELOPMENT Chairman: To be arranged. G.1 The Role of Public Policy in the Decision to Locate Research and Development in Foreign Countries. Lori Mitchell Dixon, University of Toledo. G.2 The Role of Marketing in Regional Economic Development: Efficiency and Fairness Issues. John W. Vann and Erdogan Kumcu, Ball State University. G.3 Agricultural Development Projects in West Africa as Social Marketing: A Post-Mortem. Eric J. Arnould, University of Arizona.
10:30 a.m. - 11:00 a.m.	Break and Refreshments
11:00 a.m. - 12:00 noon	Session H Room #202, Seagate Centre PERSPECTIVES ON THE EUROPEAN POLITICAL ENVIRONMENT Chairman: Chistopher Ross, Concordia Univ. H.1 The European Community and 1992: An Analysis of the Impact of Public Regulation on Marketing. Ronald S. J. Tuninga, Rutgers University - Camden. H.2 The Perestroika Potential. Avraham Shama, Jackie Barnett, Kelly Bowsher, Martin Lopes, and Susanne Parls, University of New Mexico.
12:00 noon - 1:00 p.m.	Buffet Luncheon Room #202, Seagate Centre

1:00 p.m. - 2:00 p.m.	Session I Room #202, Seagate Centre PERSPECTIVES ON PUBLIC POLICY ISSUES Chairman: Donald Shawver, Eastern Illinois University I.1 An Examination of the Effects of Punitive Damages on Marketing Systems. Karl A. Boedecker, University of San Francisco, Fred W. Morgan and Jeffrey J. Stoltman, Wayne State University. I.2 Gender-Based Insurance Rates: Issues and Impacts. Terri L. Rittenburg, University of Wyoming, and Norman Kangun, Clemson University.
2:00 p.m. - 2:30 p.m.	Break and Refreshments
2:30 p.m. - 4:30 p.m.	Session J Room #202, Seagate Centre THE AMA TASK FORCE AND MACROMARKETING Chairman: George Fisk, Emory University Panelists: Roger Dickinson, University of Texas - Arlington Stanley Hollander, Michigan State University Shelby Hunt, Texas Tech University David D. Monieson, Queen's Univ. Alfred H. Walle, AACSB Representative, Ithaca College.
4:30 p.m. - 6:00 p.m.	FREE TIME/Policy Board Meeting
6:00 p.m. - 8:00 p.m.	Cocktails and Dinner Boody House, 152 N. Summit Street
8:00 p.m.	Entertainment-Villagers Revue Friar Tuck's Bijou Cabaret, 209 N. Superior
11:00 p.m.	Hospitality Room #436, Radisson Hotel

Sunday, August 13, 1989

8:30 a.m. - 9:00 a.m.	Coffee Room #310, Seagate Centre
9:00 a.m. - 10:00 a.m.	Business Meeting Room #310, Seagate Centre
10:00 a.m. - 11:00 a.m.	Brunch and Farewells Room #310, Seagate Centre
11:00 a.m.	Tour of "Willis Boyer" Great Lakes Freighter (Optional)
11:00 a.m. - 2:00 p.m.	Transportation to Toledo and Detroit Airports

SPECIAL THANKS TO THE REVIEWERS

Jean Boddewyn
James M. Carman
Lee D. Dahringer
Donald Dixon
Adam Finn
A. Fuat Firat
James W. Gentry
Michael Hutt
Annamma Joy
Saul Klein
Marilyn Liebrenz-Himes
Oswald Mascarenhas
Robert W. Nason
Eric Reidenbach
Ronald Savitt
Eric Shaw
Robert D. Tamilia
A. H. Walle
Les Carlson
Edward W. Cundiff
Roger Dickinson
Luis V. Dominguez
George Fisk
James D. Forbes
Shelby Hunt
Charles Ingene
Norman Kangun
Erdogan Kumcu
Robert A. Loewer
Ernest Mendels
Kathleen M. Rassuli
Christopher A. Ross
Stanley J. Shapiro
Donald L. Shawver
Marye Tharp

PARTICIPANTS - 1989 MACROMARKETING SEMINAR

Eric J. Arnould
University of Arizona

John W. Barnes
Arizona State University

Jack M. Cadeaux
University of Alabama

Edward W. Cundiff
University of Texas-Austin

Roger Dickinson
The University of Texas
at Arlington

Donald F. Dixon
Pennsylvania State
University-Great Valley

Lori Mitchell Dixon
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Appalachian State Univ.

George Fisk
Emory University

James W. Gentry
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Paul A. Herbig
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Shelby D. Hunt
Texas Tech University

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Eric Shaw
Florida Atlantic Univ.

Donald L. Shawver
Eastern Illinois Univ.

Jeffrey J. Stoltman
Wayne State University

Marye Tharp
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Rutgers Univ.- Camden

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A.1

A Critical Review of the Broadened Concept of Marketing: The Case of Political Marketing

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ABSTRACT

The "broadened concept of marketing" expresses two meanings - the application of marketing in non-business areas and the societal implications of this movement. During the 1970s, critical literature in this area was focused primarily on the suitability of extending marketing to non-business areas. Criticism from societal perspectives was less-well developed. Macromarketing provides a perspective from which to address this deficiency. The 1988 presidential election provides a case in point. The combination of successful management of the George Bush campaign and mismanagement of the Michael Dukakis one was accompanied by a profound disappointment and disillusionment on the part of the electorate. The joining of managerial success and societal dissatisfaction points to limitations of the role of marketing in politics.

It has been twenty years since the discipline of marketing considered its extention to non-business areas and generated a considerable body of critical literature. Now it is time to look again at parts of that literature and to evaluate once again the impact of marketing in society. This paper contributes to the broadened concept of marketing debate by reviewing and evaluating the role of marketing in the 1988 U.S. presidential election campaign and in election campaigning more generally.

The debate over the proper scope of marketing has been settled. Marketing and its techniques are virtually ubiquitous features of modern life. What is still needed, however, is a critical appraisal of the application of marketing. Two decades after the debate began, it is important to explore whether or not the criticisms of the 1970s also apply to the 1990s. It is also appropriate to consider the implications for society of marketing practices.

The Broadened Concept of Marketing and Critical Rejoinder

Awareness of marketing's broader dimensions and criticism of the discipline's expanding scope followed publication of Kotler and Levy's classic article in 1969. Kotler and Levy (1969) saw marketing as a "pervasive societal activity" appropriate for organizations beyond the traditional business ones. The marketing concept of "serving and satisfying human needs" was seen as a ubiquitous requirement of all organizations. The exchange process was a key mechanism for this requirement (Kotler and Zaltman 1971). The broadening concept of marketing fitted nicely with the transformation from an industrial to a post-industrial society (Kotler 1972).

The broadened concept of marketing coincided with the rise of managerial marketing. As has been pointed out by others (Tucker 1974, Arndt 1977) the broadened concept of marketing was still narrow in its micro organizational focus. Even advocates of social marketing, despite their concern for using marketing to advance social causes, focused their concern on the needs of non-business organizations (Kotler and Zaltman 1971). Recent marketing theory had not yet addressed its macro component. Tucker wrote "The point of view of the marketing theorist was virtually identical to that of the marketing manager, and particularly the channel captain, even when his conceptual analysis was without immediate practical consequence." (Tucker 1974, 31) The full potential of a critical perspective on the broadened concept of marketing, therefore, was also not realized.

Criticism begins with evaluation, which requires a context or perspective. While the critical literature which followed the publication of Kotler and Levy's 1969 article was truly voluminous, its perspective was largely micro. A major argument in this literature was that the broadened concept of marketing would be bad for the marketing profession itself. Since critical evaluation would be incomplete if it does not transcend the phenomena it treats, evaluation of the broadened concept of marketing was imcomplete.

When used for analytical purposes, the micro-macro distinction concerns the relative level of focus. Advocating the interests of a profession, therefore, can be viewed as micro in the same way as would be the interests of an organization. Much of the criticism raised in response to the broadened concept of marketing was micro in focusing on the implications of this diffusion for the marketing profession itself. By contrast, a macro-oriented analysis would focus on contexts larger than the profession.

The academic rejoinder to the broadened concept of marketing began almost simultaneously with its promulgation. Luck (1969) argued that while nonbusiness organizations may perform marketing activities, only business organizations - those tied to buying and selling products and services in a market - should be considered to be performing marketing. Furthermore, Luck argued that if marketers invaded the domains of other disciplines, marketing would be vulnerable to counter-incursions. Luck (1969) worried that, when marketing laid claim to perspectives originating in other disciplines, these rival disciplines could lay claim to marketing's turf as well. Similarly, a certain defensiveness was clearly articulated by Arndt (1977, 18) when he suggested that the proponents of the broadened concept of marketing "risk being dismissed as victims of a megalomaniac marketing supremacy syndrome." Arndt saw little evidence that marketing could preempt and defend itself against the other behavioral sciences. Further negative evaluation of a broadened marketing's consequences for the marketing profession was sounded by Laczniak and Michie (1979) with the expectation that marketing could be saddled with responsibility for promoting unpopular causes.

In rejoinder to these self-serving critiques of the broadened concept of marketing, it should be noted that a detrimental professional imperialism has not taken place. The other behavioral sciences have not supplanted marketing; nor have they counter-attacked. Instead, anthropology, social psychology, and political science have enriched immeasureably marketing thought. They have given it depth. In response to Laczniak and Michie, Levy and Kotler (1979) were correct in their rejoinder that all products and services were "ethically charged." Moreover, a double standard seems to have been applied in fearing that marketing could suffer from promoting unpopular causes but not shoddy or unpopular products. In sum, the micro-based concerns for the consequences of the broadened concept of marketing appear to be less meaningful today than when first articulated.

Up to a point, the broadened concept of marketing has already been subject to critical appraisal. Laczniak, Lusch & Murphy (1979, 30) suggested that social marketing has "the potential to cause significant ethical controversies," that "the accountability of social marketers will be a major societal concern," and "it appears to be difficult to separate the ethics of applying marketing techniques to social ideas and programs from the ethics of the ideas themselves." However, macro-based criticisms of the broadened concept of marketing were not as well developed in the critical literature. Macromarketing's increasing self-awareness and critical stance vis-a-vis marketing can provide perspectives with which to critique the broadened concept of marketing.

Macromarketing has been conceptualized as a social process, a provisioning technology for society and as a study of marketing's consequences for society (Nason 1988). A common denominator for macromarketing is the belief that society itself is more important than the organizations that constitute it. It is society which legitimizes the organizations which operate within it. What, then, were the perceptions of the consequences for society of the activities of the broadened concept of marketing?

The full meaning of the consequences of the extention of marketing perspectives and techniques throughout modern American society has yet to be chronicled. The macro perspectives on the broadened concept of marketing did not dominate the critical review of the concept. However, there were exceptions. One exception, Laczniak and Michie (1979) saw the possibility of diminished social order as an outcome of the broadened concept of marketing. Basing their perspective on the social theory of Talcott Parsons, Laczniak and Michie assumed the value of maintaining distinct spheres of activity as a device for holding accountable the contributions of the spheres for the overall social system. Marketing was seen as a component of the economic system which in turn was a component of the overall social system. Fisk (1973) was more generally concerned with the ecological consequences of increasing consumption which followed tbe commitment to growth at any cost. Arndt (1977) was concerned that an increasingly marketing-oriented civilization would reduce human needs to material entities and ultimately diminish the spiritual and social needs of consumers. Most recently, Monieson (1988) decried the inexorable extention of marketing principles and techniques unbounded by any moral consciousness. These criticisms were general and did not focus on the extention of marketing in any specific domain.

Political Marketing

There should be no doubt that recent electoral politics provide a prime manifestation of the broadened concept of marketing in operation. The singular exception to this proposition taken by Hirschman (1983) is not valid. While acknowledging that "the application of marketing principles to ideological products thus far has been confined primarily to political campaigns," Hirschman (1983, 46) denies the relevance of the marketing paradigm, with its assumption of consumer primacy, for the ideological producers, i.e. the candidates. The basis for this position is the assumption that ideologists have an idiosyncratic world-view created for the purpose of self-expression. This does not seem to be an accurate profile of the serious candidates, i.e. two-party candidates in recent U.S. elections. Even in those recent presidential elections when the candidate adopted, or was perceived to have adopted, an extreme and inner-focusing direction, e.g. McGovern for the Democrats in 1972 and Goldwater for the Republicans in 1964, the electoral disaster followed less from ignoring the consumer-electorate than from misreading it. The limited consumer appeal of what may have been championed intensely occurs in more than the electoral arena, as any developer of new products would surely attest.

The application of marketing principles to electoral campaigns in the U.S. has a long history. The long-term decline of partisanship and the atrophy of party organizations from nineteenth century levels was accompanied by a style of campaigning termed "merchandizing." (Westbrook 1983) The involvement of public relations professionals in electoral campaigns began in California in the 1930s with the husband and wife public relations team of Clem Whittaker and Leone Baxter (Kelley 1966, Nimmo 1970). There is a direct line of development from Whittaker and Baxter in the 1930s, to "The Selling of the President" in 1968 (McGinniss 1970), to the dominance of handlers, "sound bites," and spin control which achieved prominence in 1988. This development saw the increasing importance of marketing and media professionals for the direction of the political campaign. The application of marketing techniques to political campaign management has been amply chronicled. One review (Newman and Sheth 1987) lists more than 200 citations. The broadening of the concept of marketing to politics, however, has been micro and managerial in focus. While there is no denying the relevance of the managerial approach to the candidates and political organizations, the full impact and meaning of this transformation must be sought at the macro level of its impact on the political system and on society.

The concept of a "new politics" has been current since 1970 (Pool 1971) and perhaps since 1966 - a period coterminous with the incipient awareness of the broadened concept of marketing. The coincidence is obvious and meaningful. The new politics refers to the ascendancy and predominance of marketing in political campaigns. More specifically, it refers to campaigning techniques outside of the efforts of the political party organizations. While the effects of television and computers clearly affected the 1960 presidential campaign, their role and effects were not greater than those of the party organizations and professional politicians. Even in 1964, Senator Barry Goldwater won the Republican presidential nomination through the efforts of energized enthusasiastic volunteers at the precinct level (Kessel 1968). Beginning in 1968, these extra-party campaign techniques and strategies were dominated by direct marketing and television advertising. Candidate image became the dominant currency for electoral success in the age of the new politics. The importance of candidate image has not in any way diminished in the years since.

The new politics gave rise to professional managers whose skills were honed in the marketing and communications professions rather than as professional politicians. Candidates became adept at using these professionals to bypass traditional party organanizations to reach the electorate directly. McGinniss (1970) chronicled Richard Nixon's 1968 use of professional managers and television to rise to victory following defeats in the 1960 presidential and 1962 California gubernatorial contests and his subsequent abandonment of California for New York. What was new was that candidate Nixon used advertising professionals to mold his image and bypass the party organizations.

The potential of the new politics to overcome electoral odds and standing in the polls was illustrated by advertising professional Harry Treleaven's 1966 successful direction of the campaign of congressional candidate George Bush in Houston, Texas. Treleavan saw potential in Bush as a candidate who was promotable, likeable and without a clearly defined position on issues (McGinniss 1970, 37-39). This profile was perfect for a campaign based on irrational and emotional factors. Treleavan found that "Bush was a good campaigner...and, most important, Bush knew that the red light meant the television camera was on." (McGinniss 1970, 38) After trailing in the July polls, George Bush won handily in November.

The application of professional management in campaign politics is not intrinsically more Republican than Democratic. However, the Republicans have found the new politics to be more congenial than have the Democrats and for several reasons. First, Republican managerial talent has been found in the business community - particularly in advertising and public relations. Second, political development during this period was most pronounced in the emergence of Republican Party competition in the formerly Democratic South (Seagull 1975). The growth of the white collar population in the region was a Republican resource which could be activated through the application of the new appeals and techniques. This is the base from which President Bush launched his political career. Third, the Republican media professionals emerged as a resource in continuity over the course of successive campaigns. In 1968, the twenty-eight year old executive producer of the Mike Douglas Show was hired to produce a series of one-hour controlled spontaneous television showcases for candidate Nixon (McGinniss 1970, 59). Twenty years later, this producer, Roger Ailes, managed the media image campaign for George Bush in the 1988 presidential campaign.

Political Marketing and the 1988 Presidential Election

The previous selective review of political marketing presents two major points. The first is the obvious similarity of election campaigning and marketing. The second is that by 1968 there was a fundamental difference in the conduct of many electoral campaigns, a difference which has been termed "the new politics." The 1988 presidential campaign continued these trends. Both Republican candidate George Bush and Democratic candidate Michael Dukakis each illustrated aspects of the new politics, although this was most clearly the case in George Bush's winning campaign. The election of 1988 was not simply a case of extending or broadening the concept of marketing to politics. Rather, it was the case of marketing's complete domination of politics and direction of the political campaign. The meaning and importance of this domination, however, must be sought in reflection on a faith or at least a rationale that was held forth by and for marketing. That is that modern marketing, at least since the acceptance of the marketing concept in the 1950's and 1960's, espoused consumer well-being and satisfaction. The profound irony is that at the point of the most complete extention, to date, of marketing techniques and perspectives to politics, there is a sense that the level of voter satisfaction was never less.

The 1988 presidential election campaign will be remembered for Republican candidate George Bush's rise from a seventeen point deficit in the early summer polls to his post-GOP convention lead and to his dominance of the campaign agenda. During this period, he was coached and managed by campaign and media professionals with past national campaign experience in the successful presidential campaigns of Ronald Reagan and Richard Nixon. Democratic candidate Michael Dukakis was surrounded by newcomers without experience in national presidential campaigns. He was put on the defensive for 1) being "soft" on crime, 2) polluting Boston Harbor, 3) being "unpatriotic", and 4) being a liberal. The Republican strategy was to portray Dukakis as out of step with the majority of Americans. This strategy was repeated consistently. The Democratic strategy was less emotive and stressed good jobs and good management (Newsweek 1988). The first three of the four Republican campaign themes were reinforced by effective commercials and carefully arranged effective "photo opportunities." The anti-liberal theme provided a strategic ideology which enveloped the other campaign themes. By contrast, the Democratic media strategy was held to be ineffective, inconsistent, and unstrategic (Oreskes 1988, McCabe 1988). Unfortunately for the Democrats, the media strategy is the foundation for the presidential campaign.

The marketing tactic which served the Bush campaign so effectively was positioning, which simultaneously communicates attitudes about comparative offerings, be they brands or candidates. The identification of Bush with patriotism, which was expressed with the candidate's appearance at a flag factory and his emphasis on the Pledge of Allegiance to the flag in schools, effectively preempted the label patriotic for himself and allowed the implication that Dukakis was unpatriotic. In a similar vein, a popular bumper sticker read "Americans For Bush."

The communication skills which marketers use to position their offerings were clearly apparent in the Willie Horton commercial which was devastatingly effective. Horton was a black murder convict who raped a woman and stabbed her companion while on furlough from a Massachusetts prison. Neither the furlough program itself, nor the fact that some furlough participants go awry, were unique in the annals of U.S. penal policy. The overt message was that Dukakis was soft on crime and Bush was not. Implicit, but not verbally articulated, was an appeal to racial prejudice.

Racial polarization is a major factor in contemporary American politics. The profile of the Republican vote is disproportionately white; blacks are overwhelmingly Democratic. A recurring Republican strategy since 1964 has been to appeal to the white South and to the northern urban ethnic voter - both segments are racially prejudiced and resentful of the national Democrats' championing the interests of blacks. In a real sense, the demise of the Democratic presidential majority had begun with its greatest triumph in the election of Lyndon Johnson in 1964 and the subsequent passage of civil rights legislation integral to his Great Society.

Race is a continuing, if not always openly debated, issue in contemporary American politics. White prejudice and fear exist, even if less openly so. It has been suggested that Dukakis's sharp decline in the polls following the Democratic National Convention resulted from the prolonged television exposure to Jesse Jackson and his family (Safire 1988). Similarly, it may be the case that Dukakis's large early lead on the eve of the convention was in response to popular relief that Jackson was not going to be the nominee.

A positioning strategy which is compatible with popular needs and fears and which serves to differentiate one offering from the other is good marketing from a micro and managerial viewpoint. When this strategy panders to the darker forces in society questions need to be asked about the societal consequences of this practice of a professional craft. Political marketing illustrates diverging implications of micro and macro effects. In political marketing what is good for the candidate may not be good for society.

Television and Politics: 1988

The "new politics" could not exist without television and television advertising. It is valuable to recognize the distinct, although convergent, impacts of both. Most generally, television, be it through the journalistic policy of the broadcast networks or through the vehicle of advertising, has a profound and determining influence on the electoral system. It is also something new, just as the "new politics" is a relatively recent development. Before the advent of television, the effects of mass communication were considered to be virtually nil. In the early studies of voting behavior in 1940 (Lazarsfeld, Berelson, and Gaudet 1948) and 1948 (Berelson, Lazarsfeld, and McPhee 1954) the effects of the mass media were seen as reinforcing rather than converting (Klapper 1960).

Over the years there have been instances of a notable, if not systematic, impact of television on politics. The 1960 Kennedy - Nixon presidential debate is a case in point. Radio listeners of the debate thought that Nixon had won while television viewers thought Kennedy was the victor. The connection between winning the debate and winning the voters has not been lost on the candidates or their managers. In 1988 the terms "spin control" and "spin doctors" received wide notice as operatives for each of the presidential candidates rushed to embellish their candidate's debate performance to the attending journalists.

A major legacy of the 1988 campaign is the impact of network television policy on the electoral contest. The manner in which marketing has overcome electoral politics would surely have been different if journalistic standards had been different. Entertainment rather than journalistic values dominate television news which has provided an uncritical mechanism for the candidates' image managers. Between 1984 and 1988 "the average length of a television news sound bite dropped from 14.8 seconds ... to 9 seconds" (Kalb 1988). The shortened time span for candidate coverage created the context for the photo opportunity of manufactured news. The effect of network policy was to permit "Mr. Ailes and others to become the de facto producers of the evening news" (Kalb 1988). Moreover, the popular need to know who won a debate or who is winning in the polls is grist for the entertainment offering of the TV producers. The 1988 presidential campaign was accompanied by extensive polling sponsored by each of the television networks in collaboration with a major newspaper (Kalb 1988). These poll results also dominated the news of the campaign.

Perhaps the most enduring legacy of the 1988 campaign was negative advertising. Ostensibly in answer to the Democratic tease of a "silver foot" in Bush's mouth and the taunt of "where was George", the Republicans unleashed an unrelenting barrage of negative and pejorative advertising from which the Dukakis campaign did not recover. The two campaigns were not equally negative. According to New York Times columnist Tom Wicker (1988) "the derisive Democratic Convention references to Mr. Bush were well within established political tradition...and referred to the Vice President's alleged ineffectiveness in office and his acknowledged patrician background...Mr. Bush, in deplorable contrast, has repeatedly used the veto (of legislation mandating the recitation of the Pledge of Allegiance in public schools) and Horton incidents not just to question an opponent's performance in office...but to impugn his patriotism and charge him with being a partisan and a patron of murderers and rapists." Journalist Michael Oreskes (1988) commented "there have been plenty of campaigns in which facts and positions have been distorted by both sides, but never before this century has one major Presidential candidate and his cohorts implied that his principal opponent was somewhow un-American, not quite patriotic, sympathetic to a convicted rapist-murderer (who happens to be black), permissive toward licentiousness and soft on crime." The advertising community itself has long been suspicious of comparative and attack advertising because of its potential for diffuse damage in a product category as well as for the advertising institution itself. The cynicism that negative advertising engenders is not confined only to the target of that advertising. It spreads throughut the competitive arena. The effectiveness of negative advertising on the presidential campaign level may have changed the way these contests will be fought from now on.

Societal Consequences of the New Politics

Political marketing provides a clear illustration of the diverging implications of micro and macro perspectives. The appropriateness of marketing techniques for candidate management, from the perspective of the candidates, is beyond question. They are effective. The rhetorical question and answer posed by Laczniak, Lusch & Murphy (1979, 32) is correct but insufficient. "Is it beneficial that image studies shape the candidates' external appearance? - that copywriters and public relations people stage appealing TV speeches and appearances for the candidates? - that politicians are sold like soap? Perhaps. But such issues need to be analyzed carefully." Indeed, what needs to be analyzed are the consequences of marketing activity for the functions this activity presumes to serve.

In historical perspective, electioneering and marketing can serve as reciprocal metaphors for each other. What has changed, however, is the effect of electioneering. In pre-Civil War America, large turnouts were the norm. "The salient characteristic of the second party system was the mobilization of mass participation in elections and in politics generally" (Chambers 1967, 11). From a macro perspective, however, recent marketing activity in electioneering has been dysfunctional as apathy, cynicism, and disillusionment have emerged to define the state of the electorate. From a societal perspective, the value of marketing in politics has not been sanguine.

In the 1988 presidential election turnout was 50 per cent of the eligible electorate, down from 53 per cent in 1984 and at the lowest level since 1924. Since 1960, voting participation had declined successively in each presidential election. This decline in participation is a concrete manifestation of the apathy, cynicism, and disillusionment which characterizes the electorate. This decline, in some considerable measure, is a response to the role of advertising in politics. The relationship between advertising and electoral disaffection deserves commentary in at least two respects.

First, it is clear that the recent electoral decline, while precipitous, is not unique but is instead part of a twentieth century trend. In the nineteenth century the political parties had organized the citizenry into rival mobilized political camps. The twentieth century combined hostility to political party organizations and political machines with the rise of direct political appeals outside the party organizations. Political scientist Burnham (1987, 117) has commented that "the new campaign style was already strongly if marginally evident in the 1904 presidential election. In 1916 Woodrow Wilson's personalistic 'he-kept-us-out-of-war' campaign made extensive use of professional advertising techniques." The point is that while the major media were different then and marketing was less sophisticated in a technical sense the "new politics" of the post 1968 period is structurally similar to an earlier form.

Second, since 1968 and especially in 1988, tendencies which had been incipient earlier became extreme. According to Burnham, "the growing political problem is found where the degeneration of political parties intersects with the rise of television advertising, continuous polling, media consultants and consent-massaging election operatives" (Burnham 1988). The election of George Bush to the presidency is but the most recent and extreme expression of a tendency underway for some time. Newsweek's (1988, 146) summary evaluation of the election declared that the Bush victory "was owed...in important part to his paid handlers, the cosmeticians who had made a mild man look hard and the armorers who had made a genteel man sound like a schoolyard bully; no recent president had been, or been presented as, so completely an artifact of packaging and promotion." It would be both too easy and wrong to suggest that the moral of this tale is that Democratic presidential candidates have to become as adept at marketing as have the Republicans. Certainly, from a micro perspective, it might help them. However, from a macro perspective, the meaning of the extention of marketing to politics has to be addressed. In this manner, a different perspective on the broadening of the concept of marketing may also come into focus.

Beyond The Broadened Concept of Marketing

The suggestion that marketing contributes to an attitude state of apathy, cynicism and disillusionment requires further elaboration and explanation. This is, after all, a concrete manifestation of the notion that the broadened concept of marketing can be dysfunctional to society. But how can marketing, particularly the "marketing concept," with its espousal of consumer sovereignty and the service of customer needs, have such a negative impact?

As suggested by Robert Westbrook (1983), a landmark work in modern social science may provide a clue to the puzzle. In his book, Mass Persuasion, Robert K. Merton explored the phenomenal success of popular singer Kate Smith in generating enormous support for the sale of war bonds during the 1940's (Merton 1946). Merton's investigation probed the very foundations of consumer culture and illuminated some of its psychological effects. Coming several decades before the full extention and realization of the broadened concept of marketing, Merton's diagnosis may provide the key to the societal dysfunctions of marketing.

According to Merton, the basis of Smith's success in promoting bonds was her sincerity, credibility, and patriotism. Consumers warmed to these traits as antidotes to the discomfort of a culture in which "society is experienced as an arena for rival frauds" (Merton 1946, 143). When all relationships become market relationships, genuine community is supplanted by one characterized by manipulation and trickery. Alienation is the result. Merton was concerned that "a society subjected ceaselessly to a flow of 'effective' half-truths and the exploitation of mass anxieties may all the sooner lose that mutuality of confidence and reciprocal trust so essential to a stable social structure" (Merton 1946, 188). From the perspective of Merton's theory, therefore, the broadened concept of marketing carries with it the potential to undermine the very foundations of human well-being this concept was presumed to have enhanced. The equation of marketing with manipulation is a profoundly disturbing dimension of our profession illuminated by its broadened concept.

The full extention of marketing to the political arena, therefore, carries with it the potential to short-change a central purpose for voting in a free society. This purpose is to channel the collective will of the people on the important issues of the day. Image candidacies established on deflecting themes preclude addressing these issues. The politics of deflection is as much a consequence of the extention of the concept of marketing to electioneering as is the decline of product innovation to the managerial supremacy of the marketing concept. Just as marketers have learned that asking consumers what they need is an insufficient basis for a product marketing strategy (Bennett and Cooper 1979), so it is that premising a political campaign on evasion, image and inuendo insufficiently meets the requirements for political leadership. Followership rather than leadership becomes the operating norm. Yet, even here, the greatest dilemma for a democratic society may yet lie in the very use of the powerfull and effective marketing techniques by a misguided or incompetent leader. The challenge of our time is to strengthen the moral professional and institutional bulwarks which can provide a check on the unwise use of marketing techniques.

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A.2

Marshall's Principle of Continuity and Economic Chivalry: Neglected Contributions to Macromarketing Theory

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Abstract

Marketing theory must integrate micro analysis, where environmental variables are exogenous, and macro analysis, where these variables become part of the model. Alfred Marshall's Principals provides such an analysis for economic theory. Economic activity, which forms only a part of human behavior, is interrelated with other behavioral elements. Moreover, individual behavior influences and is influenced by, both the Task Environment and the general sociocultural environment. An understanding of these interactions makes it possible to reinforce the individual's "higher motives" and thus stimulate social progress. Since Marshall includes marketing within his definition of economic activity, much of his analysis is explicitly relevant to marketing thought.

Introduction

Macromarketing is concerned with "the aggregated welfare of members of a society," in contrast to micromarketing action, which is directed toward the interests of operational organizations in the marketplace. Consequently, macromarketing is an "umbrella" discipline which gives meaning to micromarketing action. (Nason 1988, p. 2)

The use of the term "aggregrated" in the definition of macromarketing implies some dimensions along which the welfare of the members of society is "greater" than the welfare of the members of any single organization. At least two dimensions are implicit in this view of macromarketing. First, there is a difference in the number of persons whose welfare is being considered; a society contains a larger number of persons than any single organization within that society. This dimension is not useful because there is no theoretical basis for determining the precise size of a population needed to qualify for "macro" analysis.

The second dimension implied in the definition is the scope of the welfare being considered; the interests of a society are somehow more numerous than those of any single organization in that society. The difficulty here is that each member of each organization is also a member of society. Each person associates with other persons in many groups and organizations, but it is the person's roles which change from one association to the other; the person does not change.

Associations are specialized, so that different needs are satisfied by different associations, but a person's needs do not vary across these associations. Consequently, it cannot be stated that the needs of the members of an organization are somehow "fewer" than the needs of all members of a society. There are fewer roles, and the needs being satisfied by that organization may be fewer, but the needs of the members cannot be said to be fewer.

In view of these difficulties it seems preferable to focus on the individual, and base the distinction between micro and macro analysis upon the manner in which needs are satisfied. Some needs are satisfied by organizational action, others through societal action. Since the subject matter of marketing is market behavior, the elemental unit of analysis is the behavior of households and organizations engaging in market exchange. Although micromarketing focuses upon the activities of specialized organizations formed to satisfy the economic needs of their members, it must be recognized that such organizations also satisfy some of the non-economic needs of their members.

An organization's market activity affects the actions of other organizations in the market, and thus affects the ability of these other organizations to satisfy the needs of their members. Ultimately, there is an impact upon the market institution itself.

Since the market is one of many social institutions, any change in the market institution may affect other institutions. A change in any one of these other social institutions may affect still other institutions, including the market institution. Institutional change will then affect the behavior of organizations in the market, which further expands the series of institutional relationships.

There is a similar chain of interactions between marketing activity and the other environments within which marketing activities occur, and among these environments, since changes in any one environment may affect other environments, including the institutions which comprise the general social environment.

Macromarketing thus can be defined in terms of its focus upon relationships among organizational activities and the environments within which these activities occur. In contrast, micromarketing focuses upon the market activity of a specialized organization attempting to satisfy the needs of its members, and does not explore environmental interactions.

Since the distinction between micromarketing and macromarketing is simply that of the focus of the analysis, it is clear that each is part of the same area of study. Marketing is the social science which forms the "umbrella."

Given this orientation, micro and macro analysis must be linked to form the discipline of marketing. If micromarketing is taken as the starting point, it is necessary to find a means of going beyond the static equilibrium model of the firm and developing a model which recognizes the interactions between the firm and its environments.

This paper reviews one means of accomplishing this task, drawn from Marshall's Principles, first published a century ago. This work is of special interest since the static equilibrium model of contemporary micromarketing theory can be traced from the Principles through Sraffa, (1926) to Chamberlain, (1933) who provided the analysis of product differentiation, and Robinson, (1933) who introduced the concept of market segmentation. The resulting neoclassical theory of the firm, utilized in contemporary micromarketing textbooks, deals with decisions made within a single organization in a static environment.

It is unfortunate that the remainder of Marshall's analytical system has been ignored, especially because the static model plays such a limited role in the Principles. Marshall's objective is to find solutions to social problems, not management problems. He recognizes that the static model does not represent real people interacting with changing environments, and that if theory is to provide realistic explanations, the mechanical portion of the analytic structure must be filled out with information about individual motives, and the influences of social customs and institutions on market behavior.

The first step toward a dynamic model is taken with the introduction of long period supply and demand curves. Marketing activity plays an important role in the discussion of internal and external returns, so that marketing activity is woven into the fabric of "organic growth." The biological model of organizations adapting to uncertainty and change, and in turn influencing uncertainty and change, is rooted in the Principle of Continuity. The progress of mankind requires additional concepts, such as Economic Chivalry.

Marshall's paradigm, suggested in the statement that "The Mecca of the economist lies in economic biology" (1890, p. xiv), may be understood in the context of General Systems Theory. Economists, like other social scientists, are concerned with individuals as members of a social organism, and just as "a person is something more than a series of thoughts and feelings, so the life of society is something more than the sum of the lives of its individual members." (1890, p. 25)

The Principle of Continuity, indicated by the motto "Natura non facit saltum," found on the title page of the Principles, suggests that many analytical distinctions are "artificial." For example, although different time periods are utilized in the analytical scheme, "Nature has drawn no such line in the economic conditions of natural life." (1890, p. 378) Just as there is a thread of continuity over time, so is there continuity across the factors of production. One example of continuity in material attributes can be observed in the transformation of matter into energy.

Economics generally deals with interactions between man and his environments. In particular, economics is concerned with "the material requisites of well being." These requisites include "useful material things" drawn from the natural environment. However, the concept of "usefulness" also includes inputs from the sociocultural environment, since "material goods" also include "all rights to hold, or use, or derive benefits from material things, or to receive them at a future time." Thus "material attributes" include "opportunities of travel, access to good scenery, museums, etc." (1890, p. 54) Clearly Marshall avoids the error of drawing artificial distinctions between the marketing of "goods" and the marketing of "services," and recognizes that the output of marketing is nothing more than "a bundle of utilities." (Alderson 1965, p. 69)

The individual interacting with his environments is a real flesh and blood person, not an artificial "economic" man "who is under no ethical influences and who pursues pecuniary gain ... mechanically and selfishly."(1890, p. vi) Certainly the individual acts rationally; the fundamental characteristics of modern man encompass: "a certain independence and habit of choosing one's own course for oneself, a self-reliance; a deliberation and yet a promptness of choice and judgment, and a habit of forecasting the future and of shaping one's course with reference to distant aims." (1890, p. 5) Nevertheless, "It is deliberateness, not selfishness that is the characteristic of the modern age." (1890, p. 6)

The Study of Mankind

Economics is the study of "mankind in the ordinary business of life." (1890, p. 1) By "business," is meant market exchange, which is distinguished from behavior engaged in for intrinsic rewards, or pure social exchange, where the means of "payment" differs from that characterizing market exchange. The term "business" includes "all provision for the wants of others which is made in the expectation of payment direct or indirect from those who are to be benefited." This is contrasted with "those kindly services which are prompted by friendship and family affection." (1890, p. 291) Because Marshall avoids the error of confusing market exchange with other types of exchange behavior, his work is consistent with contemporary social exchange theory. (Dixon, 1984)

Although the Principles is a study of wealth, it is also part of the study of man, and it is the latter which is most important. The linkage between wealth and man is clear: "man's character has been moulded by his everyday work and the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideals." (1890, p. 1) Just as mankind is influenced by the material and non-material environments, in turn, human activity influences these environments.

> The human will, guided by careful thought, can so modify circumstances as largely to modify character; and thus to bring about new conditions of life still more favourable to character; and therefore to the economic, as well as the moral, well-being of the masses of the people. (1890, p. 48)

The "economic" side of life "is that in which man's conduct is most deliberate, and in which he most often reckons up the advantages and disadvantages of any particular action before he enters on it." (1890, p. 20) This reckoning involves two opposing sets of motives: (1) desires, which lead men to economic effort and (2) sacrifices, which inhibit action. The means for measuring these motives is the money that is spent for their satisfaction and which people require in return for their sacrifices. That is, "With careful precautions money affords a fairly good measure of the moving force of a great part of the motives by which men's lives are fashioned." (1890, p. 39)

This approach, balancing costs and benefits, provides a standardized method by which to attack the whole range of economic problems. And it is this approach which has been generalized in social exchange theory by Homans (1961) and his successors.

This paper utilizes Marshall's analytical framework to develop linkages between micro and macromarketing, and between marketing behavior and the environments of that behavior. It begins with a discussion of demand and supply conditions, the two elements of the static equilibrium model. The second section considers the firm's interaction with its Task Environment. The interaction of the firm and its sociocultural environment is analyzed in the third section. Finally, the conclusion will indicate the extent to which Marshall's work provides a framework for macromarketing theory.

The Static Equilibrium Model

The analysis begins with the individual consumer because the economy is consumer driven: "When a trader or a manufacturer buys anything to be used in production, or be sold again, his demand is based on his anticipations of the profits which he can derive from it. ... The ultimate regulator of all demand is therefore consumers' demand." (1890, p. 92)

The Theory of Consumer Demand

The needs that generate demand change over time. Each of man's forward steps "increases the variety of his needs together with the variety in his methods of satisfying them. He desires not merely larger quantities of the things he has been accustomed to consume, but better qualities of those things; he desires a greater choice of things, and things that will satisfy new wants growing up in him." Moreover, "As his mind becomes developed, ... his wants become rapidly more subtle and more various; and in the minor details of life he begins to desire change for the sake of change." (1890, p. 86)

But need satisfaction is not the fundamental objective of economic activity; it is a means to the improvement of man's character: "Speaking broadly ,.. each new step upwards is to be regarded as the development of new activities giving rise to new wants, rather than of new wants giving rise to new activities." (1890, p. 89) This is the driving force of social progress:

> It is, again, the desire for the exercise and development of activities, spreading through every rank of society, which leads not only to the pursuit of science, literature and art for their own sake, but to the rapidly increasing demand for the work of those pursue them as professions. (1890, p. 88)

The meaning of the argument that activities give rise to wants is shown by a homely illustration of the demand for housing. Although housing "satisfies the imperative need for shelter from the weather," it is not this that is important. Although adequate shelter is provided by a small well-built cabin, "its stifling atmosphere, its necessary uncleanliness, and its want of the decencies and the quiet of life are great evils." It is not that these deficiencies fail to provide physical comfort, but that "they tend to stunt the facilities, and limit people's higher activities." Thus "With every increase in these activities the demand for larger house room becomes more urgent," so that substantial housing is "necessary for efficiency," even in "the lowest social ranks." (1890, p. 88)

Consumers choose goods and services rationally, but every decision does not require conscious deliberation. People are ruled by habit, but habit arises from "a close and careful watching of the advantages and disadvantages of different courses of action." (1890, p. 21) That is, consumers develop rules of thumb which have proved to produce satisfactory results in the past,

The demands of different individuals result in heterogeneous markets, "where rich and poor, old and young, men and women, persons of all varieties of tastes, temperaments and occupations are mingled together." In large markets, however, "the peculiarities in the wants of individuals will compensate one another in a comparatively regular gradation of total demand." (1890, p. 98) Thus, at a given time and place, with income, preferences, and the prices of competitive goods, held constant, "There is then one general law of demand .. the amount demanded increases with a fall in price, and diminishes with a rise in price." (1890, p. 99)

Marshall provides examples of the diversity of purchasing behavior which produces heterogeneous markets. For example, there are convenience goods and specialty goods; a customer "will go to the nearest shop for a trifling purchase; but for an important purchase he will take the trouble of visiting any part of town where he knows that there are specially good shops for his purchase." (1890, p. 273) Moreover, the changing environment influences both the nature of demand and the methods available to satisfy demand:

> The growing value of time makes people less willing than they were to spend several hours in shopping; they now often prefer to spend a few minutes in writing out a long list of orders from a varied and detailed price-list; and this they are enabled to do easily by the growing facilities for ordering and receiving parcels by post and in other ways. (1890, p. 288)

In brief, Marshall identifies the conventional demand function, but notes that the customers in the "general" market differ from one another in many respects. Moreover, this is only "an elementary analysis of an almost purely formal kind," which is severely limited in its application. A more meaningful discussion must be deferred until the model is further developed: "The higher study of consumption must come after, and not before, the main body of economic analysis." At this point the discussion is limited to "the proper domain of economics," and the analysis "cannot find its conclusion there, but must extend far beyond." (1890, p. 90)

The Theory of the Firm

Having established the theory of consumer demand, Marshall turns to the firm which supplies this demand. The manager is easily recognizable; he organizes production and marketing in an uncertain environment. "In his role as merchant and organizer of production," he must have "a thorough knowledge of things in his own trade." But the skills required to deal with uncertainty are emphasized; "he must have the power of forecasting the broad movements of production and consumption, of seeing where there is an opportunity for supplying a new commodity that will meet a real want or improving the plan of producing an old commodity. He must be able to judge cautiously and take risks boldly." (1890, p. 297)

The decision-making model is also familiar. The manager strives "to obtain better results with a given expenditure, or equal results with a less expenditure." (1890, p. 355) To accomplish this objective he must have "the faculty of weighing the advantages and disadvantages of any proposed course, and of assigning to them their true relative importance." This is one of the major elements of business success, for "He who by practice and genius has acquired the power of attributing to each factor its right quantity, is already well on the way to fortune." (1890, p. 491)

Managerial skills grow with experience, as the firm influences its environment and as the environment influences the firm. This is of great social significance because "the increase in the efficiency of our productive forces is in a great measure due to the large number of able minds who are devoting themselves ceaselessly to acquiring these business instincts." (1890, p. 491)

Each manager achieves his results in a different fashion, and this divergence of behavior has a significant impact upon the Task Environment:

> Even in the same place and the same trade no two persons pursuing the same aims will adopt exactly the same routes. The tendency to variation is a chief cause of progress; and the abler are the undertakers in any trade the greater will this tendency be. (1890, p. 355)

Firms operate in competitive markets, but Marshall does not have in mind a "perfectly competitive" model; his concept is that of individual freedom, which leads to economic efficiency. The advantage of having many firms in an industry is that each is different and thus will discover new ways of doing business. Progress occurs as the result of many small improvements in productive efficiency and the products offered.

Some goods are homogeneous, so that sometimes "making and selling them can be rendered almost automatic;" and since these goods sell at a constant rate, it is "always safe to make them for stock." But the low cost means that prices are cut "very fine," and there is not a "large margin above the direct cost of making them." (1890, p. 396)

However, a firm selling in a heterogeneous market, where buyers have preferences among sellers, has an opportunity to implement marketing policies. A "characteristic task" of the manufacturer is that of "creating new wants by showing people something which they had never thought of having before; but which they want to have as soon as the notion is suggested to them." (1890, p. 280)

Differentiated products "do not really satisfy the same wants, they appeal to slightly different needs or tastes; there is still some difference in opinion as to their relative merits." In such cases "custom and the force of advertising" are important competitive factors, especially when rivals "are not able effectively to advertise and push their wares by travelers and other agencies." (1890, p. 391)

Because goods are differentiated, the "general" market is subdivided into a set of distinct demand functions, so that the seller is not faced with a "general demand," but with "the particular demand curve of his own *special market*". (1890, p. 458) The task of marketing differentiated products may be difficult: "some of them aim at creating a new want, or at meeting an old want in a new way. Some of them are adapted to special tastes, and some have merits that are not easily tested, and must win their way to general favour slowly." Thus, although the seller establishes his own "particular market," this market may well have been "slowly and expensively acquired." (1890, p. 287) This coupling of the firm's individual supply function with its "special market" provides the familiar framework of analysis in micromarketing, within which marketing mix decisions are considered.

Marketing Decisions. When a firm sells in its own special market, its product "really partakes in a great measure of the nature of a monopoly," so that the firm has an opportunity to choose the preferred price and output combination. The firm also may influence the price received by the choice of markets in which sales are made. For example, "When trade is slack," a seller will maintain prices in his special market but will "try to sell some of his surplus goods outside of his own particular market at prices that do little more than cover their prime costs." In this way he avoids the possibility of "spoiling his own peculiar market." (1890, p. 458)

Pricing decisions must also take into account changes in customer preferences which occur over time, such as are reflected in the product life cycle. Since demand "depends in great measure on people's familiarity with it" the seller can increase his sales by charging a price "a little below that which would afford him the maximum net revenue." The increased sales "will before long recoup him for his present loss." (1890, p. 486)

Prices are adjusted to match various customer preferences. At one extreme, "Prices are very high in some of the quiet streets in the fashionable parts of London," where customers "are more likely to be tempted by a well-chosen stock than by low prices." In this case, the seller's margin will be large, but unit sales will be comparatively small. (1890, p. 451) On the other hand, if potential customers "cannot afford to pay high prices for the gratification of their fancy" then the shopkeeper "must sell cheaply, or not sell at all." (1890, p. 452)

It is not uncommon for firms to use standardized goods as loss leaders. "Manufacturers, especially in trades connected with furniture and dress, and retailers in almost all trades" sell some goods which "are so uniform in character and so largely consumed that nearly all purchasers know their value well." This policy represents a means of advertising other goods for which "purchasers think more of consulting their fancy than of buying at the lowest possible price." (1890, p. 396)

Although this analytical scheme, augmented by practical information about customers and managers, is similar to that found in modern marketing textbooks, Marshall does not believe it to be of much practical value. He notes that the results of his static equilibrium theory are contradicted by facts, although economists seem not to be bothered by "those disturbing causes, whose wanderings happen to inconvenient." (1890, p. 366)

Marshall's view of economics as the study of mankind rather than "economic man" leads to a discussion of the manager's social responsibility. This implies, of course, that there are motives other than self interest. He presents a discussion of conditions in which a monopolist's output or price adjustments might be "more beneficial to society as a whole than those which he would adopt if he consulted only his own interests." (1890, p. 477) The notion of a "compromise benefit" is introduced; the monopolist might make some price or output adjustment which would share benefits with consumers by giving some weight to the consumer's interests in his decisions.

The Firm and The Task Environment

Another manner in which the analysis is extended is by examining the interaction of the firm and its Task Environment. First, the size of the firm has an impact upon its environment, in that larger size brings lower costs which affects the competitive situation in the market. Second, developments in the industry as a whole affect the firm's cost structure.

Internal Economies

Large firms have cost advantages or "internal economies" of various types. There are "static" economies, pertaining to the operation of physical facilities, which arise from the utilization of more specialized equipment or larger, more efficient machines in a large plant. (1890, p. 279) There also are economies of skill. People as well as machines may be specialized, and in a large firm there are more opportunities to assign individuals to tasks for which they are best fitted. (1890, p. 282) This is especially important at the managerial level:

> The head of a large business can reserve all his strength for the broadest and most fundamental problems of his trade ... he need not trouble himself much about details. He can keep his mind fresh and clear for thinking out the most difficult and vital problems of his business; for studying the broader movements of

the markets, the yet undeveloped results of current events at home and abroad; and for contriving how to improve the organization of the internal and external relations of his business. (1890, p. 284)

In addition to economies which arise within the enterprise, there are transaction cost economies. Purchasing economies arise because of discounts for quantity purchases, and low rates for transporting large quantities. (1890, p. 282) There are economies in selling, because it is cheaper to sell in large quantities, and larger amounts of advertising are likely to be more efficient. (1890, p. 282) Finally, there are "dynamic" economies as well as "static" economies. The ability of small firms to gain knowledge is limited because "they cannot undertake expensive experiments" (1890, p. 280)

Marshall holds that the tendency for large establishments to drive out small ones is especially important in retailing, where "the small shopkeeper is losing ground daily." (1890, p. 287) In many ways a retailer's internal economies are similar to those of a manufacturer. But some internal economies are peculiar to retailers. The large store "can offer a larger variety to meet the taste of customers." (1890, p. 288) In the case of large multi shop retailers "Buying, and whatever production is desirable, is concentrated under a central management; and exceptional demands are met from a central reserve, so that each branch has large resources, without the expense of keeping a large stock." Moreover, "The branch manager has nothing to divert his attention from his customers." (1890, p. 289)

Finally, large retailers have an opportunity to internalize marketing tasks: "The large shopkeeper, not content with receiving travellers from the manufacturers, makes tours either himself or by his agent in the most important manufacturing districts at home and abroad; and he thus often dispenses with middlemen between him and the manufacturer. (1890, p. 289)

The many advantages to the large firm suggest the possibility that once a firm has benefited from internal economies, it will continue to outdistance its rivals, and eventually become a monopolist. But again, the analytical apparatus may be misused. Theorists tend to make errors because "they follow their mathematics boldly, but apparently without noticing that their premises lead inevitably to the conclusion that, whatever firm first gets a good start will obtain a monopoly of the whole business of its trade in any district." (1890, p. 459)

This result is not consistent with empirical evidence. "Abstract reasonings as to the effects of the economies in production, which an individual firm gets from an increase in its output, are apt to be misleading, not only in detail, but even in their general effect." (1890, p. 459)

There are limitations to the advantages of size, especially when marketing is taken into account. For example, even though a firm may be operating in a region of sharply falling manufacturing costs, it may be difficult to expand sales. (1890, p. 286) Furthermore, it is the total of manufacturing and marketing costs which is important, and if marketing is difficult, the unit costs of marketing may rise to a point where they offset reductions in manufacturing cost. The manufacturer may find that "It is worth his while to sacrifice a great deal in order to push its sales in a new market." However, "His expenditure for this purpose may be very great, even exceeding that which he devotes directly to the manufacture." (1890, p. 397)

Marshall notes that it is unlikely that a firm will experience internal economies in both marketing and manufacturing at the same time. In some instances a firm may obtain internal economies in manufacturing, and in others a firm may obtain internal economies in marketing, "yet there are few in which he could do both. And this is not an accidental, but almost a necessary result. (1890, p. 286)

A consideration of impact of time on internal economies has extended the analysis, but the theory is still essentially static. There are difficulties in applying the results of static equilibrium analysis to practical problems because "the general conditions of life are not stationary." (1890, p. 347)

> Economic problems are imperfectly presented when they are treated as problems of statical equilibrium, and not of organic growth. For though the statical treatment alone can give us definiteness and precision of thought, and is therefore a necessary introduction of a more philosophic treatment of society as an organism; it is only an introduction. (1890, p. 461)

The "Organic" Model. Marshall's view of an industry is "organic." There are many firms in an industry, some are new and growing, others old and declining; some are small, others large; some very successful, whereas others are barely surviving. In the face of these differences, the analytic device of the "representative firm" is introduced. Firms are not homogeneous, but the representative firm, taken as typical for purposes of study, is "one which has had a fairly long life, and fair success, which is managed with normal ability ... account being taken of the type of goods produced, the conditions of marketing them and the environment generally." (1890, p. 317)

Given the "organic" view, it is necessary to consider the growth and death of firms. The founder of a new firm brings new ideas and energy which brings success in competition with older, established firms. However the founder eventually retires, and "the guidance of the business falls into the hands of people with less energy and less creative genius, if not with less active interest in its prosperity." Consequently, "the advantages are no longer exclusively on its side in its competition with younger and smaller rivals." (1890, p. 316)

Changes in the general environment also may affect the advantages of size. In some instances the advantages of small size survive environmental change. Although economic progress results in "new facilities for marketing goods at a distance," in many trades the reduction in cost is not sufficient to outweigh the advantages of the small trader who "can sell in his own neighbourhood as cheaply as they can, because though the cost of making is greater for his goods than for theirs, he escapes much of the cost which they incur for marketing." (1890, p. 397)

In other cases, environmental change may augment the advantages of size. As societies develop, the growing variety of goods and services, "and those rapid changes of fashion which now extend their baneful influence through almost every rank of society, weight the balance even more heavily against the small dealer." Not only is it difficult for him to offer a wide assortment, but also changes in fashion introduce considerable risk: "If he tries to follow any movement of fashion closely, a larger proportion of his stock will be left stranded by the receding tide than in the case of a large shopkeeper." (1890, p. 288)

External Economies

In addition to changes in the general environment, changes occur in the firm's Task Environment as an industry grows. The cost advantages that result from "the general development of the industry" are termed "external economies," in contrast to internal economies which are a function of the size of the individual firm. (1890, p. 314)

The concept of external economies arises from Marshall's "biological" paradigm and the "fundamental unity of action between the laws of nature in the physical and in the moral world," embodied in The Principle of Continuity:

> This central unity is set forth in the general rule, to which there are not very many exceptions, that the development of the organism, whether social or physical, involves an increasing sub-division of functions between its separate parts on the one hand, and on the other a more intimate connection between them. (1890, p. 241)

This increasing sub-division refers to greater specialization, while increasing integration is promoted by developments in transport and communications. These processes are interdependent; increasing the extent of the market, integration increases the scope for division of labor, which increases the degree of specialization.

The most important external economies result from "the growth of correlated branches of industry which mutually assist one another, perhaps being concentrated in the same localities." (1890, p. 517) An example of this locational aspect is found in the tendency of shops dealing in "expensive and choice objects" to locate in specific areas. (1890, p. 273)

The concept of external economies also encompasses general social progress, because the firms in an industry also avail themselves "of the modern facilities for communications offered by steam transport, by the telegraph and by the printing press." (1890, p. 517) The significance of such changes in communication is illustrated by small firms, which otherwise would be unable to obtain crucial trade information, now benefiting from the growth of trade journals. Marshall thinks that the general course of progress is on the side of the small firm, "For External economies are constantly growing in importance relatively to Internal in all matters of Trade-knowledge: newspapers, and trade and technical publications of all kinds are perpetually scouting for him and bringing him much of the knowledge he wants." (1890, p. 284)

The development of knowledge and invention, caused by free enterprise, the emergence of subsidiary firms to exploit by-products and supply equipment, the accumulation of skilled labor are all characterized by growth.

The Progress of Mankind

Thus far, the impact of the general and Task Environments upon the firm, and the impact of the firm's decisions upon its Task Environment, have been analyzed. It now remains to consider the interaction between the firm and the general sociocultural environment.

At the beginning of the Principles Marshall noted that although one aspect of economics is the study of wealth, "on the other and more important side" it is part of the study of man. (1890, p. 1) Also at the conclusion of the discussion of demand it was indicated that "the higher study of consumption" could not be completed in the context of the proper domain of economics but "must extend far beyond." (1890, p. 90) The discussion of external economies represented a preliminary step toward extending the analysis because the impact of social change on economic activities was considered. However, in this context social change is simply a given exogenous factor. A theory explaining how social change occurs is presented in the concluding chapter of the Principles. Here the reader is reminded that an earlier discussion had suggested that there were "reasons for thinking that the true key-note of economic progress is the development of new activities rather than of new wants." (1890, p. 689)

Social development is explained in terms of "organic" growth: "The human will, guided by careful thought, can so modify circumstances as largely to modify character." This character modification in turn will bring about new standards of life which are even more favorable to character development. The ultimate result is further social progress, since the improvement in character results in an increase in the "economic, as well as the moral, well-being of the masses of the people." (1890, p. 48)

Social progress thus leads to further social progress, and as man's "mental horizon" becomes wider he becomes more responsive to motives other than self-interest, such as "the claims of family, municipality, the oppressed classes, their country, humanity and morality." (1890, p. 680) These higher motives play a crucial role in the develop of Marshall's argument.

The field of business provides the main opportunity for the development of the higher motives: "For even the most, purely business relations of life assume honesty and good faith; while many of them take for granted, if not generosity, yet at least the absence of meanness, and the pride which every honest man takes in acquitting himself well." (1890, p. 23)

The most important higher motive is the desire for excellence for its own sake, and this desire permeates the entire society as it "graduates down from that of a Newton, or a Stradivarius, to that of the fisherman who, even when no one is looking and he is not in a hurry, delights in handling his craft well, and in the fact that she is well built and responds promptly to his guidance." This desire is of the utmost importance because it has "a great influence on the supply of the highest faculties and the greatest inventions." (1890, p. 89)

Economic Chivalry

A second motive of great importance is "A devotion to public well-being," which Marshall terms "Economic Chivalry." (1890, p. 719) Social progress strengthens this motive, and "A higher notion of social duty is spreading everywhere." (1890, p. 765) Moreover, "there is much latent chivalry in business life, and ... there would be a great deal more of it if we sought it out and honoured it as men honoured the mediaeval chivalry of war." (1907 p. 14)

This optimistic view of man's nature is linked with the more practical desire for distinction in an explanation of how society can help produce the desired ends. "The desire to earn the approval of others, to avoid the contempt of those around us." (1890, p. 23) is a motive which can be treated in the same fashion as others, which are satisfied by acquiring goods and services. Means of satisfying the desire for distinction can be viewed as additional goods, which can be weighed against the cost of satisfying this desire, in the same manner that the benefit of any activity is weighed against its cost.

However, the desire for approbation creates a social problem. Money is an indicator of success and social status, so that a good deal of man's expenditure not only "contributes very little toward social progress," but also fails to "confer any large and solid benefits on the spenders beyond the honour, the position, and the influence which it buys for them in society." (1907 p. 9)

Expenditure which brings nothing but social distinction can be reduced if society utilizes public honor as an alternative means of generating distinction. "And if coming generations can search out and honour that which is truly creative and chivalric in modern business work, the world will grow rapidly in material wealth and wealth of character." (1907, p. 26)

Conclusion

There are two lines of thought in the <u>Principles</u>. First there is the static equilibrium theory of the firm, and second, interwoven with the first, is a theory of the progressive development of human character. It is this second thread which is of the greatest interest to Marshall and which provides a framework for macromarketing.

Static equilibrium theory, the main remnant of Marshall's work in modern marketing thought, provides no hint to the "organic growth" paradigm which underlies his analytical system. The examination of particular economic processes under the assumption that environmental conditions are unchanging, is only the first step in a study of mankind.

Marshall does not consider this first step to be especially valuable because "Economic causes are intermingled with others in so many different ways, that exact scientific reasoning will seldom bring us very far on the way to the conclusion for which we are seeking." (1890, p. 779) Moreover, if the analysis is made more precise by including only a limited number of variables in a model, "then long-drawn-out and subtle reasonings with regard to them become scientific toys rather than engines for practical work." (1890, p. 468)

The "organic" paradigm influences both the methodology and the scope of the analysis. Economics differs from the physical sciences, not only because of the complexity of the problems studied, but also because few of the relevant variables are amenable to mathematical treatment. A narrative treatment is more useful because it makes it possible to deal with historical and sociological data which cannot be handled in mathematical terms.

The narrative treatment in the Principles analyzes the effects of man's economic and other activities together with the interaction between these economic activities and the socioeconomic environment, with respect to man's earnings, standard of living and character. Marshall describes a gradual growth in the rationality of individual economic activities as people come to be less affected by rigid customs and traditions and increasingly free to manage their own affairs. It is concluded that social evolution has led to progressive improvements in man's character as well as his economic achievements.

The "organic" paradigm provides the framework for the static equilibrium theory. Ethical prescripts and public policy recommendations are inserted throughout his work, so that they come to be viewed as a natural accompaniment of the development of an analytical system. The interaction of the firm and the Task Environment is "organic." The industry is like a forest, growing overall, but composed of firms at various stages of growth. The "general" environment not only affects each firm directly, but indirectly, by affecting the industry as a whole.

Marshall envisions a complex evolutionary process with interaction between individual character and socioeconomic environment. As environmental influences transform the character of many individuals in the society the environment in which each lives is further transformed so that additional modification of individual character ensues.

The Principle of Continuity indicates that analytical distinctions should not be confused with reality. There is no "economic" man, only "whole" man who is rather a good sort: "Everyone who is worth anything carries his higher nature with him into business; and there, as elsewhere, he is influenced by his personal affections, by his conception of duty and his reverence for high ideals." (1890, p. 14)

In brief, the criteria of economic efficiency and economic welfare specified in the static equilibrium model are relevant only within an appropriate social framework. In contrast to a tree, man has the opportunity to take conscious action to alter environmental influences. Thus the individual, whether a businessman or a scholar, has a responsibility to take advantage of the best aspects of man's character to better satisfy the needs of "whole" man through social action.

This ethical prescription, which provides the "umbrella" for Marshall's economics suggests a framework for a discipline which links the micro and macro aspects of marketing. While an organization's marketing activities are influenced by its Task Environment, this activity also influences this environment. For example, population growth leads to greater sales which make possible lower unit costs. But the firm's lower costs influences the behavior of competitors, which represents a change in the Task Environment. This change in the environment then leads to changes in the behavior of the firm.

But while these "economic" changes are occurring, there are also changes in the sociocultural environment because of changes in individuals. This is the interaction between marketing behavior and the sociocultural environment. Marshall finds two individual motives of special importance for social progress: the desire for excellence, and economic chivalry. Individuals take these motives with them into business, where there is an excellent opportunity for their development. The operation of the motive which tends to limit social progress, the desire for approbation, can be limited by appropriate social action.

Marshall also adds a methodological prescription which suggests a means of developing macromarketing thought: "Much of [the economist's] work has less need of elaborate scientific methods, than of a shrewd mother-wit, of a sound sense of proportion, and of a large experience of life." (1890, p. 778)

Certainly Marshall would have recognized the fallacy of viewing marketing as "a method in search of a problem," and hence would fully understand Nason's position that social marketing and managerial functions do not fall within the domain of macromarketing. (1988, p. 3)

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A MACROANALYTICAL STUDY OF THE POST-INDUSTRIAL SOCIETY

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Abstract

Ever since Daniel Bell put forward his thesis describing the Coming of Post-Industrial Society, much argument and debate have followed over the meaning of the term and the implications of his arguments. The paper examines the social and economic order of post-industrial societies from the perspective of new technologies. I have argued that the social transformation of the production sector due to new technologies occurs before such a transformation occurs in the consumption sector. The implication of this lag is that it may be too late to make any meaningful interventions in the consumption sector if such a need were indeed crucial to the maintenance of the social and economic order. The paper views Orange County as a paradigm of post-industrialism and evaluates its development within that context.

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This paper is concerned with the changing patterns of production and consumption in post-industrial societies with particular emphasis on consumption. In developing our analysis, we first present the current debate on post-industrialism. This is followed by a discussion on the structural link between consumption and the social order as well as the link between systems of production and consumption. In the final section our attention will turn to Orange County, California as an example of the post-industrial economy.

POST-INDUSTRIALISM

The term "post-industrial" has been in existence for nearly two decades. The underlying concept was the subject of much debate in the early and mid-70s. Although it has become part of the accepted vocabulary, its meaning is still not clear. In the past fifteen years, several other labels have been put forward to signify the same meaning as post-industrial, including "post-capitalist society," "post-maturity economy," "technetronic society," "information and knowledge society," "post-welfare economy," "the new service economy," and many more. In this paper, we propose to review the notion of the "post-industrial state" in contemporaneous terms and examine the nature of consumption in this emerging society.

Industrial vs. Post-Industrial State

Although several people have written on the general topic of "post-industrial state," a few of them are acknowledged as being in the forefront of developing the ideas in a major way. In the U.S., Daniel Bell (1973) is considered the exponent of the "post-industrial state." Others include Brzezinski (1971), Drucker (1971), Galbraith (1971), Heilbroner (1973), and Kahn and Wiener (1967). In Europe, the major thinkers are Fuchs (1968), Kumar(1976), Servan-Schreiber (1967), and Touraine (1971, 1988). The key ideas of these different contributors refer to different developments such as the emergence of the knowledge society (Bell and Touraine), the new professional class and the technostructure (Galbraith and Brzezinski), the specter of scarcity and the concept of spaceship economy as opposed to the cowboy economy (Boulding and Thurrow), the emergence of service economy and the explosion of white-collar workers (Heilbroner and Fuchs).

Since a majority of these ideas are contained in Daniel Bell's "The Coming of Post-Industrial Society," we will use his arguments as the starting point of our discussion. Bell is the most frequently cited exponent of the post-industrial idea and is generally

accepted as the intellectual leader of the post-industrial school. His arguments are presented below.

The industrial societies are moving toward a new phase in their evolution. This new phase, which may be called 'post-industrial,' is as different from 'industrial' as 'industrial' was from 'pre-industrial.' The post-industrial society differs from the industrial society in many respects. Specifically, Bell cites five factors that distinguish the post-industrial from the industrial phase.

1. Economic Sector: The economy is moving from goods producing to a service producing economy.
2. Occupational Structure: White-collar workers will replace blue-collar workers as the largest single category in the labor force, and within the white-collar group there will be an increasing predominance of the professional, scientific and technical groups
3. Changes in the Technology: The new technologies, which are termed "intellectual technologies," will replace "machine technologies," giving rise to an information-based society.
4. Decision-Making Orientation: There will be a widespread growth of management and problem-solving systems making extensive use of the computer (information theory, cybernetics decision theory, etc.), which allows for rational planning, prediction, monitoring and self-sustaining technical growth in all areas of the society.
5. The Axial Principle: According to this principle, which is described by Bell as the "energizing principle that is the logic of all the others," the main driving force for the source of innovation and policy formulation in society will be "theoretical knowledge." Thus "theory" will take the primacy over "empiricism." The custodians of theoretical knowledge--scientists, mathematicians, economists and the computer engineers --become the key social group replacing the industrialists and entrepreneurs of the old industrial society. Its institutions--the universities, research institutes, professional associations--become the axial structures of the new society.

While Bell sees these various developments in positive light, Touraine is somewhat skeptical, although both agree that there is a radical shift from the industrial to post-industrial stage, spurred by 'knowledge-based forces. Touraine anticipates serious conflicts in the new society between the intellectual haves and the have-nots.

Several authors have taken issue with both the assumptions and the elements of Bell's model. In particular, we have chosen three authors whose views are representative of these criticisms: Heilbroner (1973), Kumar (1976) and Stearns (1984). The first author's criticisms were raised almost immediately after bell introduced his ideas, while the third author's views were published in the 1980's. Significantly enough, none of the three authors question that the social order is changing. Their main criticisms deal with the specific arguments of Bell's thesis, and only partially the overall direction of his major thesis. However, they all conclude that Bell and his associates have something significant to say, even though what they say may be theoretically plausible but socially less probable. Thus we have a time-based critique for the post-industrial concept.

Heilbroner's contention is that the industrial sector has not changed as dramatically as the post-industrialists would claim, in the last forty years. In fact, he puts forward evidence to suggest that it is the agricultural sector (pre-industrial) that has witnessed radical changes in terms of employment and production technologies. A second issue that Heilbroner addresses is the assumption that the post-industrial state is characterized by the growth of the knowledge sector. He argues that it is not knowledge which is on the rise but merely that more people are receiving formal education than ever before and spending more years as part of formal schooling. This has resulted in less training of people in manual tasks and has created a work culture which involves more paper handling than goods handling. Thus one type of knowledge has replaced another type of knowledge. A final argument of Heilbroner is that what is termed post-industrial is merely another stage in the development of industrial capitalism. It must be remembered that Heilbroner wrote his comments in the early seventies and some of his criticisms can now be questioned just the way Bell's ideas were questioned by him.

Kumar (1976) is not convinced that the service economy is a special feature of the post-industrial state. He traces the growth of the service economy to the 1900's and claims that many service functions in the economy have been generated in the manufacturing sector and have been a part of the process of "continuing rationalization of the business enterprise." A second criticism of his addresses the rise of knowledge-based workers. He points out that it is true that there are more white-collar workers than before, and more white-collar workers than blue-collar workers. But a great majority of white-collar workers are not professionals but merely those who are subject to the same type of "routinization," "rationalization," "mechanization" and "centralization" as the blue-collar workers. Thus the drone-like quality can be found both in the office and the factory. The rise of the service economy and the expansion of white-collar work cannot by themselves be taken as the hallmark of a social order. Indeed, as far as the conditions and quality of work are concerned, the evidence clearly shows that workers in the service sector are "less skilled, lower-paid, less unionized and less secure than in manufacturing."

As for the final point raised by Bell regarding the centrality of knowledge, Kumar feels that it is assumed rather than demonstrated. He offers the view that, relatively speaking, there are fewer engineers and scientists in the U.S. at the present time, as compared to lawyers and other business professionals. Secondly, there has been a

decline in the support for R&D as a percentage of GNP. Thirdly, he claims that "within that very important branch of social knowledge concerned with the operation of the socio-economic mechanism, what seems to mark the education-intensive, post-industrial society is marked decrease in the ability of the individual to perform work outside his specialty--witness our helplessness in the face of a broken utensil, vehicle, electrical system, or plumbing fixture, compared with the versatility of the farmer (or industrial artisan), proverbially jack-of-all-trades, even if master of none."

Stearns (1984) offers a more contemporaneous response to the general post-industrial thesis. Being a more recent writer, he offers a more sympathetic perspective to the concept of post-industrialism than Heilbroner or Kumar, and seems to give credence to the ideas of Bell and associates fifteen years after they put forward their thesis. Stearns is less of a critic and more of a skeptic. He raises some important questions about the post-industrial thesis and is cautious about reaching conclusions either way. He admits that it is important to examine the past-present-future continuum in our lives so that we can plan our lives better. His first question is, of course, "When does change become major change and when does major change constitute watershed?" As a corollary, he asks if the current change is a watershed or a mere continuation of the preceding social order. A second point of his argument is that post-industrial theories should be placed in world context rather than in the context of a single country, as has been the practice in the past. He believes that this is particularly appropriate in the present time, when the world is so interdependent as never before. A third point he raises is that we should examine the developments in our social order in the past 10-15 years and evaluate how the post-industrial thesis was either sidetracked or supported by these developments.

First, let us go back to Heilbroner and Kumar, who (despite some disagreement with Bell's thesis) acknowledge that some major forces are occurring in today's society.

Heilbroner argues that the contemporary individual is far removed from and has no knowledge of the most fundamental provision activities of the society. Secondly, as the working class is moving away from the factory to the office, from the manufacturing activities to service activities, physical strains of work are giving way to psychological stresses. A large part of the modern industrial environment has rendered the average citizen less vulnerable to natural forces, but to a greater risk of being exposed to man-made diseases and pollutants and calamities caused by technological growth.

Kumar, while resisting the term 'post-industrial,' concedes that there are qualitative changes in the social order that deserve attention. He mentions structural changes in household composition and its relationship to the other social institutions; the growth of the welfare society where the bureaucracy is playing a major role in the personal lives of the citizens; the emergence of a "quinary" sector which includes health, welfare, recreation, and culture.

CONSUMPTION AND THE SOCIAL ORDER

In this section we will try to establish the structural link between consumption, and the social and industrial order. By corollary, we will demonstrate that a changing social order will give rise to different consumption patterns.

For our purpose, we define consumption as the acquisition of goods and services by individuals and households (through purchase or other means), the utilization of goods and services and their disposal, and the impacts of consumption related activities on consumers and society at large (Firat and Dholakia 1982). Earlier studies on consumption assumed a stable if not moderately changing social order; the external environment (i.e. external to the consumer) was either ignored or viewed as unchanging. Recent evidence seems to indicate that this view is somewhat inadequate and needs to be reassessed in light of fundamental shifts in the social environment, not the least of which may be accounted for by the transition to post-industrial stage of development (Huber 1984). In response to the presumed changes whose impact is being felt at the level of the consumer, some researchers have begun to take a serious note of this and have advanced some research issues linking consumption with the social order.

If one accepts the evolutionary notion of the social/economic development of modern societies from agricultural to industrial to the post-industrial stage, and makes a parallel (and plausible) claim that our ontological models are limited to the description of life in the industrial stage, it seems natural then to update our models to reflect more current reality. The connection between the stages of development and consumption is real if somewhat derived. In order to fully explicate this relationship, we appeal to what is known as the theory of industrial society as developed in the works of Dahrendorf (1967), Giddens (1971), Goldthrope (1971), Kumar (1977), and Kerr et al. (1973). This theory assumes that the development of industry and its impact on society are the central features of modern states. Social thought then becomes concerned with the social requirements of industrial development, the social structures and arrangements that facilitate or hinder the efficient pursuit of industry, and the impact of industrial development on the social order. The connection between industrial development and the social order underlies much of the work of the social thinkers such as Marx, Durkheim, Weber and Parsons. In his study of modern societies, Weber has shown the ways in which the rationalization of social life encompassed the realms of economics, politics, law and culture (Gerth and Wright-Mills 1947). In particular,

Weber focuses his attention on the rise of science and intellectualization of life; the use of machine technology; the character of modern rational capitalism; and the development of rational law and authority. A direct consequence of this perspective is the development of a social order based on some accepted principles of division of labor. For providers of products and services the implications lie in delineating as clearly as possible the production-consumption nexus based on a well articulated rationalization of social life. As a producer of goods and services the modern corporation has evolved over the last hundred years as the chief economic agent of the society legitimizing its role in the pursuit of the objectives as enunciated by the theory of the industrial society. The modern consumer has similarly discharged his role through a process of consumption that has reinforced the industrial mission of the society. This was primarily achieved by modes of behavior based on the organized principles of the industrial society. These principles, simply stated, are that any change is possible by the application of technology to the environment, most change is really progress, and individuals can make better choices by well-informed reasoning. The twin ideals of reason and progress have been used to describe the ontology of the industrial social order. Since production and consumption are the two sides of the industrial coin, we will now examine the relationship between the two in some detail.

Production-Consumption Nexus in Industrial Societies

Consumption processes in any society provide important cues for researchers who wish to understand them as an intellectual pursuit and for policy makers and public officials who need guidelines for social actions. The well-known consumption function studies in economics not only uncovered the basic relationships between consumption and spending but have had considerable impact on government policies regarding housing, telecommunications and taxation and other aspects of consumer life. Consumption practices vary across time and space. They establish and shape the mosaic of human life, while creating a natural link with the production processes within a given society. Macromarketing principles attempt to explain these two basic economic functions in the following terms (Fisk 1967).

In primitive or pre-industrial economies the economic units (which are typically households or small communities) produce goods and services that are circumscribed by the needs of the economic unit and consumed concurrently by the same unit. The two essential characteristics of such economies are: First, there are no production surpluses of any sort, that is, the economic units are generally self-equilibrating in terms of their production and consumption activities. Second, the economic cycle operates in a closed system of time and space. In other words, what is produced is consumed immediately upon production (temporal consideration), and what is produced is consumed by the same economic unit (spatial consideration). These two completely define the closed system of the pre-industrial economy.

With the advent of industrialization we began to witness the changing relationship between production and consumption. The forces of mechanization coupled with the development of machine technology created the capacity for the economic units to produce more than they could possibly consume. Thus it was no longer possible for consumption to exactly match production either in space or time. The result was the creation of production surpluses. Production surpluses are economic excesses that could only be supported by appropriate levels of consumption. Because of the immense productive capabilities of modern technology, goods were produced in abundant quantities and varieties resulting in the creation of choices and options that otherwise would be impossible. The emergence of the choice filled world has enabled consumers to expand their consumption horizons, to consume not only what they need, but what they want but perhaps do not need. As the choice possibilities expanded so did the actual market place demand thus stimulating the economic machine to engage in intense levels of production activity. The result of this is a competitive market situation, industrial expansion into different markets, and the sustained growth of consumer societies. The role of industrial technology in the economic sphere is abundantly clear: cost reduction through mass production, increasing specialization, and highly fragmented skill requirements.

For our purposes the structural relationship between production and consumption can be viewed in terms of societal level activities where production activities are presumed to direct if not determine consumption activities and the nature of population involvement in the market-work and non-market-related factors. The irony of the industrial paradigm is that instead of consumption determining the nature of production it is the latter that has dictated (rather perversely) the nature of consumption through an elaborate market system built around it. We depict this relationship in the following terms:

Societal level activities:	Production system (e.g. technology, division of labor and specialization)	_determines_	Consumption system (e.g.,cultural systems, values, etc.)
Nature of involvement: by population	Market-work related factors (e.g., office, plant, work environments)	_determine_	Nonmarket-work related (e.g., home, family, leisure)

While the causal mechanisms described above may appear arbitrary at first blush they are based on the internal logic of industrial capitalism. This refers to two factors, the dichotomy of production and consumption and the dichotomy of market-work and non-market-work. As shown in the figure above, it is the production side of the economy that determines the size and shape of the consumption side of the economy.

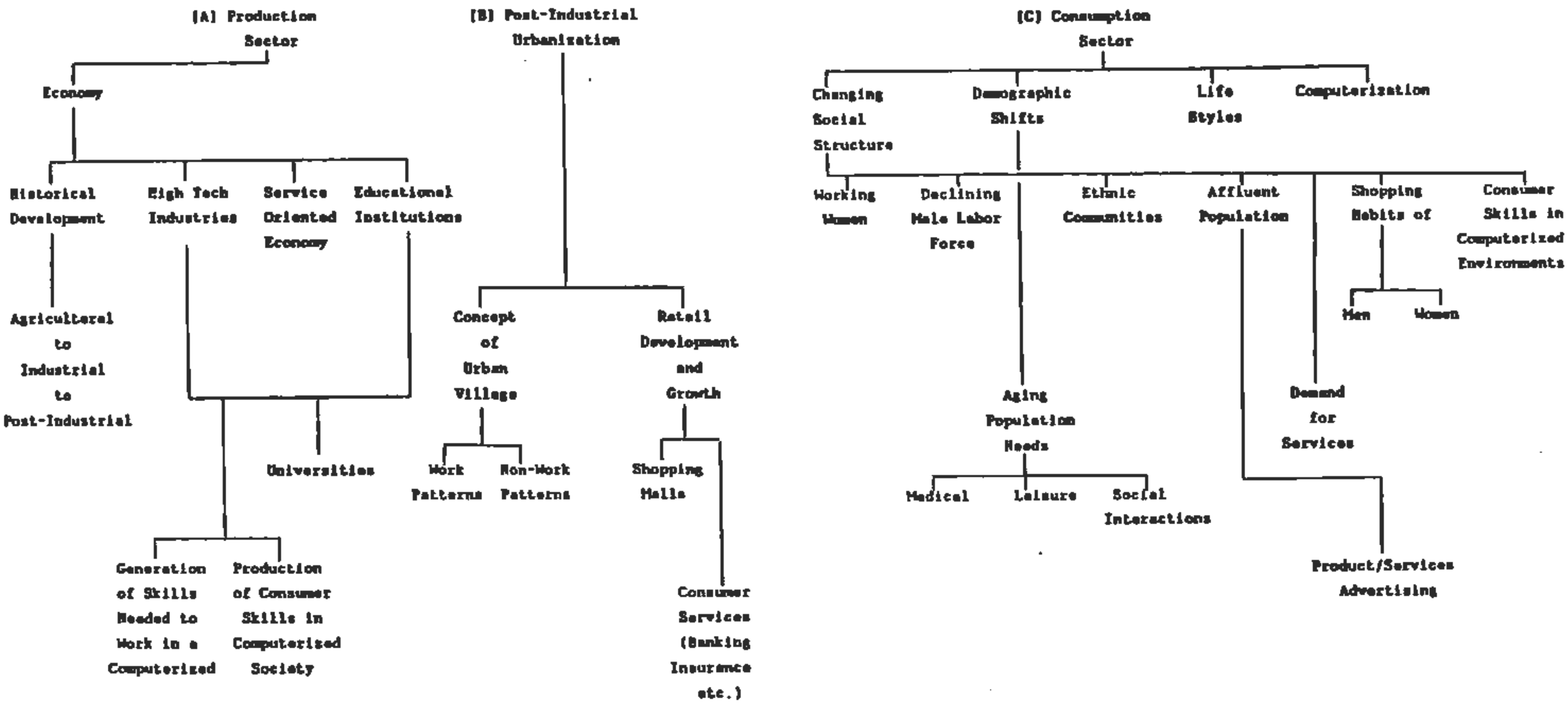
What can we say of this relationship as it applies to post-industrial societies? We refer to Table 1 as the basis for our discussion. As shown in the table, the production-consumption dichotomy of the industrialized societies determines the nature of the social roles of men and women in work environments and household, the nature of technologies which are primarily oriented toward transforming raw material to finished products and the time saving technologies for the household. In terms of a comparable framework for the post-industrial society we refer again to table for some clues.

Major shifts are taking place on three fronts. The technologies of the post-industrial world are more knowledge based rather than mechanically based. Specifically, the technologies of productions are moving from being manufacture oriented to being communications oriented. Analog technologies are giving way to digital technologies. On the consumption side, household technologies are developing more in the direction of information and communication technologies. The particularly significant characteristic of these technologies is that they form a link technologies between the domains of work and domestic life, thus suggesting that the rigid separation of the two may no longer be appropriate. This becomes very clear in light of the changing social structure.

The very basis of industrial capitalism was to separate the production and consumption sectors in all relevant dimensions. The dichotomy of production and consumption sectors was also reflected in the internal social structure of the household. Thus some adult members of the household (predominantly males) contributed to the production sector through paid employment while other adults of the household (predominantly females) were given the responsiblity to manage the consumption sector. This is indeed the concept of sexual division of labor that one associates with the industrial societies. In more recent times we have seen some fundamental shifts in this social order. The social structure of the industrial household is giving way to more overlapping roles for men and women. The nuclear family has given rise to different

Figure 1

A Macro View of Orange County as a Post-Industrial Society



family orientations. As for social roles, considerably more women are in the labor force than women at home, more women are attending colleges than men. Both these together will change the skill configurations both at the work place and in the home. Some of the changes are made possible through the emergence of modern technologies.

Finally, the economy is changing from purely product oriented to one of more service orientation. The service sector is the largest sector in the U.S. contributing to the GNP twice as much as the manufacturing sector. The service sector also employs more women than men. The growth of the service sector is considerably helped by the emergence of the knowledge based technologies and the participation of women in the labor force. The link between the emergent technologies and the growth of the service sector is quite evident. Typically the service sector includes such industries as banking, finance, airlines, insurance companies, retail goods, law firms, health care, etc., which are information intensive. In order for these industries to perform efficiently they require appropriate industrial infrastructure which includes appropriate skills on the part of the work force as well as the consuming public.

In summary, Table 1 shows that while the essential dichotomy of production and consumption is still preserved, their configuration and mutual relationships are undergoing alteration through the impact of the changing technology, social structure and the switch from manufacturing to service orientation.

While production offers the structural obverse of consumption in the social order, it does not explain how consumption itself is influenced by the social order. For this we have to examine the relationship between the value systems of the social order and consumption.

Consumption and The Value Systems

At the risk of suggesting a causal mechanism in the consumption apparatus, we propose that all societies attempt to explain their consumption activities in terms of some key macro environmental factors. We propose that the starting point for such a discussion is the ideological or value systems (Table 2). It is generally agreed that these systems do not change except in the long-term. Next to value systems, the major driving force includes the social-change agents. The change agents have a dual purpose - first to bring about changes in the economic and consumption environments without necessarily disturbing the value systems, and second, in exceptional cases to force changes in the value systems of which they are a derivative. Conflicts occur on all fronts and especially between the change agents and the economic and consumption environments on the one hand and change agents and the value systems on the other. In the case of such conflicts it is difficult to predict how the patterns resolve themselves because this is not merely a

Table 1

Production and Consumption Factors In Industrial and Post-Industrial Societies

	Industrial		Post-Industrial
Industrial Structure Dichotomy	Production	Consumption	No change
Market-work/non-work Dichotomy	Market-work environment: -office -plants -industrial infra-structure	Non-market environment: -home -family -leisure	Modest change
Production/Consumption Relative Emphasis	Value-added through manufacture of finished products	Value consumption made possible by choice mechanisms	No change
Social roles Dichotomy	Work environment predominantly male oriented	Home/Family environment predominantly female dominated	Fundamental shifts in social roles, women's entry into labor force
Technology's role	Technology geared to manufacturing and production	Technology related to internal workings of the household and maintenance of home life	Technology that bridges work/home environments (Knowledge-based technologies)
Types of prevalent technologies	Product and process technologies	Technologies that run households more efficiently	Communication/ information/ computer technologies
	Analog technologies for value transformation	Time saving devices that assist in performing household chores	

Table 1 cont'd

	Industrial		Post-Industrial
	Electro-mechanical technologies that convert raw material into finished products	Electro-mechanical technologies that permit social order within the household	
Skill requirements	Production oriented	Consumption oriented	Communication oriented
Type of economy	Primarily product oriented	---	Changing to service oriented
Productivity measures	Productivity measures only in this sector	Productivity measures do not exist in this sector	Productivity measures in both sectors possible

Table 2

Consumption and Value Systems

CONSUMPTION ACTIVITIES based on	IDEOLOGICAL/ VALUE SYSTEMS influenced by	SOCIAL CHANGE AGENTS impact	ECONOMIC ENVIRONMENT
Acquiring goods and services	Individualism	Technology	Diminishing middle-class
	Materialism	Social Role changes	Value consuming society
Tradeoffs between products and services	Consumerism		
	Self-centeredness	Household structure changes	Discontinuities in consumption
Shopping habits	Cultural Ego-centrism	Media	Urban living
	Elitism	Dense culture	Dual incomes
Leisure activities	Belief in the power of technology	Ethnic diversity and an evolving cultural milieu composed of Anglo/ Asian/ Hispanic/ Black orientations	
Symbolic dimensions of consumption	Instant gratification		
Establishment of consumption priorities			
Time spent on work and non-work			
		Perceived Value of time	

theoretical question but perhaps an empirical one. Just as value systems do not change in the short run, consumption activities do not change in the short run. Consumption activities are products of habit, learning, and experiences developed over a long period of time. They are generally non-volatile and change only incrementally. They also need triggering mechanisms which are usually found in the economic environment. Decades of research have shown that people's consumption activities are related to their personal needs, economic circumstances (e.g. discretionary income, assets, etc.,) and social structural factors. Since these different factors are interrelated, any major change in one can have an impact on the other. Let us now turn our attention to consumption implications of the post-industrial society.

CONSUMPTION ISSUES IN A POST-INDUSTRIAL ECONOMY

The post-industrial society is a transitional society and the transitional forces are multitudinous: the change from production and manufacturing technologies to information and knowledge based technologies, the change in the social structure brought about by the entry of women into the labor force, and the transition from a goods oriented to service oriented economy. These different factors are not mutually exclusive but intimately related. For example, the transition to a service economy is possible because the service oriented technologies are not the traditional process oriented technologies but knowledge or information based technologies. The movement to a service economy to a large measure is necessitated by the changing social structure. Thus the entry of women into the labor force has impacted on the acquisition patterns of goods and services. Women are less likely to shop for goods, and households are more likely to demand services to satisfy their needs. Since post-industrial service economies are labor as well as knowledge intensive and, therefore, differ from goods producing economies, the costs of services at least in the short term can be very high. Until the service oriented technologies are available to everybody and the skill levels of the population reach the required levels to function in the service economies efficiently, there will be tremendous gaps within the economic fabric of the post-industrial society. This will give rise to several dislocations in the consumption processes and the economic well being of the consumers. Let us examine some current thinking on these issues.

Nicosia (1986), who prefers the term, "post-affluent" consumer, argues that most consumer decision inputs in the post-affluent period will be affected by the changing nature of technology, family, institutions and value systems. Kotler (1986),

taking the cue from Toffler's "Third Wave" (1980), wonders if the post-industrial person is a pro-sumer, that is, a combination of producer and consumer. Noting that the traditional separation of production and consumption is an artifact of the industrial societies, Kotler proposes that this may not continue as rigidly in the post-industrial environment whose structural characteristics give greater opportunity for the individual to produce what he consumes. Sherry (1986) regards the transition to the post-industrial era as characherized by an increasing amount of symbolic consumption. the consumption culture is increasingly dominated by cultural consumption. Marketing takes on the role of a cultural system which re-socializes individuals into new patterns of post-industrial behavior. Sherry offers several propositions relating the cultural system to consumption, both as an exogenous and an endogenous factor. Belk (1986) examines the role of elites in the consumption system. Using the example of "yupples", as the arbiters of consumption in recent history, Belk provides an interesting socio-economic interpretation of the new patterns of elitism and diffusion phenomena. Dholakia (1985) is concerned about the discontinuities in consumption in the post-industrial age. He argues that, for the mass of people in post-industrial societies, fundamental and often painful discontinuities in consumption must occur if they are to re-adjust to the requirements of the emerging technologies. For many, the 'good life' must be suspended - even abandoned - and substantial consumption of educational inputs is necessarynmto make the transition. The coping mechanisms for the transition are quite complex. Dholakia examines the socio-cultural dimenbsions of the discontinuities in consumption. Hirschman (1985), on the other hand puts forward the notion that as the new world of post-industrial consumption unfolds, there are fundamental continuities in consumption that must persist to maintain stability in the social order. She deals with the determinants of continuities in the face of unrelenting pressures to change. Venkatesh and Vitalari (1986) provide a synthesis of new technologies that are likely to change the home and work life in post-industrial societies. These technologies are already in place and it is a matter of time before their impact is widely felt.

When we examine the above views in conjunction with several others which are scattered among different writings from other disciplines, we find four related yet distinct areas of profound significance to researchers: (a) some global issues of post-industrial consumption, (b) the impact of high technology on patterns of consumption, (c) the reordering of traditional institutional arrangements, and (d) the changing nature of work and home life.

In the next section we will examine Orange County as a relevant example of a society in transition to a post-industrial economy.

ORANGE COUNTY AS A POST-INDUSTRIAL ECONOMY

It has been acknowledged by many that Orange County (hereafter OC) represents a unique industrial urban development exhibited by very few communities in the U.S. (Applegate 1984, Buchner et al 1981, Scott 1986). It is the only metropolitan area in the country that is usually referred to as a county. Within a short period of time, it has emerged has an important soicial and economic center in the country representing a distinct blend of complex intrametropolitan structure of work patterns and suburban lifestyles. Many factors determining its growth and development suggest that OC may well be on its way to becoming a post-industrial community (this is particularly true of the production sector).

We begin our discussion on OC by presenting a macro view of the rapidly changing community. A schematic representation of its development is described in Figure 1. Consistent with our discussion in the first part, our portrayal of the county is in terms of the production and consumption sectors. We also introduce the notion of post-industrial urbanization as an additional dimension in our treatment of OC Included in the production sector' are three major elements, the historical evolution of OC economy into its present form, the dominance of the service sector, and the emergence of high technology based industrial activity. The consumption sector is similarly depicted in terms of its constituent elements, the changing social structure, demographic shifts and changing lifestyles. As shown in Figure 1 there are many other derivative factors that provide a logical link between the production and consumption sectors. The nature of these relationships and their implications are the subject of discussion in this section.

THE PRODUCTION SECTOR

[A]. The Economy:

Orange county (OC) is part of the Southern California economy whose growth rate has been quite impressive. It is the largest and the most recent among the integrated regional economies of the world. The industrial development of OC can be presented in the following historical terms:

- -Phase 1 (pre-war) Agriculture, mining, oil and gas extraction, motion pictures.
- -Phase 2 (early fifties) Aircraft manufacturing. Defense electronics, communications.
- -Phase 3 (sixties) Textiles, apparel, food products, printing, publishing, chemicals, rubber, metals.

- -Phase4 (seventies) High technology, office and computing machines, communications equipment, electronic components.
- -Phase 5 (eighties) Tourism, retail trade, information and computer services, health and physical fitness, banking, finance and insurance.

The notable quality of OC economy is not only its growth but its short history. As recently as 1961 it was agriculture/defense based. and had a population of 704,000 and a labor force of 170,000. By 1974 the population had doubled to 1.4 million with an employment base of 419,000. Today the estimated population is 2.4 million with 1.1 million people in the labor force, making it the third largest county in California in terms of its population. OC generates the second highest personal income of $59.5 billion dollars after Los Angeles ($175.6 billion) but ahead of San Diego County ($50.4 B). It has the third highest average household annual income at $54,000 after Marin ($65,700) and San Mateo ($61,500) counties. It also generates the second highest retail sales ($14 billion) after Los Angeles ($67.8 billion).

The anticipated growth of OC economy is also quite impressive. A recent study by the Southern California Association of Governments (SCAG, 1986) has provided a ten year forecast covering the period 1986 thru 1995, which appears as follows:

	OC Growth	California Growth	OC Economy as % of California Economy	Rank of OC in California
Population	18%	17%	8.1%	3
Households	23	20	7.8	2
Per capita income	20	16	9.7	2
Total taxable sales	42	39	9.9	2
Total retail sales	45	35	9.4	2

OC will continue to grow faster than the national economy. This growth will produce substantial additions to the state's population, households, and spending over the next 10 to 15 years. However, since the economy of OC is tied to the national as well as global economy (not to mention the California economy), the fortunes of this region cannot be treated as isolated from the rest of the world.

[B] The Changing Nature of the Labor Force - Entry of Women:

An important development in recent years has been the increasing participation of women in the labor force. Table 3 gives some basic trends for the OC. Because of a lack of

Table 3

Labor Force Participation of Men and Women In Orange County Compared to U.S.

	Orange County (1980 census)		U.S. (Sep 1987 estimates)	
	Male	Female	Male	Female
1. Number in the labor force	597,631 (58.1%)	430,966 (41.9%)	61,243,000 (56.6%)	48,986,000 (43.4%)
2. Rate of labor force participation	83.2%	57.2%	79.0%[a]	55.0%[b]
3. Full-time employment	NA	NA	92.1%	76.8%
4. Married employment	NA	NA	65.14%	58.47%
5. By Occupation				
Managerial and Professional	31.44%	23.74%	25.1%	24.5%
Technical, Sales and Adm. Support	21.69%	48.44%	19.7%	45.2%
Services Precision, Production	8.7%	14.41%	9.2%	17.8%
Craft and Equipment	18.8%	3.10%	20.1%	2.3%
Operators, Fabricators and laborers	17.18%	9.34%	21.1%	2.3%
Farming, Fishing	1.78%	0.004%	4.9%	1.2%
6. By Age				
16-19	-[c]	-	5.24%	5.99%
20-24	-	-	11.71%	13.28%
25-34	-	-	29.95%	29.11%
35-44	-	-	23.68%	24.14%
45-54	-	-	15.68%	15.22%
55-64	-	-	12.17%	9.77%
65 and over	-	-	2.85%	2.50%

a - Has declined from a high of 91% in 1955. The highest decline has been in the age groups 55-64 (18%) and 65 and above (27%).

b - Was 32% in 1955

c - not available

more recent data OC figures are based on 1980 census. However, for comparison purposes the table shows July 1987 figures for the US.

Women constitute 42% of the labor force and their rate of participation is 57%. The available data for the US as a whole also indicate that in 1948 the corresponding figures were 29% and 33% respectively (Bloom 1987). Ironically, the labor force participation of men has declined from a high of 91% in 1955 to 79% in 1987. Most of this drop has been accounted for by the 55 and older group although the decline has been observed in all age categories. (Hayghe and Haugen 1987). Other trends regarding women's employment include the increase of full-time workers (77%) and married workers (58%). If one were to look at the male-female distribution by occupation, 48% of the women workers are concentrated in sales and administrative support occupations and 24% in managerial and professional groups. The corresponding figures for male workers are 22% and 31% respectively. Thus the growth of female lablor force is generally felt in white collar jobs which are based in urban locations.

What is remarkable about the entry of women into the labor force is that it was not discussed by post-industrial theorists such as Daniel Bell and his associates who did not antipate it or if they did, attached no significance to it. This one development has had an equal if not greater impact on the industrial scene as the other factors enunciated by Bell. As we shall see later, the changing social structure caused by the increasing participation of women in the labor force has strong implications for the consumption processes in the emerging post-industrial economies.

[C] Growth of the Service Sector:

The dominant feature of OC economy is the service sector (Table 4). There are two factors which are strikingly important. First, the employment in the service sector is well over 60%. Second, when we compare the 1981 figures to 1987 figures we also see a jump of 5.85% in the service sector employment from 62.95% to 67.8% and a corresponding proportional decline in the non-service sector. The service sector includes such industries as banking and finance, airlines, tourism, insurance , executive search groups, health care etc., which comprise almost two-thirds of the workforce. Increasingly service exports are being targeted at the far east where the demand is high for high technology and mangement consultant services which are crucial to those countries in their efforts (a) to improve their manufacturing productivity and quality of goods, (b) to introduce economies in transportation, and (c) to augment their communication and organizational resources.

To some extent the growth in the service sector seems to be an inevitable part of the economic development of the industrial urban environments. Nationally, the non-

Table 4

Distribution of Employment - Orange County

	1981		1987	
Non-Service Sector				
Agriculture	7608		9914	
Mineral Extraction	2965		3133	
Construction	41450		51540	
Non-durable goods	56545		64061	
Aerospace	79768		93271	
Other durable goods	89975		90881	
Transportation/Utilities	29908		35377	
Sub Total	308219	(37.05%)	348177	(32.2%)
Service Sector				
Wholesale trade	44593		67163	
Retail trade	165670		214844	
Finance/Real Estate/Insurance	61190		83126	
Services	186090		254471	
Federal Civil Service	12725		14062	
State and Local Govt.	53293		99060	
Sub Total	523561	(62.95%)	732726	(67.8%)
Total	831780		1080903	

agricultural wage and salary employment is expected to rise by nearly 3 million by 1990 of which about 2.5 million or 85% of the total gain will be in the service activities. Thus in 1990 the service industries will account for nearly 80% of the total non-agricultural employment as compared to 75% in 1978.

Considerable increases are being reported in the amounts of money spent by consumers on such services as recreation, travel, medical care and eating out . Normally these developments are dismissed as being part of an affluent society. But when such expenditures become common to the middle class a different set of factors are needed to explain the the role of services in a changing society For example, the increasing complexity of modern living requires more use of the specialized services provided by lawyers, bankers, tax experts, insurance salesmen, real estate brokers, auto servicing and the like.

[D]. The Rise of Technology Based Industries:

The growth in the OC service sector cannot be discussed without paying attention to the advances that are currently taking place on the technological front. Technology and international trade are the twin pillars of economic development of this region. High-tech jobs which total 100,000 or 11% of the county's total non-agricultural work force are growing at an annual rate of 20% to 30%. Venture capital funding to high tech companies in Orange county is increasing at the rate of 12%. As for international trade, the Pacific rim has surpassed Europe as the trading partner for OC. This is further augmented by the influx of Japanese capital. For example, in California, there are more than 100 Japanese businesses employing nearly 80,000 people. Three quarters of this business resides in Southern California and at least 30% of it is concentrated in OC.

Recent studies have indicated that the term "high-technology" is liable to be misused and may convey false impressions about economic development. To quote Malecki (1981):

"There is a notion that regional economies based on high technology industry rather than old-line manufacturing are less vulnerable to the vicissitudes of the business cycle. The term high technology is confusing. For example, routine manufacturing of high-technology products does not qualify as high technology (activity). These could just be examples of manual dexterity and low wages. ......Thus only locations, which are skill intensive and can also withstand changing economic factors can be considered high technology oriented. High technology definition should include:

(a) averages of the amount of R&D or the R&D intensity
(b) scientific, engineering and technical occupations as % of total employment
(c) concentration levels of service industries.

A second definition of high technology focuses on service-based emerging products, processes, firms that operate in state of art knowledge.... (These include) non-routine functions such as R&D, prototype manufacturing,, small volume production of products such as medical diagnostic scanners et.,.... (The production) of routine standardized products whether micro-electronic chips, or personal computers does not constitute high technology economy...... (It is important that a

Table 5

Population and Selected Statistics for Consumer Product Sales

	1986 Population (000s)	Grocery Sales ($million)	Major Household Appliances ($ million)	Women's Clothes ($ million)	Drug, Health, Beauty ($ million)	Eating and Drinking Places ($ million)	Furniture and Sleeping Equipment ($ million)	Total Retail Sales ($ million)
New York	8527(1)	8379(2)	642(1)	3791(1)	2093(2)	5707(1)	1186(2)	44722(2)
Los Angeles	8312(2)	8651(1)	429(2)	3111(2)	2146(1)	5753(2)	1305(1)	53977(1)
Chicago	6166(3)	5658(3)	381(3)	2868(3)	1552(3)	3873(4)	923(3)	37545(3)
Philadelphia	4827(4)	5146(4)	335(4)	2025(4)	1447(4)	2809(5)	689(4)	31122(4)
Detroit	4359(5)	4956(5)	287(6)	1612(6)	1340(5)	2700(7)	578(7)	28365(6)
Boston(Metro)	3724(6)	4816(6)	296(5)	1941(5)	1005(6)	3880(3)	593(6)	30511(5)
Washington D.C.	3544(7)	4001(7)	262(7)	1569(7)	980(7)	2738(6)	670(5)	26757(7)
Houston	3232(8)	3349(9)	257(8)	1220(9)	813(8)	2450(8)	497(8)	21801(8)
Nassau-Suffolk	2664(9)	3915(8)	211(9)	1295(8)	808(9)	1603(13)	487(9)	20979(9)
Atlanta	2543(10)	2549(12)	182(13)	1089(10)	729(10)	2003(10)	418(10)	19050(10)
St. Louis	2451(11)	2714(11)	183(12)	889(15)	595(13)	1505(16)	308(18)	16174(13)
Dallas	2378(12)	2538(13)	208(10)	1032(11)	609(11)	1977(11)	329(13)	17259(11)
Minneapolis	2323(13)	2811(10)	179(14)	954(14)	580(15)	1542(15)	326(14)	16837(12)
Baltimore	2306(14)	2316(15)	153(18)	---*	576(16)	1371(19)	---	14264(17)
San Diego	2217(15)	2159(19)	174(15)	813(17)	550(20)	1565(14)	336(12)	14346(16)
Orange County	2177(16)	2386(14)	160(16)	1007(12)	621(12)	1818(12)	337(11)	16117(14)
Cleveland	1853(23)	---	---	---	565(14)	---	---	---
Pittsburgh	2139(17)	2196(17)	---	767(19)	528(21)	---	---	---
Riverside	2005(18)	2053(23)	---	---	---	---	---	---
Oakland	1949(19)	2192(18)	153(17)	759(20)	558(19)	---	300(18)	13458(19)
Phoenix	1916(20)	---	---	---	567(18)	1275(20)	---	---
Bergen-Possaic	1303(35)	---	147(20)	807(18)	---	---	---	---
San Francisco	1584(27)	2113(21)	---	960(13)	508(22)	2178(9)	323(15)	14541(15)
Newark	1899(22)	2321(15)	---	---	---	---	---	---
Cleveland	1853(23)	---	---	---	---	---	313(16)	12444(20)
Tampa	1916(20)	---	189(11)	---	---	---	---	---
Denver	1649(26)	---	150(19)	---	---	1411(17)	---	---
Miami	1780(24)	---	---	860(16)	576(17)	---	300(18)	13594(18)
Seattle	1758(25)	---	---	---	---	1374(18)	---	---

* A dash (---) indicates that it is not within the top 20 for this column.

significant proportion of) technical and professional workers are engaged in non-routine activities in the high tech area.... By contrast, standard production activity is increasingly attracts low-wage labor. (In terms of the community) high tech community represents an urban or sub-urban environment of some threshold size including excellent universities, social cultural activities, and a job market that permits professionals to switch jobs without relocating".

In what sense can we conclude that Orange county qualifies as a high tech area? A recent study by Scott (1986) provides some clues. To quote Scott:

"Orange county has 700 high technology companies (eg computers, bio-technology, dental equipment, pharmaceuticals, optical products and hospital supplies), which is the fifth largest concentration in the U.S..... It is, however, different from Silicon Valley.... plants are smaller, less unionized, real wages of workers are lower than other areas, decentralized economic systems..... high tech companies are not lured by or tied to rich educational resources although UCI is certainly a factor.... Orange county is a foretaste of novel and still only dimly apprehended pattern of industrial development and urban growth."

To summarize, the economy of OC appears to exhibit the characterisics of a post-industrial society based on the profile of its production sector. The expansion into service activities and of information oriented technologies is a striking evidence that OC may be fulfilling some of the notions developed by Bell several years ago. We turn our attention to the issue of urbanization of OC (Figure 1) as a further evidence of its post-industrial character.

URBANIZATION OF ORANGE COUNTY AS A POST-INDUSTRIAL PHENOMENON

An important aspect of post-industrial societies is the way in which the urban environments are constituted. It is generally acknowledged that the structural links between the production and consumption sectors are to a large extent determined by specific community forms in which they are embedded and in which their respective functions are performed (Mohl 1976). Several authors have observed that while many people attempt to manage their work experiences and their family life as two separate systems there are powerful reciprocal influences between work and family (Renshaw 1974, Kanter 1977). Of particular interest to us here is the urban context of work and non-work environments, and the specific institutional aspects of the consumer environment. By institutional aspects we mean retail markets and their accessibility to consumers. This issue has been recently explored by Sternlieb and Hughes (1987) who argued with remarkable clarity that the gradual extinction of major department stores (eg Gimbel's in New York, Hudson's in Detroit, Lit Brothers in Philadelphia) and other retail outlets in traditional urban areas are caused by structural shifts in work and non-work domains. A logical question then is how should the urbanization/production/ consumption link be viewed in the post-industrial context. We offer the following brief analysis with OC providing the main focus.

Much has been written about the transition of the American cities into their contemporary forms (Mohl 1976, Lampard 1968, Gappert and Knight 1982 Simmle 1983 Noyelle 1985). What began in the 1960's and is continuing today is the changing character of urbanization that has been the hall mark of industrial societies over a period of 75 years. In the traditional setting the dominance of the central city was legitimized by its role as the locus of major commercial activity while suburbia represented satellite housing colonies tha fed the white collar labor force in to the world of work located in the central city. This separation of work environment and domestic/non-work environment logically follows the economic and social principles contained in the industrial ideology. In recent years, however, some changes have begun to strike at the heart of this urban/sub-urban configuration leading to what is known as urban villages (UVs) It is generally acknowledged that UVs are restructuring and reshaping American cities. Unlike the traditional industrial cities which have only one core, UVs contain more than a single core and are characterized by a spatially inseparable blend of suburban environmments and central districts (Muller 1981). According to Leinberger and Lockwood (1986), UVs are " business, retail, housing, and entertainment focal points amid a low density city scape". A pertinent question in this context raises the issue of why UVs come into existence in the first place. The reasons strikingly follow the arguments that describe the general transition from industrial to the post-industrial age (Kinsella, 1986). For example, the move from manufacturing to service/knowledge based economy has restructured the metropolitan areas and has created a growing need for immense work spaces. Second, the society has created an army of office based workers who are analogous to the blue collar workers of the manufacturing sector but different from them in terms of their sub-cultural norms, educational attainment and training, and general lifestyle orientations. On these aspects their values and behaviors are closer to those of the professional and managerial types. Except for income disparaties between office workers and managerial cadres there is an underlying homogenization of value systems across these groups predicated on post-industrial work arrangements. In this context, technology also plays an active role in shaping the work environments - as is suggested by the growing use of telecommunications and computerized technologies which are believed to be transforming the character of the work place(Kling 1987). To be also considered is the close proximity between work and non-work environments which is an added characteristic of the urban village. This allows people to shop, dine out, and tend to other family matters within the same general spatial context of work. This is particularly relevant in light of the entry of women into the labor force and their approach to work and non-work which is dictated by less compartmentalized notions of the two environments.

Orange County is thus a prime example of an "urban village" (UV) and is recognized as one of the fastest growing UVs in the country. The Costa Mesa/Irvina/New Port Beach Complex is clearly the most significant example of this development. The transformation of OC from a predominantly semi-urban/suburban bedroom community to major urban/metropolitan center has taken place in a record time. The characteristic feature of this transformation is not only its swiftness but in the fullness of its scope as demonstrated in the spheres of work and non-work. For example, in terms of office space, in 1986 OC had 21.1 million square feet of office space right behind Los Angeles (36.6 M) and and San Francisco (26.8 M), which is quite an accomplishment for a young community. Rivalling this expansion is the staggering number of major shopping malls in OC, which is 14, with one of them (South Coast Plaza) claiming to be in the largest set of five within the counry.

To conclude, the growth of OC as a major urban center needs to be examined in terms of its impact on both domains of human activity, work and domestic life. As Muller (1981) has noted "In a surprisingly short span of years, suburbia has become the essence of of the contemporary American city". This is particularly an appropriate description of Orange County.

CONSUMER ECONOMY OF ORANGE COUNTY

A Paradigm for Affluence

The consumer economy of OC can be described in terms of its population, income, and spending characteristics. The population of OC (SMSA) is a little over 2 million, making it the sixteenth largest SMSA in the country; it s expected to reach the twelfth rank by the end of the century (Table 5). The general impression that OC is an affluent community is borne out by facts. Its median annual family income is the eighth highest in the country at $43,500 and ranks first among twenty most populated SMSAs, according to the trade publication, <u>Sales and Marketing Management</u> (1987). OC also ranks tenth in the total number of households with household effective buying income (EBI) of $50,000 or greater(Table 6, col 1). Effective buying income refers to gross income less tax (federal, state, local) and non-tax (fines, penalties and social security) payments.

OC is one of the most important centers of retail trade in the country. Although it is only sixteenth in terms of the size of its population, it ranks fourteenth in retail sales, ahead of San Francisco (rank 15) and San Diego (rank 16; Table 6). For expenditures on specific product groups, OC ranks fourteenth in grocery products,

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Table 6

<u>Buying Power of Selected Regions In the U.S.</u>

	Households with EBI of $50,000 and over (000's)	Effective Buying Income(EBI)* ($billion)	Effective Buying Median Household Income ($)
Los Angeles	651 (1) **	21.15 (1)	27017 (84)
New York	632 (2)	114.13 (2)	23666(178)
Chicago	495 (3)	86.72 (3)	29481 (34)
Washington D.C.	449 (4)	61.48 (5)	37209 (5)
Boston	352 (5)	57.66 (6)	31333 (18)
Nassau-Suffolk	339 (6)	46.26 (8)	41990 (1)
Philadelphia	327 (7)	63.47 (4)	27233 (80)
Detroit	292 (8)	56.74 (7)	28160 (54)
Houston	236 (9)	43.57 (9)	28821 (43)
<u>Orange County</u>	234(10)	34.57(10)	35181 (8)
Oakland	209(11)	31.33(16)	32670 (14)
Atlanta	201(12)	34.28(11)	29025 (40)
Newark	191(19)	29.69(17)	32145 (13)
Dallas	190(14)	33.67(13)	28471 (49)
San Francisco	189(15)	29.04(18)	32092 (11)
Minneapolis/St. Paul	186(16)	33.98(12)	30927 (26)
San Diego	174(17)	31.68(14)	27773 (66)
San Jose	164(18)	22.16(21)	37517 (3)
Seattle	162(19)	26.67(20)	30814 (31)
St. Louis	158(20)	31.45(15)	27518 (15)

*EBI is a classification developed by <u>Sales and Marketing Management</u> (SMM) and equals personal household income less personal tax (federal, state and local) and non-tax payments (of fines, fees and penalties) and personal contributions to social insurance.

**Ranks shown in parentheses

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Table 7

Retail Trade in Orange County
(a six-year analysis)

Year	General Merchandise*	Specialty Products*	Apparel and Shoes*	Drug Stores*	Food Stores*
1981	1.263	0.971	0.554	0.193	1.029
1982	1.271	1.092	0.570	0.222	1.088
1983	1.456	1.335	0.529	0.234	1.142
1984	1.648	1.602	0.689	0.253	1.182
1985	1.868	1.725	0.632	0.267	1.217
1986	1.979	1.737	0.673	0.280	1.248
Average annual change	+ 9.3%	+ 13.2%	+ 6.5%	+ 7.0%	+ 4.8%

* - billions of dollars.

twelfth in drug/health/beauty products, twelfth in food consumed outside the home, and eleventh in furniture and household equipment. Clearly, the last three product groups are better indicators of affluence than grocery products. Other longitudinal retail trends are equally revealing. Table 7 gives a six-year summary of the growth patterns in five selected retail businesses: general merchandise, specialty goods, apparel and shoes, drug store products, and food products (groceries). It is evident that while the rate of growth across all the categories is impressive, it is reasonably uniform from year to year, except for specialty products. In this category, especially between 1981 and 1984, the rate of increase has been rather dramatic. It is significant that specialty products are considered luxuries while other categories in the table are considered necessities -- thus the former represent product groups associated with affluent segments.

The nature (not necessarily the degree) of this affluence and the direction of consumerism was also measured by studying print advertisements appearing in a local monthly magazine, <u>Orange Coast</u> over a period of one year. The top five products represented in the advertisements taken from twelve consecutive issues of the magazine were fashion and clothing, gifts and jewelry, cosmetics, household goods and furniture, and leisure and travel.

OC is also a major market for automobiles. It is the home for expensive imported cars. A recent report indicates that the two top Mercedes-Benz dealers in the nation are located in OC (Weglarz, 1987).

Finally, what makes OC financially upscale are housing prices, which rank among the highest in the country. The median price for a house in OC is $235,00 and rising.

On the face of it, the above set of facts might look like nothing more than some interesting trivia. Perhaps one should be careful in describing the entire consumption culture of OC based on such fleeting evidence. Besides, those facts may not be unique to OC but symptomatic of other communities which are similarly placed. Furthermore, such empirical descriptors have been traditionally used to describe the development of the American culture over the past several decades. For example, social historians and social theorists of the stature of Boorstin (1973) and Ewen (1976) have already discussed in much detail the centrality of consumption in Americans' lives. These are, naturally, issues to ponder in making any special claims about OC.

Orange County and the Culture of Consumption

OC is not unique in developing a culture of consumption but the way it has gone about it is a measure of its originality. Lacking a sense of history, it has attempted to build a future on the symbols of instant success. Placing an unusual emphasis on material objects (even by American standards) as legitimating instruments of the social order, it is attempting to fuse affluence with consumeristic orientation.

In an earlier section we described the patterns of affluence in OC. While OC is affluent, this condition alone is not sufficient to make it a consumer society. In their extreme form consumer societies are pictured as comprised of financial profligates who borrow freely, spend indulgently, save little, and live beyond their means. In a less severe form the term refers to societies where material consumption is practiced in socially sanctioned moderate excesses, not only for instrumental reasons (i.e., to satisfy immediate material needs), but for terminal reasons -- that is, as an end in itself.

We have already noted that OC's economy can be considered affluent in terms of retail sales, median income and other economic indicators. Although there is no single set of factors that define a consumer society, there are four conditions that need to be satisfied for this label to apply:

1. a culture of consumption that values consumption as a social accomplishment,
2. the level and distribution of discretionary income that translates into buying power,
3. a non-homogeneous market which results in highly differentiated consumer choice patterns, and
4. the general level of education of consumers which accounts for market sophistication, market experimentation, and market innovation.

The greater the degree to which these factors exist the more consumer oriented a society becomes. OC not only satisfies these four conditions but adds an additional element: most of the county's population are relative newcomers both from within the United States and abroad. They are not bound by established traditions and are, therefore, more likely to experiment with their lifestyles. In fact it is this last dimension that distinguishes OC from other so-called growth areas in the US.

Changing Consumer Patterns

Consumer patterns change for two main reasons, micro and macro. At the micro level they are attributable to changing tastes of individual consumers. At the macro level, such changes occur because of structural shifts in the environment. It is the latter type of change that has marked OC's growth in the past fifteen years. The influx of immigrants and the formation of new communities have dramatically altered the population base of the county, bringing new sets of values and norms. A major social and economic development in the past decade has been the employment revolution caused by

the entry of women in the labor force. It is interesting to note that the post-industrial paradigm as conceptualized by Daniel Bell and other social thinkers has left out what is now considered to be one of the most important social developments in recent history. This has not only had an impact on the production side of the economy, but has shifted the consumption economy into new directions. In particular, the increasing participation of women in the market economy has produced far-reaching consequences for the consumption sector. Because of its pivotal role in shaping the events of modern history, we have included it here as an important topic for discussion.

Historically, most marketing efforts of consumer product companies were directed towards single-income households where women acted in their traditional wife/mother roles while male adults were considered breadwinners supporting their families financially. The ethos of consumption was clearly defined in terms of the traditional values. But the new work patterns of women have changed this ethos significantly in a number of ways.

The overall change in lifestyles is borne out by recent studies which show that while the earnings of the part-time working women constitute only 25% of families' total income, the earnings of full-time working women account for about 40%. Additionally, because of the growing participation of married women in full-time work, the impact of dual income families has been quite substantial. As a result, 26% of dual income families are now classified as upper class as compared to 8% of the single income families (Bloom 1987). A second development relates to the number of hours working women spend on work related activities. The average working woman now spends 8.7 hours per day on paid work and work-related commuting (Townsend 1985).

These two developments -- rising discretionary incomes and increased hours spent on work-related activities -- have had some impacts on the standard of living, shopping habits, types of products and services consumed, use and quality of family time, and child rearing and development.

One area affected by the increasing number of women in the labor force is food shopping and dining out. To cite Linden (1985), "About 37% of supermarket spending is accounted for by those in which both husband and wife work, compared with 31% ten years ago." Looking at specific food product groups purchased in the supermarket, there has been a decline in the amount of unprocessed foods consumed at home and an increase in frozen and prepared foods, and snacks (McLaughlin and German 1985). In addition, while one-quarter of a family's food budget goes toward eating out in households with a non-working wife, in families with working wives more than one-third of the food budget is spent in restaurants .

Another area where women's employment has made a difference is in Americans' ability to buy homes. Beginning in the mid-1970s, sharply rising housing prices and mortgage interest rates, coupled with stagnant family incomes, threatened to strike at the heart of the American dream of owning a home. While the housing affordability crisis was beginning to emerge, so were the increasing home ownership patterns among young married couples. To investigate this paradox, Myers (1985) conducted a study using HUD's Annual Housing Survey Data from 1974 through 1980. Among couples in which the wife was 25 to 30 years old, he found the wives' earnings became an increasingly important factor in financing home ownership. In spite of this national trend, OC residents are finding it more and more difficult to own homes. A recent survey by Baldassare (1987) revealed that single family home ownership declined from 57% in 1982 to 49% in 1987, reflecting the spiralling cost of urban land and other housing costs.

Other consequences of women's employment impact the way many daily activities are handled by both men and women in American households. Catalog shopping has increased (Robey 1984), as has use of microwave ovens and automatic teller machines (Russell 1985). Time spent on house work has decreased, and vacations are shorter as well (Rosenfeld 1986).

Of particular interest in this study are the retail shopping patterns of family members. In some major cities, Sternlieb and Hughes(1987) have shown that the downtown shopping activity which traditionally was the mainstay of non-working housewives has all but disappeared, resulting in the demise of the department store. As they put it, "Shopping was once the housewife's great joy; now it is the working woman's lunchtime distraction." In their research they have shown that downtown shopping stores have moved to suburban shopping malls as anchor stores. But if women have less time to shop in downtown shopping centers, should this not also reduce their suburban shopping? To what extent are men assuming shopping responsibilities in a move toward what Roberts and Wortzel (1981) have termed a role reversal?

There is general agreement that husbands' participation in housework has not kept pace with wives' employment. Two recent studies reported that the hours lost in housework through wives' employment are not symmetrically compensated for by husbands' participation in domestic work (Coverman 1984, Spitze and South 1985). In fact, Coverman claims that for each hour per week that the wife spends on paid work, husband's domestic time increases only by five minutes. One explanation might be that there are no institutional mechanisms linking wives' participation in the labor force with husbands' work patterns. That is, men are not in a position to reduce their working

time so that they can do more house work in response to women's paid employment. The situation may be structural in character, determined by the requirements of the production sector and not negotiable through non-market mechanisms.

In sum, OC can be justifiably described as a changing consumer economy -- changes occurring due to population and social structural shifts, rising affluence, and increasing consumer orientation. However, to put its affluence in perspective, one detects that OC is no exception to some recent national trends in income distribution. In spite of OC's wealth and economic distinction there are considerable disparities in the distribution patterns. Thirty five percent of OC's households earn less than $25,000 per year while 11% are below $10,000 line. While household incomes have risen significantly in recent years, this has come about from the increasing proportion of dual income families. Concurrent with this increase there has been a decline in the income of single income, multi-member families. The median income of dual income families was 45% greater than that of single income families in 1979, and 56% greater in 1984. Finally, the poor are doing even less well because most low income households are usually headed by women, who historically have earned less than men, and their proportion in the population is also increasing.

Overall, Blackburn and Bloom's (1985) research showing the decline of the middle class seems to be reflected in the social structure of OC. For a population base of this size these income disparities come as no surprise.

Consumption Secor and the Information Economy

In the context of post-industrial development as enunciated by Daniel Bell (1973), no topic has captured the imagination of theorists and policy makers more than an emerging social order built upon computer-based information systems and access to specialized knowledge. A close examination of his thesis (and that of the others similar to his) shows that he is referring mainly to industrial expansion as reflected in the production sector. The social and economic indicators used by him include, among others, the number of knowledge-based workers and occupations, and information technology-based decision making in the conduct of corporate capitalism. In his discussion, there is very little systematic reference to what the implications of an information economy are at the consumer level. For example, will there be a greater acquisition and use of information-oriented products and services (e.g., computers, electronic mail, and ATMs) by consumers? Or perhaps information itself will become a commodity, like toothpaste or an automobile. It is likely that the truth lies in both dimensions.

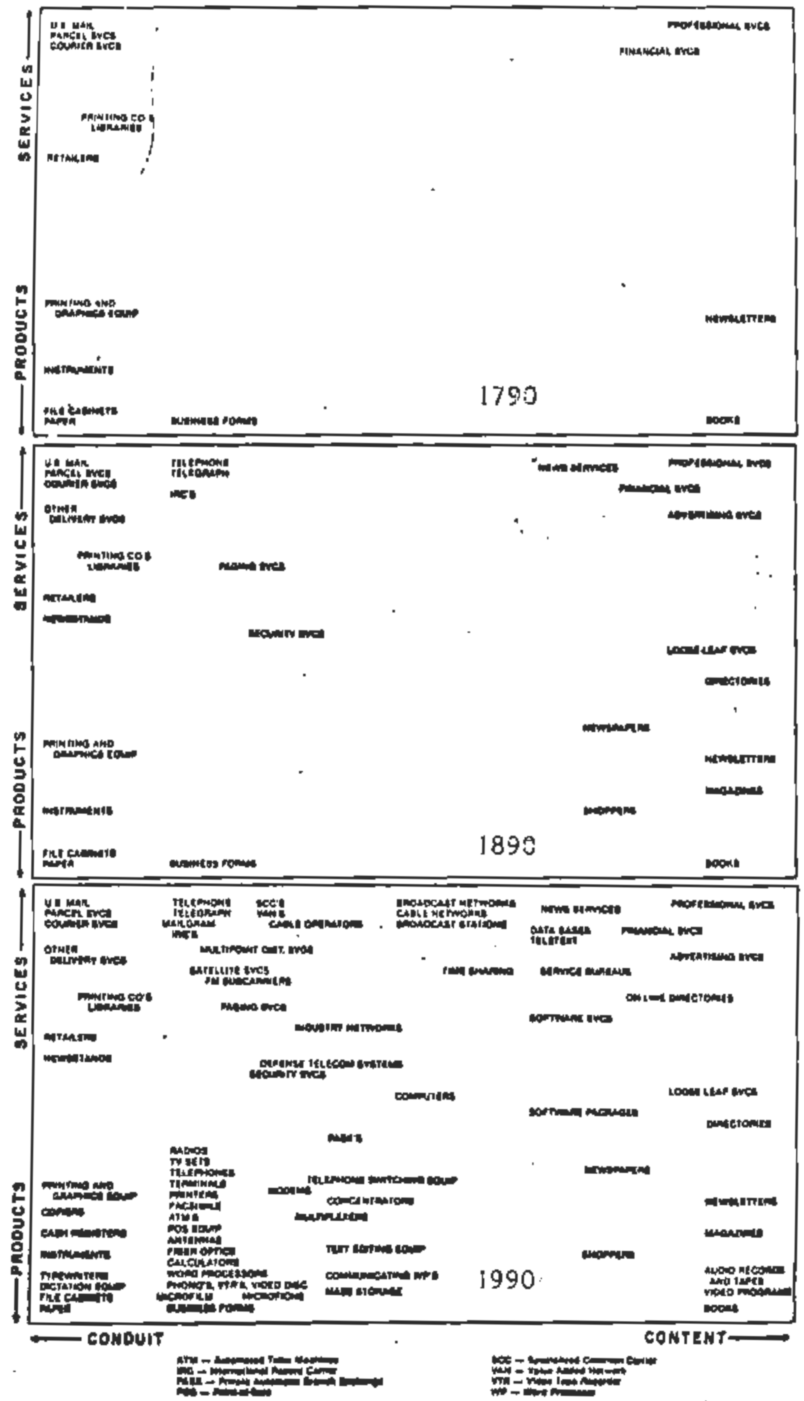

Figure 2: The Information Market 1790 - 1990
(Adapted from Compaine 1980)

In discussing the consumer orientation for an information economy, Compaine (1980) has developed an historical perspective which is shown in Figure 2. By tracing the developments in the "information industry" over the past two hundred years, he has demonstrated that recent decades have witnessed extremely rapid changes in the technologies of information handling, storage, dissemination, and processing. Certainly, these developments have extended to the content of information as well. But there is no hard evidence on how they are shaping the consumer environment.

It is being argued that several technologies are competing in the marketplace for public attention. Predictions have been made that by the early 1990s American households will use daily a wealth of new technology: home computers, two-way cable, viewdata, electronic mail, facsimile, video cassettes, microprocessors, direct-to-home satellite broadcasting, on-line data banks, voice synthesis and recognition, and more. Some of these technologies have already been test marketed with mixed results. While predictions during the early 1980s talked of an information revolution, there is more caution and realism in the assessment of the impact of those technologies in the consumption sector.

Orange County as *Computerized Society*

The capabilities of computer technology and the opportunities for industrial expansion have been widely discussed over the last thirty years in the social science literature. In particular, the social impact of computers on large organizations is the subject of ongoing research at the University of California, (Kling 1983, Kraemer, Dickhoven, Fallows and King 1985). Generally speaking, the adoption of information technology in both economic and technological terms has been seen as increasing the production efficiency of organizations, while its impact on the quality of work life is still unclear.

An extension of this line of research is the impact of computer technology on individuals and households, which can be broken down into two separate inquiries. First, there is a question of how consumers encounter computer technologies in the context of their home life. The second area to be explored is the effects of individuals' and households' exposure to an external environment which is becoming increasingly computerized. They both have strong implications for the emerging social order based on new technologies.

Some rough estimates are available regarding the consumer ownership levels of new technologies. According to The Register, an OC publication, fifteen percent of the households use computers at home (The Register, 1986). We would assume that the

proportion of *owners* is slightly higher than the users and close to the national average of fifteen percent. This is lower than VCRs (55%) and programmed home control systems (16.7%), equal to telephone answering machines(12.5%), and higher than cordless telephones (4%) and automobile telephones (2%). If these figures are any evidence, one cannot speak of the current developments as a computer revolution as much as a rite of passage into the information economy.

To explore the impact of computers on OC residents we conducted a study in 1983 using a sample of 282 households possessing home computers. The results of this study and an additional longitudinal study are reported in detail elsewhere; we will only discuss those aspects which are relevant here (See Vitalari, Venkatesh and Gronhaug 1985, Venkatesh and Vitalari 1986, Venkatesh and Vitalari 1987).

The initial study was designed to examine the computer usage patterns and experiences of some of the early groups of home computer owners. The purposes of the study were to (1) determine the specific changes in time allocation patterns across a variety of activities resulting from usage and application of computers at home, (2) identify specific usage patterns of computers, (3) identify reasons for acquiring the computers in the first place, and (4) determine levels of satisfaction with computer usage.

The sample consisted primarily of males (95%) in professional/ managerial occupation groups with relatively higher education and income status. The sample had owned computers from less than three months to about two years. Although the sample does not represent the general population, it appears to be representative of home computer owners.

The impact of home computers was felt initially in several ways. For example, a majority (62%) in our sample reported decreased television viewing, 27% recorded a decrease in sleeping time, leisure and recreation activities were cut in 20% of the cases, and 35% reported increase in time spent alone while 26% reported increase in time spent working at home. These changes diminished, however, and original routines were restored as households continued to use computers. The only significant sustained change over time was in the increase of work-related activity at home.

The level of technological consciousness within households affects how households use the computers. Where the principal user had previous experience with computing, households used computers for more complex applications, such as finance and home management. Other households used their computer more for games and word processing. In any event, the intended uses of the computers and the actual uses varied considerably. Over time, complex applications gave way to simpler applications and work-related applications increased relative to home-oriented applications. Once the novelty of computers wore out, users evaluated them as instrumental tools, that is, in terms of how useful they were for performing certain tasks.

From our research and other studies reported recently, it seems clear that the impacts of information technologies are being felt at two levels, indirect and direct. The indirect level refers to computerization that minimizes consumers' face-to-face contact with technological complexities but nevertheless has an impact on their lives. Examples of this are computerized systems in automobiles, microwave ovens, audio/video machines, and other similar household products. The direct level includes technologies like micro computers, which require direct manipulation by the user. The difference between the two is that in the former case there is no need for users to acquire special skills to operate the product. At the direct level, effective use of the computing technology requires a certain level of training and concerted effort that only a segment of the population can claim to have and/or afford to invest.

In our research we found that a growing number of people are using computers at home to do job-related work. This is significant in light of the dichotomy posed by industrial societies between work life and domestic life. If computers enable or encourage peole to bring work home then we are faced with a technology that may blur the two spheres of activity in a fundamental way. With more women in the labor force, there is a strong incentive for some people to work at home if such an arrangement is possible. For the post-industrial consumer the utility of information/communication technologies may very well lie in integrating work life with family life rather than separating the two.

There is yet another level at which the consumers encounter the new technologies. By virtue of their membership in a computerized society, individuals must become increasingly familiar with the use of computers in social situations. Computer literacy, as it has been labelled, is a case in point. We know that the reading skills required by consumers living in modern societies should enable them to read such materials as driver's manuals, insurance policies, service contracts and rental agreements; items which are common in negotiating with the producers of products and services. Already consumers' ability to understand the complexities of modern life is affected by low levels of human contact and assistance. To the extent that services are computerized and knowledge sources are computer-based, consumers will face a greater burden in equipping themselves to deal with the technological environment. Given the demands that such an environment places on its citizens, one cannot help but feel concerned about a recent report that the average high school student in OC reads at the

eighth grade level with skills sufficient to read comics and prepare TV dinners - skills hardly adequate to survive in a computerized society (Lynn 1986).

CONCLUSIONS

The paper is an attempt to assess the production and consumption processases within the post-industrial context. Special attention was paid to various theoretical issues linking the consumer sector with the production sector and exploring the asymmetries of development in both as the society moves toward post-industrialism.

The post-industrial society is an experimental society. An experimental society rewards itself with opportunities for change and puts heavy demands on its citizens to successfully carry out its experiment. Unlike the production sector, where economic and social experiments are expected because they introduce innovative processes eventually leading to measurable gains, the consumption sector does not perceive its role in such an activist mode. Thus, for example, the impacts of new technologies are much greater on the production sector because they are considered valuable. Such a natural affinity to technology is weaker in the consumption sector and, therefore, its impact on consumption is less dramatic.

For our analysis, Orange County provided an interesting example of modern urban metropolis which is becoming rapidly a center of informational capitalism. The county has grown within a very short period of time from an agriculturally-based economy to a highly sophisticated, technologically-oriented industrial economy. As evidence of the impending changes in the economy, we analyzed the industrial development and employment trends, the changing population and social structure, the combined effects of affluence and consumer orientation, and the gradual shift toward computerization.

It is too early to say how post-industrial societies will devlop and what kind of problems they will inherit from rapid computerization and information orientation. We do see some structural shifts in production and consumption systems leading us to conclude that a post-industrial society is by its very nature a turbulent society because it is a transitional society. In its attempt to move to a new industrial order, the social ordur exposes its citizenry to unusual promises and threats. As macromarketers, we must accept the challenge to analyze and provide useful insights into the possible success (or failure) of the new industrial order.

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B 1

AN INTEGRATIVE ASSESSMENT OF RETAIL EVOLUTION:
AN INQUIRING SYSTEMS PERSPECTIVE

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**An Integrative Assessment of Retail Evolution:
An Inquiring Systems Perspective**

Considerable debate abounds as to the appropriateness of various theories of retail evolution (e.g., Markin and Duncan 1981; Brown 1988). To date, no attempt has been made to provide a structural framework which would serve to both classify these various theories of retail evolution and to offer direction for future theory development. From a macromarketing viewpoint such a perspective would serve a number of vital functions such as systemwide implications within various marketing channels, workforce displacement and relocation/training, and sociocultlural implications associated with shopping methods and transaction efficiency.

The focal perspective from which this theoretical framework is to be advanced is that of the existing retail institutional marketplace. Through their reluctance/inability to change, retail institutions (such as department stores and supermarkets) provide opportunities for innovative retail forms to originate and prosper. Further, change in any context is often identified by comparison with the status quo. Thus, a theoretical framework which seeks to integrate the existing theories of retail change from the perspective of the existing retail marketplace is consistent with this relativistic definition of change.

An integrative perspective from which to view the existing theories of retail change is that of open system inquiry. A number of modes of system inquiry, derived from the history of philosophy, have been identified (Lockeian, Leibnitzian, Hegelian, Kantian, and Singerian) (Churchman 1968; Mason and Mitroff 1973). These modes of inquiry serve as the organizing framework within which the various theories of retail change may be classified. The underlying premise is that each mode of inquiry represents a unique manner in which an open system (retail institution) acquires and confirms information about change in its marketplace. Across the various modes of inquiry are exhibited systemic properties which serve to distinguish each from another (e.g., hypothesis generation/problem identification, information acquisition, hypothesis testing, and legitimization). Similarly the various theories of retail evolution exhibit such properties either explicitly or implicitly which provides for parallels to be drawn with system inquiry.

The relationship between theories of retail change and system inquiry offers a number of opportunities to advance the application of retail theory devolopment. The frequently advanced criticism that retail change theories are context dependent, could thus be overcome. Future theory development with regard to retail change might be served by explicitly recognizing the relevance of the existing retail insitutions' inquiring system processes relative to a given change agent. Further, the focus upon existing retail institutions as a vital component of retail change theory development formally recognizes the need for this perspective in future research.

Introduction

A number of theories have been advanced as distinctive explanations regarding the evolution and change of forms of retailing institutions. With the abundance of literature addressing this topic, considerable concern remains as to the explanatory much less predictive power of these theories. A consistent theme across many of the commentaries on these theories of retail change is the context dependency which limits the generalizability of these theories across various documented changes in retail practice.

Often a result of the context dependency limitations of many retail evolutionary theories is that marketers and retail managers are prone to categorize various changes in the retail marketplace, post hoc, as complying with one or more existing theories. Further, the role of the existing retail marketplace in the majority of these theories of change is often relegated to reactive decision-making once change has been introduced; yet the rapidity by which change may impact the retail marketplace is in large part a function of the extent to which existing lines of retail trade either accept or reject innovation. If marketers are to enhance their understanding of retail change, it is imperative that a common theme and/or unifying perspective be advanced which both seeks to integrate the existing theories of retail evolution/change and attempts to explain the role of the existing retail marketplace in change legitimization/denial and integration.

Implicit or explicit in these theories of retail change/evolution are implications with regard to existing forms of retail trade (e.g., department stores, general merchandise discounters, do-it-yourself stores) as to their response to perceived changes in retail format/delivery. In part, this perspective is essential in that the recognition of an alternative retail delivery system as a legitimate change is a function of comparison and contrast to the present retail system. That is, the assessment of change is gauged relative to the system-wide retail delivery system; further, evolution of a retail form is similarly cast in the light of changes which are occurring among existing players in the marketplace. This relativistic perspective toward change theories in retailing is due in part to the following observations and distillation of the retail evolution literature to date:

- change in retailing is a relative condition legitimized by presence or absence of established retail activity dedicated to the line(s) of trade which the change agent is seeking to enter,
- the method by which established lines of retail trade inquire and ultimately legitimize change in their marketplace also serves to determine how these institutions respond to the change agent, and
- an assessment of retail change advanced from an existing perspective offers a managerially relevant and compelling scheme for categorizing the dominant theories of retail change, and provides direction for future theory development with respect to retail evolution.

It is the critical role of the existing retail market in both change validation and determining the direction and rate of retail evolution which is the focus of this paper. Our objective in this paper is to advance an integrative framework that seeks to categorize and diagnose theories of retail change. This framework builds upon the general systems theory and inquiring systems literatures.

This paper is organized into two sections. First, the function of inquiry within the general systems framework as well as the various modes of system inquiry are identified, serving as a means of assessing the retail evolution theories advanced in the literature. Second, implications arising from both a general systems theory and inquiry perspective, with regard to retail change theories, are advanced.

Systemic Properties Among Theories of Retail Change

A retailing institutional form may be described, in general systems terminology, as an organization. As such, it is an open, living, and goal-oriented (purposeful) behavioral system capable of interaction with systems external to itself in an environment (Boulding 1956; Beer 1960, 1966; Phillips 1969; Perry 1972; Betz and Mitroff 1974). To enhance their own growth and survival, open systems acquire information from the environment by probing and questioning environmental "cues" (Churchman 1968; Ackoff 1971; Ackoff and Emery 1972). Systems thus "inquire" into the environment, seeking out valid, survival-related information (Ackoff and Emery 1972). Changes occurring in the environment that may affect the system's ability to maintain itself and prosper are therefore assessed with regard to their "legitimacy." Through feedback and environmental interaction, the system attempts to detect survival-related, informational cues in the environment. These cues are processed as legitimate, if they truly represent a threat to system survival, or are discounted by the system if they do not. It has been implied that a system engaged in a reactive mode of information processing is likely to discount such cues if they are not consistent with what had been observed in the past (Ackoff and Emery 1972). Therefore, environmental changes truly affecting survival of the system might be discounted while they would be legitimized were the system proactively or interactively processing information regarding environmental change. Further, tradition may impose rigid boundaries for a system resulting in information denial and distortion.

A retail system's mode of inquiry and legitimization determines in large part the manner in which environmental change is perceived by established retail enterprises. The systems literature suggests that dominant/preexisting systems engage in a variety of legitimization processes which determine how environmental change is recognized and processed. It is this philosophical perspective toward epistemology which provides an integrative perspective from which to view retail change theory.

Historically, various explanatory frameworks have been advanced that seek to address how retail change affects the existing retail systems as well as the retail distribution system in general. Exhibit 1 illustrates five of these theoretical explanations. Each theory provides a description of how change is introduced into the marketplace, what response is made to this change catalyst by the existing institution, and how the retail marketplace is ultimately re-configured in light of the change and response. Further, each theory suggests that the relative impermeability of a retailing insitution's boundaries leads the institution to "react" to the presence of an alternative form. As exemplified by the crisis-change model, this reactive orientation is largely a defensive one; following acknowledgement of an emerging and potentially threatening external institutional form, the original form may postpone a direct confrontation by choosing some non-competitive reaction such as seeking to impose industry controls (Fink, Beak, and Taddeo 1971; Stern and El-Ansary 1982).

EXHIBIT 1

Theories of Retail Change

Theory / Theory Character.	Wheel of Retailing	Dialectic	Crisis Change	Core Fringe	Darwinian
Change Catalyst	Emergence of new low cost/ low price insitution	Emergence of antithetical retailing form	Market crisis leading to institutional shock across retail mix	Emergence of new forms of competing institutions/ merch. lines	Innovative form threatens existing marketplace insitutions
Existing Institut. Response	Wait out new form; see if successful	Adopt "thesis" innovator strategies	Defensive retreat	Retreat within core, in direction of diff. advantage	Attempt to destroy new form by price/non price compt.
Resolution/ Configuration of Marketplace	Both forms approach consumer; innovator differentiates, existing form integrates to stabilize mkt	Synthesis: New form, containing operational traits thesis & antithesis	Acknowledge/ adapt characteristics of form initiating market shock	Attract fringe elements; reconfigure both core & fringe	Selection of successful innovator traits, when innovator cannot be destroyed; mktplace "evolves"

While retailing institutions are essentially open systems (in that they interact and process feedback), traditional forms may display the characteristics of closed systems, described earlier, with respect to the ingestion of new information (Riedenbach and Oliva 1981). As the result of gradual socialization and acculturation processes, institutional boundaries may become less permeable. That is, the formal system attempts to maintain a steady state, through its various subsystems and components (the individuals involved in forecasting, merchandising, operational activities), by carrying on its vital activities as if it were unaffected by any external threat.

Each theory of retail change also evidences some attention to the resistance of existing retail establishments to the introduction of change. Often the resistance may take the form of outright rejection of the new concept (crisis change) or cautious integration (wheel of retailing); often action or inaction by an individual retailer as a member of a retail form is at least partially determined by the body (retail form) as a whole (Dreesman 1968; Mason 1980; Brown 1987). Traditional forms of retailing, therefore, exhibit some inertial qualities wherein change, if it occurs, is frequently catalyzed by some perceived competitive threat. It is the assessment of what is or is not a "legitimate" competitive threat which is vital to determining the extent to which any change in retail practice becomes pervasive or enduring.

In addition, each of the theories seems to address some notion of formal "synthesis," resulting from the change catalyst. The original retailing form reacts, in a manner suggesting social inertia, to the potential competitive threat offered by the presence of a new form. The theories commonly suggest that some compromise (or "synthesis") ultimately occurs between the forms, where the opportunity to mutually adjust and change results; each form has a vision of what "could work," given the newly-defined competitive domain.

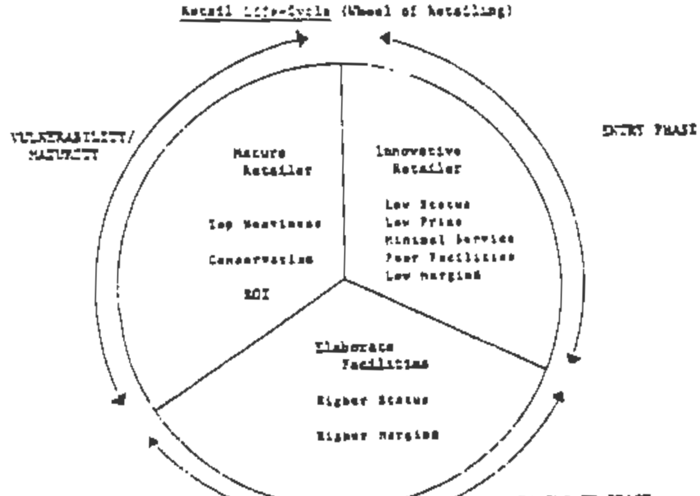
The Wheel of Retailing:

The retail life-cycle paradigm describes a "predicatable series of stages that every major retailing form is destined to go through" (Davidson, Bates, and Bass 1976, p. 89); the impact of accelerated development and maturity on institutional market share and profitability elicits stage-specific strategies and policies as the institution strives to sustain itself (Davidson, Bates, and Bass, 1976; Lusch 1982; Davidson, Sweeney, and Stampfl, 1984; Mason and Mayer 1984). Another retail life-cycle concept is the "wheel of retailing," which suggests that new types of retailing institutions enter the market as low-status, low-margin, low-price operators (McNair 1958; Hollander 1960, 1966). As such, they can compete effectively and take market share from the more traditional institution; however, as they succeed, they begin to "trade up," thus increasing margin and price (Hollander 1960; Savitt 1984, 1986; Brown 1988). In so doing, the innovator is adopting some of the high-cost and high-price characteristics of the original and initially-threatened form, counteracting the original differential advantage (Goldman 1975; Mason 1980).

Many retailing institutions do not appear to conform to this hypothesis (such as specialty or non-store institutions), and the deterministic cycle of low-status entry and trading-up, reflective of the retail life-cycle, has been criticized as not offering a definitive explanation of retail change (Markin and Duncan 1981; Savitt 1984; Hollander 1986). [Goldman (1975) maintains that the wheel hypothesis is merely part of the more general concept of "trading up"]. McNair's hypothesis, refined by Hollander, does however describe how the vulnerability of traditional forms to price competition results in the evolution of new retailing forms (Hollander 1960, 1966, 1986; McNair and May 1978). Figure 1 illustrates the cyclical nature of the "wheel" hypothesis, and describes each stage of the "trading up" process.

FIGURE 1

Retail Life-Cycle (Wheel of Retailing)



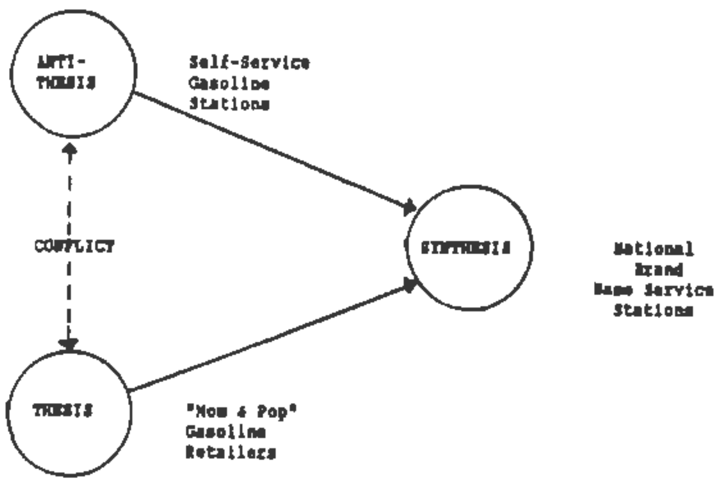
(Adapted from: Davidson and Doheler, Retailing, 1982, p. 37).

The Dialectic Theory of Retail Change:

The dialectic theory of retail change, adopted from Hegel's original philosophical notion of dialectical materialism, posits that an already-existing retailing form (or "thesis") is challenged by an innovative retailing system ("antithesis") which provides a different interpretation of the marketplace and is contradictory, in its retailing format, to the thesis (Dreesman 1968; Gist 1968; Maronick and Walker 1974). Figure 2, adopted from Maronick and Walker (1974), provides the example of the emergence of self-service gasoline stations as an antithetical retailing form to the "Mom and Pop" gasoline retailer. The dialectical model maintains that these opposing forms ultimately "synthesize," fusing with each other in the sense that each adopts some characteristics of the other (Gist 1968; Mason 1969). As Figure 2 indicates, national brand service stations represented such a synthesis, also becoming a new thesis -- much as the life-cycle wheel notion would describe the emergent low-margin form evolving into a higher status, through synthesis with the original high-margin retailer. As the discounter now upgrades to become a high-margin, high-status retailing insitution, so is this new thesis now vulnerable to entry into its competitive domain by a new antithesis. .

FIGURE 2

Dialectic Theory of Retail Change



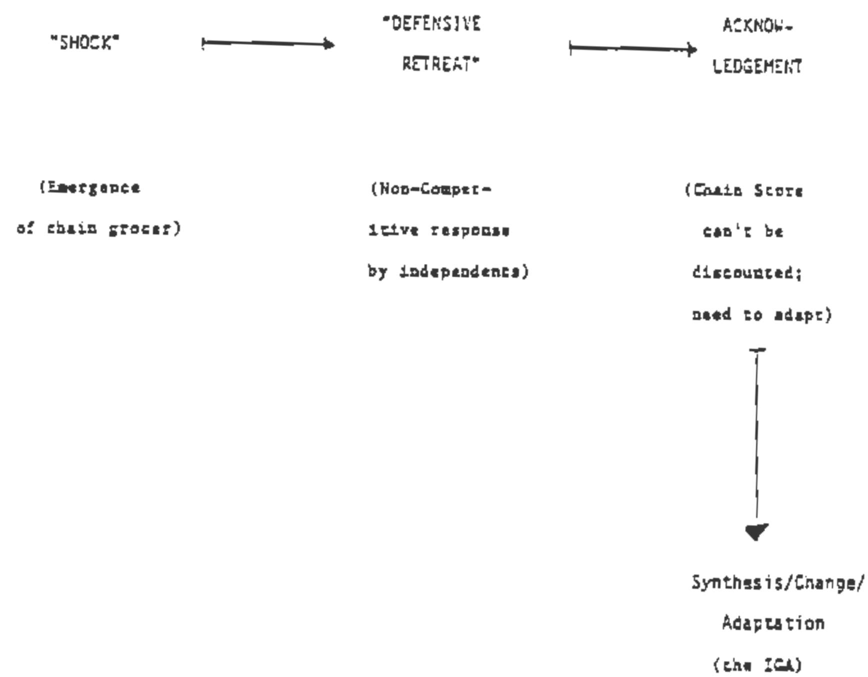
(Source: Maronick and Walker, 1974, p. 140).

The Crisis-Change Model of Retail Change:

The crisis-change model of organizational change, advanced by Fink, Beak, and Taddeo (1971), describes a series of phases through which a retailing system may pass in reaction to a crisis situation, such as the competitive threat offered by an external, alternative retailing form. Perception of the crisis results in a "shock" phase, in which the social system's components and subsystems become cognizant of the threat. Figure 3 describes the shock reaction of independent grocers to the emergence of chain grocery stores (Stern and El-Ansary 1982). The independents, apparently taken by surprise, took no immediate action, in the form of competitive retaliation, but chose instead to discount the significance of the new form. There followed a "defensive retreat" phase, in which the independents lobbied for legislation to halt the chains' growth, rather than confronting them directly. The independents finally "acknowledged" the new form, and as Figure 3 indicates, the Independent Grocers Alliance (IGA) evolved through the synthesis of the two forms.

FIGURE 3

Crisis-Change Model of Retail Change



(Adapted from: Fink, Beak and Taddeo, 1971)

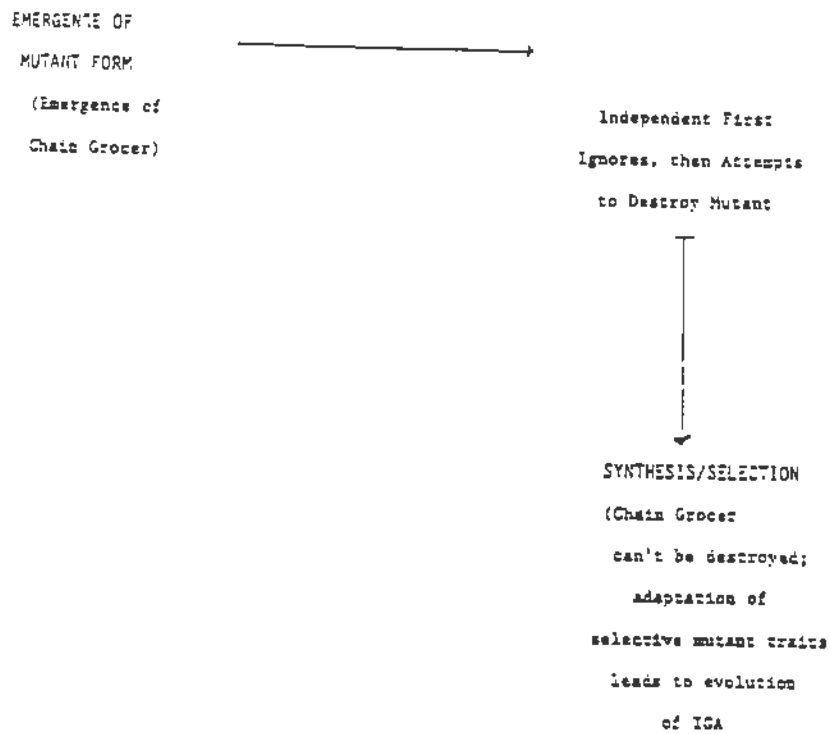
Darwinian Evolution (Natural Selection):

The drive toward synthesis between alternative retailing forms, noted in the foregoing theories, is also observed in the explanation of retailing form change provided within the context of Darwinian Evolution (Dreesman 1968; Gist 1968; Etgar 1984; Mason and Mayer 1984; Klein and Roth 1987). Darwin's theory of biological evolution is based upon the notion of "natural selection," or adaptation by some already-existing species of selective characteristics of some mutant and potentially competitive form, in the event that the mutant form cannot be directly destroyed (Lowenberg 1958; Miller 1965, 1976). By analogy, an existing retailing form, threatened by the emergence of an innovator, may seek to destroy the innovator through price competition (Dreesman 1968; Gist 1968). Failing to do so, the original retailing system may now elect to adopt those innovator traits, or retailing mix characteristics, that seem most promising in insuring survival. The result is then synthesis.

Figure 4 illustrates such an evolutionary process, as the mutant form (chain grocer) evolves into the synthetic form of the IGA. As can be seen in the figure, this drive toward synthesis parallels the process described in the crisis-change model of Figure 3.

FIGURE 4

Darwinian Evolution (Natural Selection)



The Core-Fringe Model of Retail Change:

An additional theory of retail evolution might be advanced which posits that retail forms evolve as a result of competition involving both their "core" and "fringe" merchandise/service lines. Alderson (1957) maintains that the "core" of any organization is that part of the organization that is "best suited" to its operations. As such, the core is relatively "free from attack" from competitors who could only compete at a relative disadvantage. The fringe, on the other hand, is that part where the organization can compete but only at "lower efficiency." The organization has no guaranteed differential advantage at the fringe and even risks losing advantage by competing there too extensively. The fringe, however, does serve to position retail firms within an institutional form and is, therefore, an important element of the firm's offering. Alderson further states that an organization may withstand competition at its core, even while yielding market share at its fringe (Alderson 1957, 1965). Thus, the organization competes at both levels; competition at the fringe, since it is operationally riskier, must offer some profit potential to justify the loss of differential advantage to the firm (Alderson 1957, 1965).

While Alderson's (1957) notion, expressed in terms of organizational portfolio management, does not specifically address retailing forms, some justification for the presence of core-fringe competition and resulting retail change exists in Alderson (1965) and other literature. The "Accordion" theory of retail institutional change maintains that retailing forms tend to vary merchandise assortment from "general" (an emphasis on product line width) to "specific" (emphasizing depth of line) over cycles of approximately 25 years (Hollander 1966; Markin and Duncan 1981; Lusch 1982; Davidson, Sweeney, and Stampfl 1984). Recently, however, a phenomenon known as the "polarity of retail trade" has occurred in which some retail sectors have tended to offer narrow and deep ("specific") assortments while others, simultaneously, are offering wide and shallow ("general") assortments (Kenderdine and McCammon 1975; Davidson, Sweeney, and Stampfl 1984).

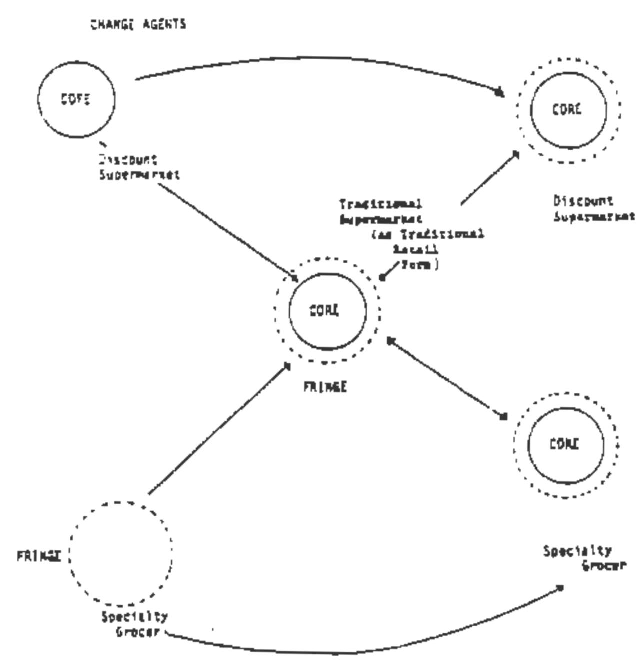
Hence, "specific" forms may be competing at their "core" of traditionally-offered merchandise, while more "general" forms compete among a number of fringe merchandise lines. Alderson might describe the specialist as competing at its core, forsaking fringe competition, enhancing its survivability, and maintaining merchandise that, compared to general merchandise, is "free from attack" by competitors. The general merchandise form, on the other hand, is competing outside its core, by carrying higher profit but high risk merchandise lines. Alderson (1957, 1965) might suggest that this form's market share could become more easily attenuated (as it is operating away from where it has a "natural" advantage over competitors), that it suffers operational inefficiencies, and loses differential advantage to the extent that it varies from the core.

Hirschman (1978, 1979) asserts that "naturally dominant" retailing forms (forms enjoying competitive advantage resulting from becoming established in well-developed competitive markets) compete with one another by offering a "concentrated variety," or multiple merchandise lines offered at a single site location. Because of this concentrated variety, naturally-dominant retailing firms can form a "locus of merchandise control" in which competitive advantage, based on merchandise, may be maintained over other retailing forms. Hirschman's notion of "concentration" is not unlike the accordion concept of "specialization" (Hollander 1966; Kenderdine and McCammon 1975; Markin and Duncan 1981) or Alderson's (1957, 1965) notion of "core." Similarly, her use of "variety" (multiple merchandise lines) connotes "general" merchandise offerings and "fringe" lines. "Concentrated variety," then, like the "polarity of retail trade" suggests a merchandise-driven strategy that may result in change of the form over time. As such, it offers an alternative explanation of retail change.

Figure 5 illustrates that the discount supermarket, in competing directly with the traditional supermarket at the core level, cannot remain competitive (since it is attacking the supermarket where it has traditionally been operationally strongest) without attracting fringe merchandise (in response to the fringe configuration of the traditional supermarket) as well. Consequently, a new retailing form emerges where the discount supermarket is reconfigured to contain both core and fringe, a movement in the direction of the traditional supermarket's merchandise mix and operations. Similarly, the specialty grocer, competing only at the fringe (where the traditional supermarket is relatively inefficient with respect to operations) must develop a core of merchandise to remain competitive, as operating only at the fringe is highly subject to market risk. By acquiring a traditional core, then, the specialty grocer has altered its original form and evolved.

FIGURE 5

Core-Fringe Model of Retail Change



In summary, each of the five retail change theories reveals three characteristics common to the evolution of retailing forms: (1) inertial qualities, resulting from the form's cultural evolution and attendant boundary and domain definition, (2) process properties, describing how the form reacts to and assimilates information about change, and (3) synthetic properties, describing how the form ultimately adapts to change and evolves into a new form. The five theories appear to hold inertial and synthetic properties in common, in that each describes retail change in a manner suggesting a movement from inertia to synthesis. It is also apparent that the theories actually differ only with respect to the process that each describes. The paths leading from inertia to synthesis are defined differently, while the starting and ending points are commonly described by each theory.

Retailing Forms and the Inquiry Process

A system inquires about change by assessing its domain and legitimizing agents of change. agents. Change agents are the catalysts that cause change to occur; a new and competing retail form may be viewed by the system as such an "agent." How a system inquires is thus influenced by its perspective regarding why the change is occurring and whether or not it is significant. Such a perspective is the system's "mode" of inquiry - how it seeks out its competitive domain to ascertain the "truth" regarding change.

Ackoff and Emery (1972) describe inquiry as "...the process of making choice, the purposeful pursuit of objectives" (p. 134). Courses of action are evaluated either by predicting their consequences or by trying them and observing the consequences (Churchman 1961, 1968; Ackoff and Emery 1972). Churchman (1961) describes inquiry as obtaining information about and from the environment and in communicating with oneself in order to validate this information (does it convey truthful environmental data)?

Several theories have been advanced to explain how retailing forms, or systems, evolve. Each of these theories addresses the emergence of some potential competitive threat that serves as a catalyst for change. The inquiring process, by which the form ascertains the "truth" regarding some change agent, consists of different ways of validating the event; indicating whether or not it may lead to change in the present retailing form. As the process of social acculturation solidifies institutional boundaries, making them increasingly rigid and impermeable, the presence of a change agent, if that agent is legitimized, breaks down these boundaries and erodes the system's inertial properties.

Thus, theories that seek to explain how retailing systems change, are also addressing how retail systems acquire information leading to change. How this information is acquired depends on the particular way that the system assesses "truth;" these different truth-seeking paradigms, or means of validation and legitimization of events, are known as the "modes" of inquiry (Churchman 1961, 1968; Mason and Mitroff 1973). In examining these various modes of inquiry, it is important to also scrutinize how they may be employed within the context of the previously-advanced theories of retail change.

Churchman (1968) has distinguished five archetypal ways in which a system may model truth, and generate evidence for any problem (Mason and Mitroff 1973). Each of these modes derives from the history of philosophy and provides different representations of a change agent depending in part on the composition of that agent. In order for a system to inquire into its domain and allow for the processing of potentially valid information about a change agent, however, some boundary permeability is necessary. While the socialization process existing in retailing has resulted in some closed system characteristics (such as boundary impermeability and social inertia), the system must remain open at some point to allow for the inquiry process to occur. Each of these modes of inquiry, or means of identifying truth, is described in Exhibit 2. The modes are examined with regard to the source of information, particular "path" to legitimization, and application to one or more of the five theories of retail change.

EXHIBIT 2

The Five Inquiry Modes (Adapted from Mason and Mitroff, 1973)

MODE	INFORMATION SOURCE	ASSESSMENT OF INFORMATION	PATH TO "TRUTH" (MODE GUARANTOR)	EXAMPLE	APPLICATION TO RETAIL CHANGE THEORY
LOCKEIAN	Sets of Empirical Judgements -- Fact "Nets"	Inductive	Consensus (Agreement Among "Experts" on Appropriate Model) Leads to truth	Delphi Method (Agreement Among Retail Managers)	Crisis Change; Core-Fringe
LEIBNITZ-IAN	Symbolic (Non-Empirical) Propositions	Deductive	Truth Results from Single, "best" Model; No need for census	GMROI; Ratios; Benchmarks	Life-Cycle (Wheel of Retailing)
KANTIAN	Lockeian Fact Nets and/or Leibnitzian Propositions as basis for two or more Complementary Models	Inductive; Deductive	Synthesis Among Complementary Models Leads to truth--best match between information & model	Retailing Systems differing by degree not kind (independent specialty grocers and grocer chains)	Crisis Change; Core-Fringe
HEGELIAN	Leibnitzian Propositions as Basis for two or more Antithetical Models	Deductive	Conflict Among Opposing Models Leads to Truth	Retailing Systems Opposed to each other by kind not degree (discount house and department store)	Dialectic
SINGERIAN/ CHURCH-MANIAN	Use of Alternative Inquiry Modes (A to D) leads to continual learning through feedback	Inductive; Deductive	No "Final Truth;" Each Mode Represents a stage in process of searching for truth; use of different modes to lead to next stage	Intensifying Conflict if too much agreement (Lockeian — Hegelian); Search for Consensus if too much conflict (Hegelian — Lockeian)	Darwinian Evolution

Lockeian Mode of Inquiry:

John Locke believed that the truth could be found through empirical observation, or observation of events as they occurred in nature. Truth could then be ascertained by reducing complex phenomena to simple empirical observations, allowing for increasingly general propositions. The validity of judgments based upon this observation could then be determined through consensus, or agreement among observers. As Exhibit 2 indicates (under "information source") bits of information formed into networks ("fact nets") can then be assembled from the raw data provided by the observation. According to Locke, truth can then be assessed inductively; i.e., general conclusions about the truth may be reasoned from known facts that are derived from what is empirically observed.

Exhibit 2 further illustrates that the crisis-change model might exemplify the Lockeian inquiry mode. Emergence of a competitive innovator, threatening system survival, is empirically observed and perceived to represent a "crisis" in the marketplace. The shock phase then features a short term avoidance solution in reaction to the crisis. When the chain grocery stores first emerged, independents determined, through consensus, that the chains would not survive (Stern and El-Ansary 1982). "Fact nets" concerning the chains' emergence were gathered from information that was observable, but the conclusion drawn was inductive, and, in this case, myopic in that the chains did not suffer short term demise. Each stage of the crisis-change model involves elements of the Lockeian mode of inquiry: (1) The assessment of empirically-derived fact nets parallels movement from the shock to defensive retreat stage. Facts which were amassed during the shock stage are reassessed concerning the threat. As with the small grocer lobbying example, it is by now generally concluded that the validity of the threat cannot be simply denied, but that some action must be taken to reduce it. (2) Movement from defensive retreat to acknowledgement (Lockeian consensus) is based upon experts' re-evaluation of the fact nets, exemplified by retail management agreement. Consensual agreement may then lead to adapatation, as the agreement among independents to form retail cooperatives leads to the Independent Grocers Alliance (Fink, Beak, and Taddeo 1971).

Truth concerning empirical observation is then based upon consensual agreement among a group of "experts" (likely, management of the retail systems). The agreement to ultimately adopt certain features of the alternative form and arrive at a synthesis, represents the last phase of the model. How accurately the Lockeian mode depicts truth ultimately depends upon the consensual position being "non-suspect;" i.e., the experts accurately assess the phenomenon, such that the resulting fact net is perceived as valid.

Leibnitzian Mode of Inquiry:

Wilhelm Leibnitz, the eighteenth century mathematician, believed that truth was "deducible" through a process of pure reason. What was required was not empirical observation, but a premise, which could then be reasoned to a logical conclusion (i.e., the process of deduction). This mode is theory-driven in the sense that once a theory has been deductively-developed, the strength or accuracy of the mode is reliant upon the theory's specificity.

The life-cycle wheel of retailing hypothesis, for example, might serve as an illustration of the Leibnitizian mode. As described by McNair and May (1976, 1978), the wheel suggests that a chain of events, deterministically predicted by the model, will occur once a low-status, low-price innovator invades the competitive domain of an already-existing high-status, high-price retailing form. As noted by Hollander (1960, 1966, 1986), Goldman (1975) and Lewison and Delozier (1982), the entry phase will lead to trading-up behavior as the innovator becomes more established and "traditional." A vulnerability phase is then entered as this traditional-type retailing form matures. The cyclical nature of the wheel is based upon the deterministic retail life-cycle proposition (Davidson, Bates, and Bass 1976; McNair and May 1978; Markin and Duncan 1981; Lusch 1982; Davidson, Sweeney, and Stampfl 1984; Savitt 1984, 1986; Brown 1988). The institution's life cycle is accelerated or decelerated as it reacts to and synthesizes with competitive retailing systems. The determinism of the hypothesis is consistent with Leibnitz.

The Leibnitzian mode accurately depicts truth if the formal models and axioms employed by the system are properly specified, allowing for a clear definition of the phenomenon that the system faces. Unlike the Lockeian approach, this mode of inquiry does not depend upon empirical observation, or fact nets, but rather on a "best," most predictive model.

Hegelian Mode of Inquiry:

The Hegelian mode of inquiry suggests that alternative and conflicting theories or models may be constructed from the same, empirically-observable, raw data (Mason 1969). Thus, the truth is uncovered through examining opposing viewpoints. The higher the levels of conflict that are present, the more these views are subject to scrutiny. This mode has been captured in the dialectic view of retail change, directly adapted from Hegel's "dialectical materialism" (Gist 1968). As Maronick and Walker (1974) state, the dialectic theory "...implies that retailers mutually adapt in the face of competition from opposites" (p. 149). The established retailer deliberately uses the strategies of the "antithesis," in order to attract some of the competitor's differential advantage (with respect to merchandising, operations, or other retail mix elements). At the same time, the innovating system (antithesis) makes modifications in the direction of its opposite (thesis). Thus, "truth" (the eventual synthesis of the two) is uncovered through opposite perspectives.

Lewison and Delozier (1982) describe the emergence of the discount department store (synthesis) from the conventional department store (thesis) and the discount store (antithesis). As the Hegelian mode would suggest, each system contains directly opposing characteristics, operating within the same competitive domain. This opposition is intensified by competition, leading toward the "truth," as Hegel would predict. The high margin, low turnover, high price, full service, and plush facilities of the thesis are thus countered by low margin, high turnover, low price, self-service, and "spartan" facilities offered by the antithesis. Emerging from this direct opposition is a synthesis, comprised of average margins, average turnover, modest prices, limited service, and somewhat modest facilities (Lewison and Delozier 1982, p. 37).

Kantian Mode of Inquiry:

The nineteenth century philospher Immanuel Kant suggested that the "reality" of an event might be best perceived by looking at several a priori models for explaining the event. In this way, interpretation of information about the event, collected after the event has occurred (post hoc), is based upon one or more already existing theories for explaining the event. Thus, several views of the event result rather than only one, as in the Lockeian and Leibnitzian modes. How well does this approach determine the event? Kant seems to argue that data collected under the assumptions of a given model either would or would not verify that model's explanatory power.

Unlike the Hegelian mode, in which the alternative models must represent opposing views of the truth, the Kantian mode views models as complementary to one another -- the existence of one model does not discount the validity of another. Thus, this mode of inquiry does not seek to establish a "best" model (as Leibnitz would suggest), allowing alternative explanations to "peacefully coexist" (unlike the Hegelian mode). It is important to note that the goal of both the Hegelian and Kantian modes is synthesis of alternative viewpoints. As noted earlier, synthesis appears common to each of the retail change theories. The threatened retail system adapts, in order to survive, by adopting some of the features of the change agent, which also adopts features of the pre-existing system. The result, as in the case of the Hegelian mode, is synthesis. The path to truth, in a Kantian sense, lies through synthesis among complementary models; in this way, there is the best possible match between information about a phenomenon and the model that it purports to explain.

Thus, the Kantian mode might be exemplified by those retail change theories that are not directly life cycle or dialectic-driven. In both of these cases, the existence of an alternative retailing form is assumed to be necessarily contradictory (although life cycle theories, such as the wheel of retailing, may also be subject to a Leibnitzian interpretation).

The core-fringe theory of retail evolution may be subject to a Kantian interpretation in that the ebb and flow of core and fringe merchandise/service offerings by retail forms often reflects difference by degree and not kind, as opposed to the Hegelian perspective. Thus, a department store may contain operational divisions and merchandise lines targeted toward different markets simultaneously. The store may feature, for example, a department offering premium-priced apparel items, while simultaneously operating a "bargain basement" clothing division designed to attract more price-sensitive buyers. Stores operate within a form of retailing wherein core and fringe merchandise/service offerings often exhibit variability in interpretation as individual stores seek to carve out their identity. Alternative interpretations of core and fringe businesses, both intra- and inter-firm, reflect ongoing adaptations among retailers within a given retail form as a function of changes in the market. Again, it is important to note, when employing a Kantian interpretation of retail inquiry and evolution, that the varying retail forms are viewed as complementary rather than contradictory.

Singerian-Churchmanian Mode of Inquiry:

The Singerian-Churchmanian mode of inquiry suggests that systems continually evolve through adptation and feedback (suggesting the most extreme case of system openness). This mode is more complex than those previously described, in that it prescribes the use of multiple modes with the appropriateness of any given mode depending upon the application. As with the Kantian mode of inquiry, the Singerian approach suggests more than one interpretation of truth; however, unlike Kant, Singer stresses the importance of feedback. The system doesn't simply synthesize into a new form and stop, but is constantly evolving; the system thus adapts through continual learning, via extensive feedback.

Thus, "final truth" is never determined, since each mode of inquiry describes a particular stage in the process of continually searching for truth. This contiunal process implies an emphasis on explanations provided by alternative inquiry modes, in order to avoid homeostatic system objectives. The use of a Lockeian mode may entail so much agreement and consensus that truth is lost; hence, intensification of the conflict between alternative perspectives (suggested by the Hegelian mode) may provide more insight and meaningful feedback on the overall information search.

The Darwinian approach to retail change appears to exemplify the Singerian-Churchmanian mode of inquiry. Evolution is, by definition, on-going (Miller 1965; Dreesman 1968; Etgar 1984). Arrival at synthesis between alternative systems does not suggest an end to the process of adaptation and feedback. Development of the promotional department store, for example, has been explained in the light of Hegelian inquiry and the dialectic paradigm, as synthesis resulting from the formal merging of the department store and discount house (Maronick and Walker 1974). From a Singerian perspective, however, this dialectic process might represent only a phase in the system's evolution. The promotional department store, thus far explicable by either a dialectic or life-cycle paradigm, might further evolve through the development of future Lockeian fact nets, the development of additional Leibnitzian paths to a "best" model, or identification through feedback of information concerning potentially threatening changes in the competitive domain. As Churchman (1961, 1968) suggests, the inquiring process never actually ends, and, by implication, the best model of inquiry is one which incorporates all of the existing inquiry methods. Thus, the notion of Darwinian evolution and natural selection, as the most longitudinal of the frameworks that purport to explain retail change, seems to lend itself most clearly to the wholistic system interpretation provided by the Singerian-Churchmanian mode of inquiry.

Discussion and Implications

The use of an inquiring systems theory perspective to diagnose and evaluate existing retail change theories suggests a number of implications. First, it may be implied from the foregoing discussion that such theories contain systemic or system-like properties. Each of the theories in turn has displayed inertial qualities, varying processes for the transformation of environmental inputs, and synthetic qualities, suggested by the common theoretic view that retailing forms evolve through fusion with other forms offering alternative explanations. Each of the retail change theories appears to indicate that retailing forms, as systems, inquire into the competitive environment to search out those inputs which aid in maintaining system stability.

Secondly, the decision of a retailing form to either change or not change in the face of an alternative and/or competitive retail form appears to be a function of validation of the competing form as a true "change agent." Thus, the presence of an alternative form may cause the pre-existing form to question (1) whether its environmental interpretation is a valid one, or (2) whether or not the alternative form offers a better articulation of the environment. In the latter instance, the pre-existing form may not discount the new form, which it now views as offering a legitimate environmental perspective. Each of the five retail change theories suggests various ways in which the dominant form then chooses to react to what it perceives to be a valid agent of change.

Third, the inquiring process, presented through a series of alternative "truth-seeking" modes, may be presently redefined by the emergence and rapid proliferation of information systems in retailing. Increasingly sophisticated merchandising information systems seem ever-more capable of capturing point-of-sale information on a real-time basis for the measurement of trends (Moyer 1972; Goldberg 1979; Mangar 1979). Such nearly-perfect feedback on the activities of other retailing entities may not be adequately explained by the present modes of inquiry. As Mason and Mayer (1980) explain, the "assets of information and communication" provided through "timely information feedback on consumer reactions to retail price changes, advertising, shelf-face changes, and a variety of similar variables" will be regarded by retail management as "the foundations of retail success in the future" (p. 56). Moeller (1986) notes that improved decision-making is aided by ever more prevalent electronic marketing devices (videotex, teletext, videodisc, holography, etc.), while Rogers and Grassi (1988) assert that "computer-based decision support systems (DSS) are already allowing retailers to review past performance, analyze alternatives, and project results if certain decisions are made. They are a combination of the evolutionary process in retail information systems and allow interaction between decision makers and the system" (p. 514).

Thus, the inertial reaction to change described by each of the inquiry modes may be discounted in the light of almost simultaneous information about change. Such an implication could be made if (1) inertia is actually a function of ignorance, or a lack of knowledge concerning current retailing trends, and (2) inertia, resulting from the process of socialization and acculturation, may be reversed as information that more accurately and quickly reveals the nature of emerging competitive forms becomes increasingly accessible. Moyer (1972) notes that, traditionally, retailers have opted for market researchers who were "merchants first and researchers second," that decision-makers and intelligence people have tended to "distrust esoteric investigatory techniques," and that retailing has thus been "slow to respond to the information systems revolution" (p. 67). Moyer (1975) and Stevens (1975) both imply that retailing institutions have, true to their inertial properties, been slow to adopt the intelligence-gathering systems already present in manufacturing and government. Thus, the inertia may be a result of ignorance, but also, as a result of acculturation, a certain distrust and fear of "real-time" information systems because, as Silver (1971) notes, the increasing ease of acquiring increasingly accurate information may create severe changes in the retail marketplace.

The likelihood that inertia may be reversed as a result of the information systems revolution, however, seems supported by Goldberg (1979) who asserts that, while retailing has been slow to adopt computerization, its use is proliferating and that point-of-sale systems for unit control and computer-generated trend information for forecasting will ultimately become "a way of life" even for smaller retailers, and that EDP systems will become so common as to "replace cash registers" (p. 219). This view is also shared by Hammond (1973) and Rothman (1980) who, like Mason and Mayer

(1980), view computerized information systems as a "tool" to be "harnessed," and that their impact on the retail marketplace and relative institutional market share is inevitable.

The Singerian-Churchmanian mode, which is highly dependent on feedback and continual learning, may be most compatible with the MIS revolution in that it views the other inquiry modes (Lockeian, Hegelian, etc.) as merely nodes or points of rest in a never-ending cycle of feedback and adjustment to information about change.

Fourth, the notion of social inertia among retail forms may be further undermined by the aggressive acquisition mentality of conglommerates in the present day retailing market. It has been suggested in this paper that social inertia is a function of the retailing form. The acquisition by large retailers of smaller alternative forms (such as Dayton-Hudson's acquisition of Mervyn's) suggests that differing retailing formats may be quickly adopted (treated on the corportate level as strategic business units). Thus, the quick movement from form to form may imply a breakdown of social inertia.

Further, from a theoretical perspective, the domain of an acquiring retailer becomes less clear when a number of domains are adopted simultaneously. Such a blurring of domain definition contributes to boundary impermeability. Retail evolution connotes a change of retail form over time. A concept of "revolution" rather than "evolution" connotes that change of form is actually the result of a managerial decision at the corporate level and may occur more rapidly as the result of strategic decision-making. Hence, current retail acquisitional activity may call for explanations that are not provided in either the traditional theories of retail change or the commonly-accepted modes of inquiry.

Finally, it may be implied that the traditional change theories offer, from a "third-party" perspective, only historical explanations of how present retailing forms have already evolved. As such, they assume a "post hoc" posture, indicating theoretical application based upon what has occurred in the past. What seems to be lacking in this perspective is an "a priori" notion of retail change; the advent of nearly "real time" information systems as well as aggressively-pursued retail strategies of growth through acquisition suggest that a change of retail form may not be historically-determined. Thus, traditional explanations only describe what has been done with the theories up to the present time and seem to neglect the impact of managerial decision-making upon form as well as the sensitivity of retail form to the rapid acquisition and assessment of information about current retailing trends.

The relationship between retail change and system inquiry presents a number of interesting implications from a macromarketing perspective. As retail institutions change, in the face of emergent competitors, alterations similarly appear in the marketing distribution systems/channels supplying those retailers. A re-configuration of merchandise in a supermarket away from core lines and in the direction of fringe lines, for example, could effectively lengthen or widen the channel for some goods and shorten or narrow it for others, creating new opportunities for some channel institutions while presenting new dangers and threats to others. Also, the decision of many discount stores to "trade up," may result in a shortening of traditional lines (such as "gray market" goods) while merchandise not formerly carried allows for the possible creation of new lines of distribution.

Evolution in the retail marketplace may also impact human resources/personnel management. Possible displacement, relocation, or retraining of personnel in response to a re-configured market, may be exacerbated by the property of systemic inertia displayed by existing retail institutions.

Of interest to macromarketers as well are certain sociocultural implications. To the extent that shopping behavior is socially-derived, de-personalization of the shopping experience due to tendency toward self-service may reduce the perceived social gratification associated with shopping behavior. Thus, social consequences may result from an alteration in shopping behavior patterns due to changes in the operational characteristics of a retail institutional form.

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B.2

POSTMODERN CULTURE, MARKETING, AND THE CONSUMER

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POSTMODERN CULTURE, MARKETING, AND THE CONSUMER

ABSTRACT

Postmodern culture, which seems to dominate advanced capitalist societies of the West, produces several major conditions which are difficult to represent using modernist categories. This paper discusses some of these conditions, such as, hyperreality, fragmentation, reversal of production and consumption, and the displacement of the subject. Based on these discussions, the implications of postmodernity for the roles of consumers and marketing in society are considered, and the processes whereby consumers become products themselves are revealed.

Introduction

A new perspective on life and the human condition is sweeping across the globe; specifically in the Western cultures. This new perspective is called by several names, such as, poststructural, post-industrial, and, most generally, postmodern. Postmodern seems to be most widely used because it captures a greater number of aspects of the society this culture represents. According to its most prominent philosophers and researchers, postmodernism is a recognition of the " ... complex conjuncture of cultural conditions ... [that have arisen from the] ... postwar restructuring of capitalism in the West and in the multinational global economy ..." (Ross 1988, p. x). Some consider the 1950s to be the period when postmodern cultural elements that were earlier present in advanced capitalism started to dominate, and the 1960s to be the period when they entrenched as the prevailing conditions (Stephanson 1988). These conditions are numerous, and I shall discuss some of them later in this essay.

A major aspect of postmodern culture is the transformed role of consumption in relation to premodern and modern society (Baudrillard 1975 and 1981; Ewen 1988 and 1989; Fırat and Dholakia 1982; Fırat 1987; Jameson 1983; Mourrain 1989). It might be argued that this new role of consumption in society is not so new, that it was present in modern society. The recognition of consumption as it is perceived in postmodernity, however, and actions taken by institutions of Western society -- specifically, marketing -- with such recognition are relatively new. These actions based on the new recognition reproduce and entrench the new (postmodern) consumption culture, thereby, a new type of consumer that is qualitatively different from the consumers of the past.

It is interesting to note, however, that the marketing community (scholars, practitioners, etc.) has been somewhat late in its awareness of the postmodern perspective. The essence of the new culture recognized in postmodernist literature and the essence of marketing have much in common (Wright 1989). One could almost call this postmodern era the "marketing era," for marketing philosophy and orientation lies at the heart of this new era, this culture. Marketing is the embodiment of this culture in its epitomized form. Consequently, understanding postmodern culture will enable us to understand marketing, as well as the consumer of this culture, more vividly.

Postmodern Culture

It is difficult to define postmodern culture in a few words or sentences. It has many characteristics which compose it. To try and bring to a simple definition the many and complex, sometimes contradictory, visions of postmodernity may be quite futile. As the phenomenon is more widely discussed, in the future, it may be clarified more, or a certain view of it may dominate. Presently, however, the best that can be done is to review some descriptions of it.

A gallant effort to discuss the impact of postmodernist philosophy on consumer research has been made by Sherry (1989). His characterization of postmodernism as tolerant of incommensurable alternatives and as sensitive to differences, following Lyotard's views, however, may be an optimistic one. The cultural traits which have led to the studies in postmodernist literature are, at times, most unforgiving and intolerant of possible alternatives. They signal the end of modernity and the birth of a new way of life, specifically as consumers. While the scholars and students of postmodernity are asking for recognition of the new and critical examination of the shortcomings of the old, the postmodern culture that is dominating contemporary Western society is mercilessly eliminating its rivals.

Postmodern culture is specifically a phenomenon observed in the advanced capitalist countries of the First World, but its impacts are felt throughout the world due to the cultural, economic, and political influences of such countries. Here are excerpts from attempts by some of the better known scholars of postmodernity to define postmodern culture:

> "In the postmodernist sensibility, the search for unity has apparently been abandoned altogether. Instead, we have textuality, a cultivation of surfaces endlessly referring to, ricocheting from, reverberating onto other surfaces. The work calls attention to its arbitrariness, constructedness; it interrupts itself. Instead of a single center, there is pastiche, cultural recombination. Anything can be juxtaposed to anything else. Everything takes place in the present, "here," that is, nowhere in particular. Not only has the master voice dissolved, but any sense of loss is rendered deadpan ... The implied subject is fragmented,

unstable, even decomposed; it is finally nothing more than a crosshatch of discourses. Where there was passion, or ambivalence, there is now a collapse of feeling, blankness ... Genres are spliced; so are cultural gradations ... "High culture" doesn't so much quote from popular culture as blur into it" (Gitlin 1989, p. 350).

"Simplifying to the extreme, I define postmodern as incredulity toward metanarratives. This incredulity is undoubtedly a product of the progress in the sciences: but that progress in turn presupposes it ... Postmodern knowledge is not simply a tool of the authorities; it refines our sensitivity to differences and reinforces our ability to tolerate the incommensurable. Its principle is not the expert's homology, but the inventor's paralogy" (Lyotard 1984, pp. xxiv-xxv).

"Decentered, allegorical, schizophrenic... -- however we choose to diagnose its symptoms, postmodernism is usually treated, by its protagonists and antagonists alike, as a crisis of cultural authority, specifically of the authority vested in Western European culture and its institutions ... [T]he end of the modern age ... and the beginning of a new, properly postmodern age [is] characterized by the coexistence of different cultures" (Owens 1983, p. 57).

"[Postmodernity] is ... at least in my use, a periodizing concept whose function is to correlate the emergence of new formal features in culture with the emergence of a new type of social life ... postindustrial or consumer society, the society of the media or the spectacle, or multinational capitalism ... [P]ostmodernism expresses the inner truth of that newly emergent social order of late capitalism, but [I] will have to limit the description to only two of its significant features, which I will call pastiche and schizophrenia ... Pastiche is, like parody, the imitation of a peculiar or unique style, the wearing of a stylistic mask, speach in a dead language: but it is a neutral practice of such mimicry, without parody's ulterior motive, without the satirical impulse, without laughter, without that still latent feeling that there exists something normal compared to which what is being imitated is rather comic ... [S]chizophrenic experience is an experience of isolated, disconnected, discontinuous material signifiers which fail to link into a coherent sequence. The schizophrenic does not know personal identity in our sense, since our sense of identity depends on our sense of the persistence of the "I" and the "me" over time" (Jameson 1983, pp. 113-114 and 119).

"Modernity can be defined as the domination of nature in order to produce a wealth of commodities which are intended to sustain a community of mutually recognizing free and equal subjects. Postmodern culture consists not in discarding this project, but in its infinite delay" (Angus

1989, p. 96).

"[P]ostmodernism expresses the <u>incoherence</u> of contemporary urban life in the upheaval of economic restructuring" (Wilson 1989, p. 191).

As the above quotes attest, postmodern culture is characterized by the dissapearance of authority, unity, continuity, purpose, and commitment. It is perceived as the emergence of complexity, multiplicity, fragmentation, resistance, negation, rupture, and irreverance for any specific goal or point of view (Venkatesh 1989). In postmodernity the people (who are not as much participants as they are consumers of the culture) have developed a distrust for the project of modernity which is perceived to have promised wonders but delivered disintegration and anxiety. The resulting distrust and irreverance for any grand project has been reflected primarily in art, literature, and architecture where discussions of postmodernity initially started. Nothing is taken very seriously, there is a lack of real commitment to anything in life because nothing is worth serious commitment. Every theory, person, concept, object, system, idea, purpose, institution has lost credibility and is approached with a deep cynicism, simultaneous affection and contempt, a juxtaposition of contradictory feelings and thoughts. Everything is in a schizophrenic state, good and bad, acceptable and rejected, to be experienced and dropped. The person (the consumer) is left with a blank and bland taste. Since purpose and true commitment are no longer existent, living and receiving gratification from each moment gains importance and priority.

Postmodern culture so recognized is, however, judged quite differently by its protagonists and antagonists. Protagonists see this culture in mostly positive light and celebrate its arrival (Baudrillard 1981 and 1983a; Lyotard 1984). They perceive postmodernity as the rejection of commitments that caused people to be used and manipulated by reigning interests and regimes; as the recognition that the belief systems of the past only led people into social experiments that never produced the promised results. This freedom from senseless commitment and the resultant possibility of difference and diversity is welcomed.

Antagonists see postmodernity as the loss of purpose, unity, and the goal for improved conditions for humanity. The fragmentation, the schizophrenia, the loss of commitment, and the cynical contempt for anything of duration spurs fears of a general social disintegration and degenaration.

Both orientations, however, conclude that in postmodernity there is no longer a dominant ideology, philosophy, or agenda. I intend to argue through the discussion of some of the more central implications of postmodern culture that this conclusion is misled and false. There is only an appearance of a loss of master narrative (dominant ideology, dominant perspective on reality) in postmodern culture due to the fact that this culture is difficult to grasp with the familiar, or currently utilized concepts and categorizations.

Implications of Postmodern Culture

Hyperreality. One of the most recognized characteristics of postmodern culture is that it is a compilation of symbols and images (Baudrillard 1981, 1983a, and 1987). The power of these symbols and images is that they come to define and constitute reality. Baudrillard argues that simulations based on symbols and images are created through the separation of signifiers (that is, verbal, visual, or material signs or symbols that represent things making them intelligible) from their original referrents, these signifiers then becoming attached with new meanings unrelated to original referrents, and thus, constituting new representations. Once the signifiers are separated from their original referrents through the forms of communication in the new culture, they become independent, "freely floating" and available to be attached with new meanings, the "signified." An example used is the toothpaste. Once in the advertising medium, for example, the term toothpaste is separated and becomes independent of the original thing it signified -- a paste cleansing the teeth -- it can be attached with new, symbolic meanings, such as sexiness, beauty, happiness, attractiveness, etc. These new meanings signified simulate a new reality when sufficiently powerfully communicated and, thereby, when they are accepted to be true -- that is, when the consumers feel and/or attribute sexiness, attractiveness, beauty, etc., to a (special brand/kind of) toothpaste to which such meanings are attached. This simulation becomes reality for a community of believers, because now, when this toothpaste is used, the consumer is indeed found attractive, beautiful, happy, sexy, etc. Baudrillard calls this reality based on simulation hyperreality. This reality is "hyper," it seems, for two reasons. It is a reality beyond what reality was understood to be in the scientific (modern) era, and it is composed of what originally was hype -- that is, hype becomes the reality.

Another example Baudrillard uses of such simulation becoming reality is the map and territory (Baudrillard 1983a). The map which is the simulation eventually dictates the territory, rather than the reverse. If, for example, a map were faulty, it will eventually determine the territory through reproduction. An area which belonged to one country, for example, comes to belong to another by so being simulated on maps. This is not very different from human roles, relationships and characteristics simulated on television programs, such as the soap operas, becoming emulated by the audience and thus becoming to be found in reality, or the simulated male and female behaviors repeatedly proposed in advertisements being internalized by the consumers, thus becoming real human behaviors. The social or cultural examples of such hyperreality abound, specifically in the marketing domain.

Hyperreality is a postmodern phenomenon because it transforms the conception of reality based on the positivist or realist scientific philosophies which is the foundation of the idea system of modernity; an era of technological achievement and progress based on development of the "... spheres of science, morality and art "according to their inner logic" ..." (Foster 1983, p. x).

__Fragmentation__. Fragmentation is another major property of postmodern culture (Baudrillard 1981; Jameson 1983; Stephanson 1988). Fragmentation in the sense that all things are disconnected and disjointed in their representation from each other, their origins and history, and contexts. Rather, they constitute communicational instances. That is, in postmodern culture something is an entity only insofar as it presents or represents (in general, communicates) an image (as a bundle of symbols). The initial separation of the signifiers from their referrents has two basic results. One is that they can now be attached new meanings and images freely, in an unrestricted manner. This allows an enormous potential for creativity and representation. The necessity to be bound to original referrents and meanings is lifted. An almost limitless liberty to use the signifiers in representing anything is potentially enabled. Chances for creativity seem endless.

The second consequence is that the unrestricted ability to use signifiers in creating new images and representations necessitates that each instance of communication be independently exciting, specifically exciting to the senses, to hold on its own, to get attention, or be effective. In a culture of many competing representations there is competition to arouse interest and produce a desired effect. Creation of images, meanings, representations without necessity of connections, but just on the ability of producing exciting images, naturally results in the disjointedness or discontinuity among the representations as well as from any history, context, or origin. Therefore, each instance of communication must be independently exciting to the senses. Interest, attention, and retention cannot be expected on the basis of relevance to other phenomena or communications due to the disconnectedness of the representations. The independence of signifiers from any continuous or consistent meaning in postmodern culture has removed the possibility of substantive linkages, necessitating excellence and/or utmost sophistication in form and technique. It is the form, the style (Ewen 1988), or the technique of each instance of communication that enables success in terms of retention of the representation or image communicated. The instances of communication acquire an intensity, specifically emotional, based on such form, style, and technique. This recognition results in references to pace, show value, and sensationalism in the literature on media (Newcomb 1979). We observe that even in the news programs on television, for example, each news item is presented in condensed form, concentrating on the exciting, sensational aspects, basically independent of its context and history, with much switching across many exciting images, each for a few seconds. The form, style, or technique of each segment of presentation is perfected to excite the senses and keep the attention. Each instance of communication, then, becomes a spectacle (Jameson 1983; Real 1979). Television commercials and music videos which borrow many images and styles from each other, and which are increasingly imitated by other television programs and Holywood, provide excellent examples of this phenomenon of the spectacle.

Fragmentations in life and history, as well as in communicated images and representations are also reflected in consumption. This has been reinforced through the differentiation and specialization of products in the market system. Each product has an image and a communicated purpose that is specialized. In some cases, each instance of consumption of the product serves a special purpose and fulfills the acquisition of the desired image by the consumer. By consuming a microwave oven, for example, a consumer represents to oneself and to others the desired image of oneself -- which may be one of independence, of having an exciting life in the fast track, of being free from banal chores, etc. -- an image that has been produced by the interaction of the consumer's cultural context and the marketing media. On the other hand, consumption of a car may represent different images when used by the same consumer in different instances and contexts, in each instance producing the consumer's desired image -- charming, outgoing, efficient, risk-taker, cautious, lover of adventure, industrious, family-oriented, etc. -- for that context, cultivated by the same interaction (Wernick 1989).

In each instance of consumption, for example, as the consumer eats a frozen dinner, watches television, brushes his/her teeth, feeds the cat, the consumer perceives an independent, separate purpose. Each requires a different product, each fulfills a need that is fragmented and separated from others. The consumption life of the consumer is segmented, fragmented into separate moments which are not or only superficially linked. Each instance may well be cultivated to represent a different image of oneself; as a matter of fact this seems to be the rule. The caring mother, the efficient manager, the elegant partner, the gourmet homemaker are images reflected by the same woman, for example, in many cases, and they usually are not consistent. Thus, a schizophrenia (Deleuze and Guattari 1987; Jameson 1983) is reflected in consumption. A male professor wears a tie, a female professor wears a respectable dress to class to represent one image and they wear slacks to office at other times to represent another image. Human beings become, at each instance, what the culture makes them expect of themselves in order to be presentable (saleable, marketable) through using the appropriate products required for each instance rather than represent a continuous, consistent self. The person becomes the consumer who plays each part, each image so well in different parts of and at different times in one's life, guided by the "teachings" of the media, and, at times, by the greatly popular "how to" books, seminars, and programs on television and the radio. In post-modern culture where the theme is, as indicated earlier in this essay, escape from unity, cynical contempt for central authority, irreverance, difference, and segmentation, images represented will be different for different people. The catch in the capitalist market system is, however, that to represent the different images people will be acquiring and consuming the same products -- the microwave, the car, the television set, the designer clothing, etc. -- and adopting the same consumption pattern represented by these products (Fırat and Dholakia 1977 and 1982; Fırat 1986 and 1987). So, what appears to be difference at the level of symbolic culture turns out to be an underlying uniformity. Consequently, cultures that have less developed markets tend to exhibit greater variance in both quality and kinds of life patterns (Amin 1982; Baran 1957).

Reversal of production and consumption. The project of modernity was defined as the domination of nature through science and claims to universality in order to produce more and increasingly sophisticated commodities (products, in marketing terminology) to sustain humanity with "acceptable and improving" levels of standards of need satisfaction and health (Angus 1989; Foster 1983; Habermas 1983). It was to do with "... growth-oriented planning and production, with a pluralist political system ... and with a strong bureaucracy that can regulate relations among, and between, money and human capital" (Aronowitz 1988, p. 46). The emphasis in modernity was definitely on production. Production was considered as the worthy and meaningful activity in society; one of creation and usefulness. The concept of modern is linked to Renaissance and Enlightenment (Habermas 1983). The project of modernity was, thus, not only positivistic but also positive. The emphasis was on positive contribution, work, productivity, usefulness to humanity. The postmodern project has reversed the emphasis and the order of things. The central project is no longer production but consumption, no longer orderly work and contribution to society but recognition of crises in all facets of culture and society (Angus 1989; Baudrillard 1988; Lyotard 1984; Mourrain 1989). Postmodernism is perceived as the rejection, questioning, deconstruction, decentralization, and infinite delay of the modernist project (Angus 1989; Foster 1983).

In these respects, many thinkers of postmodernism who have been influenced by or grown within the Marxist tradition (for example, Baudrillard) are, nevertheless, critical of Marx, in that they feel he has completed and corrected classical political economy, not radically replaced it (Poster 1975). The primacy of production is very much kept in Marxist theory. Except, Marx has also recognized the unity of production and consumption (Marx 1973). While classical political economists made a clear distiction between production and consumption (productive consumption versus consumption proper) (see Mill 1929; Say 1964), Marx argued that consumption is simultaneously production and production is simultaneously consumption. Within this framework, however, he emphasized that in this process the determining moment was what the classical political economists called productive consumption, the production of commodities (products for which there is market exchange). It was the relations human beings entered into during the production of commodities, which in capitalism are relations of capital, that determined class structures, dominant ideologies, and the existing social order.

Baudrillard (1975 and 1988) as well as other postmodernist thinkers reverse the priorities in the production-consumption cycle (Angus and Jhally 1989; Jameson 1983). "... Baudrillard has displaced the locus of analysis from the domain of production to the realm of consumption" (Mourrain 1989). Consumption is the moment in the process where symbolic exchanges that determine and reproduce the social code occur, where "... there is an active appropriation of signs, not the simple destruction of an object" (Poster 1975).

This reversal of primacy between production and consumption is antithetical to the mainstream philosophy in marketing also. This philosophy generally accepts the classical political economics premise that consumption is the final destruction of value, that it only creates utility for the end user, the final consumer (Fırat 1988). In the marketing sense, consumption is the end, as well as the end purpose of all human activity (production included). When consumption occurs, the end is achieved. While consumption is the end, creation and activity that produces value, that has worth, is in production, distribution, and other marketing activities. This primacy of productive work in terms of value and worth is consistently represented in different ideology systems (e.g., religions) of the modern era (Benton 1987).

The implication of the reversal in postmodernism, however, is that consumption is not the end, but a moment where much is created and produced. It is not a personal, private act of destruction by the consumer, but very much a social act where symbolic meanings, social codes, and relationships are produced and reproduced. Postmodernist insights lead us to conclude that production never ceases, that it is a continual process. Only, the form of production changes at different moments of the process. At the moment generally known as production, the producers are human beings, the products are the commodities. At the moment generally known as consumption, the producers are the commodities, the products are the human beings.

<u>Displacement of the subject</u>. In modernity, the human being as the subject, and his/her needs, were the focus, the center of attention and purpose. Improvement of the conditions of life for the subject was, as discussed earlier, the project of modernity. This project, with all its contradictions, is represented in Maslow's hiararchy (Kilbourne 1987). Achievement of the subject's (i.e., the individual's) own purpose, happiness was the center of social life. That is, as Jameson puts it: "... The

great modernisms were ... predicated on the invention of a personal, private style, as unmistakable as your fingerprint, as incomparable as your own body ... a unique self and private identity, a unique personality and individuality, which can be expected to generate its own unique vision of the world and forge its unique, unmistakable style ..." (1983, p. 114). Consumption by this subject to enable attainment of this subject's own set goals was the end. The consumer was the "sovereign." Society, production, institutions were all present to serve the subject.

In postmodernity there is, what is generally called, the "death of the subject" (Jameson 1983). The subject is displaced from its position of control, and the subject-object distinctions are confused. As Baudrillard articulates discussing the automobile: "... The subject himself, suddenly transformed, becomes a computer at the wheel ... [t]he vehicle now becomes a kind of capsule, its dashboard the brain, the surrounding landscape unfolding like the televised screen (instead of a live-in projectile as it was before) ..." (Baudrillard 1983b, p. 127). Thus, the object (the product consumed) sets the parameters and the rules of the consumption process (Firat and Dholakia 1982; Firat 1987). The subject is not in control but controlled, becoming, in effect, an object in the consumption process. The individual subject and individualism are lost, instead we have human beings repeating and replicating the mechanics necessitated and imposed by the natures of the products they use or consume.

Maybe well aware of this loss and the frustrations it may entail, many marketing organizations continue to emphasize individuality in their promotions of mass-consumed products. Consumers are called to feel unique as they use fragrances, clothing items (designer clothes), cars, etc., that millions of others use. The postmodern culture is well reflected in this seeming contradiction. Hyperreality is evident in the representation of uniqueness through objects that are the same and mass-produced. It is further evident in the fact that many no longer feel uniqueness cannot be achieved through such mass-consumed products. Now uniqueness is attached to signifiers (in this case, brand names of products) separated from their original referrents (mass-produced items initially identified by a certain brand name). But, uniqueness itself as a signifier is also detached from its original meaning and serves only as the expression of an image that excites the senses because it remotely recalls a content that it is now devoid of.

Did the independent, unique, individual subject ever exist (Jameson 1983)? Is postmodernism the death of such a subject or only the recognition that it was always a myth? Whatever our answers to these questions, they do not change our project in this paper; one of recognizing what postmodernity means for an understanding of the consumer of this era and marketing. As is evident from the discussions above, the nature of the consumer is qualitatively transformed in postmodern culture.

The Consumer and Marketing in Postmodernity

The consumer in postmodern culture is perplexed by the density, the intensity, and the fragmentation of the instances of communication, by hyperreality that continuously (re)creates fresh images and meanings based on the same signifiers, and by the incredible array of brands and products that impose their own rules and procedures as a way of life. The consumer in postmodern culture thus transcends the state of being the subject positioned in society to satisfy one's individual needs, and becomes positioned and identified by what one consumes, projecting (an) image(s) necessitated by the hyperreal's demands upon the role(s) assigned to one by the culture. Furthermore, the postmodern consumer is no longer only the consumer but also the consumed; produced as a product of the consumption patterns (Fırat and Dholakia 1977 and 1982; Fırat 1987) to be willingly and effectively consumed by the reigning system in the production and reproduction of commodities of the culture that perpetuate and advance the system. The postmodern consumer is not a consumer for one's own ends, but an object in the cycle of production for the ends of a system (Fırat 1988). Such a consumer might be called the metaconsumer.

Some of the implications of the entrenchment of the metaconsumer in the era of postmodernity in advanced capitalism have been recently recognized in the field of consumer research by researchers who are at the forefront of major leaps in methodological and theoretical movements in this field. The studies directly related to implications of postmodernity involve consumption experiences (Holbrook and Hirschman 1982; Holbrook 1987), materialism (Belk 1985, 1986, and 1987; Belk and Pollay 1985), meanings of possessions (Belk 1988; Wallendorf and Arnould 1988), semiotics (McCracken 1986 and 1988; Mick 1988; Sherry 1989), and consumption patterns (Fırat and Dholakia 1977 and 1982; Fırat 1987). These studies tend to indicate that (i) consumers seek to express themselves and their relationships to others through the products they possess, (ii) they attribute value to and express feelings (such as love) through material objects, (iii) valued experiences require the presence of products, (iv) consumer self-image is dependent on the symbolic meanings culturally attached to products consumed, and (v) products widely consumed in society represent relationships and meanings that compliment each other and that are consistent with the reproduction necessities of the dominant system in society.

The implications of these findings for the roles of the consumer and marketing in society are supportive of the postmodernist conclusions. Before postmodern culture was entrenched consumers' lives were the essence and purpose of human society and products were only there to help improve consumers' lives. In postmodern culture the products are increasingly becoming the essence of society and consumers increasingly live as the means of reproducing the simulated images for the products. This reversal in human life is reflected in other elements of culture that postmodernist thinkers study, such as, politics, aesthetics, communication media, and the arts. In these fields, as well, the reversal is observed between the narrative and the spectacle, between the form and the substance. While in modernity the form of a film, for example, was managed to enhance its substantive message, or individual scenes of the film were used to tell the whole story (narrative) better, in postmodernity only a superficial narrative is used to provide room for the spectacle (individual scenes of great excitement and sensation) (Marchetti 1989a, 1989b). The spectacle, in the end, is the narrative. That is, the master narrative (meaning, the dominant perspective on reality, the dominant ideology) of postmodernity is (the dominance of) the spectacle. The substance of postmodernity is its form, style, and technique.

Similarly, the products of the market to be purchased and consumed are the substance of postmodern consumption culture. No longer is the master narrative of human consumption in postmodern, advanced capitalism the improvement of human lives. The new master narrative is the product (the spectacle). The consumer, itself as a product, is a part of this narrative as one spectacle after another in (re)presenting the different images in one instance after another.

Marketing is the institution that facilitates, creates, and diffuses this culture. It is the ultimate social practice of postmodern culture. No longer are the production and reproduction of the images, simulations, and meanings accidental or haphazard. They are deliberate and organized through the institutions of marketing. No longer can anyone participate in the (re)production of symbols that get attached to the signifiers. They have to muster power to influence and control marketing institutions.

Conclusion

To minds that have assimilated the modernist project, postmodern conclusions represent very negative and pessimistic conditions, and the propositions of the postmodernists may, therefore, be either too disturbing or unacceptable. Several philosophical critiques are likely to, and do, arise against the postmodern discourse (Habermas 1983; Winders 1989). In terms of the subject-object, production-consumption, consumer-product reversals, that is, reversals of form and substance, spectacle and narrative, a major modernist objection may be that given the fragmentation, the hyperreality, it is, in fact, not possible to speak of a consistent, underlying systemic ideology that threads throughout the culture. Partially, this is (i.e., the end of master narratives, philosophy, and dominant ideology) also a conclusion some postmodern arguments do reach (Baynes, Bohman and McCarthy 1987). However, this is likely a result of the phenomenon of, what Winders (1989, p. 8) so aptly calls, being "blinded by the light." The instances of communication, the spectacles, the products are so alluring and sensational that their glitter obscures the sight beyond; that they constitute the substance of contemporary culture in Western society, that fragmentation, itself, is the contemporary master narrative.

Increasing individualization, privatization, passivation, and alienation in consumption patterns (Fırat and Dholakia 1977 and 1982; Fırat 1986 and 1987) further attest to the fragmentation in consumption, as well as to the fact that consumers are increasingly the products of a dominating consumption pattern. These are not accidental developments. They reflect and reinforce the expansion of the market, which is the rationale of advanced capitalism (Fırat and Dholakia 1982; Fırat 1987). Postmodernity, therefore, is not the end or fragmentation of a master narrative. It is the (re)production of a cultural system that is difficult to capture and understand with only the intellectual tools of the past.

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B.3

AN EXTENDED PARADIGM FOR THE EVALUATION OF MARKETING THEORY

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AN EXTENDED PARADIGM FOR THE EVALUATION OF MARKETING THEORY

Abstract

This research replicated and extended the evaluation of marketing schools of thought done by Sheth, Gardner and Garrett in their recently published book Marketing Theory: Evolution and Evaluation. The replication evaluated 12 schools of thought in marketing with a scale proposed by Sheth, Gardner and Garrett. The replication, performed by a panel of experts using a Delphi technique, resulted in significantly different rankings of the schools of thought in marketing. There were two extensions in this research, the first proposes seven additional criteria for evaluation of the schools of thought. The second extension provides reliability analysis of the scale proposed by Sheth, Gardner and Garrett. The scale was generally found to be very reliable in these applications.

INTRODUCTION

Much attention is currently being given to the development of marketing thought. This attention is evidenced by a number of recent events in our discipline. In 1984 a Task Force on the Development of Marketing Thought was established by the AMA (Monroe et al. 1986). In 1988 a report from this Task Force was published in the Journal of Marketing (AMA Task Force 1988). Also in 1988, Sheth, Gardner and Garrett published Marketing Theory: Evolution and Evaluation, a book which reviews and evaluates schools of thought in marketing. Other activities such as a special issue of the Journal of Marketing (Fall 1983) which focused exclusively on theory, special annual conferences or conference tracts for Marketing Theory were established by AMA (Bush and Hunt 1982), and continued work by many authors contributing to marketing theory. For instance, Shelby Hunt is currently revising his Marketing Theory book and adding four chapters on the history of the philosophy of science and its effects upon marketing theory, and Robert Bartels recently revised his book The History of Marketing Thought. Additionally the 1987 AMA Winter Educator's Conference proceedings featured five contributors in an addendum entitled "Metatheory."

An integral part of all of this ferment is the question of how one should judge the value of (1) various approaches to developing theory, (2) various groupings of related theories (schools of thought), and (3) any particular theory. At one level of analysis Shelby Hunt, Paul Anderson and others have debated in recent years about which philosophical framework should be used as an approach to developing theory in marketing. At the other level, several guidelines have been proposed for the evaluation of specific theories (Sheth, Gardner and Garrett 1988, Zaltman, Pinson and Angelmar

1973, Bunge 1959 and Dodd 1968). However there is some debate about these too, because they are often based upon philosophical assumptions of the sort debated by Hunt and Anderson. The research reported here focused on the middle level of analysis, the evaluation of schools of thought in marketing.

This research was stimulated by the recent (Fall 1988) publication of Sheth, Gardner and Garrett's book. In this book the authors delineate marketing thought into 12 schools of thought (see Table 2 for a summary of these schools of thought). Additionally the authors evaluate "...the contribution of each school to the development of marketing theory (p. 2)." To do this evaluation they proposed a six item scale which was used to produce a score for each school of thought. In commenting about this scale, the authors suggest that researchers,

> "... ask a representative sample of scholars to rate each school of thought on the six metatheory criteria and then present a statistical analysis of their viewpoints (p. 33)."

Three objectives were established for the research reported here. The first objective was to obtain data that would allow some preliminary evaluation of the of the reliability of the Sheth, Gardner and Garrett (SGG) scale itself. The second objective was to replicate the use of the scale to evaluate the 12 schools of thought. The third objective was to propose and apply additional criteria for the evaluation of schools of thought in marketing.

EVALUATION OF THEORY

Why evaluate theory? Zaltman, Pinson and Angelmar provide a useful and sound answer: "The knowledge of the properties of any theory (and more generally of any symbolic system) is essential to building it and to using it (1973, p. 91)." Many scholars agree that the dynamic nature of science requires continued theory assessment to facilitate theory formulation (Sheth, Gardner and Garrett 1988, Leong 1985, Hunt 1983a, and Bartels 1970). In order to assess theory, one must have some criteria that can be applied in the assessment process. Dodd's studies (1968) revealed a conservative estimate of 70 evaluative criteria for theory. Zaltman, Pinson and Angelmar (1973) used their 16 criteria to evaluated three consumer behavior theories. Eulberg, Weekley, and Bhagat (1988) evaluated four models of organizational stress using their seven criteria. Marketing researchers are consequently faced with the problems of selecting and ranking the criteria which are most relevant to theory evaluation within the discipline.

The SGG Scale

Sheth, Gardner and Garrett (1988) published an excellent historical and evolutional perspective on 12 schools of marketing thought. Their first purpose was to provide "a contemporary assessment of existing schools of thought to enable scholars to incorporate the existent knowledge in their efforts to generate newer theories and schools of thought (p. 1)." Their second purpose was to generate an appreciation of marketing's rich tradition as a basis for further improvement in marketing knowledge.

They operationalized these goals by assessing the potential to develop a general theory of marketing from each of 12 schools of thought. Hence, their total scale scores represent the ability of a particular school of thought to contribute to a general theory of marketing.

Sheth, Gardner and Garrett proposed six metatheoretical criteria for evaluating these schools and provided rationale for their evaluative scores. These criteria are built upon semiotics. Semiotics is defined as "...a general philosophical theory of signs and symbols usually including three branches; syntactics, semantics, and pragmatics (Neufeldt 1988)." Sheth, Gardner and Garrett adopted these three categories from Halbert (1964) and subdivided each of them into two criteria. **Syntax** addresses the "legitimacy of the operations that can be performed on the elements that form the theory" (Halbert 1964, p. 32). The SGG syntactic criteria are structure and specification. **Semantic** criteria evaluate a theory's relationship to reality. The SGG criteria for semantics are testability and empirical support. **Pragmatic** criteria "...question the relevance of the theory to the 'users' (Sheth, Gardner and Garrett 1988)." In the SGG scale the pragmatic criteria are richness and simplicity. See Table 1 for a summary of the SGG criteria and the definition of each.

TABLE 1

Metatheoretical Criteria for Evaluation of Marketing Theory

Sheth, Gardner, and Garrett (1988)

CRITERIA	OPERATIONALIZATION
Structure	Are the concepts properly defined and integrated to form a strong nominological network?
Specification	Are the relationships specified in a manner to delimit hypotheses or are they highly contingent?
Testability	Are the operational definitions provided to ensure testability and intersubjective consensus?
Empirical Support	What is the degree of confirmation in terms of empirical support?
Richness	How comprehensive and generalizable is the theory?
Simplicity	How easy is it to communicate and implement the theory?

The schools of thought evaluated with the SGG scale are commodity, functional, regional, institutional, functionalist, managerial, buyer behavior, activist, macromarketing, organizational dynamics, systems and social exchange (see Table 2). In the Sheth, Gardner and Garrett presentation, a brief history of each of these schools was followed by that school's score on each of the six criteria. A rationale for each criterion score was given and was based upon the historical evidence presented. Scores for the six criteria were then totaled by school to form a value representing that school's contribution to the development of marketing theory.

Additional Criteria: Background

The SGG criteria were also considered for usefulness and comprehensiveness in evaluating theory regarding its contribution to the development of marketing knowledge. Their evaluative criteria focus on issues internal to each theory. Their criteria assess strength of internal structure, quality of content and communicability of the theories. Only one criterion, richness, addresses the theory itself outside of its own boundaries. Since currently there is no general theory of marketing, it is necessary and desirable for these schools of thought to expand beyond their current boundaries.

TABLE 2

Key Concepts Associated With the Twelve SGG Schools of Thought

SCHOOL	KEY CONCEPTS
Commodity	Classification of Goods - by products - by role of the consumer - consumer's shopping effort
Functional	Marketing Activities - Requirements - Performance - Middlemen
Regional	Role of Spatial Separation of Buyer and Seller - highly quantitative
Institutional	Organizations - Channel members - Role - Efficiency - Vertical integration

Functionalist	Exchange between consuming and supplying groups Organized Behavior Systems - Households - Firms - Channel Role of Interaction - matching supply and demand - creating meaningful assortments
Managerial	The "marketing concept" - consumer is the center of the business universe Market segmentation Marketing Mix Product Differentiation Product Life Cycle Pricing
Buyer Behavior	Customers in the Marketplace - Why they behave as they do - Consumer products - Brand choice Borrowed heavily from multiple disciplines: cultural anthropology, cognitive psychology, group dynamics
Activist	Imbalance of Power between buyers and sellers Malpractices of Individual firms "The dark side of the marketplace"
Macromarketing	Importance of Social Institution Function of Market Based Economy Aggregate Performance of Marketing
Organizational Dynamics	Sprung from Institutional School Channel Power Distribution Channel as a Social System
Systems	Marketing Problems Across Contexts Systems Characterized by: - communication & adaptation in social organizations - hierarchical structure - marketing as a social structure Interrelated Components Open and Closed Systems
Social Exchange	Law of exchange Perceptions and Preferences Function of social actors, social influence and institutional variables Exchange is the core concept of marketing

If, as Sheth, Gardner and Garrett (1988) suggest, the current turbulence threatens to fragment the rapidly diversifying discipline into subdisciplines; it is essential to address intertheoretical relationships in its further development. Bartels (1970) defines metatheory as the requirements of theory formulation. Possessing interconcept relationships is one of the essential qualities of marketing named by Bartels. Shelby Hunt's (1983b) four criteria for lawlike generalizations requires that theory must be integrated with other knowledge. He further stipulates that "An empirical regularity does not qualify as a lawlike statement until it is systematically integrated into a coherent scientific structure or framework (p. 163)." Marketing as a discipline, as a science, must therefore actively move towards a systematic integration of existing and potential knowledge.

Sheth, Gardner and Garrett confined their evaluation to internal elements. Other current authors employed both internal and external criteria to evaluate theory. For instance, Eulberg, Weekley and Bhagat (1988) have used internal and external criteria to evaluate organizational stress theory. Conceptually they delineate criteria as internal or external. Their external criteria are comparative in nature and, to differing degrees, either relate one theory to another or compare them on certain characteristics. These criteria are: external consistency, comprehensiveness, parsimony, and originality. Zaltman, Pinson, and Angelmar (1973) used 16 criteria for evaluating three major consumer behavior models. The criteria were broken into four major groups: formal, semantical, methodological, and epistemological. These criteria, as well as those of Eulberg, Weekley and Bhagat, include external, or comparative elements in addition to internal elements.

The needs of the discipline influenced the consideration of potential additional criteria. The criteria selected are intended to assist scholars in developing theory between schools of thought, and to assist in enlarging the body of marketing knowledge. Six of these criteria are externally oriented. One additional internal criterion (internal classification scheme) is also proposed to facilitate intertheory communication of concepts. The proposed criteria can be categorized as **structural** or **functional**. The structural criteria include: internal classification scheme, unifying power, potential unifying power, and hierarchy. Originality, heuristic power, and stability are the three functional criteria. Operationalization of the seven criteria is shown in Table 3.

Additional Criteria: Structural

Leong (1985) suggested a Lakatosian reconstruction of marketing science to provide for a hard core theoretical base for marketing, surrounded by a protective belt of research programs. The hard core would house a general marketing theory if and when such theory is formalized. Currently this centroid holds the "guiding research questions/assumptions, integrated models, and classification schemas (p. 29)." Leong extended the model to include middle range theories and working hypotheses (Merton 1957). This is the structural level in marketing where fragmentation and inconsistency is most intense. We propose that it is desirable to include attempts to link to other theory at this level. The net effect could be a joining of theory pulling towards the guiding research questions and, perhaps, a general theory of marketing. Evaluation of a theory or a concepts' **internal classification scheme** is important in order to establish clarity of definitions, consistency of language, and generalizability of concepts. These qualities are critical to the process of relating theories to each other. This criterion is operationalized by determining whether the concepts are defined so as to be mutually exclusive; collectively exhaustive; and to specify properties and phenomena to be classified (Hunt 1983a, p. 355).

The AMA Task Force on the Development of Marketing Thought (1988 p. 14) addressed the frustration felt by researchers over their negligible impact upon the discipline. We propose that **unifying power** and **potential unifying power** be included in any theory assessment process. Approaching theory development in such a manner would effectively encourage researchers to access and incorporate earlier work into their own theory development. Relevant links to previous work should be routinely identified by researchers. Previous work should be addressed as a basis for extension <u>or</u> refutation of existing theory. Theory constructed with existing and/or potential links to other theory would serve the discipline by progressively integrating existing knowledge into (presumably) more powerful theory.

The fourth proposed structural criteria, **hierarchy**, requires the evaluator to assess how closely a theory or concept approaches the central tenets of marketing science. Hunt proposed four fundamental explananda of marketing which, as Leong suggested, can serve as the central tenets of marketing. Hunt's explananda provide a very good benchmark for measure in operationalizing the metatheoretical criterion of hierarchy (see Hunt 1983b).

TABLE 3

Proposed Metatheoretical Criteria for Evaluation of Marketing Theory in Developing Marketing Thought

Criteria	Operationalization
	Structure
Internal Classification	Are concepts defined so as to be mutually exclusive, collectively exhaustive, and to specify properties and phenomena to be Scheme classified?
Unifying Power	To what extent has this school provided contributions to other schools of thought?
Potential Unifying Power	To what extent can this school be linked to other schools of marketing thought (theories, or paradigms)?
Hierarchy	Where does this school of thonght fit in the hierarchy of marketing knowledge?
	Function
Originality	To what extent is this a distinct school of thought?
Heuristic Power	To what extent will scholars be able to extend marketing knowledge from this school?
Stability	How dynamic is the explanation provided by this model?

Additional Criteria: Functional

The functional criteria: originality, heuristic power, and stability address the theoretical power of a concept, theory or model. Originality assesses the true contribution to the discipline. Is it truly new, more comprehensive, an extension or simply a restatement of an earlier contribution? Alfred North Whitehead speaks to originality very nicely, "(But) to come very near to a true theory, and to grasp its precise application, are two very different things, as the history of science teaches us. Everything of importance has been said before by somebody who did not discover it (1917)."

The AMA Task Force identifies a "lack of published journal articles that review past research and integrate that research to provide new conceptualizations of marketing issues (p 19)." The use of **originality** as an evaluative criterion will assist scholars in properly positioning their work as a review, extension, or original. Each form of research provides a valid contribution. However, improper categorization of marketing research tends to contribute more to confusion within the field rather than serving as a strengthening force. An example would be regarding replication, review, restatement or extension work as original. Proper positioning of new work would also serve to reduce the frustration of older faculty over negligible impact when younger generations "reinvent the wheel" (AMA Task Force p. 14).

The extent to which scholars can build upon a theory is a measure of its **heuristic power.** Zaltman, Pinson and Angelmar (1973) suggested four ways in which theory can achieve heuristic power: "a) by posing or reformulating fruitful problems, or b) by suggesting the gathering of new data which would be unthinkable without the theory, or c) by suggesting entire new lines of investigation."

Marketing is a dynamic discipline which requires adjustment to multiple forces. As such its theoretical base must be able to absorb and predict within a wide range of variability in numerous elements and concepts. Thus, **stability** is the measure of a theory's ability to provide explanation in the face of evidence it did not predict.

METHODOLOGY

The objective in collecting data in this research was to obtain (1) evaluation of the SGG scale, and (2) evaluation of the 12 schools of thought. The evaluation of the schools of thought was based on both the original criteria proposed by Sheth, Gardner and Garrett and on the seven additional criteria. Evaluation of this kind must be made by individuals with specialized expertise. Standard survey methodologies based upon random selection from the population in general are not practical, and consequently other methodologies were investigated. The Delphi technique was selected as the most appropriate for obtaining evaluation data from a panel of experts.

Delphi Studies

The Delphi technique was developed by the Rand Corporation in the 1950's for the purpose of aiding in the evaluation of the probable effects of a massive nuclear weapons attack on the United States (Helmer 1975). The most predominate use of the technique since then has been forecasting, especially the forecasting of technology. In marketing it has been used for demand forecasting (e.g., Best 1974). As a result, the Delphi technique is often thought of as a forecasting tool. However, it can be applied to many situations where judgments must be made by groups.

It is incorrect to think of the Delphi technique as one single technique, it has many variations. All of the variations have in common the fact that they are methods for structuring group communications among a panel of experts. The structure is intended to insure (1) that there is some feedback of both individual contributions as well as of the overall group view or judgement, (2) that there is some opportunity for individuals to revise their views and, (3) that there is some degree of anonymity for the individual responses (Linstone and Turoff 1975). The intent of these techniques is to reduce the effect of dominant individuals and to make sure that the opinion of each member of the panel is taken into account (Jolson and Rossow 1971).

The process that is generally followed in Delphi techniques starts with the identification of a panel of experts. These individuals are then queried regarding their judgement on a particular issue, and their responses remain anonymous. Next the responses are summarized or aggregated and a report of both the summary and the individual's responses are given to each panel member. The individual is then asked to reevaluate their judgement in light of the summarized responses from the group. These steps are repeated until there is no significant change in the individual evaluations from one step to another. Typically this process leads to both convergence within the panel and movement toward the true answer (Tull and Hawkins 1987).

Study Design

In this study the Delphi technique was used with a panel of six experts composed of faculty and doctoral students in the Department of Marketing and Transportation at Michigan State University. These individuals were given questionnaires asking for their evaluation of the 12 schools of thought on the six criteria used by Sheth, Gardner and Garrett and on the seven additional criteria. On each successive round, feedback regarding the group evaluations was given to the panel members along with an additional questionnaire and a report of the individual's own evaluation on the last round. Three rounds of evaluation and feedback were conducted.

Analysis

There are a variety of bases used with Delphi techniques to decide which round of data to use. When the technique is applied in forecasting, it is common to strive for convergence toward some agreement on the topic being forecast. In that circumstance the basis for decision regarding the data is typically the achievement of a certain percentage of evaluations within a prescribed range (e.g., "... when the interquartile range is no larger than two units on a ten unit scale (Scheibe, Skutsch and Schofer 1975)." However, in this research, convergence was not the objective since the reliability of the SGG scale was of interest as well as the actual evaluation levels from the scale and the additional criteria. Thus, the basis for the data decisions was the stability of the respondents' evaluation distributions over successive rounds of the Delphi, rather than convergence. (Stability in this context should not be confused with the "stability" criterion of the set of additional selected criteria.)

The stability of respondents' evaluations was measured by the percentage change (from round to round) in the frequency distribution of values on each criterion. To calculate this percentage, the histograms for one criterion on two successive rounds are subtracted columnwise and the differences are expressed as absolute values. For example, if on one round of evaluation a school of thought received an value of 6 from 4 of the evaluators, and if on the next round it received a value of 6 from only 3 evaluators, the absolute value would be 1 for the columnwise difference of the 6 columns in the histograms. The absolute values of the columnwise differences are then aggregated to form the "total units of change". Since any one evaluator's change from round to round is reflected in two columns of the histogram, the total units of change is divided by two. Then, this value is divided by the number of evaluators to produce the percentage change per evaluator from one round to the next. This measure captures changes in both the variability and the central tendency of the distribution of values.

The next issue of concern is what decision rules should be applied to identify stability or relative stability of the respondents' evaluations. Scheibe, Skutsch and Schofer (1975) indicate that at any point in time a certain amount of "oscillatory movement" and change within the group is inevitable. They indicate that from their experience this represents a level of about 15% change from round to round. Thus, any round that had approximately 15% change or less from the previous round was considered stable. In some instances this level of change was not reached, but the amount of change was decreasing. In these cases the last round was selected because it was the most stable. Using these procedures, one set of data was selected out of the data from all three rounds of the Delphi process.

RESULTS

The results of this study address a number of issues regarding the schools of thought in marketing and the SGG scale. The issue of the reliability of the SGG scale is presented first. Then the evaluations of the schools of thought using the SGG scale are presented and compared to the evaluations in their book. Finally, the evaluations of the schools of thought using the seven additional criteria are presented.

Scale Reliability

Cronbach's coefficient alpha is the method used to gauge reliability. This coefficient is the mean of the split half correlations of all possible splittings of the items in the scale. It is an internal consistency reliability estimate (Peter 1975). It measures the same characteristic as the Kuder-Richardson formula (Anastasi 1976), except that the coefficient alpha is designed for use with scaled data (e.g., a 1 to 10 scale) rather than dichotomous data (e.g., Yes-No, Right-Wrong, etc.).

Table 4 presents the value of coefficient alpha for the application of the scale to each school of thought. The values range from .04 to .91. All of the values are strong or fairly strong except for the regional and functional schools. In the case of all of these applications except with the managerial and activist schools, modification of the scale by eliminating an item would improve the reliability of the scale. However in most cases the improvement would be only very slight. One interesting exception to this is the regional school where the elimination of the empirical support item would greatly improve the reliability of the scale. Generally speaking, in this application the SGG scale appears to be quite reliable.

Evaluations of Schools of Thought: SGG Scale

Each of the 12 schools of thought were evaluated in this replication using the SGG scale. Table 3 presents a summary of these evaluations and the corresponding evaluations from SGG. The scale on which these evaluations were done has a range of 6 to 60. The managerial school received the highest score by both SGG (50) and the panel of experts (mean = 45, median = 47). The panel assigned the low mean score of 25 (median 28) to the activist school where SGG gave the functionalist school their lowest score of 29. There was a great deal of agreement among the panel regarding the score for the functionalist school as evidenced by the low range (6) and the low standard deviation (1.97). The panel had the least agreement regarding the buyer behavior school, as indicated by the range of 22 and the standard deviation of 7.3. A Mann-Whitney U test for differences in the ranks by SGG and the Delphi panel found that the difference was significant (the U value for the Delphi panel ranks was 68.5).

Evaluations of Schools of Thought: Additional Criteria

Table 5 presents the means and ranges for the evaluation of the twelve schools of thought using the seven additional criteria. Among the evaluative criteria, internal classification scheme consistently had the highest level of agreement among the panel of experts. This is indicated by the low values for the range. Conversely, stability generated the greatest disagreement among the panel members. Inspecting the matrix of schools of thought across criteria reveals that the functionalist and managerial schools of thought generated the least disagreement among the panel members, and the buyer behavior and social exchange schools created the most disagreement.

It is not useful to compare means across criteria because these criteria, unlike the SGG criteria, are not proposed as a scale. However, it is interesting to compare the schools of thought on a given criterion. For instance, a strong contrast occurred on the hierarchy criterion between the means of the functionalist school and the activist school. It is also interesting to note that this contrast in means is accompanied by a very high level of agreement among the panel members, as indicated by a range of only 1 in each case.

TABLE 4

Comparison of SGG Scale Evaluations for the 12 Schools of Thought

School of Thought	Replication Study Results: Coefficient Alpha	Range	Median	St. Dev.	Mean	Original SGG Score
Commodity	.54	9	36.5	3.2	35.2	32
Functional	.37	9	37.5	3.4	38.2	38
Regional	.04	7	40.0	2.7	39.5	38
Institutional	.89	15	38.5	5.1	37.0	36
Functionalist	-.48	6	35.5	2.0	35.3	29
Managerial	.89	16	47.0	5.2	45.2	50
Buyer Behavior	.87	22	44.5	7.3	41.0	47
Activist	.91	13	28.0	4.7	24.7	32
Macromarketing	.77	16	32.5	5.6	31.7	31
Organizational Dynamics	.86	12	39.0	5.1	38.2	32
Systems	.87	14	38.0	4.3	37.5	40
Social Exchange	.69	I2	38.5	4.4	37.3	40

SUMMARY AND CONCLUSIONS

This study replicated and extended the work of Sheth, Gardner and Garrett using the Delphi technique with a panel of experts. The replication applied the SGG Scale which evaluates the contribution of each school of thought to the development of marketing theory, to the same 12 schools of thought delineated by Sheth, Gardner and Garrett. Although the rankings of the contribution of the schools of thought by Sheth, Gardner and Garrett and the Delphi panel were similar, a Mann-Whitney U test revealed that the differences in ranking were significant.

The extension portion of this research first proposed additional criteria for the evaluation of theory and schools of theoretical thought. These additional criteria are different from the SGG Scale criteria in that they are more externally focused. Metatheory literature supports use of evaluative criteria to address external characteristics of theory. The additional criteria are delineated into structural and functional criteria.

The proposed structural criteria assist in positioning a theory's contribution in the hierarchy of marketing knowledge. The first structural criterion is **internal classification scheme** and it is intended to promote clearer communication of concepts and constructs between theories. The external structural criteria are (1) **unifying power**, (2) **potential unifying power**, and (3) **hierarchy**. These criteria assist scholars in identifying the hierarchical perspective of theories; central tenet, supporting research, middle range theories, or working hypotheses (Leong 1985).

The functional criteria facilitate evaluation of a theory's contribution to marketing knowledge. These criteria are (1) **originality**, (2) **heuristic power**, (3) **stability**. The **originality** criterion assists in positioning contributions as extension, replication or original work. Heuristic power signals the potential for additional contributions. Stability predicts future usefulness of a particular theory. Table 3 presents a summary of these additional criteria.

The extension portion of this research also included an investigation of the reliability of the SGG Scale. The scale was found to be generally very reliable in these applications. Thus the **semantics**, **syntax**, and **pragmatics** criteria of the SGG Scale should provide the discipline with a good tool for evaluation of internal characteristics of marketing theory.

This research has focused exclusively on the twelve schools identified by Sheth, Gardner and Garrett. A natural extension in this stream of research would include application of these tools to other delineations of marketing thought such as: logistics, historical, strategic marketing, etc. The usefulness of both the SGG criteria and the proposed additional criteria crosses hierarchical barriers. The criteria are just as appropriate to working hypotheses, middle range theories and research questions as they are in evaluating general theories of marketing.

Application of evaluative criteria to all levels of marketing knowledge should prove fruitful in integrating existing knowledge. As suggested by Merton (1957) we should be concerned with the content of specific theories (interplay between research and theory), the structure of individual theories (properties of any theory), and the hierarchical relationships between theories (progressive codification).

TABLE 5

Evaluations of Schools of Thought on Proposed Additional Criteria

Structure Criteria		Commodity	Functional	Regional	Institutional	Functionalist	Managerial	Buyer Behavior	Activist	Macromarketing	Org. Dynamics	Systems	Social Exchange
Internal Classification Scheme	Mean	5.3	7.0	7.5	5.3	7.0	6.2	7.8	4.0	4.5	6.8	6.7	5.5
	Range	2	4	2	2	0	4	1	3	3	1	2	2
Unifying Power	Mean	6.3	6.3	3.0	7.5	7.7	8.3	6.8	4.3	5.2	6.3	5.2	5.3
	Range	4	4	2	3	3	2	8	3	2	6	5	6
Potential Unifying Power	Mean	8.7	8.2	5.7	7.5	8.3	8.2	6.5	3.8	8.0	7.7	8.0	7.7
	Range	4	3	1	5	3	2	6	2	5	3	3	7
Hierarchy	Mean	6.0	6.5	4.0	6.2	8.5	6.5	5.8	3.2	7.7	7.5	7.7	8.0
	Range	3	2	5	3	1	2	7	1	5	3	3	7
Functional Criteria													
Originality	Mean	7.3	7.5	6.5	5.5	7.3	6.8	7.7	4.8	7.3	5.7	5.8	6.0
	Range	5	5	4	4	2	4	3	5	3	2	4	3
Heuristic Power	Mean	6.2	4.5	4.2	5.0	8.0	7.3	7.2	4.5	6.3	6.0	7.2	6.5
	Range	6	4	2	4	3	2	8	4	4	2	4	7
Stability	Mean	4.2	4.2	4.0	5.5	8.0	7.3	6.7	4.0	7.0	7.5	7.5	6.7
	Range	4	5	3	3	5	3	8	3	7	1	4	7

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C.1

The Matching Process for Positive Externalities of Consumption

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The Matching Process for Positive Externalities of Consumption

Jack M. Cadeaux

ABSTRACT

This paper treats positive externalities of consumption as a distinctive class of goods. By applying to such externalities Alderson´s view that there exist in developed economies heterogeneous offerings and heterogeneous wants, this paper argues that an understanding of the matching process and the structure of exchange for such positive externalities reveals entrepreneurial marketing opportunities in an area otherwise dominated by non-market policies.

Introduction and the Scope of Phenomena

This paper offers a distinctively macromarketing approach to a class of externality situations. Market failure economists claim that unsubsidized market exchanges fail to provide socially optimal levels of consumption of goods that yield external benefits. They argue that high transaction costs and institutional limits to the establishment and enforcement of private property rights dictate non-market policies. Yet other economists are critical of the theory of market failure and offer empirical evidence of contracting and pricing for many apparent externalities. For example, Cheung (1973, 1980) empirically demonstrates that Washington state apple growers and beekeepers are able to contract and establish prices for what otherwise would appear to be external outputs of their respective production activities (that is, the nectar from the apple blossoms and the pollination services of the bees). Nevertheless, both sets of economists tend to treat external outputs of production and consumption as relatively homogeneous and isolated goods-in-themselves.

After outlining the scope of phenomena to be considered, this paper reviews a number of non-market approaches to the management of consumption externalities. The discussion then considers transaction costs for externalities and the possibility that a matching process in a generalized exchange framework might reduce such costs. Finally, the paper considers a typology of generic markets and exchange policies for positive externalities of consumption and concludes with a brief discussion of facilitative organizational and public policies.

In Harris and Carman's (1983) typology of market failures, positive externalities are treated as a type of side effect characterized by underproduction and underconsumption of goods that produce benefits for "non-subjects" or parties outside the simple dyadic exchange relationship for the focal good. The most obvious class of goods whose consumption yields external benefits consists of inoculations against communicable diseases since, as Harris and Carman note, consumption of such goods should reduce the probability of incidence to the uninoculated as well as to the inoculated. They also cite the classic example of education which "(presumably) benefits all members of society, in addition to the person receiving the education."

The scope of this analysis is restricted to such positive externalities of consumption as distinct from negative externalities of consumption, pecuniary externalities, or public or collective goods. Although such restriction of scope is not a common practice in the study of market failures, it is made here for several reasons. First, it is not at all clear that positive externalities of consumption should be limited to such decrements in negative externalities as, for example, reductions of litter from increased consumption of recyclable containers. Second, since so-called pecuniary externalities are effects captured by changes in market performance (prices), they are not exchangeable goods as such, but rather measures of rates of exchange. Thus, the analysis of such effects would appear to deserve separate treatment. Finally, while some external benefits may be nonexcludable and nonrivalrous in consumption or use, these characteristics are not true of all external benefits. Thus, insofar as positive externalities of consumption depart from the classical model of a public or collective good, they would appear to deserve separate treatment.

Goldin (1977) criticizes the conventional treatment of external benefits as public goods with assumed nonexcludability problems. He argues that most cases of nonexcludability are matters of public choice concerning equal versus selective access. However, like most economists, Goldin considers a reduction in external costs as an external benefit and thus includes, for example, the effects of pollution control in this category. In this sense external costs and external benefits would not get separate treatment. He claims that external benefits such as pollination services of beekeeping and pollution control are largely congestible and thus subject to rivalry in consumption. A congestible good or service can be defined simply as one whose availability or quality diminishes in proportion to its use by multiple users. For example, it may be true that many of the external benefits of education and inoculation are often subject to such rivalry in consumption, although it would be difficult to make general claims about the congestibility of classes of goods. However, Goldin argues that congestibility, when present, is itself an argument for selective access to a good or service rather than for its treatment as a public good available to all.

The classic examples of education and inoculation cited by Harris and Carman (1983) deserve some additional comment. Education, for example, may entail external benefits for many members of society but probably not for "all" members of society, as Harris and Carman (1983) state. A later section of this paper illustrates how consumption of MBA education offers external benefits which are heterogeneously valued and sought by prospective employers of MBA graduates as third party beneficiaries.

Clearly third party beneficiaries of the first example, inoculation, are not equally susceptible to the contagious disease in question because, for example, of immunity acquired from prior exposure or because of lack of exposure to risk factors. Such heterogeneity in functional utility is compounded by the fact that even among those who could benefit, not all will desire the external benefit, perhaps because of doubts about efficacy, lack of awareness, lack of self-concern, or even from altruistic concern for the possible harmful effects of inoculations (adverse reactions) on those receiving direct preventive treatment.

Non-Market Management of Positive Externalities of Consumption

The traditional public policy approach for managing positive externalities of consumption involves voluntary philanthropy or subsidy by the government for the production or consumption of the good yielding the externality. The objective of such subsidy is to increase consumption of such goods to the point where marginal "social cost" equals marginal "social benefit." Instead of directly addressing this classic but still thorny problem of social welfare optimization, this section briefly comments on several specific non-market "remedies" for the management of positive externalities of consumption. The next section lays the groundwork for an alternative market approach to such phenomena.

Transfers

In Harris and Carman's (1984) discussion of regulatory responses to alleged market failures, the authors do not discuss preferred remedies for positive externalities of consumption. They discuss subsidies as a traditional mechanism by which transfers are targeted at institutions such as universities, which are capable of producing services that may yield external benefits. However, such transfers are production subsidies and do not necessarily increase consumption of the externality producing good unless the institution uses the subsidy to reduce prices and thereby increase consumption. However, there is no guarantee that such subsidies will produce such results. It is very likely that the availability of subsidies will merely increase prices paid to factors of production for the institution (for example, university faculty) and even yield lower output of the externality producing service relative to the unsubsidized scenario.

Compulsory Exchange

Although probably not intended to solve this type of misallocation of resources that results from subsidies, another remedy identified by Harris and Carman (1984) is "mandating exchange," referred to by them as a form of direct allocative control. Although they view this mechanism as a means of rationing private goods (such as, for example, telephone service and electricity) among classes of customers in order to achieve equity in consumption opportunities, a "mandating exchange" policy can also be used to increase consumption of goods that may produce external benefits-in-use. For example, universities may be required to provide services to many classes of customers through state-mandated open admissions policies.

Mandated exchange of this sort should have the effect of increasing the consumption (or at least the availability) of goods that may potentially yield external benefits for nonusers, whereas subsidizing the production of such goods offers no such probability of increasing consumption. However, a "mandated exchange" (Harris and Carman 1984) is clearly not a "marketing exchange" which must "include some degree of freedom for the traders to make a decision to trade or not to trade" (Carman 1980). As illustrations, open admissions restricts seller freedom, and compulsory schooling restricts consumer freedom.

Treating Positive Externalities as Public Goods: Public Provision or Access Control

Positive externalities of consumption can also be treated as public goods in developing non-market public policies. Two alternative implementations of such policies are public provision and access control.

Public provision is the final remedy cited by Harris and Carman (1984) for the non-market management of externality producing goods and services. Although the debate over public versus private provision is outside the scope of this paper, it is worth noting that Demsetz (1970), in advocating the use of tie-in mechanisms for the private provision of public goods, explicitly acknowledges that heterogeneity of demand for such goods facilitates the price discrimination inherent in the use of such mechanisms. As noted earlier, positive externalities of consumption are not <u>necessarily</u> public goods because institutional mechanisms for exclusion are often feasible and nonrivalry in use may not be present. However, the heterogeneity of demand for positive externalities of consumption may facilitate the use of discriminatory tie-ins when such external benefits are relatively nonexcludable and nonrivalrous in use. As in all tying arrangements, knowledge of consumer demand for assortments is required. Specifically, if policy makers use a bundled pricing mechanism to encourage the consumption of a service that yields external benefits, they should understand the nature of inter-service complementarity and the relative preponderance of search, experience, and credence characteristics among the bundled services (Darby and Karni 1973, Guiltinan 1987). However, as discussed later in this paper, such market knowledge is more likely to be acquired and exploited by entrepreneurs than by public managers--the latter being better suited to playing a facilitative role to allow and encourage the entrepreneurial marketing of service bundles that include services yielding external benefits.

Finally, if external benefits are viewed as public goods, then access control becomes another non-market mechanism for resource allocation. Goldin (1977) makes the following statement about this option, although he does not offer a general rule for the relative superiority of equal versus selective access to external benefits of consumption:

> What are we left with? By virtue of involving some `consumption externality,´ a choice must be made with regard to almost every act of consumption: is there to be equal or selective access to the effects of that consumption act? As in other cases there is no a priori answer. Efficient choice depends on the costs of granting access to more persons; the cost of exclusion; the value of diversity, etc. (Goldin 1977)

Although Goldin is very critical of the traditional public good treatment of external benefits, his proposal is not a market approach, but instead hints at public policy that engages in administrative computation of "efficient" arrangements of equal and selective access. However, it could be argued that institutional arrangements (for example, private property rights) make many consumption externalities inherently subject to equal or to selective access. Specifically, it would appear that selectivity of access depends on the publicness or visibility of the consumption activity. For example, privately maintained outdoor gardens in a front yard provide visual benefits to all passersby, whereas the visual benefits of a backyard garden enclosed by a tall fence are subject to selective access to invited (and uninvited) guests.

Transaction Costs, the Structure of Exchange, and the Process of Matching

In light of the restriction of this paper´s scope to positive externalities of consumption, this section briefly comments on some existing descriptions of transactions costs for externalities. These approaches have not fully considered costs and remedies associated with market heterogeneity, yet have restricted their view of market mechanisms to simple dyadic exchanges. Therefore, to manage such externalities through the marketplace, this section offers a more generalized structure of exchange that incorporates a matching process.

Transaction Costs for Externalities

Transaction cost analysis has played a key part in understanding the relative viability of market solutions to problems of negative externalities (Coase 1960 and various others). However, transaction costs for <u>positive</u> externalities have not been given special treatment by economists. Buchanan and Faith (1981), even assert that

> Entrepreneurial activity, the primary source of economic growth and development, seems to be much more likely to be adversely affected by legal and/or political protections against possible external diseconomies than it is to be thwarted by the failure of entrepreneurs to collect payments for the possible spillover benefits that their activities confer on others.

However, these economists offer no evidence or argument in support of this assertion other than to observe that this dichotomy parallels the legal asymmetry between the law of torts and the law of contract. Thus, economic analysis of transaction costs focuses more on enforcement costs for liability and property rules covering negative externalities than on contracting costs for positive externalities.

Marketing scholars have not contributed to this field an understanding of marketing phenomena and institutions and tend to focus, as well, on negative externalities. Carman (1980) argues that marketing scholars should be "carefully recording transaction costs under various alternative arrangements" for the exchange of externalities, which, he claims, "is at root a marketing problem." Following Buchanan (1973), Carman (1980) provides a typology of (negative) externality exchange situations in terms of the numbers of buyers (receivers) and sellers (givers) in the structure. He uses this framework to assess the size of transaction costs as bargaining costs and the degree of indeterminacy of a bargaining solution. Although the numbers of exchanging parties may vary in this framework, the good (or "bad") is treated essentially as a homogeneous entity.

Dahlman (1979) cites as relevant to externality situations the transaction costs of search and information. Even Coase argues that, for an externality,

> In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms...(Coase 1960 from quote by Dahlman 1979)

A process in the marketplace that would reduce transaction costs of information and search may make possible a private market solution to the problem of positive externalities of consumption. The description of such a process is the topic discussed next.

Restricted or Generalized Exchange?

Perhaps one of the reasons analysts of externalities have observed prohibitively high transaction costs of search, information provision, and sorting is that they have only considered direct (restricted dyadic) rather than more indirect (generalized) exchange structures. For instance, Demsetz (1964) cites the following passage by Arrow (1963) to characterize market failure in the case of a consumption externality (third party benefits of immunization) as a failure to establish market prices for external benefits in a restricted dyadic exchange:

> An individual who fails to be immunized not only risks his own health, a disutility which presumably he has weighed against the utility of avoiding the procedure, but also that of others. In an ideal system, there would be a price which he would have to pay to anyone whose health is endangered, a price sufficiently high so that the others would feel compensated; or alternatively, there would be a price which would be paid to him by others to undergo the immunization procedure. (Arrow 1963 as quoted by Demsetz 1964)

Arrow may be looking at the wrong exchange relationship when he fails to observe a price. It may be expecting too much of the prospective consumer of a good that yields external benefits to bargain directly with third party beneficiaries. The transaction costs--primarily the search costs--probably are too high to make this feasible, regardless of the enforceability of property rights in health. However, a generalized exchange structure incorporating a middleman that functions primarily as a matcher should a) have lower total search and sorting costs than a direct system, and b) establish indirect prices that are still market prices. It is, after all, clear to marketing scholars-but perhaps less clear to market failure economists-that market mechanisms (and prices) are not restricted to restricted dyadic exchanges, but may arise as well in more complex structures (Carman 1980) and involve participants whose functions entail more than merely the buying and selling of homogeneous goods at equilibrium prices (Reekie and Savitt 1982).

Matching Processes

Reekie and Savitt (1982) and Mortensen (1988) think supply and demand models of competitive equilibria are inappropriate under conditions of heterogeneity of offerings and wants. In such cases, an analysis of the matching process is required. As the supply and demand arrays become increasingly heterogeneous, transaction costs increase (Reekie and Savitt 1982). These costs include information provision and search and sorting costs (Reekie and Savitt 1982). The Aldersonian sorting process reduces these total system costs by the use of entrepreneurial matchers who continuously use market knowledge to discover niches of "partial congruence" between arrays of heterogeneous offerings (within and between producers) and heterogeneous wants (within and between consumers) (Reekie and Savitt 1982).

Markets for positive externalities of consumption can also be viewed as heterogeneous and discrepant in this sense. That is, there is potential heterogeneity within and between goods whose consumption or use yields external benefits and there is potential heterogeneity within and between beneficiaries.

A Model of Generalized Exchange and a Typology of Generic Markets for Positive Externalities of Consumption

This section presents both a model of generalized exchange and a typology of generic markets for positive externalities of consumption in terms of heterogeneity of assortments of offerings and wants. A number of examples are given of externalities and market exchange policies for different generic markets within this framework.

Two polar exchange scenarios are considered in this section. These scenarios reflect exchange structures possible under alternative types of generic markets for external benefits. The first scenario, depicted in Figure 1, includes only three participants: the producer of a good whose consumption yields external benefits, the consumer of that good, and the consumer of the external benefits. There are only two possible market mechanisms under this scenario. These are shown in Figure 1 by the payment paths A and B. That is, consumers of external benefits in this scenario could voluntarily subsidize either the production or the consumption of the externality producing good. It is well known that this scenario is subject to free rider problems when the externality approximates a public good. However, as noted earlier, many consumption externalities are not public goods. In any case, these payments are still direct, albeit voluntary, subsidies and require little additional marketing analysis.

The second scenario, depicted in Figure 2, involves a fourth participant, a middleman who specializes either in a) matching heterogeneous externalities with homogeneous beneficiaries, b) matching homogeneous externalities with heterogeneous beneficiaries, or c) matching heterogeneous externalities with heterogeneous beneficiaries. The payment paths A and B are the same as in Figure 1. That is, they represent the (initially less likely) possibility that consumers of external benefits will voluntarily contribute to subsidizing the production or the consumption, respectively, of the good or goods yielding the external benefits. Path C represents the payment by consumers of external benefits to matchers who in exchange make external benefits available to these consumers. This availability is not created by stocking "benefits" in a field inventory, but rather by informing and creating "contacts" more like an agent than a merchant. However, the meaning of such "contacts" is not trivial to define and depends on the tangibility of the goods and benefits involved.

Unfortunately, payments along path C are very unlikely to occur. Instead, paths D and E are arguably the most likely source of revenue for entrepreneurial matchers in this scenario. This is so because consumers of external benefits have no incentive to directly subsidize the matching process, which like the market institution itself may be viewed as a potential public good from their perspective. Demsetz (1964), for instance, discusses markets, valuation information, and policing devices as candidates for public goods in themselves. However, producers and consumers of goods that yield external benefits are less likely to view the matchers as a public good insofar as matchers are able to solicit and obtain from beneficiaries contributions that directly subsidize either the production or consumption of the externality yielding goods. Thus paths D and E represent payments (investments) by producers and consumers of externality yielding goods to matchers in exchange for matchers' efforts to solicit and obtain contributions (in excess of these payments) along paths A and B from third party beneficiaries. Of course, the entrepreneurial role of matcher need not be entirely organizationally independent of producers or consumers of the primary good that yields the external benefits in question. Various possibilities for horizontal and vertical collusion or cooperation may be feasible and effective here.

Not all positive externalities of consumption are equally conducive to the generalized exchange mechanism just described. Generally, it would seem that the importance of the role of matcher varies with the degree to which the matcher can reduce discrepancies of assortments of offerings and wants and thus the overall transaction costs of searching and sorting (Reekie and Savitt 1982). Figure 3 presents a typology of generic markets for positive externalities of consumption.

In order to briefly explain the typology of policies in Figure 3, it is necessary to note that these are <u>market</u> exchange policies, <u>non-market</u> policies having already been reviewed in this paper. The market policy suggested by assortment conditions in cell 1 is a voluntary subsidy of production or consumption of the good yielding the external benefit. Consumption subsidies may be preferable to production subsidies for reasons indicated earlier in the discussion of transfers. Because voluntary subsidies are "marketing" exchanges, they involve more freedom and fewer regulatory failures than "mandated" exchanges (Carman 1980, Harris and Carman 1984, Carman and Harris 1986). The exchange scenario for cell 1 has been depicted in Figure 1; for cells 2, 3, and 4, the potentially generalized exchange scenario has been depicted in Figure 2.

It is not easy to find examples of positive externalities of consumption that are both homogeneous in supply and demand. It is easier to find negative externalities or even public goods that fit this cell. A somewhat ironic candidate for this subsidy situation is simple front lawn maintenance in a tract home or suburban community. In that case, there is no substitute for a mowed lawn and virtually all residents benefit from each other's lawn being mowed. In fact, the Lawn Institute, a trade association, cites a number of such external benefits. These include aesthetic benefits of hospitality and warmth ("curb appeal"), psychic health benefits ("...watching grass grow and responding to the seasons may be a last link to the solace and understanding that our vanishing wilderness once provided"), and a number of environmental benefits (noise abatement, temperature modification, glare reduction, oxygen generation, and fire retardation) (Lawn Institute, n.d.).

Although market failure economists implicitly treat most externalities as residents of cell 1, it is difficult for a marketing analyst--who sees a world of heterogeneity--to do so. Examples in the other cells are somewhat more important from a public policy standpoint.

Policies under cell 2 should try to facilitate beneficiary search and sorting among the various goods available that produce similar external benefits in use. Although such goods may not be substitutes in (private) use, they may be substitutes for externalities in that they compete in the same generic market structure of external benefits.

An example of an externality in cell 2 is private consumption of residential and commercial security devices and services. Examples of such goods and services include alarms and detection devices, guard dogs, private patrol services, and, depending on the viewpoints of beneficiaries, shotguns and handguns as well. Clearly, the consumption of such goods yields spillover benefits for neighbors of users. To the extent that potential intruders are uncertain of which household or establishment is using which security method, intruders generalize their perceived risk of detection or interdiction across both using and nonusing neighbors, who, in turn, receive a relatively homogeneous external benefit from others' consumption: reduced risk of burglary or other real crime against person or property.

For cell 3, the matching policy entails discovering, identifying, and segmenting third party beneficiaries. The objective here is to develop customized information and contribution solicitation programs that would emphasize segment-specific benefits for third parties. Another possible policy here is to use price discrimination to bundle external benefits with private goods, again capitalizing on segmentation. As noted earlier, Demsetz (1970) discusses tying arrangements and price discrimination for the private production of public goods.

An example of a generic market for a positive externality of consumption that belongs in cell 3 (homogeneous offering, heterogeneous wants) is MBA education. The producer in this case is the MBA granting institution. The consumer of the externality producing service is the MBA student and prospective graduate. The third party beneficiaries in this case are the variety of employers of MBA graduates. The offering in this case consists of MBA educated graduates who are a reasonably homogeneous good to the extent that MBA programs comply with AACSB standards and produce graduates whose credentials generally are not substitutable by those of programs in economics or law, for example.

Despite the relative homogeneity among MBA graduates, prospective employers of MBA graduates may differ greatly in the benefits they seek from MBA trained graduates. Employers variously value analytic, quantitative, and communication skills. Some appreciate a degree of socialization into the norms and values of the free enterprise system, while others desire specific knowledge of contemporary business practices. Prospective beneficiaries--employers--sometimes contribute directly to programs which produce graduates with preferred attribute profiles; in other cases they participate in programs which tie or bundle the graduate to a specific brand of education by, for example, paying for executive MBA education of current employees at selected executive MBA granting schools.

Finally, the discrepancy of assortments found in cell 4 suggests a policy that makes full use of the entrepreneurial matching role (Reekie and Savitt 1982). This policy employs both the search and sorting functions found in cell 2 and the information provision and segmentation policies found in cell 3.

An example of a positive externality of consumption in cell 4 (heterogeneous offerings, heterogeneous wants) is preventive health care for the management of contagious infections. Arguably, although all third party beneficiaries of the consumption or use of preventive health measures by others desire the same benefit, minimizing the probability of catching an infectious disease carried by others, they vary considerably in the level and type of demand for this benefit. For example, although no one wants to catch the flu, some are more susceptible than others because of risk factors such as age, physical condition, and exposure to large numbers of people in confined places. Even the Weather Channel now routinely shows CDC maps of flu prevalence--further demonstrating objective heterogeneity and reinforcing subjective perceptions of heterogeneous risk. It is also common knowledge that the risk of acquiring AIDS varies drastically by place of residence and by consumer lifestyle. Thus, the demand for reduced exposure to contagious infections is quite heterogeneous both within and between disease categories.

It is equally clear that the goods and services whose consumption might reduce the exposure to contagious infection to third parties constitute a very heterogeneous set of offerings. A number of substitutes compete for attention in this case. The current AIDS crisis has variously called attention to increased use and consumption of any of the following goods and services: testing procedures, quarantine services, condoms, and, perhaps in the future, inoculations. A market approach to the AIDS problem would attempt to match segments of third party beneficiaries with producers and consumers of classes of AIDS prevention and epidemiological control measures. It is clear today that external beneficiaries have quite varied perceptions and preferences in this case. Some prefer that condom consumption increase; others object to birth control devices as such; some believe that exposed individuals should be tested and quarantined; others reject any infringement on others´ rights of privacy and movement; some favor production and use of inoculations obtained via sophisticated biotechnology; and still others fear the "social costs" of genetic engineering. The initiative for a matching institution in this case could come from associations of producers (for example, pharmaceutical or condom manufacturers), from associations of primary consumers (members of at-risk groups), or from cooperative organizations of (external) beneficiaries. At present, no such matching process appears to be crystallizing; instead, we see a confusing array of non-market subsidies and piecemeal regulations.

Most goods and services whose consumption yields external benefits arguably lie in cell 4. The arts form another important set of examples from a public policy standpoint. Theater, for instance, offers a quite heterogeneous assortment of productions that may yield external (symbolic) benefits of social integration or social innovation that are variously valued by third parties (Cadeaux and O´Dair 1984). Grampp (1989), however, dismisses such symbolic benefits as illusory and, to further support his argument against arts subsidies, claims that many alleged external benefits from the arts may be produced by the consumption or production of substitutes: civic pride can result from attending state opera or from seeing a local soccer team win; Plato´s law abiding citizenry may as well result from prison production as from arts consumption (albeit in different forms). However, if heterogeneity in demand exists for symbolic external benefits of arts consumption, it is not necessary to make the extreme claim that these benefits are illusory to argue against arts subsidies. A process of macro-sorting and matching rather than a system of subsidies is required to a) hierarchically partition generic markets of potentially substitutible classes of cultural events (such as the arts, sports, or parades), classes of, for example, arts events (such as opera, theater, or symphony), and classes of, for example, theatrical events (such as black comedy, historical romance, or classical tragedy) and b) match these with segments of seekers of symbolic external benefits.

As a public choice problem, the generic markets for external benefits from epidemiological control and the arts are subject to regulatory failure (Carman and Harris 1986) or even rent-seeking (Grampp 1989). As a matching problem subject to generalized exchange relationships and strategic marketing of external benefits, there is a greater probability of achieving, at least, "partial congruence" between the sets of offerings and wants just described (Reekie and Savitt 1982).

The Strategic Marketing of External Benefits and the Development of Facilitative Public Policy

This typology of generic markets for externalities provides a typology of degrees and kinds of transaction costs, namely, search and sorting costs that exist in part because positive externalities of consumption are dominated by intangible (experience or credence) characteristics (Darby and Karni 1973) and often involve symbolic characteristics as well. For example, the differentiated benefits employers seek from MBA graduates mentioned earlier are not clearly visible prior to employment; instead, third party beneficiaries (employers) must rely on experience or even faith in judging the qualifications of graduates. In particular the symbolic status of the MBA granting institution plays a major part in differentiating among graduates. Given facilitative public policies legitimating property rights in such intangible externalities, entrepreneurial marketers should be able to reduce these systemic costs by creating, for example, profitable and satisfactory matches between consumers of goods that produce positive externalities and consumers of those externalities. However, there is little evidence that organizations are seeking such facilitative rights.

Many organizations today appear to be more concerned with the strategic exploitation of regulatory policy directed ostensibly at controlling negative externalities than they are with exploiting the generalized exchange relationships among producers of goods which yield external benefits, the consumers of these goods, and the third party beneficiaries of the consumption of such goods. The resulting "regulatory failures" have been recently noted by both macromarketing scholars and public choice economists.

Carman and Harris's (1986) discussion of regulatory failures identifies "information failures" as a particular type of "design failure:"

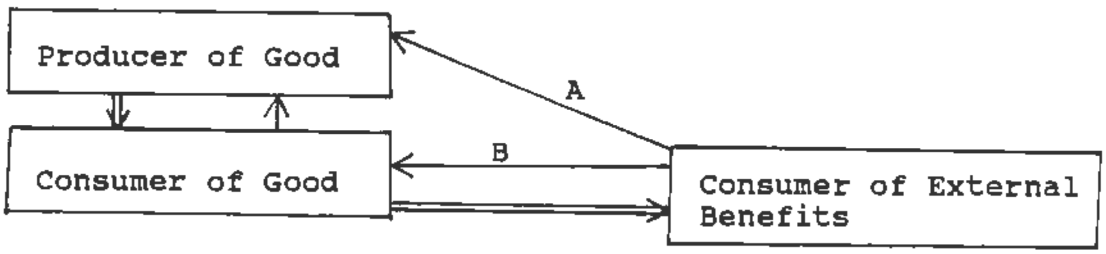
> A special kind of information failure concerns external and side effects. Efforts to regulate one market or product almost inevitably affect other goods or markets. Regulating auto emissions by requiring the installation of catalytic converters dramatically shifts the demand for converters while decreasing the

facilitate the use of market mechanisms just as the establishment and enforcement of such rights does for negative externalities (Coase 1960 and others). Of course, property rights in intangible benefits such as "reduced risk of flu" or "free enterprise orientation of MBA graduates" are difficult but perhaps not impossible to conceptualize.

Public policy that facilitates the matching process and generalized exchange model described in this paper provides a macromarketing alternative to economic policy that promotes selective and haphazard public or private subsidy, one-good-at-a-time, for goods whose consumption yields external benefits--benefits that may well be provided by competing goods and that may well be desired by different final consumers in differing degrees, or, by many, not be desired at any price.

FIGURE 1

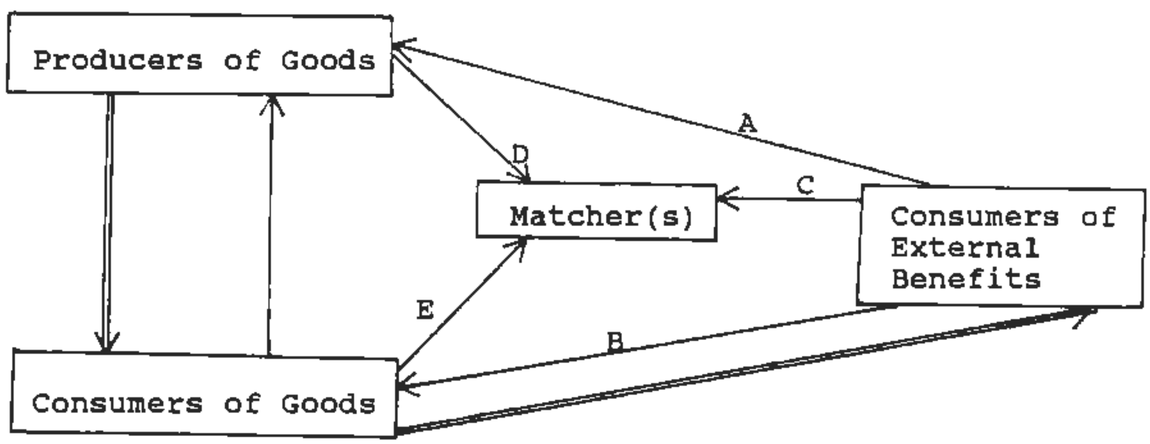
A Direct Subsidy Scenario for the Market Exchange of Positive Externalities of Consumption



[Double lines indicate flow of good or benefit. Single lines indicate path of payment.]

FIGURE 2

An Indirect Matching Scenario for the Generalized Market Exchange of Positive Externalities of Consumption



[Double lines indicate flow of good or benefit. Single lines indicate path of payment.]

FIGURE 3

A Typology of Assortment Conditions and Policies for Generic Markets of Positive Externalities of Consumption

	Homogeneous Offerings	Heterogeneous Offerings
Homogeneous Demand	1 Subsidize Consumption Voluntarily	2 Facilitate Beneficiary Search
Heterogeneous Demand	3 Discover and Segment Beneficiaries	4 Match Discrepant Markets

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C.2

ON THE GENESIS OF MARKET STRUCTURES

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ABSTRACT

The paper explores several perspectives on the determination of market structures. These perspectives include a customer-oriented approach and a producer-oriented approach. That is, the case may be made that customers cause market structures to be the way they are; on the other hand, a case may be made that producers have a more profound influence on structure. A third perspective is of a contingent nature: structures may be determined by either producers or customers, depending on circumstances. An alternate approach, and the one seen as having greatest validity, is that market structures are co-determined by customers, producers and intermediaries. Each of the above perspectives on structural determination is examined from several research foundations, including economics and sociology as well as marketing.

1. INTRODUCTION

Markets are like people: they come in all sorts of shapes and sizes. While the characteristics of people are known to be determined by genes, it is considerably less clear what causes market structures to be the way they are. The purpose of this paper is to examine various perspectives on the determination of market structures, with attention to the strength and validity of each view.

If all markets were structured similarly, the question at hand would be a relatively uninteresting one. It is the great diversity among markets which makes their genesis interesting: specifically, what forces are brought to bear in the evolution of structures? Do some market actors, say, the set of producers, determine market structures while the customers have little or no influence on structural outcomes?

The question of structural genesis is clearly a fundamental issue in the study of markets and therefore appears to be a fruitful area for examination and discussion. Indeed the noted historian Braudel (1982) framed the question as follows: " . . . whether supply or demand is the more important, or what amounts to the same thing, which of the two plays the role of _primum mobile_--a question to which there really is no answer, but which takes us to the heart of the problem of exchange." The following discussion examines evidence which may be brought in support of each perspective and concludes that neither supply nor demand is _the_ prime mover. However, we hold with Braudel that the significance of such an analysis lies in a deeper understanding of the nature and process of exchange. In other words, we seek to know: what makes markets the way they are?

A surprising range of literatures bear on this subject, including several branches of economics, marketing, channels of distribution, and sociology. In the following discussion, arguments from these areas are organized into four broad positions. First is the position that customers are the driving force which determines market structure; second is that producers are the determining force; third is the proposition that either customers or producers may prove to be decisive, with situational factors controlling the outcome; fourth is that market structure is the joint product of customers, producers and intermediaries.

Before proceeding to the main arguments, two points must be made clear. First, several of the research areas cited below are sufficiently specialized in focus and terminology that the definition of market structure itself must remain highly general. For instance, the discussion will draw upon subjects as diverse as neoclassical microeconomics, transaction cost theory and network theory. These areas place different emphasis on different aspects of the marketplace and therefore entail different notions of the concept of market structure. Thus, market structure will be defined here simply as the pattern of relationships among salient market actors.

Relevant aspects of this pattern may be construed to include the usual range of structural indicators, such as concentration, relative concentration, differentiation, brands, integration and so forth, but with the obvious understanding that not all indicators will apply to every perspective cited here. Which type of market actors are considered to be salient will vary from one research area to another, naturally.

The second concern is that several of the research areas cited do not position structure, per se, as a central topic of interest. For this reason, the influences of certain market actors on structures is drawn by deduction in several cases, rather than from explicit statements. This has been done, however, only with well established research areas in which the meaning was relatively straightforward. For instance, microeconomic theory of pure competition does not address the issue of market structure directly, but the resultant restrictions on size and power of producers in a state of pure competition implies a particular and well defined structuring of producers.

Also, it should be noted that the arguments here are directed at economic markets for goods and services; the discussion is not intended to embrace other markets, such as financial or social services.

Evaluative Criteria

In evaluating the strength of various arguments for each perspective, three main criteria will be employed: diversity, stability, and dynamic adjustment. These three represent readily observed characteristics of market structure and, therefore, provide a base line against which explanations of structure may be judged. First, a perspective should account for the wide diversity of market structures--from local to global, consumer to industrial, commodity to differentiated--various markets are quite distinct from one another. Second, market structures are generally stable--the numbers and identities of the people, firms, locations, amounts, brands and communications do not normally change rapidly or randomly--indeed routinization of exchange is common in many markets. Third, stability notwithstanding, markets can and do undergo profound structural change from time to time--from gradual adjustments over the product life cycle to precipitous restructuring in a shakeout. Hence a perspective on structural determination will be held to exhibit descriptive validity only if it accounts for three observables: diversity, stability and dynamic adjustment.

Although considerable support can be brought to the propositions that structure is determined by customers (or by producers), our conclusion is that market structures are co-determined. Further, we conclude that even co-determination by customers and producers is a generally insufficient characterization of the genesis of market structures. For a complete description of the process, intermediaries must be included. Intermediaries are viewed as a separate and distinct class of market actors, but one with stature and structural significance equal to that of producers and customers. Thus the final perspective may be viewed as institutional in nature.

2. THE CUSTOMER PERSPECTIVE

The customer perspective views the set of customers as the force which determines market structure. This perspective is not confined to a few specialized circumstances in which a small number of powerful buyers dominates a large set of smaller sellers, but embraces the notion that demand, in general, calls the tune in exchange relations.

Two separate areas of research support the notion that customers are the force which determines market structures. These are: (1) neoclassical microeconomics and (2) a group of perceptual/behavioral studies related to market segmentation.

Microeconomics

In microeconomics, market structures may be classed as representing pure competition, pure monopoly, or something in between these two extremes. Of particular interest in this section is one of the in-between conditions, namely monopolistic competition (conditions representing pure monopoly and pure competition will be discussed in the following section).

Monopolistic competition is of interest here because the form of individual demand curves is the force which shapes the market. That is, there is imperfect substitution among competing products and firms are not strictly pricetakers. When customers distinguish between the offerings of various competitors (i.e., a differentiated market) then the sellers each face downward sloping demand curves for their products (Chamberlin 1933), and cross-elasticity becomes an important feature of the market (Triffin 1940). Since the tastes or preferences of individual customers may differ, the appeal of any given offering will differ among the set of customers.

It is precisely this condition of demand which positions customers as the genesis of market structure. In producing and pricing offerings which are expected to appeal differentially to a specific subset of customers, producers are simply responding to a specific stimulus which is furnished by the customers.

Thus customers structure the market by creating distinctive opportunities, while the role of producers is reactive in nature: observe segmented demand and produce to specification. Whether one, two, or several producers attempt to fill the demand of a given segment is largely a matter of structural indifference, as long as cross-elasticity of demand remains sufficiently high.

Marketing

The second area of research which supports this conclusion is in fact dealing with the same phenomena but does so in an empirical manner rather than a theoretical one. This area represents a group of studies in the marketing literature which have a common aim: to organize a broadly defined market into subgroups which make strategic or tactical sense (e.g., Srivastava, Leone and Shocker 1981). These studies seek to identify, measure and evaluate customer groups with differentiated preferences which, in microeconomic theory, are simply assumed to exist.

Customer structures represent the relationships of buyers to products and are derived from the mental grouping or ordering of products or services by buyers. Such grouping may be based on perceived similarity, preferences, attributes, benefits, usage occasions, user type, etc. These studies rest on the assumption that buyers possess comparative cognitions of products, that such comparative arrangements are relatively stable and that these are reflected in behavior.

Early works in the area of consumer structure were concerned with the determination of product positioning or market segmentation (see Myers and Tauber 1977, for reviews). These studies were generally based on perceptions or preferences and made extensive use of perceptual mapping and cluster analysis (e.g. Pessemier 1976; Day, Shocker and Srivastava 1979). More recent developments have focused on substitution, with particular emphasis on the strategic insights which may be gained from substitution among product/service types or variants (not just similar competing brands).

Substitution is held to confer a greater degree of competitive realism because products which are perceived to be similar may not be the subject of brand switching on an individual basis, while dissimilar products may be substituted, especially across usage situations. Srivastava, Leone and Shocker (1981) and Srivastava, Alpert and Shocker (1984) employ substitution-in-use, a perceptual measure, along with a clustering procedure. Fraser and Bradford (1983) on the other hand, employ revealed substitutability, a behavioral measure, along with a principle components procedure.

Urban, Johnson and Hauser (1984) employ a forced switching methodology in which a subject's most preferred alternative is made unavailable and their second choice is recorded. This method is useful in exploring for the appropriate basis for structuring various markets (e.g., attribute vs. user type vs. usage occasion, etc.).

In general, these customer structure studies employ substitution in order to define market subgroups, and the subgroups represent areas in which tastes and preferences are similar.

Evaluation

Taken together, the microeconomic approach and the perceptual/behavioral approach furnish both a theoretical and empirical foundation for the position that customers are the driving force which determines market structure. Specifically, differentiated demand forms a "template" to which sellers fit their own activities. Within the overall market, sub-markets are indicated not by seller related strategies but by patterns of substitution and/or differences in the degree of cross-elasticities. But as Clark (1961) has observed, "The consumer, insofar as he can be said to be sovereign, has the last word, not the first."

Relative to the three criteria, the customer perspective appears to do well on the stability dimension. To the extent that customer preferences are relatively stable over time, this would account for the observed stability in markets. On the other hand, the customer perspective is less able to explain structural diversity and structural dynamics. That is, this perspective does not include mechanisms on the demand side to account for different structural outcomes or occasional restructurings.

3. THE PRODUCER PERSPECTIVE

The producer perspective argues that the set of producers is the market force which determines market structure. This perspective views the control of supply, along with the latitude to determine product/service attributes and characteristics, as the key factors in structural determination.

The proposition that producers are the determining force in market structures is supported by research from a variety of areas. Microeconomics again bears on the issue, as does industrial organization economics, marketing and management. In addition, certain works from the field of sociology point to this conclusion.

Microeconomics

Pertinent to this section are the microeconomic concepts of pure competition and pure monopoly. Although these market conditions represent polar extremes, one can readily see that supply-side characteristics are dominant. By definition, pure competition reflects a set of very specific producer characteristics: in this structure producers are both numerous and of equivalent size, producing interchangeable offerings at equal prices. In monopoly, the sole producer is clearly the sole determinant of product offerings: quality and quantity as well as price.

Producers are accorded primacy over customers in these conditions because of the nature of the decisionmaking process. Under pure competition, the producers' main decision variable is quantity; under monopoly, the producer's main decision variable is price. Under monopoly or pure competition, customers are of limited interest because they exercise limited choice: they either purchase a uniform offering or they do not. Here, it is the decisions and characteristics of the producer(s) which define the market and its structure.

Industrial Organization

Although industrial organization (IO) economics deals with conditions intermediate between monopoly and pure competition, this field of research clearly positions producers as the central object of interest and the controlling force in the determination of market structures. As in the customer structure studies, IO research is largely based on empirical work, but here attention is focused on the relationships among sets of producers.

Of particular interest in IO studies is the size distribution, or concentration, among producers (Bain 1959, Mason 1957). A high degree of concentration is thought to lead to "unworkable" competition, that is, a level of market coordination which results in near monopoly outcomes. Barriers to entry are another important structural consideration in light of the fact that barriers act to maintain or increase existing levels of producer concentration (Bain 1956).

The contrast between the microeconomic evaluation of monopolistic competition and the IO approach is worthy of some amplification. In the previous section, segmented demand was said to lead to customer determination of market structures, while the IO approach is to simply focus on producers under the assumption that they tend to enjoy monopoly-like power over customers.

A key difference is found in the treatment of product differentiation between the two approaches. In microeconomics, it is assumed that price cross-elasticities among brands is sufficiently high so as to effectively discipline the set of producers. In IO, on the other hand, the advertising which supports differentiation is held to have the dual effect of reducing price sensitivity and acting as an important barrier to entry. For this reason, opposite conclusions are drawn as a result of differing sets of assumptions.

Marketing and Management

It should be noted that concentration and barriers are not only of interest to economics researchers, but have also emerged in other areas. In the marketing literature, for example, producer concentration has been identified as a key structural variable by several researchers (e.g., Buzzell 1981, Howard 1983). In the management policy area, barriers and new entry have been positioned as key competitive and structural issues (e.g., Porter 1980).

A basic assumption of the marketing/management literature is that marketing organizations can affect outcomes in ways favorable to themselves. To this end, firms may attempt to directly influence market structures by erecting barriers, engaging in joint ventures or pursuing mergers, among other activities.

Sociology

While economists and business researchers tend to emphasize the exchange of goods or services in a market, the exchange phenomena itself may be seen to be operating on several levels simultaneously, including the social and cultural levels.

Evaluating markets from a sociological perspective, White (1981) defines markets as self-reproducing social structures among groups of producers who learn appropriate roles by observing other producers. In this perspective, market structures are shaped by the historical pattern of roles among producers and evolve through observation and interpretation of the actions of competing producers.

Unlike alternative sociological approaches (see the following section), White relegates customers to a strictly secondary role: "Markets are not defined by a set of buyers, as some of our habits of speech suggest ..." and, "Pressure from the buyer side creates a mirror in which producers see themselves, not consumers." This perspective clearly positions the set of producers as a peer group, with much in common among themselves and little in common with the customers. Interestingly, this view is much in the spirit of certain recent approaches to strategic marketing which focus strongly on competitors while positioning customers as "turf" to be won or lost in the ongoing struggle for market position (e.g. Cook 1983).

White's statements regarding the status of customers in the determination of market structures is both unique and intriguing from the standpoint that it is one of the very few which directly addresses the central concern of this paper. Indeed the mirror analogy is a striking parallel with the template notion of the previous section, while the conclusions are precisely opposite!

Evaluation

In summary, the position that producers determine market structures is amply supported from a variety of perspectives. An additional support for this view comes from governmental attempts to modify the structure of certain markets: these interventions invariably operate on producers rather than customers.

Regarding the three evaluative criteria, the producer perspective would seem to score about as well as the customer perspective. Structural stability is accounted for by the goals and motives of the producers but no apparent mechanisms exist to explain structural diversity and dynamic change. After all, why should firms who are both interested in and capable of structural stability allow any other outcome?

At this point in the discussion it would seem that neither the customer orientation nor the producer orientation has carried the day. The following section will examine the case for a contingency theory of market structures.

4. A CONTINGENCY APPROACH

An alternate approach to identifying either customers or producers as the main source of structural determination is a contingency view. In particular, it may be argued that in neither instance is the case conclusive, but some instances seem to favor customer determination while others favor the producers. It is possible that both customers and producers hold approximately equal potential for shaping market structure, and factors peculiar to a given situation shift power to one or the other.

Consider an example provided by Clark (1961) in which relative market concentration between producers and customers changes and this change then alters the market structure. When large, powerful steel companies congregated in the Pittsburgh area, the pricing scheme known as "Pittsburgh-plus" provided producers with a consistent revenue per ton while the dispersed customers paid various prices according to their distance from that city. A few decades earlier, however, buyers of pig iron were concentrated in the Philadelphia area, and these customers habitually paid a uniform price, while the more dispersed producers absorbed freight charges according to the distance shipped.

This example illustrates the two bases which underlie a contingency approach to the problem of structural determination. First, neither producers nor customers are inherently more capable than the other of controlling market structure. Second, whether producers or customers turn out to be the determining force depends upon relative size, concentrationand negotiating power. In the above examples of steel and pig iron, the terms of trade were dictated by the group with the larger average size and smaller geographic dispersion.

Contingency approaches lead to basic delineations among market types, as in the well recognized distinction between consumer and industrial markets. In consumer markets, the customers are small and dispersed and, therefore, lack the ability to determine essential features of the transaction. In industrial markets, the customers may be large and concentrated relative to the producers, allowing for the possibility of customer dominance.

Evaluation

The contingency approach seems somewhat more satisfying in that it allows for two structural outcomes and also for structural change. That is, the contingency perspective allows for a rudimentary form of structural diversity as well as for structural dynamics. However, a distinctly adversarial flavor is retained: either producers have "won" or customers have "won". Here, the capability for structural change seems to have been attained at the cost of structural stability. Further, the degree of structural diversity achieved appears to be inadequate in relation to the amount of diversity observed in actual markets.

5. CO-DETERMINATION AND INTERMEDIATION

As the heading of this section would suggest, two concepts are to be discussed at this point. First is the proposition that no single type of market actor is the primary determinant of market structure. In this view, structure is jointly determined in the exchange process, and structural evolution is the result of changing relationships among the exchange parties.

The second concept is intermediation; specifically, a recognition of the role of intermediaries in the makeup of market structures. Intermediaries are introduced at this point for two reasons: a) there is nothing in the literature to suggest that middlemen are viewed as the sole determining factor in market structures, as was the case for customers and producers, and b) several of the works supporting a co-determinant perspective explicitly include intermediaries as important market actors.

The inclusion of intermediaries allows for a more complete and accurate description of market structures and also shifts the discussion away from the economic literature towards research with a more institutional orientation. Thus, assumptions connected with static equilibrium and maximizing behaviors are abandoned in favor of dynamic adaptation and satisficing behaviors (Arndt 1981). The following discussion contains perspectives drawn from several literatures; including marketing, channels of distribution, and sociology.

Sociology

A sociological perspective which leads to substantially different conclusions than those drawn by White (above) are provided by network theory. Network theory examines social structures by evaluating exchange connections and, for this reason, has obvious applicability in the analysis of markets.

In contrast to most of the works examined in this paper, network theory does not place primary emphasis on the classification of actors (producers vs. customers) but rather places emphasis on whether or not two actors are directly connected with one another. If connected, the two may engage in exchange; if not, there exists the possibility of intermediation. Further, markets can be defined by analyzing patterns of exchange connections. For example, Burt (1988) delineates market boundaries by grouping firms who have similar sets of suppliers and similar sets of buyers.

Mutual interdependence is a central feature of network analyses and, because structure may be defined by dyadic connections, co-determination of market structure is an essential characteristic of nets. Moreover, the absence of an existing linkage between two potentially interested exchange parties leads directly to an integral role for intermediaries. Indeed, the concept of structural autonomy (Burt 1988) allows for considerable brokerage power for intermediaries when numerous buyers and sellers are not otherwise directly connected.

Channels of Distribution

The channels literature, of course, provides a sharp focus on the role and behavior of intermediaries. Of central interest here are those channel studies which deal with channel structures and structural dynamics. Two issues are pertinent to an analysis of the structural role of intermediaries. First, intermediaries are relevant to the evaluation of market power. That is, they may exercise power or be the object of an exercise of power. Second, the number of levels of distribution may be few or many. Hence producers and final customers may be in direct contact or may be separated by an extensive chain of transactions.

In the chsnnels literature, the first issue is frequently cast in terms of power-dependency relationships. Within the political economy framework, Stern and Reve (1980) distinguish between internal sociopolitical structures and internal sociopolitical processes, with the sociopolitical structures representing the pattern of power-dependence relationships within a channel. The external polity refers to power relations between channel members and outside actors (see also Arndt 1983). Thus the power structure relates to both the power of buyers and suppliers (see also Porter 1980) and horizontal competitive relationships.

The presence of intermediaries in a market has frequently been analyzed with direct producer-customer contacts as a reference point, then examining the overall cost consequences of adding layers of intermediaries to the system. Market structures which are characterized by numerous levels of intermediaries reflect a marketing situation which is both extensive in volume and highly stable, resulting in distributive specialization of a high degree.

The number of levels of intermediaries which separate the producer from the ultimate customer have been explored from several perspectives. Division of labor and nonlinear cost curves (Stigler 1951, Mallen 1973), communication and contact costs (Baligh and Richartz 1964), and transactions cost analysis (Williamson 1975) have all been used to explain the layers of intermediaries. Vertical integration of the distribution function tenda to reduce the number of levels of intermediaries and may also be analyzed from cost curve (Mallen 1973) or transaction cost (Williamson 1975) perspectives.

McCammon (1967) positions intermediaries (retailers in particular) as a central engine of change in the structural evolution of markets. Here, retail innovators such as J.C. Penney and Sears are initially seen as outsiders who revolutionize broad areas of consumer marketing.

Marketing Theory

Alderson's (1965) general theory of marketing describes the process of marketing as exchange which is conducted by and among organized behavior systems. As formalized by Hunt, Muncy and Ray (1981), Alderson's theory identifies three organized behavior systems: households, firms, and channels of distribution. Thus the theory recognizes marketing as an interaction between customers, producers and intermediaries.

In the Hunt, Muncy and Ray formalization however, the three are not accorded equal status. Specifically, the channel is said not to be a primary organized behavior system because not all channels are organized. Nevertheless, the important role of intermediaries is recognized in this theory, as is the capacity for intermediaries to initiate actions which affect exchange relations and, therefore, market structures.

Domestication

Finally there is a body of research which combines network concepts with a strong institutional perspective. Domesticated markets (Arndt 1979) represent a structural outcome in which long-term vertical trading agreements supplant the more traditional exchange notion of open market transactions and horizontal competition. A number of researchers (e.g. Thorelli 1986, Gummesson 1987) attest to the widespread and growing practice of market domestication and indicate that this phenomena is an increasingly influential structural force.

Domestication represents a most interesting development because voluntary agreements (reflecting co-determination) result in a radically different structural form. In particular, horizontal competition is replaced by competition between well-organized vertical systems.

In the context of thia paper the domesticated markets perspective may be regarded as the quintessential argument for structural co-determination because domestication is explicitly cooperative and explicitly institutional. Specifically, a domesticated market arrangement is the result of planned coordination by a vertical chain of organizations and the chain must include intermediaries. Despite the reduction in horizontal competition which attends domestication at various levels in the chain, final customers are provided with choice, viz. the choice among the products or services of competing vertical chains.

Evaluation

In summary, the works cited above lead to the conclusion that market structures are not unilaterally determined, but rather are the joint product of various types of actors. Co-determination of market structures reflects the fundamental interdependence of exchange relations. The interdependent nature of exchanges leads to structural stability, at least most of the time. That is, routinization of producer-intermediary and intermediary-customer transactions has benefits which tend to stabilize the pattern of exchanges.

Because the power/dependency balance in interdependent relations can change over time, co-determined structures would appear to possess an inherent dynamic. In this sense, the co-determination perspective tends to agree well with observation: the pattern of relations among producers, intermediaries and customers can and does change over time. Also, the impetus for changed relationships may come from any of the three types of market actors.

Finally, structural diversity is better explained because there are three types of actors to be included (instead of only two) and because of the possibility of multiple layers within the class of intermediaries. That is, more permutations are possible among three types as compared with two types, and the possibility of multi-level distribution structures leads to a substantially greater potential for diverse structures.

Although the role of intermediaries is conceptually distinct from the notion of co-determination, it is not surprising to find the two frequently connected. In particular, any analysis featuring the concept of interdependence is likely to include a refined appreciation of linkages and exchange partners. Thus, in these studies, market actors are not artificially limited to producers and final customers, but include intermediaries as an important class of actors.

Indeed, Williamson (1975) applies the term "market failure" to instances in which vertical integration precludes intermediaries and other independent actors. This usage clearly implies an important structural role for independent market actors--to the extent that markets characterized only by producers and final customers are viewed as constituting failure. (Note that Williamson's definition is considerably narrower than Harris and Carman's (1983) conceptualization of market failure, although both are seen to have regulatory implications).

6. DISCUSSION AND CONCLUSIONS

The preceding sections have examined four perspectives on the genesis of market structures, comprising a customer-oriented view, a producer-oriented view, a contingency view, and a co-determination view. Although each perspective is supported by well-developed conceptual and empirical foundations, the co-determination perspective emerges as the most satisfying overall. In large measure, this result is connected with the greater descriptive validity of arguments supporting joint determination, especially in terms of structural diversity, stability, and dynamics.

Of considerable appeal in the co-determination arguments is the inclusion of intermediaries as important market actors and agents of structural influence. That is, intermediaries are both visible and salient elements of structure and, therefore, are most relevant to descriptive and dynamic analyses of market structures. In addition, co-determination reflects an interdependent relationship among market actors--this too provides intuitive appeal as well as high degree of compatibility with the exchange concept of markets.

In sum, the co-determination approach seems preferable for a number of reasons. A final note on causation, however, must touch upon the familiar third variable problem. It may be that none of the three types of market actors is the primary determinant of structure. That is, factors beyond actions taken by the exchange parties may ultimately control market structures. Possible third variables include the physical extent and geography of markets (Mallon 1967), characteristics of the product/service (Thompson 1967), and technology of production (Perrow 1967).

Although these and other factors would appear to exercise at least some influence on the development of market structures, an extensive examination of their impact is well beyond the scope of this paper. Assuming that such third variable have only a secondary influence on structure, further investigations may focus on their direction and degree of influence. For example, does a new product technology tend to shift structural influence in favor of producers, customers, or intermediaries, and by how much?

Additionally, it should be noted that structural determination may vary among regions, nations or cultures. Habit, politics and/or custom can be expected to tilt the balance of power among market actors insofar as their ability to influence market structure is concerned. For this reason, the loosening of governmental control in several of the centrally-planned economies may furnish a fascinating laboratory of structural evolution.

Indeed, the discussion and conclusions developed here are intended ultimately to serve as the basis for developing analytical tools for assessing issues involving structural evolution and structural diversity. In this light, the main conclusion is that an institutional perspective appears to be well equipped to deal with such structural issues. Approaches which exclude intermediaries seem less able to simultaneously account for the diversity, stability and dynamics which characterize markets. The interaction of three market actors (customers, producers and intermediaries) provides for numerous permutations and stable interdependency, while a shifting balance of power among them furnishes a basis for structural dynamics.

In sum, the genesis of market structures is at once a fundamental issue and a fairly involved problem. This paper is intended as a starting point in structural determination, from which more detailed evaluations of structural evolution may find a conceptual base. In response to the initial question (what makes markets the way they are?) we conclude that co-determination and intermediation are essential features of the ultimate answer.

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INTERFIRM RELATIONS: COMPETE OR COOPERATE AN EXPLORATORY STUDY

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ABSTRACT

This paper extends Deutsch's (1949) Theory of Cooperation and Competition from its original level--that of individuals within an organization --to a macrolevel viewpoint-- within an industry and the effects upon interfirm relations. A game theoretic experiment is conducted whereupon teams are either rewarded based upon total industry performance or compared to others within their industry. The hypothesis that group rewards would instill cooperation while individual rewards would create competition was supported. Knowing or not knowing one's rivals does not make a difference upon a team's eventual behavior. It is speculated that Cartels can survive long term only under cooperative conditions. Implications and Areas for future research are given.

INTRODUCTION

Deutsch's (1949) classic theory of cooperation and competition states that the perceived interdependence of goals significantly affects the dynamics and outcomes of social interactions. In positive interdependence (cooperation) persons perceive that their goals are positively related; one's movements towards one's goals facilitates others' goals. In negative interdependence (competition) persons believe their goals are negatively correlated; one's goal movement interferes with and makes it less likely that others will reach their goals (Tjosvold 1986). Deutsch theorized that perceived goal interdependence affects both the patterns and consequences of interaction. In cooperative pursuits, persons encourage each other, expect help and assistance from each other, and trust is promoted and Productivity is enhanced. Contrarily, under competition persons are tempted to mislead and interfere with others so as to reach one's own goals. They are reluctant to assist others or to ask others for assistance. These interactions arising from negative interdependence result in frustration, hostility, and low productivity.

Researchers are generally in agreement with Deutsch's theories on interaction effects of competition and cooperation. But Deutsch's theory concerns the behavior of individuals within an organization. Are his concepts and their consequences transferable to interfirm activities at the industry or global level?

It is a modern fad of management to compare and contrast the competition based American economic system to that of the Japanese economic system with its highly popularized cooperative arrangements between firms. The secret of the success of the Japanese economy (so goes the logic behind the fad) is their reliance on cooperation between firms within an industry. The moral of the story is if American companies are to survive in this global economy they must make more efforts to cooperate with their competition and not engage in sometimes deadly competitive feuds. The cry is in the air, "Cooperate. Cooperate."

Cooperation does brings out the best in us. Research studies indicate clearly that Cooperation is a more productive state than competitive behavior(confirming Deutsch's theory). Yet for all their fabled cooperativeness, the Japanese are still fierce competitiors-- the intense competition by exam ("hell week") to be admitted into an elite university has no comparison in America. But competition is externalized against the outgroup not exerted upon one's own group, family, company, or nation. (Rauschenbach 1988).

The Japanese social structure minimizes competitive behavior so as to maintain the social status quo, one example of which is the firm policy of paying all employees with the same start date the same pay. In business, lifetime employment and the seniority system is the basic organizational principle. The Japanese worker does compete with others within the organization throughout his working life but in a covert fashion. But he still considers himself part of the organization, part of the group, and will subordinate some of his personal goals to that of the group; thus workers often consider total profits before individual profits, creating a spirit of cooperation. (Yoshida 1985) (Alston 1985)

In America, the economic system and its culture encourages competition. The American spirit of rugged individualism espouses a competitive approach to life which has been hailed by both media and folk hero example alike(Who hasn't dreamed of emulating Horatio Alger or Steve Jobs-The Entrepreneur who against all odds succeeds and becomes rich and famous, "Go Out and Do it on your own"). It is also certainly true that nothing succeeds like competition in weeding out the incompetent and unworkable. Competition is the best system for Darwinism: survival of the fittest for what the market (customers) want or need. But Competition has adverse effects: low productivity, oftentimes resulting in a less than optimum behavior, and high social costs. American Business strategies are based upon the military perspective on competition; The business environment is seen to be made up of threats and opportunities, with competitive strategies determining success or failure. But more to it, the American style of competition has not been as successful as it was in previous eras. Perhaps a paradigm change of interfirm relations is in order to meet the new elements of modern times--the international marketplace and global competition. Cooperative strategies where business can share resources, jointly bear the costs and risks of entering new markets and resist foreign competition may now be more appropriate and allow survival of the company(Ulrich 1985).

Interfirm cooperative activities are becoming increasingly popular as instruments of strategic action (note the semiconductor consortium in Texas). However, understanding of cooperative action in a competitive economy needs further improvement if the hoped for benefits of interfirm collaboration are to be realized (Murphy 1988). The political system and the courts have attempted to deal with the interfirm cooperative issues through antitrust laws. The courts have recognized some interfirm cooperation need not necessarily harm competition but actually may enhance it. The courts/ legislature have had difficulties in separating the legitimate benevolent effects of joint ventures from the illegal malevolent effects.

But no matter how much the hue and cry and the overwhelming evidence of the superiority of cooperation, when the American economy is based upon individual firm performance and corporate rivalry rather than cooperation among firms , then competition will be the dominant economic form of behavior. When the reward structure, culture, and especially the disincentives provide further impetus for competitive behavior, competition is what we will get. CoOperation may be preached but the *reward structure* dictates what we will get (competition in America's case).

This paper tests the concept that Deutsch's Theory of Cooperation and Competition is applicable to interfirm relations, that it is the reward structure that determines behavior; that we can cry cooperate until our face is blue but that behavior will not change until the incentive structure (and just as importantly the disincentive structure) is changed. This exploratory study attempts to study the behavior of teams under different reward conditions and determine whether or not competitive or cooperative behavior will result as a direct result of the type of rewards provided to the firms.

HYPOTHESES

Competition or Competitive Behavior is defined as that behavior which results in a competitive equilibrium when activity stabilizes. That is when all firms or individuals in a competitive situation are actively seeking the best outcome for themselves, an equilibrium will be reached which can be predicted apriori via game theory. **Cooperation or Cooperative Behavior** is defined to occur when the optimum for the group as a whole is obtained when activity stabilizes, regardless of whether the individual firms can make themselves better off; When firms, entities, or teams will sacrifice potential individual gains for the good of the entire group. **Stabilization** is said to occur when no change in any firm's decisions is observed for three consecutive periods.

Those Companies (Teams) who are rewarded based upon total industry profits (summation of the profits of the three teams within an industry) should stabilize at the (high,high,high) point which is not a competitive equilibrium position but the cooperative equilibrium point. Because they are rewarded based upon the group results and not their own individual entity's performance comparative to all other groups, more cooperative behavior should be seen with efforts to reach the group maximization point.

Hypothesis 1) Companies (Teams) rewarded based upon group reward systems will stabilize at the cooperative equilibrium point, that point of maximum group profitability.

On the other hand, those Firms whose reward system is based upon their individual firm results and whose rewards are compared to all other firms within their industry will actively compete. Even though there exists a group maximum, the act of competition and the rewards to look out for their own (individual firm or entity) best results will drive the resulting industry (and the firms within it) into a competitive equilibrium which, while perhaps good for an individual firm will not be the optimal point for the industry as a whole. This process may take some time but the eventual equilibria should be at a competitive equilibria when activities stabilize.

Hypothesis 2) Firms rewarded based upon individual firm results should stabilize at one of the four competitive equilibrium points.

Knowing or not knowing one's competitors should not effect behavior. In the real world, some of the most fiercely competitive behavior is shown by firms intimately knowledgeable with their competitors personnel, behavior, and strategy. Knowledge of one's competition should therefore have little impact on one's ultimate competitive strategy and whether one knows or not knows, should be overshadowed by the reward system and the incentives upon behavior therein. After sufficient time, the knowledge of one's competitors should not influence one's behavior; it is strictly the reward structure alone that influences the competitive behavior and performance of one's firm.

Hypothesis 3) Knowing one's competitors or not knowing who they are will have no effect on the final competitive or cooperative behavior of the firm.

Cartel formation and collusion have long been studied as per their formation, conduct, and eventual disintegration in the competitive environment. Most economists have indicated (and real world examples such as OPEC seem to confirm) that competitive forces and pressures to seek maximum individual gain rather than group optima will eventually break up a cartel or collusion. However, in a cooperative environment, when the rewards are given according to group performance, the motivation to defect to better one's own performance should be negated. The reward structure is skewed towards one's group and not one's individual efforts. If the group reward structure can be strictly adhered to (through governmental fiat or high peer pressure) the tremendous temptation to defect and better one's individual performance will be withheld. OPEC did not (and still does not) have a sufficiently prohibitive reward or punishment system to inflict the necessary group reward process necessary to set and maintain its desired price and to deter the individual members from defecting and gaining individual benefit at the cost of the group.

Although cartel formation is speculated to occur under both competitive and cooperative environments, it is supposed that only at a cooperative equilibrium could a cartel survive long term. Group reward systems enhance collusion and necessarily support it as a part of the co-operative efforts. Cartels so formed under cooperative systems will tend to be stable when the reward and punishment system is sufficient to deter individual profit maximzation behavior.

Hypothesis 4) A stable and long term cartel will be created only in a group reward setting resulting in cooperative behavior.

The flip side of collusion is that it should be unstable in purely competitive environments, when individual rewards are more important than maximizing group performance. Therefore we should see some initial cartel formation efforts but eventually the temptation to defect is too much and the cartel will break down. The pressures of the competitive environment is not inducive to cartel formation.

Hypothesis 5) Collusion in pure competitive situations is an unstable situation and will inevitably result in a competitive equilibrium when activity stabilizes.

METHODOLOGY

A game theoretic experiment was conducted. One of the strengths of game theory is the precision and completeness with which it describes and analyzes multiperson decision problems. The rules of the game are completely specified, the strategy set is known to all players, an equilibrium predicts not only what is expected to happen but also the anticipated consequences of any deviation from the optimal strategies of the players. The control inherent in a game makes its use in a laboratory experiment worthwhile.

Eighteen student teams comprising approximately fifty undergraduate marketing students from a prestigious Midwestern University were utilized. The use of student subjects as a convenience sample was a major consideration in the research design. Students were arbitrarily assigned to teams of three students each and treatments were randomly assigned to teams. Teams were used to emulate the multiple influences found in the industrial decision making process. Eighteen game turns were conducted.

The experiment concerned airline industry pricing on a single route. The airline industry is a particularly good choice because pricing is highly dynamic in nature (daily or even hourly rate changes can easily be made in response to competitor actions), competitive response can be quick, competition is well defined and have bordered product lines (routes) which are different and distinguishable from other products (preferred for ease of measurement purposes), competitors are well known with usually no more than 3 or 4 competitors on any route (a manageable number to simulate), a history on any one competitor is well established (a known track record), and the outcomes(profits) are typically not perfectly known (uncertainty exists on the profit profiles for each competitor).

The teams were randomly divided into industry groups of three who then competed against one another according to reward structure and knowledge of competition. The six industry groups of three were further divided by a random process into the proper treatment type. Half of the teams were told they would be rewarded based upon their own individual firm's cumulative profits compared to all other teams at the end of the game. This was the **individual** treatment. The other half of the teams were told they would be rewarded (graded) based upon the sum of their particular industry group. This was the **group** treatment.

The second treatment was knowledge of the competition. The teams were again randomly divided into halves. Half were given the group number and the name of the members of those teams within their own industry group; this was the **knowledge** treatment. The other half knew their competition only as competitor one and competitor two and could communicate only through comments (marketing signals) submitted on the same game sheet as their choice for that period; this was the no-knowledge treatment. Therefore four combinations of behavior were provided.

The payoff matrix was a 2 by 2 by 2 owing to having three competitors and two possible pricing choices for each competitor or 8 possible options in all. The Choice Matrix for an individual firm and its resulting profit is shown in Table 1 below:

TABLE 1

Comp Two	Comp One	Your Firm $750	Your Firm $500
$750	$500	150 ←	100
$750	$750	400 →	500
$500	$500	0 →	50
$500	$750	150 ←	100

A Competitive Equilibrium exists when there is no benefit for any competitor to change his position. Determination of Competitive Equilibrium can be acheived by examining Table 1 above and Table 2 showing results for all firms for all options. The arrows in Table 1 show the individual firm's move inclinations, to seek higher profit levels. Let us examine the competitive situation if all members were to play high (high,high,high). They would all earn a profit of $400. The group profit level of $1200 is at a maximum. If each company is rewarded based upon their individual performance relative to other firms in its industry, the key question is can any firm do better? Table 1 provides the answer. Any one of the firms can increase its profits by changing from high to low pricing and thus earn $500--a gain of $100. If the other two players remain at high the situation now is (low,high, high) and the two high players each earn $150. This represents a loss of $250 from their prior level. Can any one firm do any better from this

Table 2

		Firm A High	Firm A Low
Firm B	Low	0 100 100	50 50 50
	High	150 150 500	100 0 100
Firm B	Low	150 500 150	100 100 0
	High	400 400 400	500 150 150

Key

A B C

For the matrix combination indicated; Firm A earns "A" profits
Firm B earns "B" profits
And Firm C earns "C" profits

For Example: Firm A goes High
Firm B goes Low
Firm C goes High

150 500 150

Firm A earns $150
Firm B earns $500
Firm C earns $150

Table 3

Choice Selected			Distribution of Profits			Total
Firm A	Firm B	Firm C	Firm A	Firm B	Firm C	Industry Profits
+	+	+	400	400	400	1200
+	+	-	150	150	500	800
+	-	+	150	500	150	800
+	-	-	0	100	100	200
-	-	+	100	100	0	200
-	+	-	100	0	100	200
-	+	+	500	150	150	800
-	-	-	50	50	50	150

+ Refers to Pricing High ($750)
- Refers to Pricing Low ($500)

position? Player 1 is at the max so he can't; if either high player moves to low he will reduce his gain from $150 to $100. So at this point no movement will occur as none of the players can gain by changing their positon. This is a competitive equilibrium. As can be readily seen, any combination of one low and two highs result in a competitive equilibrium: (low,high,high); (high, low, high); (high, high, low).

Let us examine the consequences when two players simultaneously defect from (high,high,high): a situation that often occurs when several firms have identical notions of gaining by cheating(defecting) on other firms within its industry. This presents a (low,low,high) scenario. Players one and two each earn $100 while player three earns $0. Can any player do better? Player one or two can gain by going high and earn $150. Player three has highest motivation to switch to low and earn $50 iinstead of $0. This situation is highly unstable. If players one or two switch to high (high,low,high) occurs; as seen before this is a competitive equilibrium and further activity ceases. If player three changes, as is usually the case, all three players are now playing low (low,low,low). Can any player change and increase his profit? No. Any move by any player results in a loss. So (low,low,low) is also a competitive equilbrium.

Therefore four competitive equilibriums exist at: (Low,High,High), (High,Low,High), (High,High, Low) and (Low, Low, Low). Note that all teams playing high is ***not*** an equilibrium as the incentive exists for a single team to defect (play low). Nonetheless, this point (all playing high) is the best scenario for the industry as a whole. Table 3 shows all the alternatives, individual rewards and industry totals. The industry total is greatest if all choose to play high (1200 versus 800 for next highest combination). This point of group maximization is called the Cooperative equilibrium. If Cooperation were seen and the industry members did indeed choose for all to play high and receive the group optimum then the sheer fact that it is not a competitive equilibrium should be construed as evidence that the cooperation was enhanced by the group reward structure.

At the beginning of play, the experimenter described the conduct of play, the use of the payoff matrix, and answered any questions the playing teams had. Sufficient incentives for the playing team with the highest cumulative profitability at the end of the game were given to provide incentives to compete (it was surmised that being exempt from the final was a powerful enough incentive). The reward structure was expanded to provide part of the class grade as a reward for participation in this study. There was no noticeable learning curve.

The suspected course of play is for those teams who do not know their competition is to feel out their competitions' intentions by signals as well as initially playing high. If a firm were to get burned, being the only industry member to play high, then it is suspected that the firm will play low indefinitely. Thusly one of the four equilibriums should be reached quickly under the individual reward system. However, under the cooperative condition either through signaling or direct collusive effort, the industry members should agree and follow through on playing the high price and earning the maximum profits.

At the half way point, a shuffling of treatments occurred. Those teams who had group reward and knowledge of the competition were told that they were now being graded on individual results and had new competition whom they did not know. Likewise reversal of all treatments for all groups occurred. Although, the industry groups of three did not in reality change, the subjects were told that they had to present the notion of starting from scratch. This midstream change was done to provide both balance for the experiment (every team would have equal time under all treatment conditions) and also to provide motivation for the subjects and equal likelihood of being the team with highest profitability.

To eliminate any end-game actions, the last turn was not declared until after the surveys were turned in. After the full eighteen turns, the game administrator debriefed the playing teams, surveyed them about the exercise via a written questionnaire, and interviewed selected samples on whether they had surmised the intent of the experiment and elicited suggestions on improving future experiments. Results were tabulated, awards given to the winning teams, and a presentation of the findings were given to the participants.

Although the different treatment levels were quite visible, few participants guessed the purpose of the experiment. This was not a concern as even if the experiment's objective were presented on day one, the motivational factors and the team's self interests would have driven the groups to identical results. Since an individual team could not control their own destiny, their resulting behavior and performance was mandated not by any drive to please or confuse the experimenter but purely by self interest.

If finite, the game must also be sufficiently long and its expiration uncertain to prohibit end game strategies from occurring. An end game strategy tends to be played if the game is finite, the duration of the game known and a small number of periods remaining to be played in the game. With eighteen turns, it is felt sufficient time was given to allow teams and industries to stabilize. Thusly, we feel confident that no end game strategies were played.

Results

To analyze the results one could use standard statistical tests (T-tests, ANOVA), that is if the industry was under the group reward treatment then one could proceed to calculate the mean and test to determine if it were significantly different from $400 (firm) or $1200 (industry). But these techniques would only provide deceiving information. The short timeframes (9 periods) mean cartels could exist even under competitive pressures and dissolve early (period 4 or 5), end up at a competitive equilibrium stabilized yet statistically impact the results if data from all the periods were used. If the game was of long enough duration, say 20 to 25 turns with the same treatment, we would expect to see the same final behavior but with the initial cartel effect considerably dampened by the later competitive efforts. OPEC if viewed only from 1974-1981 was a major success and profitable cartel. However, if viewed over the longer range 1930-1990 the highly competitive aspects of the oil industry becomes apparent and the 8 years of OPEC would be absorbed by the long term competitive trends. Therefore standard statistical tests using data over the entire course of the game are inappropriate. A more accurate statistic is a review of the outcomes after activity had stabilized. Table 4 shows the stability analysis. A ChiSquare value of 5.586 indicates significance of .019 and a clear difference between reward treatments. One observes eleven out of the twelve industries settled at the equilibria predicted.

Hypothesis 1 states cooperative behavior should result from being rewarded upon group performance. An analysis of Table 6 indicates group behavior resulted in cooperative behavior in 5 out of the 6 cases. A chi square of 5.586 and a probability of less than .02 results. One industry out of 6 treatments became involved in a price war and failed to reach the cooperative equilibrium. The small sample size would have greatly amplified the effect of one team upon the standard statistics. Since we did define cooperative behavior as reaching a cooperative equilibrium and 5 out of 6 industries did so, we cautiously declare hypothesis 1 supported conditionally until replication with larger sample sizes can be accomplished.

TABLE 4: STABILITY ANALYSIS

	Co-Op equilibrium	Competitive Equilibria
GroupReward	5	1
Individuals	0	6
Know	3	3
Not know	2	4

We test hypothesis 2 in the same fashion using information from Table 4 to determine final stability points. Six out of 6 industries rewarded individually stabilized at a competitive equilibrium. This was obviously highly significant with probability of less than .001 . We can confidently support the second hypothesis.

To test hypothesis 3, the proposition that knowledge of one's competitors or non-knowledge should have no effect upon one's final behavior and equilibrium state, Table 4 once again is used. Reviewing Table 4, almost even balance is seen from the know versus no know equilibrium: a chisquare indicates no significance; hence, knowledge of one's competitors had no impact on the final outcome. T-tests and ANOVA revealed significant differences between knowledge and no-knowledge, Two Way ANOVA results indicate knowledge treatment was a significant factor in predicting both team and industry profit and the interaction between the treatments was significant (indicating that group knowledge treatment was far superior). We can account for this disreptancy as cartel formation effects. A cartel can be predicted to fail but it might take a considerable timeframe before it begins to unravel. The end result may be a competitive equilibrium but a statistical review of the timeframe would indicate above average profits. The OPEC example also would serve us well here. We must in summary indicate that hypothesis 3 is confirmed pending replication of the experiment over a longer term timeframe to smooth out any initial cartel formation effects.

To test hypothesis 4 and 5 we only grade final behavior. Table 4 provides the evidence to judge these two hypothesis. Cartel behavior was exhibited by both groups in the knowledge condition. Its formation and maintenance was confirmed in 5 out of 6 instances for the group reward treatment. All three group knowledge treatments resulted in a stable cartel. Although nine turns do not make forever, suspicion is that if the game was extended considerably with the reward structure, the results would be the same. We believe This provides sufficient evidence to support hypothesis 4.

Hypothesis 5 indicates that cartel formation by industries rewarded by individual performance will not be successful and will eventually result in a competitive equilibrium. Six out of 6 treatments resulted in competitive equilibriums. Of the three industries given the individual knowledge treatment, two quickly (by turn 2) converged on a competitive equilibrium. The third industry maintained its overt cartel for the first five periods before falling out the sixth period. Interviews with subjects involved in the third industry indicated that at first price setting was agreed to by all teams within the industry.

However, this was done with the intent of "setting up" the opposition for the kill to take advantage of the agreement at a future time. The most surprising element is that *all* three teams within that third industry entered the cartel arrangement with the intent of defecting at some later time. IT was only a matter of time until one or more members broke ranks and defected, resulting in a competitive equilibrium. It was who would be the first to defect that mattered.

Of the five hypothesis, two are supported outright (numbers 4 and 5, the two cartel propositions) and the other three are conditionally supported. Statistical analysis and behavior analysis provided conflicting and ambiguous results for the first three hypothesis. This is due to small sample size and the short duration of the game played. Replication on a larger sample size and over a longer duration would provide more confidence in the results.

<u>Future Research</u>

We Recognize the limitations of this study due to its small sample size and short duration but accept them within an exploratory study framework. The objectives of this initial study were: 1) to act as a pretest to determine areas for improvement and debugging if the experiment were to be enacted later on a much larger scale; 2) to view reactions and behavior of the subjects; and 3) to see if the initial results meant with prior expectations.

Initial results are encouraging. We believe the experiment and its results have shown potential value for policy makers. To make the study more effective we need larger sample size (30 industries), longer time frame without treatment changes (20 to 25 turns), and allow total collusion to occur. The results if they replicate the preliminary findings of this paper would substantially validate the study and provide more confidence towards its findings.

MANAGEMENT IMPLICATIONS

The results of this exploratory study tends to confirm the hypothesized extension of Deutsch's theory of cooperation and competition from individuals to the interfirm level. The consequences of cooperation and competition at the industry, interfirm level appear to be analogous to that which occur at the individual, intraorganizational level with the concept of productivity replaced by combined industry profits. Results indicate conclusively that providing group rewards leads to Cooperative behavior among firms and a resulting optimum level of industry profits.

We have conditionally proven that the reward structure does influence the resulting competitive behavior of the industry and the firm. For firms which are rewarded based upon its own performance and compared to all other firms in the industry, competitive behavior will be seen. For firms which are rewarded based upon the performance of its group, a cooperative behavior resulted. Cartel formation and maintenance was seen only under cooperative behavior. Attempts to establish cartels in the face of competitive pressures led to inevitable defection and a resulting competitive equilibrium.

The message to American policy makers is when the American economic system encourages competition, competitive behavior will result. If you really wish to emulate the Japanese cooperative methods (a step the author would caution against as the cure might be worse than the disease) then you must change the incentive and disincentive system to allow cooperative activities to blossom. It is at cross purposes to encourage with one hand and to take away with the other. Changes to encourage cooperation include less stringent antitrust regulations, industry cartels, R&D consortiums, and a longer term perspective from the financial community. Competition is encouraged from birth in the United States and attempts to lessen it would take severe cultural changes with potentially diastrously side effects. Before policy makers act, they should ask several questions: 1) Is the Japanese success really due to cooperative elements of their firms or is it culturally engrained down even to the individual worker?; 2)Do the Japanese firms cooperate as much as the myth has it or is cooperation a governmental (MITI) tool used by Japan to develop and capture new markets and technologies?; and 3)What would be the effects of minimizing the competitive drive of the American people; how can the system be altered to provide global competition without losing the drive, creativity, and entrepreneurial aspects that competition provides?

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D. 1

THE DEREGULATION OF THE NORWEGIAN ADVERTISING MARKET: AN INSTITUTIONAL APPROACH

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THE DEREGULATION OF THE NORWEGIAN ADVERTISING MARKET: AN INSTITUTIONAL APPROACH

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ABSTRACT

By September 23 1985, the Norwegian Office of Fair Trading (NOFT) put a ban on the so-called "Advertising Agreement", a comprehensive cartel arrangement which had existed for about 75 years. Thereby, the NOFT wanted to stimulate the competition between advertising media and advertising agencies, in order to give Norwegian advertisers "more advertising for their advertising money". By January 1 1987, the ban became effective.

During 1987 and 1988, a study was carried out at the Norwegian School of Management to find out whether, in fact, the competition had been stimulated or not, and eventually, in what ways and to whose benefit. Among the major findings were the following:

In a period *after* the declaration of the NOFT decision, but *before* the decision became effective, the media tried to cut the agency commissions from 15% (the international standard) down to 3.5%. The NOFT approved, expecting that a cut of the commissions would result in lowered media prices. The agencies, however, reorganized by etablishing 4 major media handling units which took over 80 % of all the media handling business, on behalf of more than 100 agencies.Thereafter, with a substantially greater market power, they fought back the attempts of lowering the commission level. The final results (emerging in December 1986) were that a new commission level of 10.2 % was etablished. Thereby, the agencies avoided a potential loss of NOK 300 millions, cutting their losses to NOK 100 millions.

During 1987 (the first year with a free advertising market) the media increased their prices with 12% , corresponding to NOK 500 millions (completely disregarding their savings of NOK 100 millions on commissions). But simultaneously, they introduced new direct rebates to advertisers, amounting to another NOK 100 millions. These rebates were given to a few large national and local advertisers. For the great majority of Norwegian advertisers the deregulation did not affect the media prices.

To compensate for their NOK 100 millions loss on the media handling business, the agencies increased their fees from NOK 372 millions (1986) to NOK 566 millions (1987), thus increasing the advertisers´ costs for the production of advertisements by NOK 194 millions, or 52% (as contrasted to a general increase in the total advertising market of 14 %).

Thus, a major finding from the study was that the Norwegian advertisers *did not* get "more advertising out of their advertising money", as a result of the deregulation, as measured in this study. What really happened was that the media and the advertising agencies started a fight about the commission money, each part wanting to grab the largest possible sum of it, with the advertisers as passive spectators.

During the "commission war", the agencies threatened to build up new "media buying" and "media broking" functions, aiming at negociations about media prices. This proved to be an empty threat - and (to the great dissappointment of the NOFT) Norwegian advertisers themselves never made any attempts of bargaining the media prices.

This passive attitude towards price negotiations between advertisers, media and agencies may have a number of reasons. One of the explanations offered is that the Norwegian advertising market had been *institutionalized* over a long period: the participants continued to adhere to conventional

norms and roles in the market, as defined by social institutions, resulting in a "trained incapacity" as far as competive market behavior is concerned. These institutions were mainly defined and protected by the branch organizations, where a limited number of significant leaders developed the strategies to be followed by the large and passive majority of their members.

However, because of a heavy recession hitting the Norwegian economy during 1988-89, we have got an increased competition in almost all markets, including the advertising market. So now we can see that the deregulation made a more efficient competition in the advertising market *possible,* even if it did not - under the previous circumstances - make it *necessary*.

THE DEREGULATION OF THE NORWEGIAN ADVERTISING MARKET: AN INSTITUTIONAL APPROACH

Thorolf Helgesen

Will competition in a market be more efficient when cartel arrangements are abolished? Not necessarily so, according to the findings from a research project carried out in Norway in 1987-88. Based on a deregulation of the Norwegian advertising market, this article reviews what happened in this market after the abolishment of a comprehensive cartel that had existed for more than 75 years. It concludes that a more competitive behavior was not stimulated by the abolishment of the cartel itself. A major explanation offered is that the market behavior was not materializing from individual actions at a company level - it was largely determined by institutions still operative after the formal elimination of the cartel. Only when an economic recession hit Norway two years later, the companies were forced into a more competitive behavior. Hence, a deregulation can, by itself, make a more efficient market behavior possible, without making it necessary. To realize the deregulation aims, it may be required that other conditions - external to the specific market itself - are fulfilled.

1. Historical Perspective

"The Norwegian Advertising Agreement" stems from 1911, when a limited number of Oslo newspapers and advertising agencies formed a local cartel regulating media prices, agency commissions and other terms of trade concerning their common advertising business. Over the years, the agreement was continually extended. In 1938, it comprised all the newspapers and agencies in Norway. After the second world war, also the weekly magazines and the advertisers became cartel parties, and finally, in 1983, even the trade press joined the group.

In 1986, in its last year of existence, the cartel billed a total of NOK 4.540 millions, or almost exactly 50 % of the total advertising market, which that year amounted to NOK 8.890 millions. According to Norwegian legal definitions, the agreement constituted a cartel. But the agreement was practised also by the media outside the cartel - cinemas, outdoor advertising companies, direct advertising companies and others (commercial TV and radio is still of no practical importance in the Norwegian advertising market).Via this indirect impact also on the formally unregulated parts of the market, the agreement had in fact a decisive influence on the structure and operation of the entire advertising market. (1)

But not only did the cartel grow in extent - it also penetrated the system in depth, by specifying a comprehensive and ever increasing number of technical and financial details regarding the advertising practises. Formally, the agreement was a mixture of vertical regulations (between advertisers, agencies and media) and horizontal regulations (between media). (2)

According to Norwegian legislation, vertical cartels are not prohibited *per se,* whereas horizontal cartels are (although this prohibition may be dispensed from). Every cartel of any significance must disclose their agreements to the Norwegian authority on cartels - The Norwegian Office of Fair Trading (NOFT). The task of the NOFT is to control and eventually to intervene, or even to abolish entire cartel agreements, if they are deemed as being contrary to basic public interests. In order to survey existing cartels these must be reported to and registered by the NOFT. The total number of registered cartels amounts to 500 (1989).

Until 1978, the NOFT made no serious attempts to challenge the advertising cartel. From 1978 on, however, the cartel became subject to an ever growing criticism, and finally, on September 23 1985, the NOFT decided to ban it, with effect as from January 1 1987.(3)

By international comparison, the Norwegian Advertising Agreement was not the only one of its kind. Similar cartel agreements still exist in Denmark and Finland, whereas a Swedish advertising cartel disappeared in 1978. In other countries there are no such formal constructions, partly because it would be impossible for legal reasons, but also because the advertising practitioners have established non-formalized patterns of cooperation making formal cartel agreements unnecessary. For this reason, the international practises regarding e.g. terms of agency recognition and commission standards are basically the same, regardless the lack of formal agreements and differences in legal conditions. In the United States, a formal advertising cartel was prohibited by the FTC in 1956, but the advertising practises cannot be seen to have changed, or to be different from those found anywhere else. (4)

2. The NOFT Decision: Why Deregulation?

According to the NOFT, their basic aim was to stimulate the competition in the advertising market, or, in their own words, "to give the advertisers more advertising for their advertising money". This generalized goal was specified as follows:

• *To make the establishing of new advertising agencies easier, by removing all formal barriers to entry*

• *To intensify the competition between the agencies, thereby enhancing more specialized services, more rational working procedures, and a higher "level of creativity", which were all considered important aspects of a more cost-effective advertising*

• *To stimulate the price competition between media, in order to reduce the media prices for the advertisers.(5)*

Out of these points, effects related to the latter may be most readily demonstrated in the market place - although improved advertising effectiveness may have a large potential both as to increases in revenues and reductions in costs, at least in a long time perspective. But in the NOFT argumentation, it was primarily focussed upon the media costs and the media handling costs, the latter linked to the question about the agency commissions. In fact, during the entire processes, no single item attracted more interest than the level of commissions.

According to the NOFT, the standard commission of 15 % (which is also the traditional international standard) was much too high, as related to the real costs for the agencies' media handling. By lowering the commission rates to 3-4 % (NOFTs indication), the agencies might be duely compensated, and the reduction might result in corresponding cuts in the media prices. For example, cuts in the commission rates might result in a halt in the yearly "automatic" media price increases of 10-12 % (1982-1986), or it might create a basis for a comprehensive direct rebating to the advertisers.

As to the latter, rebates on advertising had to a growing extent and for many years been given by the agencies to their clients, by dividing the media commissions between them. (The technical term is "return commissions", and refers to a wide-spread international practise.) However, the NOFT regarded this system as arbitrary, unfair, and too limited, and therefore, they were in favor of lower commission rates linked to general media price reductions and/or direct rebates from the media to the advertisers.

But the NOFT also believed that by abolishing the cartel agreement, thereby also eliminating the horizontal regulation of the media prices, this would in itself stimulate the price competition between the media, resulting in lower media prices, regardless of the commission issue. An underlying hypothesis was then, of course, that the demand side of the advertising market (i.e. the advertisers and the agencies) would put a pressure on the supply side (i.e. the media) resulting in price reductions (for discussion, see below).

It should be underscored that the NOFT never defined their goals operationally. They limited themselves to pointing at some central indicators, with costs and prices as dominating aspects. But the points above express their expectations about what kind of effects that might be accomplished.

The NOFT enchroachment should also be seen in a political context. From the late 70s on, successive Norwegian governments have paid an ever increasing attention to the inflation problem (with yearly price increases up to 15 %). There has been - and still is - a general consensus among the political parties that a more effective competion on the macro level may render a significant contribution in fighting inflation. For this reason, the NOFT has been politically encouraged in investigate and eliminate existing cartels in a wide variety of markets.

3. Theoretical framework

The research project carried out in 1987-88 may be seen as a test of the hypotheses underlying the NOFT ban on the advertising agreement, as described above. By registering the effects in terms of e.g. commissions rates, media prices, rebate systems, media selection and media handling procedures, prices for agency services, new agencies and agency operations, one could hopefully throw light upon some main indicators of market performance, telling us to what extent the NOFT encroachment was a success, given its aims.

Already at this stage of the research design, some methodological problems arose.

One is about the *time perspective.* What effects, if any, might be expected to emerge on a short term basis, as contrasted to the long term effects? And how should short term and long term be defined in our case? A second problem is about *causes and effects:* Which effects might be consequences of the cartel ban itself, as contrasted to possible effects stemming from other forces in the market? And eventually - in what ways might the different forces interact?

An important theoretical problem concerns the possible *explanations* of the findings. If these happened to be different from the results expected by the NOFT, then we might be dealing with a problem that could not be explained by economic theories underlying the NOFT encroachment - as far as there were any such theories at all.

No theories were ever referred to explicitely. On the other hand, it is not reasonable to expect that a governmental body exercising political power should render an account of the theoretical background for their political decisions. The problems they are dealing with are related to existing laws and legal practises, and their decisions are based on judgements. Hypotheses about the probable consequences of the NOFT decision were rather based on empirical knowledge and practical judgement, linked to an overall ideological view about the blessings of a free market system.(6)

However, a centrally held premise was about individual market operators: if left to themselves and deprived of collution possibilities, they would start competing with each other - a basic assumption, according to economic theory. But *would they* - and *could* they, in our case? If efficient competition in a market is something that has to be *learned* - which is our assumption here - then one may wonder how the market operators should have acquired such knowledge in a market that had not been competitive for 75 years. Or in a more profound sense: if market behavior emerge in a broad cultural and social context, how could one expect immediate results from a simple deregulation of a single market?

An alternative may be to study the consequences of a deregulation from an institutional point of view - that is, to study market behavior as *institutionalized,* as conceptualized by Berger and Luckmann (1976). According to Berger and Luckmann, an institution is a set of rules or norms organizing social behavior. By typification of behavior built on habit formation, and by defining roles and goals that are internalized in the individuals, the institutions are legitimized and often taken for granted, as objective parts of reality.

An important part of this theory is the mechanism for the creation, extension and reinforcement of institutions. In this context, Berger and Luckmann present the concept of "significant others" (borrowed from Mead) and the "choir", i.e. adaptive and more passive "followers". "Significant others" are reference models or agents of emerging institutions, whereas "the choir", through imitative behavior are reinforcing, legitimizing and further spreading perceptions of reality and corresponding behavior.

This approach has been used by Hernes et al in their study of power in the Norwegian society. According to Hernes (1978) institutions may be described and interpreted as guidelines for the specification or exclusion of alternatives, for defining borders of uncertainty and for giving goals and meanings for individual or group actions. In short, they may be described as *contexts for rationalization* of behavior. This concept seems to be a very closely related to that of Berger and Luckmann. (7)

Arndt (1981) links this concept of institution to marketing theory and marketing practises, also pointing at a revived interest in institutional economics (Williamson, 1975, and Arrow, 1977).

As pointed out by Hernes (1978), markets may always be regarded as institutions, even if these institutions may be very different. Important traits are the interaction between economic and political forces, creating changes in market structures and market powers, and the interplay between markets and the surrounding society.

The Norwegian advertising market has been institutionalized through such processes. The Advertising Agreement may be regarded as the main instrument for this institutionalization. It specified in detail all the "whats, hows and whys" of advertising market behavior. Additionally, there were the advertising practises as they had developed over many years, and the organizations of media, agencies and advertisers defining the goals and norms governing member behavior. Outside this system, one may even include cultural and political factors influencing market behavior in a more general sense. In this system, at many levels, "significant others" and "members of the choir" may be identified. (8)

According to Berger and Luckmann, the institutions, once established, have a tendency to subsist (referring to Simmels concept of "loyalty"). If so, we might hypothesize that the institutionalized behavior in the Norwegian advertising market would not disappear as a short term reaction to the cartel ban.

In studying the advertising market we are also facing another problem of considerable importance: the lack of criteria for rational advertising decisions. As appears from the theoretical discussions in e.g. Comanor and Wilson (1974), Tuerck (1978), Reekie (1981) and Ray (1982) there are still many unresolved basic issues within budgeting and media selection (not to speak about the message format). For this reason, a deregulation of advertising markets leading to changes in e.g. advertising agency practises may be hard to evaluate from an effeciency point of view. For this reason, we may expect uncertainty and lack of reactions to such changes among the advertisers.

4. Research design and data sources

First of all, it was necessary to decide about the time perspective. Linked to an institutional orientation, it was decided to discern between two periods:

1. The period between September 23 1985 and January 1 1987, that is, the period between the official announcement of the NOFT decision and its coming into force.

2. The first year of operation without an advertising cartel agreement, that is, the first full calendar year plus the extra months needed to collect a full year´s records of operations.

This design was based on the expectation that an eventual restructuring of the advertising market would take place as a result of actions taken by significant leaders prior to January 1 1987, e.g. *before* the ban came into force. The underlying rationale was that these people would be eager to "set the scene" in order to control the market operations from that date.

In the second period, then, one could register what really happened in the market place, once the new scene had been set. Clearly, it could not be known whether all the major results from the cartel abolishment would have emerged after one year without a cartel - so the time perspective was left open in the sence that if necessary, a prolonged study could eventually be performed (see paragraph 6).

At the outset of the research project, a comprehensive documentation was at hand, covering the processes that took place during the first period. These documents lent themselves for content analysis, that is, the search for deeper structures and hidden meanings embedded in the factual content.(9)

A first exploratory field study took place in November and December 1986, the main aim of which was to establish hypotheses about the actors´ perceptions of the ongoing changes and their possible effects.(10)

During the spring of 1987, 21 "significant leaders" were interviewed. These leaders were identified as chairmen and directors of relevant branch organizations and other influential groups. During semistructured, extended interviews the respondents were asked about the processes during the first period, as they perceived them, retrospectively.(11)

Data concerning 1987 - the first full year without a cartel agreement - was retrieved by interviews with leaders of the advertising agencies, advertisers and media companies, undertaken during the spring of 1988. The data comprized their perceptions of the changes in the market situation, and their experiences, expectations and strategies for the future. Additionally, data about billings, profits, prices, commissions, rebates, media selection procedures and the media handling function were collected.(12)

Additional data came from a range of secondary sources - the advertising volume was measured via The Norwegian Advertising Statistics Service, the agency fees via The Norwegian Association of Advertisers and a comprehensive study of the newspapers´ advertising volum, income and rebates was performed by The Norwegian Newspaper Owners´ Association. Data about Norwegian agencies were delivered by The Norwegian Association of Advertising Agencies. All these data emerged during the spring of 1988.

The full report (in Norwegian) was finalized and published in August 1988.(13)

5. Findings

Among the most important findings from the study is probably the strong support for the view that all the major changes in the Norwegian advertising market structure, stemming from its deregulation, occured *after* the official announcement of the cartel, but *before* it came into force. Once the NOFT decision was made, and the parties realized its finality, the significant leaders in branch organizations and small, powerfull groups started manaeuvering, out of which there came the main changes in the market structure and conditions of transaction. *No* fundamental changes of this kind emerged as a result of the cartel´s physical disappearance.(14)

The media prices continued to increase with an average rate of 10-12 % and in some extreme cases, up to 30 % (corrected for variations in circulation figures). There were no signs that the NOFT ban had changes the previous patterns of media pricing policies.

Another main finding was that although media prices might be bargained as from January 1 1987, no price negotiations took place. Neither the advertisers nor the agencies made any serious attempts of negotiating the official media prices and rebate systems. Existing media buing patterns in other countries were not adopted. By and large, the market operators adhered to the same rules of market behavior as before, even if the rules themselves had physically disappeared. This phenomenon may be labelled a *trained incapacity to compete*.

Below, a more detailed description and analysis of the processes is given. (15)

Once the NOFT decision was official (by September 23 1985) the organized cooperation between the branch organizations of media, advertising agencies and advertisers came to an end. Rather, each organization tried to define their own strategies, and as a part of these strategies, to find potential new alliances. Out of these processes came, as a first result, that the media groups (newspapers, magazines and trade papers) found each other in a wish to reduce the commission rates from 15 % to 3-4 %, as from January 1 1987. This united strategy was officially signalled in the winter of 1985/86.

As a countermove, the agency association signalled a fierce resistance during winter/spring 1986 - they would not discuss any reductions in the commission rates whatsoever. From a market power point of view, there was one important factor strenghtening this position considerably:

Already back in 1978, the first specialized media handling units - the "media centrals" - had been introduced. These units were able to handle the media handling (planning, insertions, control, accounting) cheaper than the traditional "full service" agencies. And even more important, they could - as recognized agencies in their own right - claim 15 % commission from the media, and split this commission between themselves and the agencies producing the advertising campaigns.

By the mid-80s, anticipating the abolishment of the cartel, the former "full service" agencies realized that by establishing a limited number of media centrals themselves, they might successfully resist a future attack against the commission rates from the media (because of the market power concentrated in the centrals). The NOFT decision speeded up this process. From 1986 on, the advertising agencies were split into two distinct groups - the "production agencies" and the "media handling agencies" (the "media centrals").

In 1986, 4 large media centrals took care of approximately 80 % of the total media business on behalf of the agencies - by itself a remarkable construction (and internationally unique).

During the spring 1986, the leaders of the 4 centrals made it clear that there was no question about negotiating the commission rates,t hereby supporting the position held by the agency association.

Impressed by these statements, the magazines (100 % dependent on orders via the agencies) declared that their low-commission strategy was abandoned (June 1986). Some of the most important trade papers followed suit (Whereas a number of minor trade papers reduced the commissions to 3.5 %). All the other media groups - the cinemas, poster companies, direct mail companies and others stayed at 15 %.

But the newspapers´ association still decided to go for a 3.5 % commission level, linked to an introduction of a new rebate system directed at the advertisers. This strategy had, of course, the full sympathy of the NOFT. The newspapers´ association was even able to obtain a special permit to tie up its members to a standardized commission of 3.5 %, via a new horizontal regulation. After a ballot, a large majority of newspapers (147 for, 7 against) decided that a 3.5 % commission would be the official and invariable standard.

But the agencies - i.e. the agency association and the centrals´ leaders - refused to sign the contract offered by the newspapers´ association. 100 % of the individual agencies followed suit, or rather - did nothing. The agency association signalled that the agencies, under the circumstances, might accept 10 %. The newspapers´ organization refused. The agency association then wrote an individual letter to the 20 biggest newspapers (accounting for about 80 % of the newspaper advertising business) asking for individual guarantees for an extra 6 % commission as a special "service fee". On December 16 1986 the newspapers gave in - the 20 biggest newspapers signed the guarantees, and the other newspapers followed suit.

This was the situation on January 1 1987.

When the new year started, there was a certain nervousness in the market. The new terms of trade were not clear. And technically, the media handling routines had not been updated to cope with the new situation. Especially, there was a virtual chaos about the hundreds of new individual rebate systems offered by the media. As a result of this turmoil, the advertisers´ budget routines had been delayed, too.

So, for many reasons, there was a temporary set-back in the advertising business volume. But very soon - about February/March 1987 - there was again a rapid growth in the market. A main reason for this recovery was the ongoing boom in the Norwegian economy. In the first half year of 1987 the advertising market expanded by 20 % in money terms, and about 8 % in real terms. The average media price increase was consequently about 12 %. For the newspapers, this was almost exactly the average price increase for the years 1982-86. So even with lowered commission costs corresponding to NOK 100 millions, *prices continued to increase as before.* (16)

The lacking correspondance between reduced commission costs and the price setting was also demonstrated by the trade press. There were no differences found in the price increase in papers keeping their commissions on a 15 % level, and in those which reduced them to 3.5 % (and with no extra "service fees" to the agencies).(17)

The media had, in general, no intentions of starting a price competion based on reduced costs. And why should they - if the advertisers were willing to pay - as it were? And how should advertisers start negotiating the prices when they had never done so before? What persons should do the bargaining? With what arguments? And what were the chances to succeed, given that the media would show embarrasment and resistance, being afraid of the consequences? Would such efforts pay off, after all? So the advertisers kept passive. The demand side of the marked did not work. (18)

On the other hand, the media might maintain that the prices *were* lowered, by means of new, direct rebates to the advertisers. In a sense, this was true. Based on the interviews with advertisers in March 1988, it was demonstrated that the newspaper did give new rebates in 1987 amounting to NOK 85 millions, whereas the weeklies gave NOK 15 millions. In fact, the newspaper rebates corresponded to a gross price reduction of 2 %, and the weeklies´ rebates to 5 %. However, these rebates were given to a limited number of advertisers: the newspapers´ rebates mainly to large, local advertisers, and the weeklies´ rebates to a few large national advertisers. For the great majority of Norwegian advertisers, the media costs increased.(19)

As to the commission rates, these went down from 15 % (1986) to 10.2 % (1987). Thereby, the agencies lost NOK 100 millions in commissions. To compensate for this, they had two options: either to produce a greater number of advertisements at higher prices and/or to reallocate the media budgets to the media offering the highest commissions. They did both, but the first option was by far the most rewarding.

The income from production (including councelling) rose from NOK 372 millions in 1986 to NOK 566 millions in 1987, which was a 52 % increase, as contrasted to an average yearly increase of 15 % during the preceeding years (1982-86). So, the agencies lost NOK 100 millions in commissions, while they gained NOK 194 millions in production income. This income increase was only partly due to price increases (per hour fees), which stayed at 11 %. (19) The main mechanism behind the income increase was a new practise of producing "a new ad for each insertion" - that is, to produce bigger and more expensive advertisements and to avoid repetitions.(20)

The increase in the production costs by 52 % may be contrasted to the overall growth of the advertising market. In 1986, the total advertising expenditures are estimated to NOK 8.890 millions. In 1987, they increased to NOK 10.130 millions, an growth of 14 %. So, the production costs increased significantly more than the total advertising expenditures.

Also, changes in media selection patterns were registred, that is, a tendency away from newspapers and into the weeklies. This may be an effect of the differentiated commission levels, but parts of these effects may also stem from the media price strategies and own sales efforts.(21)

The number of advertising agencies was earlier (before 1980) exactly known, but can now only be estimated. Based on the records in the media centrals this number can be estimated to 400 in 1987. The growth over the years has been considerable, but the development up tthrough 1987 has been even. No specific effects stemming from the cartel ban have been registred. Probably, the main barrier to entry was removed back in 1980, when the NOFT allowed the media centrals to split the commission with unrecognized agencies - a practise that was earlier forbidden, according to the advertising agreement (22). If the ban of the agreement had been imposed, say, 10 years earlier, the effects might have been much clearer.

From this study, it is not possible to conclude about eventual effects on the *quality* of advertising - that is, whether the changes in the advertising practises tended to create more effectice advertising in any respect, or the opposite. The changes in media selection patterns (a tendency away from newspapers) and the tendency to make bigger ads and to make new ads for each insertion may have effects of both kinds. But the production costs have increased significantly. (23)

To summarize:

The ban on the advertising cartel did not stimulate the competition as hoped for by the NOFT, as judged on the basis of the first year without a cartel. The media prices continued to increase as before the deregulation. The commissions rates went down from 15 % to 10.2 %, not by far as much as indicated by the NOFT.

The media handling procedures were rationalized, mainly by the formation of the media centrals, but not as a direct consequence of the ban itself. But threath of a future ban speeded up an ongoing process.

The main structural changes developed *before* t the ban came into force, mainly as results of actions taken by a limited number of significant leaders in branch organizations and other powerful groups. The large majority of market operators adhered passively to the new conditions, and did not try to compete on prices, at a company level.

The ban lead to a confrontation mainly between the media and the advertising agencies. The main issue was the rates of commission, and which party that was going to win or lose as a consequence of eventual changes. Once the new terms were fixed - and before the ban came into force - the commissions rates remained unchanged and they still are. (24)

No effective price competition between the media or the advertising agencies developed during this period. For most advertisers, advertising became more expensive, by increases in media prices and higher advertising production costs.

6. Later experiences

The original study was based on data from a period ending on December 31 1987. Clearly, one could have extended the study beyond this date, and possibly, additional information might have emerged, with ramifications for the summary presented above.

Indeed, this is the case. No further formal study has been performed, but significant processes have taken place, from which important inferences may be made.

In Norway, the economy was booming up through the '80s - mainly as a result of a fast expanding off-shore oil industry. There was a corresponding increase in private consumption, which even fuelled the advertising market. The yearly increase of the advertising expenditures in this period was between 15 and 20 %. This development continued until mid-87. At that time there was a serious set-back in the Norwegian economy, curbing private consumption and the demand for matching advertising.

During the second half year of 1987 there was a decrease in the advertising demand, reducing the 20 % increase from the first half year to a 14 % increase on a yearly basis. In 1988, the recession deepened. In this year the advertising market was reduced to NOK 9.845 millions, or 3 % down as compared to 1987. The forecast for 1989 is a further reduction by 2 %. (25)

In this situation, some large advertising media are reported to have started price negotiations with large advertisers (Spring1989). Unofficial reports maintain that individually negotiated rebates from leading newspapers and weeklies correspond to 15 % off the formal prices. Also, it has been reported that negotiations between media centrals and the new (and still small) commercial TV and radio stations have resulted in reduced prices for advertisement transmissions. These are indications of a completely new tendency in price competition in the Norwegian advertising market. It is unlikely that such negotiations could have taken place under the earlier system, at least not openly. (26)

7. Conclusion

While the abolishment of the advertising cartel did not lead to a more competitive market behavior during the first two years with a "free market system", such behavior *did* occur at the turn of 1988/89, as far as media prices are concerned. This indicates that while the ban of the cartel itself made more competive behavior *possible*, it did not make it *necessary* until the demand side was sufficiently impaired. One may hypothesize, then, that the effects from deregulations of markets may depend on macroeconomic conditions and forces outside the specific market itself.

8. Notes and References

1. The Norwegian Association of Advertising Agencies, Oslo 1987
2. "Avtale om Annonsepraksis og Annonseformidling i Norge" ("The Norwegian Advertising Agreement"), Oslo 1984
3. Letter from NOFT, Oslo (Prisdirektoratet) of September 23, 1985
4. Records and surveys are found in the European Association of Advertising Agencies (EAAA) in Brussels and in the American Association of Advertising Agencies (AAAA) in New York
5. Letter from NOFT, see above
6. Documents from NOFT 1978-1985. See also Egil Bakke (Director General of the NOFT): "Konkurranseretten - utviklingslinjer" ("Competition Laws - Lines of Development"), Oslo 1986 and "Antitrustkonferansen i New York 6 mars 1986" ("The Antitrust Conference in New York on March 6 1986", Oslo 1986

7. Gudmund Hernes was chairman of a governmental commission on "Societal Power in Norway", from 1972 to 1981, resulting in a number of reports and books. One of these is "Forhandlingsøkonomi og blandingsadministrasjon" ("Economics of Negotiations") (see Literature)
8. Records and minutes from meetings in the Avtalenevnden (Advertising Agreement Board - AAB) and the member organizations, 1978-1985
9. Mainly letters from the AAB and member organizations to the NOFT, 1978-1985
10. Carried out as a thesis by two students at The Noorwegian School of Management, 1987
11. March-May 1987. The main emphasis was on hidden and real goals, causes and effects, that is, "what really happened", according to the respondents
12. Postal interviews, March 1988, response rate 60 (agencies) and 65 (advertisers)
13. "Dereguleringen av det norske annonsemarkedet" ("The Deregulation of the Norwegian Advertising Agreement"), (see Literature)
14. To a degree, anticipations about a future abolishment of the cartel contributed to changes even at an earlier stage, especially in the agencies. The introduction of contracts between advertisers and agencies is an example
15. This is a condensed version of the original report, covering 99 pages
16. When the newspaper fixed their prices as from January 1 1987, they still believed that the commission rates would be reduced to 3.5 % from the same date. Parts of the expected reduced commission costs was offerd as new direct rebates to the advertisers
17 Many of the smaller trade papers that reduced their commission to 3.5 % have a *de facto* monopoly in their respective niches
18. The director general of NOFT, Egil Bakke, compared Norwegian advertisers to "fishermen, spending their money freely upon coming home to their harbors after many months of hard work on the ocean" (Kampanje, 1987)
19. The trade papers offered NOK 1 million in new rebates (1987). No other groups outside the 3 mentioned media groups started giving rebates
20. The Yearly Report, The Norwegian Association of Advertisers, 1988
21. This tendency was measured by The Norwegian Advertising Statistics Service (Norsk Reklamestatistikk), 1988
22. NOFT (Prisrådet) verdict, December 16 1980
23. In the full report, this issue is discussed more in detail
24. As per July 1 1989. The issue of commissions seems to be "dead", as contranted to the question of terms of payment
25. Advertising Forecast Service, The Norwegian Association of Advertising Agencies, 1988
26. This new tendency will be more closely examined by the author in the fall, 1989, in cooperation with The Norwegian Association of Advertising Agencies.

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D.2

The Impact of Transportation Deregulation on Supply-Side Marketing Costs

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The Impact of Transportation Deregulation on Supply-Side Marketing Costs

ABSTRACT

It has been estimated that the deregulation of freight transportation saved U. S. firms about $90 billion in logistics costs in 1987 alone! Despite the major role that transportation plays in the marketing of goods, the marketing literature has yet to see a systematic analysis on the impact of deregulation on physical distribution/logistics functions and costs. This paper uses "total cost analysis" as a theoretical framework for discussing the impact of transportation deregulation on the supply side of marketing.

INTRODUCTION

While transportation has been termed a "forgotten function of marketing" (Harper 1964), this paper explores the impact of transportation deregulation on a set of marketing costs related to the physical distribution/logistics functions. Thus, the analysis is limited to the supply side of marketing, or to the "place" part of the four P's. Transportation deregulation has dramatically changed supply-side marketing. This work makes a significant contribution by analyzing both the micro- and macro-marketing impacts of deregulation.

According to McDaniel and Darden (1987, p. 6), "Macro marketing refers to the study of (1) marketing systems, (2) the impact and consequence of marketing systems on society, and (3) the impact and consequence of society on marketing systems." This paper is macro-oriented in all three ways. First, the inventory item passed downstream in the marketing system is our unit of analysis. Second, this paper explores in detail the impact and consequence of society, in the form of transportation deregulation, on marketing systems. Third, we also look at the economic impact of corresponding marketing system changes on society as a whole.

The first section of this paper reviews transportation deregulation during the past decade for all the major modes; especially the 1977 deregulation of air cargo service, the Staggers Rail Act of 1980, and the Motor Carrier Act of 1980. Then, several deregulation cost studies are reviewed and total cost analysis is introduced in the form of a model of interrelated logistics functions. This model is used to discuss the economic impacts of deregulation at the inventory item level, as well as for the U. S. economy as a whole.

DEREGULATION OF FREIGHT TRANSPORTATION

This section describes several acts of deregulation during the past decade, along with how these acts have affected air, motor, rail, and intermodal freight transportation in the U. S. Of most importance are the deregulation of domestic all-cargo airline service in 1977, the Motor Carrier Act (MCA) of 1980, and the Staggers Rail Act of 1980.

Air

In November 1977, in the form of amendments to the Federal Aviation Act, the deregulation of domestic all-cargo air service became law. This largely lifted government control over the rates carriers could charge and the routes they could fly (Brenner, Leet and Schott 1985). By removing entry restrictions, "deregulation has filled the skies with new carriers" (Finn 1988). More carriers competing for traffic to more destinations has led to lower rates for shippers.

Emery Air Freight enjoyed sales growth of 26% in 1987 (Banks 1988). That carrier's leader has noted that, after deregulation, there were "no longer any limits on the size of cargo aircraft we could fly. . ." (Emery 1987). This has brought about increased usage of the B-747-200, "the most efficient and cost-effective aircraft in existence" (Cronin 1987), over long distances with high load factors.

Deregulation has enabled air cargo carriers to reduce costs and compete with lower rates. It has also made the offering of innovative, integrative services more feasible. Flying Tigers, the largest all-cargo air carrier in the world (Finn 1988), markets "total distribution services" by helping shippers integrate air cargo with production and marketing (Cronin 1987). Moreover, Emery Air Freight sees "the future of air cargo being dominated by those willing to put together a better customer-driven ground and air system" (Emery 1987), by integrating transportation and communication.

Since 1977, air cargo service has been more efficient, predictable, innovative, customer-oriented, and integrated with the marketing functions. The bottom line for shippers is that "deregulation has given them the ability to move cargo faster via more flights -- and at a lower cost" (Callari and Cooke 1987a).

Motor

The Motor Carrier Act of 1935 brought strict government control over rates and services (routes, commodities) offered by the trucking industry. This regulation remained virtually unchanged until 1980, when a new, deregulatory Motor Carrier Act was enacted (Moore 1986). One author states that "partial deregulation de facto came about 1977 or 1978" (Waters 1987). For instance, in 1978, the Interstate Commerce Commission (ICC) reversed a long-standing policy and allowed private carriers to engage in regulated for-hire operations. As private carriers began to solicit traffic, truckload (TL) traffic competition intensified and TL rates fell.

After the MCA of 1980, many new -- mostly small, low-cost, non-union -- TL carriers easily entered the industry. The MCA "completely deregulated entry into common and contract carriage" (Glaskowsky 1986). Low costs and non-union wages, along with heavy competition, have led to lower rates for TL traffic. It's been said that "truckload fleets have been able to divert significant tonnage from both the railroads and the LTL carriers" (Callari and Cooke 1987b). Lower cost TL common and contract carriers have also taken traffic away from private carriers (Johnson and Schneider 1988).

On the other hand, LTL carriers collect, combine, and load small shipments onto their vehicles prior to movement. For large-scale national operations, this requires heavy investment in terminal networks (Glaskowsky 1986). Despite these high entry barriers and increasing concentration among less-than-truckload (LTL) carriers (Cunningham and Rakowski 1988), rates for LTL traffic have also declined significantly. A recent report describes LTL rate-cutting as "most devastating" to certain (weaker) carriers (Clements 1988). LTL rate decreases are dominated by discounts to large shippers for guaranteed volumes.

Just prior to motor carrier and rail deregulation, Wagner (1979) conducted a survey of shippers' perceptions on deregulation. Economic theory predicts that deregulation would lead to more competition, greater efficiency, improved service and lower costs. However, Wagner's shippers seemed to fear that deregulation would lead to less service and higher rates. In another survey, conducted by Davis and Rosenberg (1976), a set of distribution managers felt that motor carrier deregulation would lead to a service decline. Mounting evidence suggests that deregulation of transportation is leading to improved service and lower transportation costs, contrary to the outcomes predicted by the Wagner (1979) and Davis and Rosenberg (1976) surveys.

For shippers, deregulation has meant lower rates and improved service. Carriers are increasingly willing and able to negotiate rates which reflect the service mix provided. Negotiated contract rates increase certainty for shippers, while reducing per shipment communication costs and paperwork. Moreover, "route rationalization," made possible by the MCA, has allowed shippers to do business with fewer carriers.

Deregulation has provided for greater flexibility and integration in the carrier-shipper relationship. Hull (1989) notes that the MCA has made "partnerships" between shippers amd carriers possible. This ought work to favor motor carriers in general when a shipper moves to adopt the just-in-time (JIT) inventory philosophy. Finally, the MCA of 1980 has made it possible for railroads to engage in for-hire trucking -- and to offer more fully integrated freight transportation services (Waters 1987).

Harper (1980) provides a comprehensive review and analysis of the Motor Carrier Act of 1980.

Railroad

In 1887, the Interstate Commerce Act was passed to set up the ICC. This was the start of railroad regulation. Up until 1980, rates to charge and routes that railroads could start (and stop) serving were mostly decided by an agency of the U. S. government, rather than the railroads themselves. The Railroad Revitalization and Regulatory Reform Act, called the "4-R Act," was passed in 1976. The 4-R Act was weak, actually offering the rail industry little liberation from government control. However, it did represent the "first legislation reducing regulation of any transportation sector in the history of the United States" (Moore 1986).

An act passed in November 1978 ruled that it was no longer illegal for railroads and shippers to cooperate under long-term contracts. Then, one provision of the Staggers Rail Act of 1980 allowed for much more pricing freedom for rail carriers. With shippers and carriers working together, nearly 50,000 rail contracts have been filed with the ICC since 1980 (Welty 1987). Contracts offer benefits to both shippers and carriers (Bielenberg and Harris 1980), e.g. lower rates and tailored service to the shipper; guaranteed traffic and eased scheduling for the carrier.

Railroads have been cutting rates to compete with truckers, and pricing their services based on market demand and equipment supply -- rather than government mandate. The new rate and service freedom has led to: (1) quicker railroad response to shipper needs; and (2) improved operating efficiencies for rail carriers (Callari and Cooke 1987c). Also, since 1980, freight loss-and-damage payments have dropped 53%.

Shipper negotiating leverage with rail carriers is derived from shipper traffic volume and competition for that traffic among carriers. A recent survey of shippers reports that 1/2 of the shippers have enjoyed lower rates for rail service after Staggers. These tend to be larger shippers (Grimm and Smith 1986). Moreover, while 2/3 of the shippers reported no change in service "quality" since Staggers; 30% experienced an increase in quality, in terms of speed, reliability, and availability of service.

Intermodal

Historically, government regulation has hampered the growth of intermodal transportation. Regulation has been largely legislated and administered on a single mode basis, without any thought to coordination among modes. Also, past regulation tended to prohibit intermodality through common ownership -- e.g. railroads could not offer for-hire trucking; surface carriers could not own airlines. Conversely, deregulation has facilitated intermodal growth (Mahoney 1985).

Effective early 1983, the ICC eliminated restrictions on dual mode ownership by a single carrier. Now, several railroads offer for-hire trucking services. Effective 1981, all piggyback or container-on-flatcar (COFC)/trailer-on-flatcar (TOFC) carriage became exempt from ICC regulation. Piggyback offers lower rail rates, combined with motor carrier speed. Usually, trucks provide the initial and final portion of the trip, with a rail movement in the middle.

The Motor Carrier Act of 1980 opened up greater possibilities of intermodal air-truck transportation. Of course, all airfreight is essentially intermodal -- the cargo must move to and from airports by a surface mode. By promoting intermodality, deregulation has given shippers a wider range of services and rates to choose from.

This section has briefly reviewed the effects of deregulation on air, motor, rail and intermodal freight transportation. In the next sections, the impact of these changes on physical distribution/logistics functions and costs is explored.

COST OF REGULATION STUDIES

The purpose of transportation regulation is "to provide the public with adequate transportation service at a reasonable cost" (Johnson and Harper 1975, p. 58). Starting with the "Weeks Report" in 1955, a number of studies have argued (and attempted to demonstrate) that regulation actually costs shippers billions of dollars each year.

Some transportation authors are doubtful about our ability to estimate the costs of regulation. Harper states: "it is impossible to measure the benefits or the costs to the general public of economic regulation" (1982, p. 620), though he recognizes that users of transportation incur additional expenses under regulation. According to Wilson, "we have had a series of attempts recently to measure the costs of transportation regulation. These studies use widely different and highly suspect techniques, woefully inadequate data, heroic assumptions and a series of guesses more or less 'educated'" (1975, p. 12). Still, Wilson (1975) estimated the "social costs" of economic transportation regulation to be at least $4 billion in 1969.

Most cost of regulation studies focus exclusively on freight rates or transportation costs, to the neglect of other logistics costs (inventory carrying and order processing) which are interdependent with transportation. Felton (1978), studying the motor carrier industry alone, estimated that regulation increased the freight bill for motor carrier users by between over five to seven billion dollars per year. Nelson argues that ICC regulation of motor and rail carriers (before the MCA and Staggers in 1980) "cost the shipping and consuming public misallocation of resources annually amounting to five to fifteen billion dollars" (1987, p. 23).

Delaney (1987) appears to be the first transportation analyst to estimate the impact of transportation deregulation on "total" logistics costs. Delaney's total cost analysis consists of the following cost categories: inventory carrying (I), transportation (T), and administration (A).

To estimate inventory carrying cost savings for 1986, Delaney multiplied 1986 GNP by the difference between business inventory/GNP ratios for 1980 and 1986. Then, this result was multiplied by a carrying cost percent factor. Using the following data: 1986 GNP = $3.98 trillion, business inventory/GNP (1980) = .18, business inventory/GNP (1986) = .15, carrying cost rate = .26; Delaney estimated carrying cost savings of about $31 billion for 1986 (Callari and Cooke 1987d). Delaney (1987) recognizes that more than just deregulation led to these savings -- without separating the causes.

Delaney estimated transportation cost savings of about $27 billion for 1986, based on deregulated freight rates amounting to an average ten percent reduction from regulated freight rates. Finally, administration cost savings were assumed to be four percent of total transportation and carrying cost savings.

More recently, Delaney estimated that deregulation created savings of $90 billion in logistics costs for U. S. firms in 1987. This "estimate is based on annual surveys of 300 manufacturers and retailers which indicate that the ratio of logistics expenditures to sales revenues has dropped by 21% since 1981" (Semich 1988).

The total cost model in this paper conceptually extends Delaney's analysis in two ways. First, inventory carrying cost savings are discussed in terms of the following three types of inventory: cycle stock, safety stock, and in-transit stock. Delaney considers only cycle stock and safety stock, and his cost savings estimates do not distinguish between these two types of inventory. Second, the total cost model which follows includes order processing costs as a distinct category. Delaney's model considers "administration" costs as a simple percent of the other costs, much like overhead.

It must also be stressed that transportation deregulation is not the only macro-factor affecting total logistics costs. "Just-In-Time" (JIT) logistics involves a relentless search for improvement, especially in the areas of inventory carrying and order processing costs. Significantly, it can be argued that without transportation deregulation, JIT would be much less effective in the U. S. (Hull 1989; Semich 1988). Other economic forces which affect logistics costs include interest rates, which are part of carrying costs, and fuel and labor costs, which heavily impact transportation costs. This discussion is summarized by Figure 1.

TOTAL COST ANALYSIS

Integrated logistics management involves the coordination of physical distribution activities to reduce total logistics-system costs (Harrington 1987). Total cost analysis is the foundation of integrated logistics management (Bowersox, Closs and Helferich 1986; Stock and Lambert 1987). Ballou (1987) includes the following cost categories in total cost analysis: transportation costs, inventory carrying costs, and order processing costs.

Based on Ballou's categories, a total cost model is developed next to analyze the movement of an inventory item downstream in the marketing channel. Let:

U = annual usage (units)	r = daily usage rate
C = FOB origin unit cost	f = unit freight rate
S = processing cost per order	h = carrying cost (%)
Q = lot size	t = transit time (ave.)
	t_{mx} = transit time (max.)

For an inventory item, annual transportation costs are equal to annual usage (U) times unit freight rate (f). Order processing costs are equal to the cost per order (S) times the number of orders per year. If U units are shipped from an origin to a destination during the year in lots of Q units each, there will be U/Q orders per year, and annual order processing costs are US/Q.

Assuming a constant usage rate at the destination, Q/2 is the average inventory or cycle stock on hand. Each shipment of Q units is in-transit for an average of t days. Since r/Q shipments depart per day, average in-transit inventory is: Q(r/Q)t or rt. Finally, if safety stock is carried to cover usage requirements over the maximum transit time fluctuation, average safety stock at the destination is: $r(t_{mx} - t)$. Figure 2 graphs the expected changes in in-transit, cycle, and safety stock over time for one cycle.

Thus, the total cost (TC) is:

$$UC + Uf + US/Q + hCQ/2 + hCrt + hCr(t_{mx} - t) \qquad (1)$$

<u>Inventory Carrying Costs</u>

Deregulation has had a positive impact on the shipper's inventory carrying costs in three major ways. First, speed of delivery has become a key competitive factor of freight transportation service. End-to-end railroad mergers make for less freight interchange and lower transit times. Piggyback service can drastically reduce transit time (or increase speed) compared to uncoordinated rail movement. In general, greater integration of carrier and shipper effort reduces lead time. Faster movement of freight means less inventory in-transit -- and lower inventory carrying costs.

Second, lower lead times also make smaller shipping quantities (for "just-in-time" operations, for instance) more feasible. This reduces cycle inventory levels at both origin and destination locations. Lower inventory levels translate into less need for storage space, less risk, and easier control of the physical flow of items through a process.

Third, lead times have become more predictable (less variable), as well as shorter. Less variable lead times enable destination firms to reduce safety stock levels. Lead time certainty also reduces the chance of a stockout (due to a late shipment) <u>and</u> the chance of excess inventory being carried (due to an early shipment arrival).

With carriers competing on speed of service and reliability of delivery time, shippers are able to replace investment in inventory and storage facilities with transportation (Schneider 1985). The individual shipper might use "total cost analysis" to make inventory/transportation trade-offs. By one estimate, the U. S. total "logistics cost in 1985 was $56 billion below the 1980 level." Of this, $30 billion was accounted for by savings in inventory carrying costs (Delaney 1987).

It is uncertain how much of this cost decline is strictly attributable to deregulation, as opposed to increasing attention to inventory control by industry, interest rates, etc. (Callari and Cooke 1987d). However, it is apparent that freight transportation deregulation is saving producers and consumers billions of dollars each year in the United States. Moreover, prior to deregulation, "just-in-time delivery methods weren't even legal" (Semich 1988). It is clear that transportation deregulation is helping to revolutionize the inventory control function.

In terms of the total cost model, transportation deregulation has led to decreases in transit time (t), lot size (Q), and transit time variability (t_{mx} - t). Thus, inventory carrying costs have declined in-transit and at destination.

Transportation Costs

Wood and Johnson (1989, p. 4) state that "Transportation rates have decreased substantially as a result of deregulation." Low freight rates are expected to continue into the future for trucking, railroad and air cargo shipments. In most cases, freight expenses account for a lower percentage of sales now than in 1980 (Callari and Cooke 1987e). These low freight rates are unquestionably the direct result of greatly intensified competition among carriers following deregulation.

Reduced and more certain transportation lead times have also impacted the transportation function, by making expensive expedited shipments less necessary. Moreover, should an expedited, small shipment be necessary -- to prevent an extremely costly temporary plant shutdown, for instance -- the shipper may now enjoy lower rates on such service.

According to Delaney (1987), the U. S. economy saved $26 billion in transportation costs in 1985 due to deregulation. Ross (1986) notes that the nation's freight bill as a percent of GNP dropped from 8.1 percent in 1980 to 7.2 percent in 1985.

In terms of the total cost model, i.e. equation (1), transportation deregulation has led to a decrease in freight rates (f) or transportation costs.

Order Processing Costs

Deregulation has allowed "many shippers to eliminate paperwork and streamline staff, creating leaner and more efficient logistics departments" (Callari and Cooke 1987e). Much of this paperwork and personnel were formerly needed to maintain communication with a firm's exchange partners. The rapidly increasing use of carrier-shipper long-term contracts, especially in motor and rail carriage, has reduced the administrative costs per order or shipment. Usually, these contracts specify terms for a series of shipments, and work well in conjunction with "blanket orders" between two firms (buyer and seller) in a channel.

Further reductions in order processing costs are achieved with the fewer number of carriers used by many shippers under deregulation. Certain communication and administrative costs are a function of the number of carriers used by a shipper. Truck decontrol has enabled duPont to cut its number of carriers from about 4,000 to 1,000. Another shipper has gone from over 100 carriers to 27 since deregulation.

In terms of the total cost model, transportation deregulation has led to a decrease in order processing costs (S).

<u>Total Cost Savings</u>

Total cost analysis can be used to estimate cost savings due to deregulation. Consider the following additional parameters:

f_d = unit freight rate under deregulation
S_d = processing cost per order under deregulation
Q_d = lot size under deregulation
t_d = transit time under deregulation
$tv_{(d)}$ = transit time variability (under deregulation)

Total cost savings, for a single item, due to deregulation can be estimated as follows:

$$U(f - f_d) + U(S/Q - S_d/Q_d) + hC(Q - Q_d)/2 + hCr(t - t_d) + hCr(tv - tv_d) \quad (2)$$

(DE)REGULATION COSTS AND BENEFITS: A WIDER PERSPECTIVE

Since motor and rail deregulation in 1980 has saved shippers billions of dollars in logistics costs, we'd expect a corresponding decline in producer and consumer prices. According to the U. S. Department of Commerce (1988), the average annual increase in consumer prices across all items was 8.9 percent during 1975-80, and 5.5 percent during 1980-85. Also, the average annual increase in producer prices for consumer goods was 8.8 percent during 1975-80, and 3.2 percent during 1980-85. While a number of events and economic forces helped bring on these reductions in average annual price increases, it is clear that transportation deregulation was a positive influence.

Air cargo deregulation in 1977 has prompted substantial increases in exports out of and imports into the United States. In 1975, $15.2 billion worth of goods was exported from the U. S. by air, and $8.9 billion worth of goods was imported. In 1980, exports jumped to $46.1 billion and imports were $28.0 billion (U. S. Department of Commerce 1988).

While transportation deregulation has benefitted many shippers and carriers, it has cost the unions dearly. The Teamsters Union has lost about 120,000 dues-paying members since 1980 (Callari and Cooke 1987b), due mostly to the startup of many non-union operations. Also, railroads have effectively negotiated with their workers' unions to reduce manpower requirements and costly work rules (Purchasing World 1988). The motor carrier industry has seen many bankrupt truckers since deregulation, but these tend to be the most inefficient and poorly managed carriers.

A fear frequently expressed by pro-regulation critics is that deregulation would bring higher, discriminatory rates and declining service to shippers of undesirable traffic (e.g. small volume, remote location). However, the evidence suggests that a more deregulated transportation industry has neither neglected service nor charged discriminatory rates to the small, rural shipper (Felton 1978; Harper and Johnson 1987; Nelson 1987).

CONCLUSIONS

This study of transportation deregulation leads to the following observations:

(1) The deregulation of freight transportation, during the late 1970s/early 1980s, has served to reduce each of our three total cost categories: transportation, inventory carrying, and order processing.

(2) Callari and Cooke (1987d) report that total U. S. logistics costs as a percent of GNP fell from 14.7 percent in 1981 to 11.1 percent in 1986. Lower logistics costs for the nation's marketing systems should mean greater profits -- and lower prices for consumers.

(3) Deregulation has pointed business firms toward more cooperative and integrated relationships. Carriers and shippers are cooperating like never before. An integrated channel of distribution, with firms (buyers, carriers, suppliers) working together as partners (Hull 1989), should operate at peak efficiency and effectiveness.

(4) Transportation deregulation has made "just-in-time"

(JIT) logistics possible in the U. S. A. (Semich 1988).

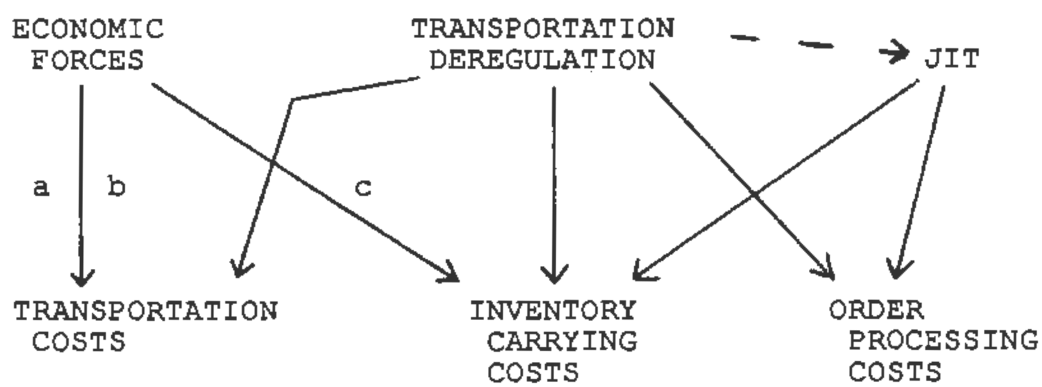
(5) Deregulation of freight transportation has had a multi-billion dollar positive impact on the U. S. economy (Delaney 1987; Felton 1978; Nelson 1987; Semich 1988; Wilson 1975).

(6) While all consumers, most shippers and virtually all well-managed, fit carriers have benefitted from deregulation, there have been those who have suffered. Unions have lost many members, inflated union wages have fallen, and poorly-managed, unfit carriers have vanished.

Worthwhile future macromarketing research into the impact of transportation deregulation on supply-side marketing costs could move down several roads, including the following two. First, it would be valuable to more precisely distinguish between deregulation and other factors (see Figure 1) which have affected supply-side costs. Regression equations could be formed with the total cost categories (e.g. transportation, inventory carrying) as dependent variables. For instance, transportation cost or freight rate could be modelled as a function of the following independent variables: (de)regulation coded as a 0-1 variable; transportation mode (air, motor, or rail); fuel prices; and extent of unionization. Inventory carrying cost could be modelled as a function of the following independent variables: (de)regulation, interest rates, and extent of JIT implementation in industry.

A second important area of inquiry would use the total cost model, equation (1), to estimate the supply-side cost impact of transportation deregulation on the U. S. economy. Major industries could be grouped by common freight rate and transit time characteristics, then the model parameters could be estimated for each industry group. Adding up the cost savings for all the industry groups would result in our total cost savings estimate for the U. S. economy.

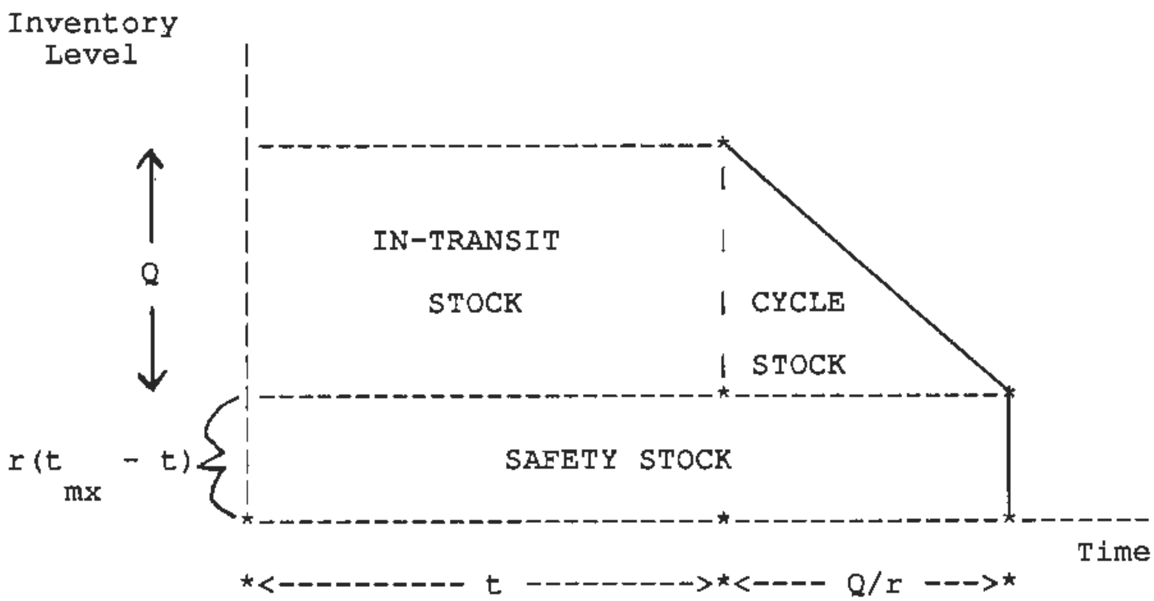
Figure 1. Factors Affecting Total Logistics Costs



<u>Notes</u>:

a = fuel price
b = labor costs
c = interest rates

Figure 2. In-transit, Cycle, and Safety Stock in a Marketing System



In-transit Stock = rt

Cycle Stock = Q/2

Safety Stock = $r(t_{mx} - t)$

Q = lot size
r = daily usage rate
t = transit time (ave.)
t_{mx} = transit time (max.)

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E.1

CULTURE-BASED MACROSEGMENTATION

BY

SUDHIR H. KALE* AND ROGER P. McINTYRE*

Abstract

Scholars have long recognized that culture plays a major role in the way potential consumers respond to a firm's marketing mix. Yet, theoretical development and empirical research in this vital area remains hamstrung by lack of a conceptual and quantifiable framework with which to analyze culture's consequences. The authors argue that Hofstede's four dimensional cultural framework has the potential to resolve many of the problems encountered in cross-cultural marketing research. They demonstrate this point by a culture-based segmentation of twelve Asian countries using Hofstede's framework. These dimensions are: power distance, uncertainty avoidance, individualism, and masculinity. Illustrative examples of how a country's position on these four dimensions would affect a firm's marketing practices and the impact of culture on technology transfer are also provided.

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Introduction

In his already classic book, Global Development and Marketing, Bartels (1981; p.5) observes, "Marketing may (thus) be seen to be not merely a functional performance but a cultural pattern of supplying consumption needs, a social institution or way of life, a creator of life styles, a medium through which specialization in production attains optimal effectiveness." Surprisingly, given this solid link between marketing and the cultural and economic environments of a society, the cultural domain of marketing still suffers from inadequate attention from macromarketing scholars.

A vast number of marketing transactions take place in the international arena. Many of these transactions encompass admittedly micro-marketing transactions typically involving multinational corporations. However, a vast array of cross-cultural exchanges also involve trans-national agencies, and deal with macromarketing issues such as economic development, technology transfer, and quality of life. While several scholars have emphasized the need to adapt a firm's products or a social marketer's programs to the culture of the country wherein the product or program is marketed, we still lack a consensus on an operational mechanism by which the cultural context of a given market is taken into account and compared with the cultural context of other countries. Considering the fact that multinational and transnational marketing has emerged as a "way of life," analysis of international markets from a cultural perspective offers an important and fertile area of research to macromarketers (Levitt 1983; Sheth 1983).

This paper undertakes to demonstrate how cultural understanding can provide a powerful tool with which to segment international markets. We focus on segmenting the Asian markets to demonstrate that while these markets may appear homogeneous to a casual observer from another country, they do, in fact, present radically different cross-cultural challenges that an international marketer must overcome.

Literature on international marketing reveals that even firms seasoned in international marketing commit colossal blunders in the global arena because of their insensitivity to the cultural domain (Ricks, Fu, and Arpen 1974). Sheth (1983) argues that these mistakes occur because of a wrong decision in terms of the adaptation-standardization dilemma that constantly faces international marketers. These mistakes highlight the need to focus attention on a country's cultural heritage. If we can somehow segment the global marketplace (or a part of it) on the basis of it's cultural components, we would greatly facilitate the adaptation-standardization decision. We could then decide whether to invent a radically new marketing mix for a particular country or to extend a marketing mix offered elsewhere with minor modifications based on the similarity or disparity in culture between served countries.

The adaptation-standardization issue has plagued micromarketers and macromarketers alike. Agencies such as the World Health Organization, the World Bank, and the Agency for International Development frequently decide on the optimal aid package to a particular developing country. Considerable cost and time savings can result from transferring a package developed for one country to another developing country. However, the success or failure of a developmental program ultimately depends upon the economic and cultural environment of the recipient country (cf. Kedia and Bhagat 1988).

While most literature on country classification focuses on economic characteristics (cf. Dichter 1962; Dymza 1972; Frank, Massy, and Wind 1972; Goodnow and Hansz 1972; Keegan 1984, McIntyre and Kale 1988b), a culture-based classification system seems conspicuous by its absence in both micromarketing and macromarketing literature. Macromarketers involved in the study of comparative marketing should receive particularly enticing benefits from incorporating a culture-based approach into their research. Since culture largely shapes marketing systems, studying marketing systems from a comparative perspective would have little import unless the underlying cultural determinants of these systems are also studied from a comparative standpoint (cf. Allerheiligen, Graham, and Lin 1985).

The above discussion underscores three important objectives of this paper:

1. Explain Hofstede's dimensions of culture.

2. Illustrate how the four cultural dimensions could assist macromarketers in studying comparative marketing systems. We segment twelve Asian countries as an example of our approach.

3. Discuss the managerial implications of such an approach.

What is Culture?

While the concept of culture looms ever-present in the works of social scientists, rigorous study has suffered from a lack of consensus as to its meaning. Kroeber and Kluckhohn (1952) gathered 164 different definitions of culture ranging in scope from very restrictive to all-inclusive. The definition of culture most widely recognized by anthropologists and cross-cultural researchers is one provided by Herkovits (1955): culture encompasses the man-made part of the environment. This definition allows social scientists to differentiate between physical culture and subjective culture, but seems too broad to prove especially useful to macromarketers.

In a more behavioristic vein, Hofstede (1980, 1983, 1984) describes culture as the collective mental programming of the people in an environment. Culture is not the characteristic of individuals; rather, it encompasses a number of people who were conditioned by similar education and life experiences.

Since marketers traditionally base international market entry decisions on countries as opposed to segments within a particular country (cf. Kale and Sudharshan 1987), we restrict the scope of this paper to national cultures. In doing so we omit discussion of cultural differences within nations such as those based on religion, occupation, age, sex, social class, and other differentiating variables. While such a treatment may suffer from superficiality, we adopt it for two reasons. First, as we said earlier, multinational firms and trans-national agencies typically use country as their unit of planning and analysis. And second, the within-country culture-based variance is usually (though not necessarily always) less than the between-country variance. In fact "national characters," a term Hofstede (1984) uses to describe the culture of countries, are more clearly distinguishable to foreigners than they are to the nationals themselves. Hofstede (1983) explains, "When we live within a country, we do not discover what we have in common with our compatriots, only what makes us different from them" (p.77).

Hofstede's goal was to empirically arrive at a few parsimonious but largely independent dimensions which would enable him to compare and contrast different national cultures. To accomplish this he administered survey questionnaires to over 116,000 individuals in sixty-six countries yielding scores for fifty countries and three regions. This resulted in a fairly straightforward yet insightful terminology by which to describe culture. This terminology encompasses four dimensions differentiating between national cultures: Power Distance, Individualism, Uncertainty Avoidance, and Masculinity. In the following sections we discuss each in turn.

Power Distance.

Power distance (PDI) involves the way societies deal with human inequality. People possess unequal physical and intellectual capacities. Some societies assume that these differences will naturally grow into inequalities in power and wealth, while other societies assume that they can and should de-emphasize such inequalities.

In high power distance societies superiors and subordinates look on each other as different kinds of people, and superiors remain relatively inaccessible to their subordinates. Power-holders in these societies receive numerous privileges, and latent conflict often exists between those with power and those without it.

In low power distance societies superiors and subordinates look on each other as similar kinds of people, and subordinates enjoy more access to superiors. Power-holders enjoy fewer privileges, and latent harmony usually exists between those with and without power.

Some examples will help place the dimensions of culture in perspective. France scores relatively high in power distance, with Japan right at the midpoint. The United States scores slightly below midpoint, and Sweden exhibits relatively low power distance scores at about the first quartile.

While power distance addresses the locus of power in organizations and societies, individualism addresses the appropriate unit of analysis within a society. Our discussion now turns to individualism.

Individualism.

Individualism (IDV) describes the relationship between an individual and his or her fellow individuals, the collectivity which prevails in a given society. It manifests itself in the way people live together, such as in nuclear families, extended families, or tribes, and has a great variety of value implications. One extreme contains societies with very loose ties between individuals. Such societies allow a large degree of freedom, and expect everybody to look after his or her own self-interest and possibly that of the immediate family. Societies of this type exemplify high individualism and display loose integration.

In high individualism societies the "I" consciousness reigns supreme and people place most faith in individual decisions. Individuals remain emotionally independent from organizations or institutions, and such involvement as exists is of a calculative nature. In short, emphasis centers on individual initiative and achievement--leadership is the ideal.

The other extreme, which Hofstede terms collectivist (or low individualism) societies, includes societies with very strong ties between individuals. These societies expect everybody to watch after the interests of their in-group and to hold only those opinions and beliefs sanctioned by the in-group, which in turn protects the individual. These "collectivist" societies, such as Mexico, Singapore and Taiwan, display tight integration.

In low individualism societies the "We" consciousness overshadows the "I" consciousness. People place their faith in group decisions, and ingroups may exert tremendous influence on decision making. People develop emotional dependence on organizations and institutions, and this involvement is of a moral rather than a calculative nature. These societies emphasize belonging to organizations--membership is the ideal.

As examples of individualism, the United States scores the highest of all countries on individualism, though most English speaking countries also score relatively high. Sweden and France score at approximately the top quartile, with Japan just on the low side of midpoint.

Another major dimension identified by Hofstede concerns how people deal with the uncertainty of life, deemed uncertainty avoidance. We address this dimension in the following section.

Uncertainty Avoidance.

Uncertainty Avoidance (UAI) reflects how a society deals with life's ambiguity and uncertainty about the future, fundamental facets of human existence. At one extreme, cultures weak on uncertainty avoidance socialize members to accept and even welcome uncertainty. People in such cultures tend to accept each day as it comes, take risks rather easily, and tolerate opinions and behavior different from their own. At the other extreme, high uncertainty avoidance societies foster the need to attempt to avoid surprises, resulting in greater nervousness, aggressiveness, and emotional stress.

Societies low on uncertainty avoidance usually frown upon aggressive behavior of self and others. These societies usually operate with as few rules as possible and change unworkable rules easily. Formal rules and regulations remain at a minimum, and a strong sense of nationalism does not usually prevail.

Societies high on uncertainty avoidance accept aggressive behavior. People often feel the need for written rules and regulations, and place considerable faith in experts and their knowledge. A spirit of nationalism often prevails.

Sweden offers an example of a country scoring low in uncertainty avoidance. Japan and France score relatively high in uncertainty avoidance, while the United States scores somewhat below midpoint.

Hofstede's final dimension concerns the general orientation of society toward masculine or feminine values, which we discuss in the next section.

Masculinity.

Masculinity deals with the degree to which societies possess traits traditionally associated with predominantly male or female behavior. Masculine values stress making money, "bigger is better," showing off, performing, and visible achievements. In high masculine societies people appear to live in order to work, ambition provides the drive, and independence is the ideal. These traditional masculine social values permeate the thinking of women and men in the entire society, and can influence the goods and services most desired.

In more feminine (less masculine) societies, both men and women exhibit values associated with traditionally feminine roles, such as an emphasis on people rather than money, helping others, preserving the environment, not showing off, improving the quality of life, and the spirit of "small is beautiful." People work in order to live, service rather than ambition provides the basic motivation, and interdependence is the ideal. Societal sympathy lies with the underdog, the anti-hero rather than the individually brilliant.

Sweden scores as the most feminine society studied by Hofstede, with France less extreme but still fairly high on femininity. The United States scored fairly high on the masculinity dimension, placing it near the top one third on masculinity.

The main advantages of using Hofstede's classification scheme over other frameworks stem from its quantifiability and empirical validation. This scheme thus represents a giant leap from the earlier frameworks used to operationalize culture (cf. Bochner 1982; Hall 1976; Kluckhohn and Strodtbeck 1961). In fact, the previous lack of a quantifiable and testable framework hamstrung the quest for high quality cross-cultural business research in the past. One noted authority on international business laments that when it comes to cross-cultural research, there are "too many conclusions, not enough conceptualization" (Negandhi 1974). Hofstede's framework offers researchers the needed conceptual underpinning for quantifiable cross-cultural studies.

Macromarketers can apply this framework to a host of comparative studies including such areas as channel relationships, promotion, and market segmentation (cf. McIntyre and Kale 1987; 1988a). In the following section, we illustrate Hofstede's framework as a tool for culture-based segmentation using data for twelve Asian countries.

The Asian Market

Hofstede's empirical research investigated the culture of 50 countries including 12 in Asia. Countries comprising the Asian sample include Hong Kong, India, Indonesia, Iran, Japan, South Korea, Malaysia, Pakistan, Philippines, Singapore, Taiwan, and Thailand. The research produced empirical scores for each of these countries on the four dimensions discussed above. Table 1 provides the index scores and ranks for each of these Asian countries on all four dimensions.

TABLE 1

Value of the Four Indices for 12 Asian Countries (with Rank Numbers).

Country	Abbreviation	Power distance		Uncertainty avoidance		Individualism		Masculinity	
		Index	Rank	Index	Rank	Index	Rank	Index	Rank
Hong Kong	HOK	68	37-38	29	4-5	25	16	57	32-33
India	IND	77	42	40	9	48	30	56	30-31
Indonesia	IDO	78	43-44	48	12-13	14	6-7	46	22
Iran	IRA	58	24-25	59	20-21	41	27	43	17-18
Japan	JPN	54	21	92	44	46	28-29	95	50
Korea (S)	KOR	60	26-27	85	34-35	18	11	39	13
Malaysia	MAL	104	50	36	8	26	17	50	26-27
Pakistan	PAK	55	22	70	26-27	14	6-7	50	26-27
Philippines	PHI	94	47	44	10	32	21	64	39-40
Singapore	SIN	74	40	8	1	20	13-14	48	24
Taiwan	TAI	58	24-25	69	25	17	10	45	20-21
Thailand	THA	64	31-32	64	22	20	13-14	36	10

Source: Hofstede (1983)

We classify a country as being "high" on a particular dimension if its index is above the midpoint. Conversely, if a country scores below midpoint, then we consider the country as "low" on that particular dimension. In the interest of parsimony and ease of explication we prefer this simple "high-low" heuristic over other sophisticated schemes such as dendograms using clustering techniques.

Table 1 reveals that all the Asian countries studied by Hofstede display a large power distance and a low level of individualism. (While Japan and Pakistan score right at the midpoint on power distance we group them with the other countries in conformance with Hofstede 1980). Thus, segmenting the countries on the basis of power distance and individualism produces no further disaggregation. To disaggregate further we now focus our attention on the uncertainty avoidance dimension.

Table 1 suggests that seven Asian countries display weak uncertainty avoidance: Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Five countries, comprising Iran, Japan, South Korea, Pakistan, and Taiwan display strong uncertainty avoidance. Thus, segmenting the twelve countries on the uncertainty avoidance dimension yields two clusters. We can further segment each of these clusters using the masculinity-femininity dimension.

Segmenting the countries low on uncertainty avoidance on the basis of masculinity yields two new clusters. Using the data from Table 1, we find that Hong Kong, India, Malaysia, and the Philippines form one homogeneous cluster. Countries in this cluster score high on power distance, low on individualism, weak on uncertainty avoidance, and high on masculinity. Indonesia, Singapore, and Thailand form another homogeneous cluster. Countries in this cluster have large power distance, low individualism, weak uncertainty avoidance, and high femininity (low masculinity).

Applying the masculinity ranks to the countries earlier identified as strong on uncertainty avoidance results in further disaggregation. Iran, Japan, and Pakistan cluster together because of their relatively high scores on masculinity. Conversely, Korea and Taiwan form another cluster characterized by femininity, or low masculinity. Figure 1 illustrates this segmentation process.

Figure 1 shows that Hofstede's cultural dimensions, when used as segmentation variables, disaggregates the twelve Asian countries into four relatively homogeneous clusters. Large power distance, low individualism, weak uncertainty avoidance, and masculinity characterize cluster 1. Hong Kong, India, Malaysia, and Philippines all belong to this cluster.

Indonesia, Singapore, and Thailand constitute cluster 2. This cluster consists of those countries that display large power distance, low individualism, weak uncertainty avoidance, and femininity.

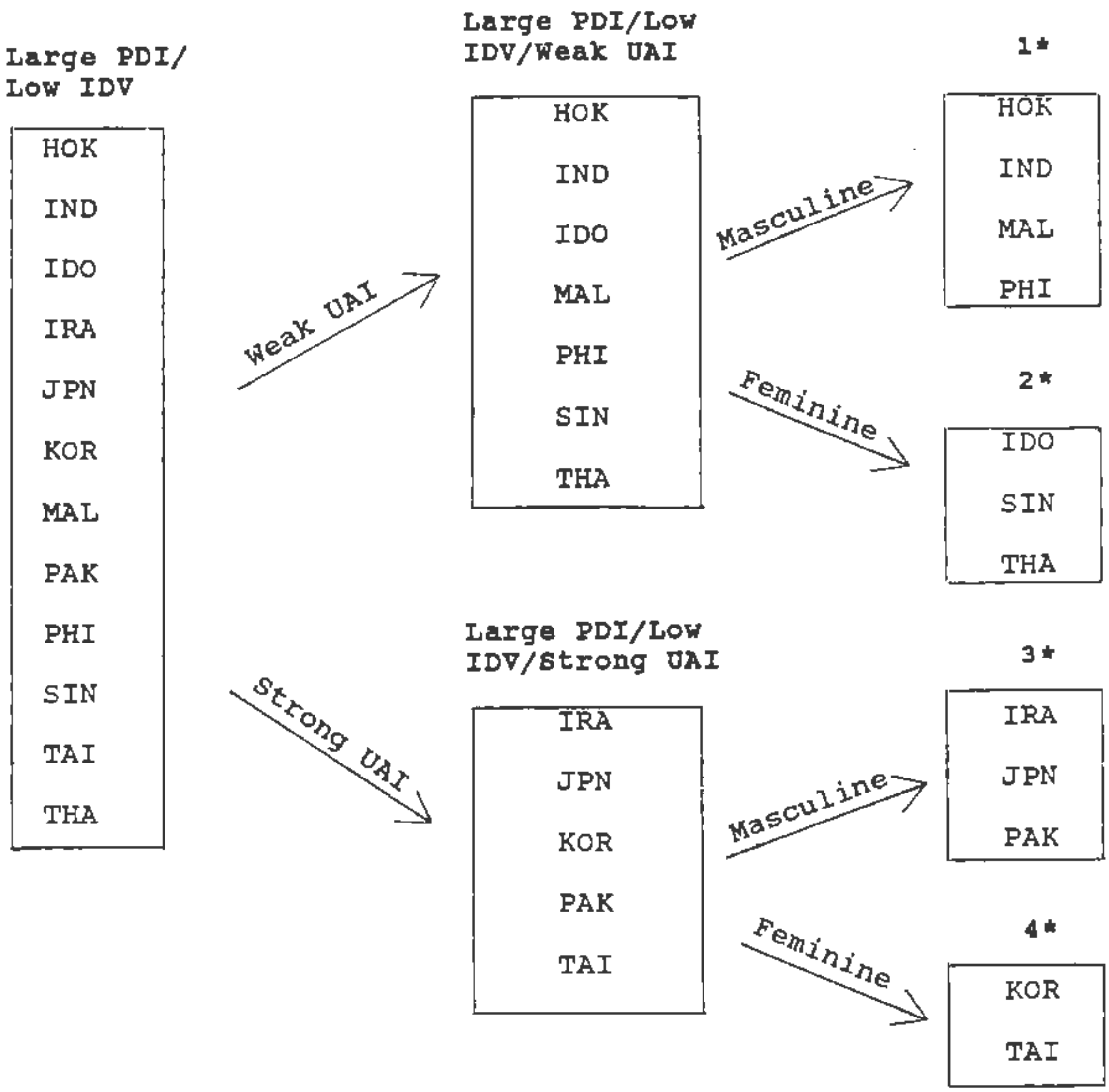
Cluster 3 includes Iran, Japan, and Pakistan. All these countries exhibit large power distance, low individualism, strong uncertainty avoidance, and masculinity.

Finally, South Korea and Taiwan compose cluster 4. Both these countries reveal large power distance, low individualism, strong uncertainty avoidance, and femininity.

Having described the clustering process based on Hofstede's dimensions, we now turn to a discussion of its implications for macromarketers.

FIGURE 1

Culture-Based Segmentation of 12 Asian Countries



* Cluster 1: Large Power Distance, Low Individualism, Weak Uncertainty Avoidance, Masculine.

* Cluster 2: Large Power Distance, Low Individualism, Weak Uncertainty Avoidance, Feminine.

* Cluster 3: Large Power Distance, Low Individualism, Strong Uncertainty Avoidance, Masculine.

* Cluster 4: Large Power Distance, Low Individualism, Strong Uncertainty Avoidance, Feminine.

Implications

Several scholars have endorsed the emerging and apparently irrevocable trend toward global marketing (cf. Bartels 1981; Levitt 1983). This globalization makes a marketing manager's task all the more complex because of significant cultural differences across countries. It is largely culture that shapes consumers' tastes, expectations, and values. Duesenberry observed over four decades ago that all of the activities people engage in are culturally determined, and that nearly all purchases are made either to provide physical comfort or to implement the activities that make up the life of a culture (Duesenberry 1949). From this perspective, consumer expectations, consumption, the relationship between marketing and economic development, and quality of life offer important issues for macromarketeers (cf. Dholakia and Levy 1987; Leigh, Murphy, and Enis 1988; Wood and Vitell 1986). Since these topics are all rooted in a society's culture, it therefore seems appropriate that any investigation of these topics include the cultural context. Hofstede's framework makes possible such macro-level treatment of culture. Culture-based segmentation has particular implications in two macromarketing areas: economic development and technology transfer.

Economic Development

Several scholars hypothesize a relationship between the cultural domain of a society and its level of economic development (cf. Braibanti and Spengler 1961; Fillol 1961; McClelland 1961; McClelland and Winter 1969). If certain cultural characteristics are conducive to economic development, then it appears essential to identify and characterize these cultural attributes. Of the twelve Asian countries investigated in this study, several have achieved extraordinary economic success, including Japan, Singapore, Hong Kong, Taiwan, and South Korea. Table 1 reveals significant differences among these countries on the criteria of uncertainty avoidance and masculinity. It appears that with different levels of uncertainty avoidance and masculinity, East Asian societies can prove equally successful under the present world conditions.

These successful Asian countries display a pattern at odds with the traditional picture. At an aggregate level of 50 countries, Hofstede (1983) observed a statistically significant relationship between individualism, power distance, and national wealth. Most of the worlds traditionally wealthy countries (all Western) score high on individualism and low on power distance. France and Belgium provide the exceptions, both relatively high on power distance as well as individualism. However, Japan, Singapore, Hong Kong, Taiwan, and South Korea all score low on individualism, high on power distance, and yet are wealthy. Thus, it appears that those countries achieving relative wealth in the last century display high individualism and low power distance, while those succeeding in this century reveal the opposite combination. While we don't propose the present framework as a culture-based causal explanation of the wealth of newly industrialized countries, it does provide thought-provoking insights.

Since all the twelve Asian countries studied in this article display low individualism and large power distance, from a cultural standpoint it may prove desirable for the economically less successful countries in this group to emulate Japan's path to economic prosperity rather than attempting to follow Western and culturally alien avenues to economic development. Thus, while individual initiative, the Protestant ethic, and Calvinist philosophy may explain the success of the West, attempts to impose these Western values on Asian countries may backfire.

Technology Transfer

Scholars in the realm of technology transfer argue that large variations in societal cultures most impacts the effectiveness of technology transfer between an advanced industrialized supplier nation such as West Germany and a developing recipient country such as India. Research by Kedia and Bhagat (1988) and Koizumi (1982) suggests that the compatibility of the cultures of the supplying and receiving countries represents a major determinant of the effectiveness of technology transfers. Thus, it behooves developing countries to procure technology (including marketing technology) from advanced countries whose national cultures are similar to their own. India, for instance, would probably benefit by procuring technology from a Japanese company rather than a West German company. Both India and Japan exhibit relatively low individualism and large power distance while West German culture displays high individualism and small power distance. While India and Germany are more similar on uncertainty avoidance and masculinity than India and Japan, individualism and power distance seem to exert a stronger influence on economic development (and thus presumably technology transfer) at the present time. Hong Kong would appear to provide a still better source if the needed technology were available since it lies in the same cluster as India. Also, Singapore differs from India in Figure 1 only by placing slightly below midpoint on masculinity while India lies somewhat above midpoint. Hofstede (1980, 1984) implicitly makes this point concerning cultural similarity when he argues that we often overlook our ethnocentric biases in our eagerness to persuade developing countries to adopt Western methods and techniques.

This issue of cultural similarity has significant implications for transnational agencies involved in economic development activities. The fact that a particular development package works well in one developing country, such as Brazil, offers no guarantee that it will work in another developing country with a vastly different culture, such as Pakistan. It may improve the effectiveness of development efforts to first segment countries on the basis of Hofstede's cultural dimensions (or some other framework) and design developmental packages for each cluster. Furthermore, it should then prove possible to extend developmental packages from one country to other countries in the same cluster. This would reduce cultural resistance to innovation and greatly increase the success rate of technology transfer and economic assistance programs. Thus far, architects of such programs have frequently considered primarily economic factors. As Kedia and Bhagat (1988) rightly observe, we urgently need interdisciplinary frameworks to explain the technology transfer process at this point in theory development. Hofstede's framework offers a parsimonious start in this direction.

Limitations

We must point out that while Hofstede's four dimensions of culture offer parsimony and intuitive appeal for macromarketers, the adequacy and comprehensiveness of these dimensions are not universally accepted. Cross-cultural psychologists like Triandis (1982) suggest that these dimensions represent only a portion of the dimensions needed to completely explain culture. But as Triandis (1982), Redding (1987), and Riddle (1986) concede, this framework far surpasses most of the other classification schemes found in earlier literature thanks largely to its quantification of culture.

Before macromarketers accept and adopt this framework at face value, it remains to replicate Hofstede's research using a larger number of questions spanning several contexts. Hofstede's questionnaire revolved exclusively around work-related values. Development of a questionnaire with a broader domain might allow a few other cultural dimensions to emerge. Thus, Hofstede's (1980) questionnaire might serve as a convenient springboard toward an augmented and richer framework to explain cross-cultural differences.

In this article we relied on the country scores reported by Hofstede (1983). The validity and reliability of these scores requires empirical testing in a marketing context. Hofstede used only 63 questions and surveyed employees of the same multinational company with operations in 66 countries. His scores for individual countries may have been adversely impacted by factors such as the homogenizing effects of industrial culture, modern education, and the fact that the respondents survived the screening process of the personnel departments of the same multinational corporation (Triandis 1982).

An actual application of this framework would benefit from generating country scores first hand. This would ensure proper attention to the domain of questions, the sampling frame, and the stability of country profiles. While such an undertaking involves a substantial commitment of time and resources, the comparative implications generated would certainly justify such a commitment.

Finally, we do not propose this framework as the sole means of comparative segmentation. Other considerations, such as economic or transportation factors could easily modify the results of a first cut on the basis of culture. Furthermore, clusters produced by our "high-low" approach require close scrutiny. Two countries may lie in different "halves" (high versus low) and yet have index scores on a dimension fairly similar to each other. This presents particular problems for countries that lie near the midpoints. As noted earlier, we adopted a simplistic "high-low" approach merely for ease of illustration.

Summary

This paper introduced Hofstede's cultural framework as a possible approach macromarketers can use in studying various cultures. As an illustration, this framework was used to segment twelve Asian counties. This disaggregation resulted in four culturally homogeneous clusters.

Macromarketers can apply culture-based segmentation in areas such as comparative marketing, economic development, and technology transfers. The parsimony, intuitive appeal, and quantified country scores of this framework renders it superior to some of the earlier classification approaches. However, some problems still remain in applying this approach, and we urge researchers to test the reliability and validity of Hofstede's country profiles in a marketing context before they embrace this research at face value.

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E.2

MEN CARE ABOUT COMPUTERS AND WOMEN ABOUT FASHION: ONLY IN AMERICA?

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MEN CARE ABOUT COMPUTERS AND WOMEN ABOUT FASHION: ONLY IN AMERICA?

ABSTRACT

In the U. S. culture, males are more likely to be interested in technical products while females are more likely to be interested in symbolic products. Marketers may need to be careful in applying this ethnocentric bias to other cultures. This paper looks at sex and product-type preferences in three stages. First, the results of a cross-national survey of college students in the U. S., Korea, India, Thailand, and Senegal are reported. U. S. students showed the pattern discussed above in terms of their willingness to try new products of different types. Respondents in India, Korea, and Thailand did not exhibit the same consistent pattern of results. Second, a more systematic look at cross-cultural sex differences in product-type preferences is made; this review finds some universals and a number of culture-specific findings. Third, the Sapir/Whorf hypothesis that language determines our perceptions is presented as one possible explanation for the variation across cultures between sexes in terms of what products are perceived to be masculine or feminine.

Consumer behavior researchers (Albaum and Peterson 1984; Lee 1988) have begun to realize that the concepts, models, and theories derived from observing consumer phenomena in the United States are not appropriate for explaining consumer behavior in other cultures. In associating sex with products, the general hypothesis investigated here is the Western notion that males and females will be differentially attracted to new products; males will be more likely to try technical products while females will be more likely to try symbolic products. [The technical/symbolic categorization approach is from Hirschman (1981)]. While Rogers (1983) and Rogers and Shoemaker (1971) cite numerous sources that have investigated age and education as predictors of early adoption, sex as a predictor is not discussed. On the other hand, most Americans would associate the use of technical products more with males while symbolic products would be associated more with females. As an anecdotal case in point, the first author's younger daughter enrolled in a summer course on robotics; of the 14 students, she was the only female.

The sexing of products has been discussed in the consumer behavior literature (Allison, Golden, Mullet, and Coogan 1980; Debevec and Iyer 1986; Gentry, Doering, and O'Brien 1977; Schmitt, Leclerc, and Dube-Rioux 1988); in some of these studies, products were classified empirically as being masculine or feminine. In general, technical products were classified as masculine and fashion-oriented products were classified as feminine. In other countries, the sexing of products is an innate part of the language (for example, the use of masculine and feminine articles in the Romance languages).

When researchers study the sexes in innovation and diffusion investigations, they usually investigate only one sex. For example, Douglas (1976) compared women in the U.K., U.S., and France in terms of their willingness to experiment with new things in general as well as their fashion innovativeness. On the other hand, Painter and Granzin (1976) investigated the male fashion innovator (and thus left unexplored whether females are more likely to be fashion innovators in general). One reason for the exclusion of sex as a predictor of early adoption may be that many innovations are of sufficient importance to involve the household as a whole; thus both sexes participate in the decision process. However, much of the family decision making literature in the late 1960's and early 1970's focused on the identification of which spouse played the more important role in the choice process for a variety of products. The general premise given here, that males are more likely to be interested in technical products while females are more likely to be interested in symbolic ones, is not inconsistent with the types of products generally classified as husband-dominated and wife-dominated.

PART ONE -- THE STUDY

The first stage of the paper involves a cross-national study of five countries which investigates sex differences in the receptiveness to new products (i.e., the willingness to try new products, the number of new products tried, and the seeking and giving of advice related to new product adoption).

METHOD

Country Selection and Samples. Student samples from India, Thailand, Senegal, the United States, and South Korea were taken in order to represent varying degrees of societal development. Table 1 shows rankings of these countries on selected "ecological" factors. The United States is the most developed (with a higher ranking on GNP per capita, literacy rate, etc.) with South Korea second, Thailand third, India fourth, and Senegal the least developed. The

TABLE 1

Rankings of Countries included in the Study

(numbers indicate actual rankings compared with 154 countries)

	U.S.A.	S. Korea	Thailand	India	Senegal
GNP	1	29	51	14	105
Per capita GNP	9	62	95	136	109
Literacy	12	38	51	93	127

Source: Taylor, Charles Lewis and David A. Jodice (1983) World Handbook of Political and Social Indicators, 3rd ed.

(numbers indicate actual rankings compared with 126 countries)

	U.S.A.	S. Korea	Thailand	India	Senegal
Fertility Rate (Lowest=1)	12	63	47	62	104
Percentage Urban Population (Highest=1)	16	41	111	86	80
Male Life Expectancy (Lowest=1)	8	54	62	77	115
Female Life Expectancy (Lowest=1)	8	43	61	90	116
Population per Physician (Lowest=1)	16	12	78	70	100

Source: Birdsall, Nancy (team leader), World Development Report 1984, Published for the World Bank, Oxford University Press, July 1984.

life expectancy ratings are consistent across sexes for the U S, Thailand, and Senegal. However, Korean females and Indian males live relatively longer than opposite-sexed fellow citizens. Furthermore, the dominant religion underlying the culture of each country also differs: Hinduism for India (83%), Buddhism for Thailand (90%), Islam for Senegal (80%), and Christianity for the U.S. (92%). In South Korea, Confucianism has a strong influence on the values of the people; however, 49% were officially classified as Christian and 47% at Mahayana Buddhists. Insightful summaries of the religious/cultural environments of the countries have been made elsewhere [India: Hsu 1963; Thailand: Thorelli and Sentell 1982; Senegal: similar to the Moslem-animistic culture of Niger described in Wallendorf and Arnould 1988; and Korea: Chang 1988, Lee 1988].

Data were collected in 1986 from samples of students from a prominent university located in a major city in each foreign country (mostly in capital cities): in Bangkok (Thailand), in Daegu and Pusan (South Korea), Dakar (Senegal), and New Delhi (India). In the U.S., the data were collected in four separate regions (Stillwater, Oklahoma; Pullman, Washington; Boston, Massachusetts; and Madison, Wisconsin). Surveying university students limits somewhat the generalizability of our study. However, more homogeneous samples allow for a more strict testing of the relationships among the constructs. Gender differences can be expected to be greater for older adults than for younger adults. Thus, if differences in innovativeness for different types of products exist across sexes among the youth, we would expect even stronger differences to exist among their elders. The use of college students as subjects will tend to make the total sample more homogeneous in terms of education and age. Jones (1982) found strong differences in traditional values across community sizes; our use of urban samples in the four countries controlled for this variable.

The sample sizes for each country are: 481 Koreans (29.6% of the total respondents), 488 Americans (30.1%), 313 Thais (19.3%), 234 Indians (14.4%), and 106 Senegalese (6.5%). Table 2 shows the profiles of the respondents from each country. The demographic summary indicates that the Indian sample is quite young, female, and upscale (judging from the relatively high education levels for the students' parents). On the other hand, the Senegalese sample is a relatively old group of students, whose parents had little, if any, education. The religious breakdowns indicate that nation and religion are confounded, with the Thai sample being Buddhist, the Indian sample Hindu, the U. S. sample Christian, and the Senegalese sample Moslem. The Korean sample had large numbers of Christian and Buddhist respondents, although nearly half indicated that they had no specific religion. It may be that Koreans are similar to Chinese, about whom Hsu (1981, p. 255) wrote, "Ask any number of Chinese what their religion is and the answer of the majority will be that they have no particular religion, or that, since all religions benefit man in one way or another, they are all equally good."

Survey Instrument. The original questionnaire was written in English, and was used in India and in the United States. A translation was made for the Thai sample (in Thai), for the Senegalese sample (in French), and for the Korean sample (in

TABLE 2
SAMPLE PROFILES

VARIABLE	KOREA	U S	THAILAND	INDIA	SENEGAL
			COUNTRY		
Sample Size	481	488	313	234	106
Sex					
Males	281	222	127	56	80
Females	200	266	186	178	26
Religion					
None	198	85	22	11	--
Catholic	51	186	--	--	16
Protestant	89	188	--	40	--
Buddhist	120	--	291	--	--
Hindu	--	--	--	166	--
Moslem	--	--	--	3	90
Age					
<19	9	11	27	89	6
19-20	170	164	118	98	5
21-22	218	176	130	39	13
23-25	62	81	26	4	48
over 25	22	51	12	1	33
Father's Education Level					
No formal education	10	1	20	0	60
Grade school	87	10	120	3	25
High school	106	124	85	21	16
College (there)	196	327	54	178 205	1
College (abroad)	77	21	18	27 88%	4
Mother's Education Level					
No formal education	23	4	31	6	87
Grade school	169	8	156	18	7
High school	158	200	69	57	10
College (there)	104	264	43	139 146	0
College (abroad)	25	10	10	7	0

Korean). Each translated questionnaire was back-translated for consistency in meaning by a minimum of two persons with high proficiency in each language. In addition, our research team is represented by nationals included in the study (except for Senegal).

<u>Dependent Measure: Willingness to Try New Products</u>. We used the approach taken by Hirschman (1983), in which she asked respondents how willing they are to try something new. The responses were recorded on a four-point scale anchored by "very willing" and "not very willing." We used some of the 15 consumption areas included in

her study: dance styles, places to shop, fashion clothes, books, magazines, food, restaurants, and hair styles. Due to confusion reported in a cross-cultural study using a similar instrument (John et al. 1986), we dropped home furnishings, movies, political ideas, religious ideas, transportation, and sports. In order to investigate the reaction to technical products, we added cameras, watches, motorcycles, and computers.

RESULTS

The analysis took two stages: (1) the products were grouped through the use of factor analyses and (2) cross-sex differences by country in the willingness to try new products were investigated through the use of t-tests. Product Groupings. Factor analysis was used to group the 12 products according to the respondents' willingness to try them. Using the eigenvalue-of-one heuristic, each country yielded four factors for the willingness to try measures. The high loadings for the factors are shown in Appendix A. There are different patterns for the different countries. The most consistent grouping of products is the Technical Products one (cameras, watches, motorcycles, and computers) as only in Senegal was there separation (motorcycles were grouped with foods and entertainment places). Other relatively consistent groupings were Media Products (books and magazines), Entertainment (foods and entertainment places), and Symbolic Products (fashion clothing, places to shop, hair styles, and dance styles). These groupings are summarized in Table 3.

TABLE 3
PRODUCT GROUPS RESULTING FROM THE FACTOR ANALYSIS OF THE WILLINGNESS TO TRY AND PERCEIVED RISK ASSOCIATED WITH NEW PRODUCTS

TECHNICAL PRODUCTS	ENTERTAINMENT
Cameras	Foods
Watches	Entertainment Places
Motorcycles	
Computers	SYMBOLIC PRODUCTS
MEDIA PRODUCTS	Fashion Clothes
	Places to Shop
Books	Hair Styles
Magazines	Dance Styles

Sex Differences in Innovativeness. Table 4 presents the mean willingness to try new products ratings by country, as well as measures of the number of new products tried in the past year (obtained using the following scales: none, 1 or 2, 3 to 5, 6 or more) and the likelihood of seeking advice from and giving advice to others. Differences in the mean willingness to try new products across sexes within each country was tested using t-tests. The

TABLE 4

CROSS-NATIONAL EVALUATIONS OF NEW PRODUCTS, BY SEX

VARIABLE	UNITED STATES M	F	p	KOREA M	F	p	THAILAND M	F	p	INDIA M	F	p	SENEGAL M	F	p
							WILLINGNESS TO TRY NEW PRODUCTS:								
Technical															
Cameras	2.9	2.7	.03	2.7	2.7	ns	2.6	2.7	ns	2.6	2.6	ns	3.0	2.4	.03
Watches	2.5	2.5	ns	2.8	2.9	ns	2.6	2.9	.02	2.8	2.8	ns	3.0	3.1	ns
Motor-cycles	2.9	2.2	.01	2.6	1.7	.01	2.1	2.1	ns	2.6	2.2	.04	2.7	1.6	.01
Computer	3.1	2.9	.01	2.8	2.6	ns	3.1	2.9	.03	2.9	2.7	ns	3.0	2.5	.03
Media															
Books	3.1	2.9	.03	2.8	2.9	ns	3.1	3.1	ns	3.1	3.3	ns	3.4	2.9	.02
Magazine	2.7	2.5	.02	3.0	3.2	.01	3.0	3.1	ns	3.2	3.4	ns	3.4	2.8	.01
Entertainment															
Foods	2.4	2.4	ns	3.2	3.2	ns	3.2	3.2	ns	3.5	3.5	ns	2.7	2.2	ns
Places	2.3	2.0	.01	3.5	3.4	.02	2.7	2.7	ns	3.3	3.4	ns	2.9	2.0	.01
Symbolic															
Fashion Clothes	2.3	2.7	.01	2.6	3.2	.01	2.4	3.0	.01	3.2	3.2	ns	2.7	3.0	.05
Places to Shop	2.5	2.5	ns	3.3	3.6	.01	2.7	3.0	.01	3.1	3.2	ns	2.6	2.5	ns
Styles:															
Hair	2.1	2.4	.01	2.0	2.2	.01	1.8	2.1	.01	2.6	2.6	ns	1.8	2.6	.01
Dance	1.9	2.1	.03	2.2	2.6	.01	1.9	2.2	.01	2.4	2.6	ns	1.9	2.3	.05
							RECALL OF BUYING BEHAVIOR								
New Products Tried Last Year	3.1	3.2	ns	2.2	2.3	ns	2.3	2.3	.05	3.2	3.4	ns	2.1	2.0	ns
Seek Advice	3.9	4.1	.05	3.3	3.6	ns	3.1	3.2	ns	4.3	4.1	ns	3.7	3.3	ns
Give Advice	4.1	4.2	ns	3.0	3.1	ns	3.0	3.2	ns	4.3	4.1	ns	3.5	3.1	ns

general premise that males are more interested in technical products while females are more willing to try symbolic products was true for both the U. S. and the Senegalese samples, but not for the Indian sample. For the Thai and Korean samples, the premise was weakly confirmed; both Korean and Thai females were more likely to try symbolic products, while Korean males were more likely to try motorcycles and Thai males were more likely to try computers. On the other hand, Thai females were more likely to be willing to try new wristwatches. An implication from the weak results is that the degree of technical complexity which people perceive to be associated with products may not be uniform across countries.

The patterns of results for the Media and Entertainment product groups do not generalize from the U. S. sample to the other samples. While U. S. and Senegalese males were more likely to try new books and magazines, females were more likely in Korea to do so and there were no differences among the Thai and Indian samples. No cross-sex differences in the willingness to try new foods were found. However, males were more likely to try new entertainment places in the U. S., Korea, and Senegal.

For the most part, males and females in all countries reported trying similar levels of new products and were just as likely to give and seek advice. It is interesting to note in passing that only U. S. students indicated a greater tendency to give advice on new products than to seek it.

STUDY DISCUSSION

This study investigated the notion that sex is related to the types of products which people are willing to try. In the U. S., males are more likely to try technical products and females are more likely to try symbolic products. However, the socialization process that generates these results apparently is not a universal one, as the same general pattern was not found in India, Korea, nor Thailand.

The international marketing literature is replete with admonitions to avoid ethnocentric biases; this study adds to that literature. Yet the finding is somewhat counter-intuitive. Observers of family life in the westernized world have documented the increasing proclivity of women to step outside the restraints of their culturally prescribed roles and involve themselves in activities relegated to the husband (Arndt and Crane 1974). Females have made great strides in the U. S. work force and their entry into traditionally male professions is no longer unusual. On the other hand, females are less likely to hold positions of authority in Senegal, Korea, and Thailand. Despite the greater ease for career advancement in the U. S., it would appear that a socialization process is taking place here that results in the continuance of male-technical orientation and female-symbolic orientation stereotypes. While we in the U. S. may take this process for granted, apparently it is not a universal one.

PART TWO -- A BROADER PERSPECTIVE TO CROSS-CULTURAL SEX DIFFERENCES IN PRODUCT PERCEPTIONS

Upon making a more thorough search of the cross-cultural literature, it becomes evident that the expectancy of universal male/female differences in product perceptions is an example of narrow-mindedness. Hall (1959) pointed out that fundamental beliefs like our concepts of masculinity and femininity are shown to vary widely from one culture to the next. He went on to say (p. 66):

> It is a great mistake to assume that the behavior which is observed in man is linked to physiology. Studies of culture have shown us that this is usually not the case. Behavior that is exhibited by men in one culture may be classed as feminine in another. All cultures differentiate between men and women, and usually when a given behavior pattern becomes associated with one sex it will be dropped by the other.

An example which he cites is the role reversal found in Iran (at least at that time): men there were very emotional while women were coldly practical. Similarly, he pointed out that Japanese values (at least those held 30 years ago) placed the showing of emotions quite high, while the use of logic was valued much less. Hofstede (1984) positioned the Japanese culture as being the most masculine of the 50+ ones which he discussed, yet we find that traditional values are not consistent with our notions of masculinity/ femininity.

Stepping back a bit, we must acknowledge that there are some universalities in sex roles. Some would say that all societies are primarily masculine (Levi-Strauss 1969, 1970). In their argument to the contrary, Leacock and Nash (1982) almost support Levi-Strauss by resorting to using non-mainstream cultures such as the Arapahoes and Aztecs as counter-examples.

Ember (1981) pointed out that there are some cultural universalities. Activities such as hunting, trapping, and catching large aquatic animals are almost exclusively male across cultures; activities such as herding, fishing, collecting honey, clearing land, preparing the soil, and working with materials such as metal, wood, bone, and skull are usually male across cultures. There are few activities which are female across virtually all cultures, but the gathering of wild plants and foods, weaving, spinning, pottery, making clothes, preparing drinks and vegetables, preserving meat and fish, dairy production, doing household tasks, and taking care of children are usually female across cultures.

In a more pertinent context, Green et al. (1983) found that certain product categories are universally male or female stereotyped. In all the countries surveyed (U S, France, Holland, Gabon, and Venezuela), the wife had major influence in grocery decisions whereas husbands were more likely to dominate automobile and insurance decisions. Many explanations for the sex differences have been suggested (Ember 1981), including the difference in size and strength and the childcare-maternity linkage. One explanation that has been offered is that the outdoor domain is the male's since the female's mobility is limited by the traditional childcare responsibilities.

However appealing the apparent outdoor/indoor generality for the two sexes, recent critiques especially in anthropology have questioned the dichotomy and its relation to gender assymetry (Martin 1987; Ortner and Whitehead 1981; Tiffany and Adams 1985;

Yanagisako and Collier 1987). Similarly, there is no evidence to support the proposition that childcare and related activites prevent women from performing activities performed by men (Goodman, Griffin, Griffen, and Grove 1985; Mukhophadyay 1980). Thus we cannot conclude that there is a global sex dichotomy that can be used to explain differences in product perceptions. Then why is a product masculine in one culture but not in another? Ember (1981) concluded that the intriquing question is not why males and females are different, but why they differ in some ways in some places, but not in others.

Hofstede (1984) lists Masculinity/Femininity as one of the four cultural variables on which he based his perceptual maps of approximately 50 countries. While his data bases are limited in that they come from employees of only one world-wide firm (IBM) and that the survey context was the workplace as opposed to the marketplace, the empirical results yield a relatively unique view of the world. He describes masculine cultures as using the biological existence of two sexes to define very differt social roles for men and women. They expect men to be assertive, ambitious, and competitive, to strive for material success, and to respect whatever is big, strong, and fast. Feminine cultures, on the other hand, define relatively overlapping social roles for the sexes, and an emphasis on interpersonal relationships and concern for the weak. His survey included the U. S., Korea, India, Thailand, and three West African countries (Nigeria, Ghana, and Sierra Leone). He positioned the U. S. as being the most masculine country, followed by India, West Africa, Korea, and Thailand. This ordering is inconsistent with the findings that no sex differences were found in the Indian sample while strong differences were found in the U. S. sample, as the two countries are expected to be quite similar according to Hofstede's (1984) findings.

A large number of possible explanations exist. For instance, religious differences clearly may be important. Mackie (1983) points out that Jewish women and women without religious affiliation are relatively untraditional (and thus more likely to adopt traditionally masculine products), while Catholics and fundamentalist Protestants are quite traditional. Mainline Protestants fall somewhere in between. However, our discussion will focus on another possible alternative which was mentioned briefly earlier, that of language.

Some preliminary evidence exists to support this explanation. Tigert (1973) found French-Canadian housewives to be more concerned with personal appearance, household cleanliness, cooking, kitchen appliances, and child orientation than English-speaking Canadian housewives. Douglas (1979) found substantial similarity in terms of husband/wife involvement in various activities, and marital roles were seen as traditionally masculine or feminine [by Western standards] across all five samples (Chicago, Glasgow/ London, Paris, Brussels, Quebec City). However, where there were differences in relative involvement, they often divided by language group. For instance, in the French-speaking samples, there was greater involvement in the typically feminine tasks of supermarket shopping and vacuuming, and more shared involvement in some traditionally male responsibilities such as men's clothing decisions. Involvement in all the samples was often activity specific. Socioeconomic variables affected the degree of involvement, but in a similar manner across all samples. Part three will provide a theoretical perspective to the role which language may play in the development of gender-related product perceptions.

PART THREE -- THE SAPIR/WHORF HYPOTHESIS

Where do children obtain their generalized expectations about what males and females are expected to do? Sapir (1927, 1949) and Whorf (1940) made strong cases for the role of language in the formation of those perceptions. Sapir (1949, p. 162) wrote:

> Human beings do not live in the objective world of social activity as ordinarily understood, but are very much at the mercy of the particular language which has become the medium of expression for their society....The fact of the matter is that the 'real world' is to a large extent built up on the language habits of the group....We see and hear and experience very largely as we do because the language habits of our community predispose certain choices of interpretation.

Whorf (1940, p. 231) stated his view as:

> We dissect nature along lines laid down by our native languages. The categories and types that we isolate from the world of phenomena we do not find there because they stare every observer in the face: on the contrary, the world is presented in a kaleidoscopic flux of impression which has to be organized by our minds--and this means largely by the linguistic systems in our minds. We cut nature up, organize it into concepts, and ascribe significances as we do, largely because we are parties to an agreement to organize it in this way--an agreement that holds throughout our speech community and is codified in the patterns of our language. The agreement is, of course, an implicit and unstated one, <u>but its terms are absolutely obligatory</u>; we cannot talk at all except by subscribing to the organization and classification of data which the agreement decrees.
>
> This fact is very significant for modern science, for it means that no individual is <u>free to describe nature with absolute imprartiality</u> but is constrained to certain modes of interpretation even while he thinks himself most free.

Carey (1968, p. 282) characterized the Sapir/Whorf hypothesis as stating that the language a speaker uses has a determining influence on the character of his thought: that people think with and through language.

> Language has built into its grammar and lexicon the very structure of perception. Individuals discriminate objects and events in terms of the vocabulary provided by the language. Further individuals derive their sense of time, their patterns of classifications, their categories for persons, their perception of action, in terms of the tenses, the genders, the

pronouns, the pluralizations that are possible in their language. This argument, then, largely reduces the structure of perception and thought to the structure of language.

Brown (1976, as cited Kay and Kempton (1984)) summarized the Sapir-Whorf hypotheses as:

I Structural differences between language systems will, in general, be paralleled by nonlinguistic cognitive differences, of an unspecified sort, in the native speakers of the two languages.

II The structure of anyone's native language strongly influences or fully determines the world-view which one will acquire as one learns the language.

Many feminists have claimed that language deprecates women and ensures their subservience (Eichler 1984; Spender 1980). Such opinions may be viewed as a logical extension of the Sapir-Whorf hypothesis.

The bulk of the research on the Sapir-Whorf Hypotheses has concerned the domain of color. However, we believe that product perceptions may well be differently constituted across cultures due to language differences. We will attempt to look at the languages 1 involved in the study (English, French, Thai, Korean, and Hindi) in order to determine if they can help explain the results found in this study. We will start with French, since it has built-in gender cues as all nouns are either masculine or feminine. French is not unique as other Romance languages such as Italian and Spanish also have noun sexing, as do Arabic, Hebrew, most Slavic languages, and most Indian languages.

While language may be expected to play a major role in the socialization of the young in a culture, it is likely that "masculine" and "feminine" are cultural constructions that are only partly explained by linguistic systems. A reviewer noted that gender differences and assymetry must be understood with reference to larger structures of inequality existing in a society.

French and the Senegalese Results.

Although Senegal consists of multiple ethnic groups who have their own languages, the official language, French, is used among the educated (i.e., college students). Since Senegal is a former French colony with a heavy French influence, we believe that an analysis of French is useful for explaining product sexing. Noun phrases in French are marked for definitiveness, gender, and number by means of their accompanying articles. This is paraticularly clear in singular nouns where *le* and *un* are used for masculine nouns and *la* and *une* are used for feminine nouns. As the the language places strong emphasis on the sexing of objects, it might be expected that the sexing of products would be straightforward.

However, the sexing of objects is somewhat mysterious. For example, the French word for motorcycle ("mobylette") is feminine, as are the words for places to shop, wristwatch, hair style, dance style, and food. On the other hand, the French words for apparel, book, camera, computer, entertainment place, and magazine are masculine. Thus, there is no one-to-one correspondence between the gender of the product as determined by the language and the sex being more willing to try new versions of the product. Two of the four technical products are feminine linguistically, while fashion clothes is masculine.

English and the U S Results.

Hall (1976) labels English a loosely structured, adjective language. Nouns are not sexed in English, and gender distinctions are manifested only in third person singular pronouns--he/she, his/her, him/her. Thus the impact of the language on product sexing is less straightforward than in French. But, as Mackie (1983, p. 227) notes, "the English language also appraises the sexes. For example, masculine connotations tend to be strong and positive, while feminine connotations tend to be negative, weak, or trivial. All references to God are masculine: Father, Lord, King. Mother Earth (the land to be cultivated, used) is feminine."

Gender expectations are probably not related to the grammatical structure of English, but rather to the more subtle usage of the language. Hall (1959, p. 154) discusses an example:

> Take the "can" and "may" distinction that teachers spend so much time trying to instill in children. It would seem that this distinction originally developed informally and was linked to sex; men and boys said "can," women and girls "may." "May" naturally sound more refined to the women so they insisted on foisting it on the men along with a lot of gobbledygook about possible and not possible. At the present time, what with the women trying to be like the men and the men doing more and more things women used to do, the may-can now is so mixed up it's almost impossible to develop any rules.

That our use of the English language creates gender role expectancies for certain products is probably a reasonable extrapolation. Many technical products involve greater physical risk, and subtle cues in our language indicate that males are better suited to handle them. For example, "policeman" has been a traditional term for a law enforcement officer. In general, most generic occupational terms are taken for masculine (Thorne and Henley 1975); feminine occupations are often given unique endings (i.e., stewardess or aviatrix). Smith (1985, p. 55) goes as far as to suggest that men and masculinity are equated with normalcy while women and femininity are equated with deviance.

The Korean Language and the Korean Results

The Korean language belongs to the Altaic linguistic family, thus it shares some grammatical and syntactic similarities with other Altaic languages such as Japanese, Turkic, and Tungusic (Kim 1980; Ramstedt 1968). Today, the language is spoken by nearly 60 million people, most of whom reside in the Korean peninsula (Korean Overseas Information Service 1987).

In the Korean language, sex or gender is not grammatically discernible so that a direct testing of the Whorf-Sapir hypothesis cannot be carried out easily. However, the language clearly differentiates the social position or status, through very complex and diverse honorific forms of speech, of those whom it is spoken to and spoken of (Ihm, Hong, and Chang 1988; Ramstedt 1968). The unique honorific forms of speech influence the way in which the Korean people think of interpersonal relationships. That is, Koreans tend to perceive relationships, whether interpersonal or organizational, almost always vertically (Kim 1975). So they are perceived either higher or lower according to their age, sex, or family role. In that sense, the linguistic features of the Korean language do influence the way in which Koreans think and behave (Searle 1977).

Historically, two languages belonging to different language families have had great impacts on the lexicon of the Korean language. The Chinese characters have been used for thousands of years. The borrowed words have not changed their forms and meanings. About 54% of the entries in Great Dictionary, which was edited by Korean Language Society are Chinese loanwords with their meanings remained almost same (Kim 1980). Their pronunciations differ to a great extent from the modern Chinese language, however.

As in the Chinese language, some prefixes and suffixes are often attached to the loanwords to represent their sex or gender. For human beings, 'namseong' and 'yeaseong' are suffixed to represent male and female or alternatively, masculine and feminine. For animals, 'soo' and 'ahm' are attached instead. Sometimes, 'Yem' and 'Yang' are used to allude to the sex of a person or an object. 'Yem' implies something feminine, passive, weak, and static. `Yang' implies masculine, strong, active, and dynamic.

As Korea is a traditionally male dominant society where sex roles are clearly specialized, the need for prefixing the words to denote sex is very minimal. In other words, a prefix or suffix is used only when it is needed to represent a sex other than the one which is traditionally imposed on an object. For example, it is hard to find such words as female cosmetics, female nurse, and male driver, because cosmetics have been used exclusively by females. Driving and nursing have also been dominated by males and females, respectively. As the society develops, however, the need for cosmetics for males grows and some occupations begin to be occupied by the opposite sex. So male cosmetics, female driver, male nurse, female doctor, female magazine, and male fashion and other words are found in the modern Korean language. Interestingly, the motorcycle seems to be a male-dominated product, as it is often humorously referred to as 'widow machine,' not a 'widower machine,' to warn the fact that riding a motorcycle is very dangerous.

Most vocabulary concerned with science and technology has been adopted from another structurally different language, English. Most of the words with English origin are written as they sound in English. As in Chinese, sex or gender of nouns is not made explicit in English. Thus, the sex of the words borrowed from English is not explicit, either. Most technical products did not exist before they were introduced from the Western world. So their current perceptions about the sex of the exotic products might reflect the way in which they attribute sexual implication to new products. As an observation, it was maintained that Koreans tended to believe foreign products to be superior and more masculine than their aboriginal domestic counterparts (Lee 1983).

The Thai Language and the Thai Results.

The Thai language emphasizes differences between social status, occupation, social position, and age, much more than between men and women. There is no sexing of objects, The only key male/female distinction comes from the use of different words for the pronoun "I" and to end sentences differently if one wishes to be more polite. Another sex distinction comes from naming people. Females tend to be named with something associated with beauty, flowers, or gentleness, while men tend to be name with something related to bravery, strength, or victory. In general, given the non-gendered nature of the Thai language, there is less reason to expect sex differences in the willingness to try new products. This expectation was supported for technical products, but not for symbolic products.

Hindi and the Indian Results.

Most of the Indian languages (Hindi and Punjabi in the North; Tamil, Telugu, and Kannada in the South; Bengali in the East; and Marathi and Gujakati in the West) are derived from the same base, Sanskrit. In Hindi, as well as with the other languages, all nouns carry a gender connotation and the propositions and pronouns before and after the noun take on the gender of the noun. Most modern objects or abstracts of modern technology are of masculine gender, such as radio, telephone, computer, airplane, and cassette. Also, book, leisure, entertainment, restaurant, home, city, state (province), and country (although India is referred to as the motherland or Mother India). Nouns of feminine gender include dance, shop, vegetables, bread, clothes, village, earth, and wristwatch.

Thus the Sapir-Whorf hypothesis would predict strong differences among respondents whose first language was Hindi; further the differences would be expected to be generally along the male/technological and female/symbolic separation. However, the Indian results found no sex differences.

CONCLUSION

The paper takes three stages. First we report the results of a study of the willingness to try new products by student respondents in five countries (the U. S., Korea, India, Thailand, and Senegal). In the U. S. and in Senegal, results supported the stereotype that males are more likely to try new technical products and females are more likely to try new symbolic products. However, the Western stereotype was weakly supported at best in Korea and Thailand, and no sex differences were found in India.

The second stage involved a literature review which points out our ethnocentric bias: as Hall (1959) noted, there is no reason to believe that Western notions of masculinity/femininity should generalize to other cultures. The key issue concerns the need to understand why gendered product perceptions vary across cultures.

The third stage was an exploratory attempt to investigate the relationship between language and product perceptions, using the Sapir-Whorf hypotheses as the underlying rationale. French and Hindi include gendered nouns in their grammatical structure, and might be expected to generate more straightforward gendered product perceptions. On the other hand, English, Thai, and Korean are gendered in much less explicit fashions. The preliminary analysis of the languages did not yield a rich explanation for the pattern of results across countries. More research such as that by Levy (1983) concerning the early acquisition of linguistic gender forms is needed, so that a more rigorous analysis of the sexing of products and its relationship to language can be made. The paper does not provide strong support for the use of the Sapir-Whorf hypothesis in terms of language determining product perceptions. However, we believe that the relationships are in need of a more systematic analysis than performed here before discarding language as a possible explanation for the differences in product perceptions across cultures. Even then, though, it should be argued that language is only one input to the cultural genderization of products. Its role should be investigated in concert with other variables such as religion and political concerns since their effects are largely inseparable from those of language.

FOOTNOTE

1. Although the Indian students completed the English version of the questionnaire, their primary language when they were being socialized to their gender roles was Hindi.

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APPENDIX A

PRODUCT GROUPINGS ACROSS COUNTRIES

FACTOR ANALYSIS RESULTS

WILLINGNESS TO TRY NEW PRODUCTS

PRODUCT	KOREAN FACTORS I	II	III	IV	U S FACTORS I	II	III	IV
Fashion Clothes		.83			.80			
Places to Shop		.64			.57			
Books			.56				.84	
Magazines			.71				.74	
Foods			.72					.69
Entertainment Places				.61				.64
Hair Styles		.62			.64			
Dance Styles				.60	.68			
Cameras	.74					.79		
Watches	.70					.74		
Motorcycles	.69					.54		
Computers	.65					.63		
Eigenvalues	3.4	1.7	1.3	1.0	3.0	1.8	1.3	1.1

PRODUCT	INDIAN FACTORS I	II	III	IV	THAI FACTORS I	II	III	IV
Fashion Clothes			.75		.78			
Places to Shop		.40			.61			
Books				.86			.81	
Magazines		.51		.66			.84	
Foods		.73						.88
Entertainment Places		.71			.59			.35
Hair Styles			.66		.68			
Dance Styles			.73		.62			
Cameras	.63					.76		
Watches	.71					.61		
Motorcycles	.61					.70		
Computers	.78					.66		
Eigenvalues	2.9	1.8	1.5	1.3	3.3	1.9	1.3	1.0

PRODUCT	SENEGALESE FACTORS I	II	III	IV	FIVE COUNTRY FACTORS I	II	III	IV
Fashion Clothes				.66		.71		
Places to Shop			.43				.60	
Books				.71				.88
Magazines				.63				.73
Foods	.72						.72	
Entertainment Places	.78						.74	
Hair Styles			.77			.79		
Dance Styles			.73			.70		
Cameras		.80			.73			
Watches		.75			.61			
Motorcycles	.73				.68			
Computers		.76			.69			
Eigenvalues	3.4	1.7	1.3	1.0	3.2	1.9	1.3	1.0

G.1

A Review of Public Public Policy and the Decision to Locate Research and Development in Foreign Countries

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Abstract

This paper is an exploratory investigation to develop the framework for including public policies in foreign direct investment models. Based on primary and secondary data, this research suggests that public policies are considered in the decision making process to locate R&D facilities in foreign countries. This paper also suggests that when the companies begin to compare public policies across industrialized countries, the U.S. public policies are not viewed favorably by U.S. R&D executives. A review of tax treatments of R&D in six different countries shows that the U.S. does not offer a tax incentive program as attractive as other countries. The paper ends with a presentation of a framework for modeling FDI behavior. The new framework includes the impact of public policies and the pre-marketing stages of product development.

A Review of Public Policy and the Decision to Locate Research &Development Operations in Foreign Countries

Many popular foreign direct investment (FDI) models have been based on micro-marketing and micro-economic theory. Examples of this are 1) The International Product Life Cycle (Vernon, 1966) which suggests that each stage in the life of the product is associated with a level of foreign production; and 2) Keegan's Stages in Corporate Development (Keegan, 1989) which suggests that each stage in a corporations development is associated with an FDI strategy. This paper will show that a multi-faceted business decision such as an FDI should not be limited to micro-analysis. Specifically this paper attempts to show that macro-issues, such as tax structures and industrial policies, may impact specific types of FDI decisions. Consistent with the current focus on U.S. technological competitiveness, this presentation will focus only on FDIs made in research and development (R&D) facilities.[1]

Traditional theory has suggested that R&D activities occur near headquarters in the home market (Vernon, 1966; Drucker, 1989). However, today's international marketing strategests do not feel that their R&D activities have any national bounds. Today, a large percentage of U.S. firms, which are actively engaged in R&D, conduct R&D in foreign markets. More importantly, these firms are not limited to Keegan-defined global corporations. This paper addresses two research propositions:

I) The leading spenders on R&D have foreign R&D facilities and they consider macro-environmental issues in their decision to locate R&D in foreign countries.

II) The decision making process may reveal that the U.S. is not necessarly the most condusive environment in which to conduct R&D.

Comments about these two propositions are discussed herein under their respective headings. The discussion of the first point is based on an exploratory, primary research study conducted with top-level executives of U.S. high-technology companies. Discussion of the second point is based on a review of R&D tax treatments in selected countries and other secondary data.

I. The R&D Location Decision

Because theory has always suggested that the location of R&D is an automatic one (i.e., R&D is to be located near the parent company), there is no base of literature from which to extract and test the location decision variables and assumptions. Consequently, this research is exploratory and designed only to begin identifying which variables are considered by firms in their R&D location decision making.

Research Methodology

The respondents interviewed (to address Proposition I) were top-ranking executives of U.S. high-technology firms. They were qualified in a telephone interview then sent a structured mail questionnaire. A total of 80 firms were selected to receive the survey instrument. The findings are based on a 65% response rate.

Questionnaire Design. The questionnaire was divided into two distinct types of questions. The first part consisted of statements which asked the respondent to indicate, on a five-point scale, his level of agreement with the statement. The statements were created based on 17 unstructured depth-interviews with sample members and secondary data dealing with the subject of foreign R&D.[2] (Depth-interview respondents are listed in Appendix A.)

In the second part of the questionnaire, the respondent was asked to identify what first motivated the firm to initiate an FDI in R&D and what benefits they have realized from their investment. A check list and several blank lines were provided to the respondent. The check list was developed in the same mannerism as noted above.

Sample. A judgemental sample of top-ranking personnel from a mix of the largest and the growing U.S. high-technology firms were selected to be interviewed (see sample list in Appendix A). Firm selection criteria was based on the U.S. government definition of high-technology (as shown in Appendix B). The larger firms (based on sales volume) were selected because it was most likely that they would have established foreign R&D facilities. The growth firms (selected from a list of firms which recently had major increases in stock values) were included to round out the sample to be more representative of the mix of firms actively engaged in R&D activities. The sample included 52 firms representing several different high-technology products. As stated, the sample was not designed to be representative, but merely inclusive of firms in different stages of technological development and with various levels of foreign involvement. Figure 1 shows the percentage of firms sampled which have foreign activities in manufacturing and R&D.

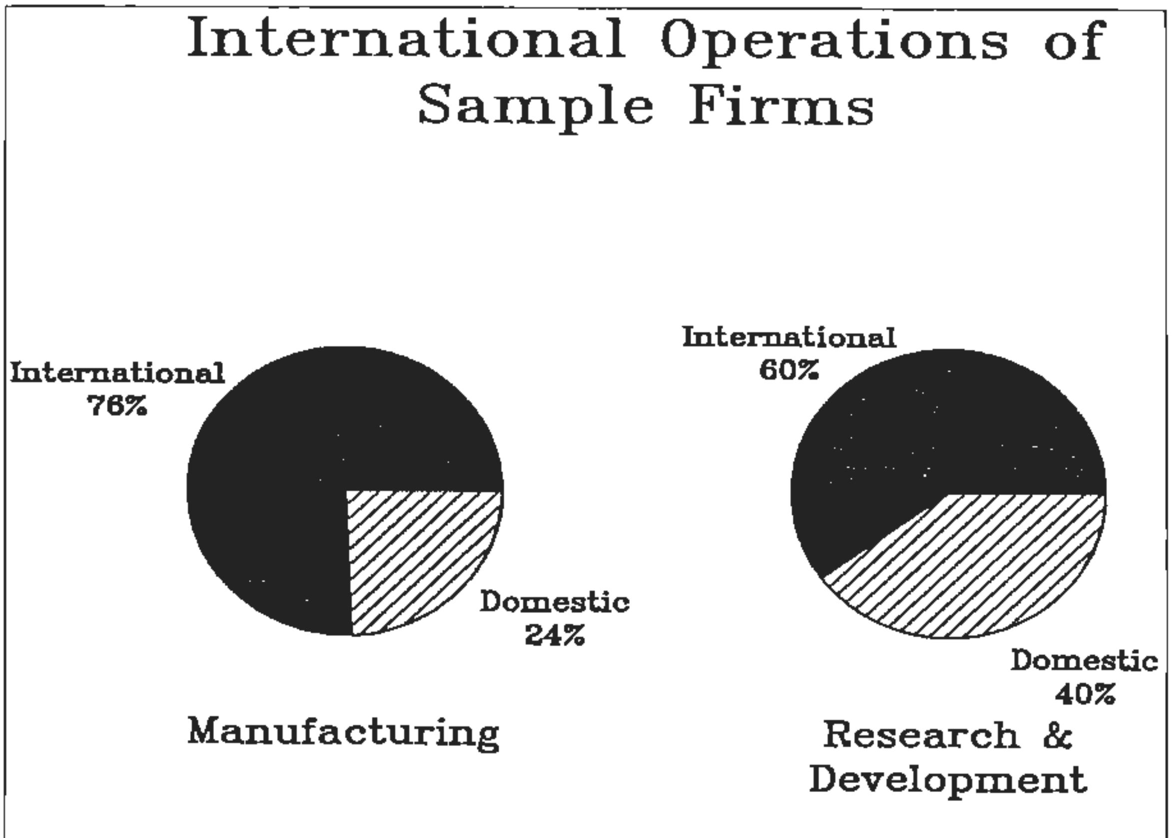


Figure 1: Base equals 52 respondents.

The firms referred to as the largest firms were selected from the Dun's Business Rankings (1988) according to sales volume. The 15 largest firms in four different high-technology categories were selected. The growing firms came from the High Technology Business Magazine Market Watch list of high-technology firms which gained the greatest increase in stock prices over a 1-month period. (Stock value, instead of sales volume, was used for the second sub- sample since many of the growth firms had not yet commercialized a product.) The two sample segments are referred to as the DB firms and HTB firms named after the sample-list source.[3]

Findings

In general, the respondents were relatively negative about the U.S. environment for the development and commercialization of high-technology products. Across both sub-samples and across the various product lines represented, virtually the same responses were recorded.[4]

The high response rate (considering the caliber of respondent) and the throughness in which the questionnaire was completed, suggest that the respondents were conscientious in their task to complete the questionnaire and interested in the subject.

The respondents may each have a slightly different definition of R&D; however, given the exploratory nature of the research, and the qualitative terms in which the phrase was used, the definitional deviations are not seen to be detrimental to aggregation of the data nor to the implications of the data. The specific answers to the questions are summarized below and on the following charts.

The questionnaire listed the following four statements and a five-point scale. The respondents were instructed to circle their level of agreement or disagreement with the statement.

Figure 2 summarizes their responses. (Note that in the illustration, the top two categories [points 1 and 2] and the bottom two categories [points 4 and 5] were collapsed together to create three levels of agreement.

In summary, the executives do not feel that the U.S. legal and regulatory environment encourages technological innovations, nor is the U.S. conducive to commercializing technology. Moreover, they feel that technology may not be commercialized more quickly in the U.S. than in other nations. High-technology executives do not feel that the U.S. Government has balanced public health goals and environmental concerns with industries' need to commercialize new technologies. The list of motivations for establishing foreign R&D included several marketing related factors (i.e., support for foreign manufacturing, customer support) and some uncontrollable variables (i.e., to meet the constraints of contracts and to meet the requirements of local governments). Most important to this research is that fact that several of the factors which motivated firms to make foreign R&D investments are macro in nature. Specifically, U.S. firms find the foreign technical labor force attractive (i.e., firms desire access to the technical labor, universities, and new ideas of the foreign labor pool) and the foreign public policies towards R&D attractive. This research focuses on the public policy issues since these have been overlooked in previous theoretical development.

With respect to foreign tax policies, 30% of the respondents said that foreign government tax incentives were an enticement to establish foreign R&D. Even a few of the firms said a motivating factor to establish <u>foreign</u> R&D was <u>domestic</u> tax considerations. Consistent with this finding, 58 percent of the respondents agree that R&D tax provisions inhibit industries' ability to plan for the long term. Based on this sample, over three-fourths of the firms have either manufacturing or both manufacturing and R&D in foreign countries. These international operations have given the company first-hand exerience in the foreign market. Thus, the concept of global scanning, or in other words, monitoring activities in other than domestic markets, is a reality. And, this exploratory research effort does suggest that in the R&D location-decision, it is quite conceivable that the features of the macro-environment, specifically public policy, may influence the location of research and product development. The strong negative sentiments shown by the U.S. executives towards U.S. public policies lead into the discussion of the last research proposition.

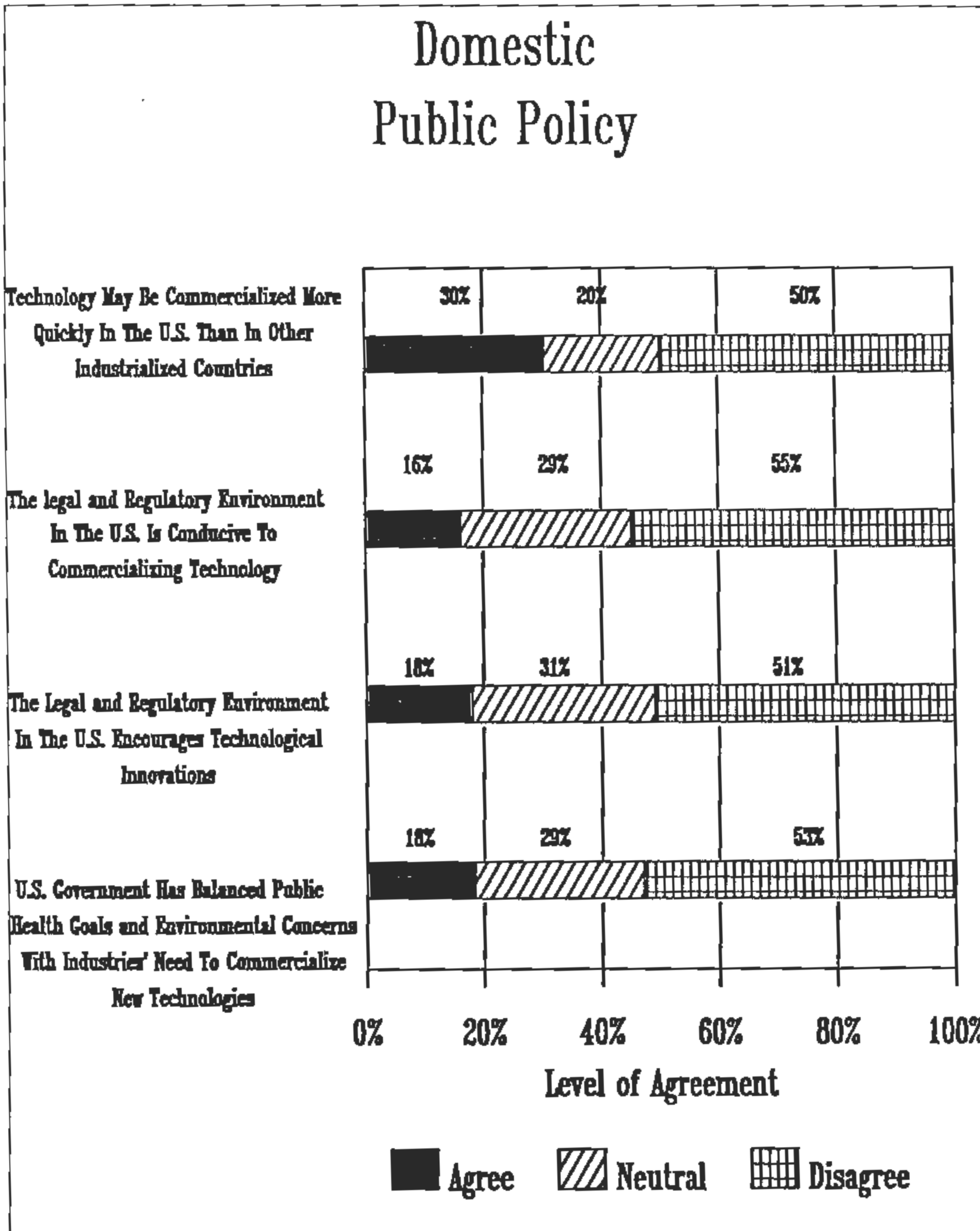


Figure 2: Base equals 52 respondents.

II. A Comparison of Public Policies Across Six Nations

This paper will review only a sample of public policies in an effort to show that the opinions of the high-technology executives are consistent with the current environmental conditions. A global scan could produce comparable information in which the U.S. does not necessarily provide the ideal environment for technology development.

Comparative Tax Treatment of R&D Expenditures

"Technology is an important form of wealth...it is a prime factor in stimulating our economy, increasing productive capacity and ensuring healthy international trade competition"(Konecci, 1984). The gains from R&D are immeasurable. Consequently, it is an obvious strategy for governments around the globe to offer tax structures and incentive programs which encourage domestic R&D activity and entice foreign R&D dollars. The following paragraphs review some aspects of R&D tax treatments for a sample of countries in which the responding U.S. high-technology firms have R&D programs. The purpose of this review is strictly to compare the ways in which R&D activities are treated in various countries. The tax treatments of R&D described below have been interpreted from the International Tax Centre Tax Treatment of R&D Expenses Handbook. The focus of the following presentation is to review programs directed at encouraging local R&D activity (See Table 1). It is, of course, a summary and does not provide detailed instructions to guide tax planning.

Belgium

The public policies in Belgium are very favorable towards R&D. In addition to investment incentives, there is a litany of other programs offered by the Belgium Government which encourage R&D activity.

Investment Deductions: R&D expenses, in terms of a new asset or production costs, which are incurred while in the process of promoting R&D or developing new products which contain future-oriented technologies qualify for a 20% investment deduction from taxable income. This percentage is increased to 25% if the firm qualifies as a high-technology company.

Special Incentives: In addition to the investment deductions, there are several special incentives for investments in R&D in Belgium. For example, a deduction for scientific personnel may be taken for each individual added to the staff who is employed for scientific research. In addition, qualified high-technology companies are eligible for a corporate tax reduction of a considerable magnitude for up to 13 years. The starting year of the tax-reduction program is decided by the corporation.

High-technology firms receive a list of other considerations above and beyond those offered non-high-technology firms. These incentives include increased investment deductions of up to 5% over other types of companies, real estate tax exemptions, and exemption from registration duties.

Private investors in high-technology companies also receive benefits. Capital gains on shares of stock in high-technology companies are exempt from taxes. Individual investors in high-technology firms may deduct from their taxable income 50% of their personal investments in shares of stock of high-technology companies.

Focusing on the treatment of foreign R&D activity, the Belgium government provides substantial tax benefits to foreign researchers locating in Belgium. These benefits are directed both at the foreign researcher locating temporarily in Belgium and to the firm hosting the foreign researcher. In line with their strategy of retaining and attracting R&D, The Belgium Government offers additional, substantial incentives to qualifying, local, high-technology firms which *DO NOT ESTABLISH ANY R&D OUTSIDE OF BELGIUM.*

Table 1

Tax Treatments of R&D

Program	Belgium	West Germany	Hong Kong	Japan	South Korea	U.S.
Current deduction of R&D Expenditure	x	x	x	x	x	x
Investment Deductions/ Grants	x	x			x	
Deduction for scientific personnel	x					
Special tax treatment for foreign researchers	x					
High-technology company tax benefits	x					
Corporate tax holiday	x					
Real estate tax exemptions	x					
Private investor tax deductions	x					
Tax benefits for foreign researchers	x					
Disincentives to firms with foreign R&D	x		x			
Special depreciation considerations		x		x	x	
Tax deduction/credits for payments to approved R&D institutes			x			x
Technical education deduction			x			
Incentives for increases in R&D activities				x		
Basic technology incentives				x		
Special Incentives for small/ medium sized firms			x	x		
Tax credits for qualified R&D expenses						x
New ventures resulting in local patent					x	
Tax credits for new R&D facilities					x	

In summary, it is evident that the tax treatments of R&D expenditures are handled in such a fashion as to encourage R&D activity. In addition, Belgium welcomes foreign researchers into Belgium and discourages R&D activities outside of their country. No other country seems to have such detailed tax-incentive programs as Belgium. The following countries have some special programs, but not to the extent of Belgium.

West Germany

The West German tax treatment of R&D allows for special depreciation and investment grants for the purchase of assets to be used in R&D activities. Investment grants of up to 20% may be claimed for qualified investments in tangible, intangible and fixed assets acquired for the purposes of R&D.

In addition to the programs specifically granted by the West German Government, the European Community and Federal Ministry of Research and Technology offer numerous subsidy programs. On the state level, many German states offer incentives for local R&D activities.

Hong Kong

The definition of R&D is very loose in Hong Kong. The Government of Hong Kong considers any activities which further scientific knowledge to be R&D. Thus, their allowance for the current deductibility of R&D expenses is a popular policy.

To discourage foreign R&D activities, only a proportion of R&D expenses incurred outside of Hong Kong are deductible. Thus, the proportion of foreign R&D equal to the proportion of business in that foreign country is not deductible. (Conversely, if foreign R&D results only in business activities in Hong Kong, then it is fully deductible.)

The Government of Hong Kong allows for all gifts to approved R&D institutes to be tax deductible. There are literally no stipulations on the gift as long as the institution is an approved research institute. In addition to encouraging gifts to educational institutions, the government will allow tax deductions to those furthering their scientific education. The deduction may be granted either to the institution which pays for the education or the individual who pays for and receives the education.

Japan

The Japanese Government encourages increases in R&D activities by allowing special deductions for R&D expenses which are substantially larger than those incurred in previous years. Even if these increases in R&D spending incur outside of Japan, they are still included in the special tax deductions.

The Japanese Government specifically targets basic technology and allows additional tax credits for increases in basic-technology research. Another goal is the development of small and medium sized high-technology firms; accordingly, they receive additional optional tax incentives. Potentially, a small/medium firm may gain an additional 20% in tax deductions if they are engaged in R&D activities.

Following this Japanese theme of rewarding desired activities, high-technology industries which are targeted by the government receive incentives in addition to those already noted. The list of special inducements for targeted activities includes special depreciation of fixed assets for high-technology firms and for assets used specifically for R&D purposes for any firm.

South Korea

The Korean Government provides for special tax deductions for high-technology firms and tax credits of 10% for technological development expenditures. The government also offers significant tax credits for qualified R&D expenses. Specifically, new ventures developing technology in Korea for which a Korean patent is granted qualifies for special incentives. Furthering the incentive to locate R&D in Korea, new R&D facilities are given tax credits and special depreciation allowances.

The United States

The U.S. Government allows for a tax credit for qualified R&D expenditures and a tax credit for payments to universities for the purposes of expanding basic research. Research conducted outside of the U.S. does not qualify for a tax credit.

Technology Transfers: A discussion of the tax treatment of technology transfers is beyond the scope of this research; however, the U.S. has been specifically singled out as a country which has such complicated legal and tax regulations for transfers of technology that the International Tax Centre publication detailing the tax treatments of R&D suggested that it "may encourage some companies to perform an increasing portion of their research activities outside of the U.S." (International Tax Centre, 1988).

Industry Targeting

In addition to tax programs which encourage and reward desired activities, many countries have targeted industries which they feel are most beneficial to their economic development. These industries receive substantial subsidies, in various forms, from the local government. The industries targeted are almost all high-technology industries (see Table 2).

The European Community has established a program to position the European Community as the leader in information technology. The European Strategic Programme for Research and Development in Information Technology (ESPRIT) was founded on the premise that a unified, targeted approach is necessary to gain and retain the front line position in technological advances (Commission of the European Communities, 1988).

Table 2

Targeted Industries in Japan, France and West Germany

Industry	Japan	France	West Germany
Computers	x	x	x
Microelectronics	x	x	x
Electronic Instruments	x		
Lasers	x		
Optical Communication	x		
Electronic Office Equipment		x	x
Biotechnology	x	x	
Robots	x	x	
Energy Conservation Equipment		x	
Underwater Exploration Equipment		x	
Aerospace	x	x	
Telecommunications	x	x	

Source: Ryans & Mitchell, "The Changing Face of American Foreign Trade," Business Marketing (January, 1986), p. 49.

Japan also has a very structured industrial policy to further the development of high-technology. Tatsuno writes about Japan's Six Pronged Plan to take the lead in the technology race. The first strategy is to have public-private joint venture research designed to "give Japanese industry a competitive edge internationally" (Tatsuno, 1986). Another of the six strategies is to create 19 ultra-modern "Silicon Valley look-alikes."

The Japanese have nearly perfected industry targeting. They openly admit that in key industries (usually high-technology industries), the government intervenes to secure their country's future economic growth (Prestowitz, 1988). A new report issued in 1989 (Port) suggests that Japan has gone to the next step and does not actually target industries, it targets technologies which they feel are the cornerstones of the future.

Not only is the assistance from foreign governments a concern to U.S. firms, but so is the last of assistance from the U.S. government. Several U.S. policies have been cited as causing lack-luster domestic technological development. Ferguson, from the M.I.T. Center for Technology, Policy, and Industrial Development, suggests the U.S. Government policies of the 1980's (e.g., tax subsidies for venture capitalists, antitrust laws, etc.) may have been wrong (1988). Using the semi-conductor industry for an example, he states that by keeping the research spread amongst several smaller firms, the industry was excessively fragmented. In contrast, the Japanese semi-conductor industry is characterized by a few, large, diversified firms. These larger companies were better able to compete in what became a very capital intensive industry. Artificial barriers between U.S. high-technology firms are also mentioned in other reports as reasons for weaknesses in U.S. competitiveness (Technology Review, 1988 & Matlack, 1988).

Other factors associated with the U.S. decline in high-technology include: the U.S. Federal Government's lack of concern about the long-term growth of the high-technology industries (Technology Review, 1988), a general lack of knowledge about international markets (Technology Review, 1988), government controls on high-technology exports (Durhan, 1988), and a decline in basic research dollars (Graham, 1988). The U.S. government has also been accused of information control. Following an era of loosening restrictions on the availability of data, the 1980's are said to represent a shift back towards limiting public access to information. Critics state the policies restrain academic freedom, hamper technological progress and undermine democratic decision making (Shattick, 1988).

In contrast to earlier sentiments of U.S. industrialists, the trend today seems to be leaning towards a new brand of industrial policy. This new policy would not be a traditional industrial policy (i.e., the type that supports one industry at the expense of another), this new policy would follow the Japanese method of targeting a technology. Those in Washington are calling it an industry-led policy (i.e., the industrial sector presents feasible technologies and the government reviews and selects those with the greatest potential). Although this research is not designed to recommend public policies, it does introduce the need to factor in the impact of public policies on research and product development strategies.

Future Research

Traditional theory suggests that during the stages of product development, when the focus is on R&D and not marketing, no international activity takes place (i.e. R&D functions occur in the market of the parent company) (Vernon, 1966). However, this is now known to be a false assumption.

The new direction that U.S. high-technology firms are taking requires that foreign direct investment theory expand in scope to include international activities in the pre-marketing stages of the product life cycle. The theories which have been forwarded to explain foreign direct investments in the marketing stages are not applicable to pre-marketing stages. The difference is that in the marketing stages, the firm is driven by the micro-directed characteristics to make investment decisions (i.e., product stage, company stage, etc.). In the R&D stages, the firm is seeking a conducive environment for R&D.

This concept of comparing features of the macro-environment to help make R&D location decisions is new to foreign direct investment literature. In 1979 Vernon hypothesized that "global scanning," or the capability to evaluate world markets would some day be characteristic of large multinationals. Today, Keegan writes that Global firms have this scanning capacity and make decisions based on world market realities (1989). However, Keegan limits global scanning to only the most developed international firms-- global firms.

This research suggests that Keegan has underestimated the extent to which global scanning impacts decisions of firms at all levels of globalization--even those which are not Keegan-defined Global. The opinions of the surveyed U.S. executives suggest that they not only have global scanning, they use it to compare aspects of the domestic environment to the foreign environment.

To incorporate this type of thinking, it is necessary to first expand traditional theory to include the pre-marketing stages and second, to introduce the importance of the macro environment and its impact on research and product development strategies.

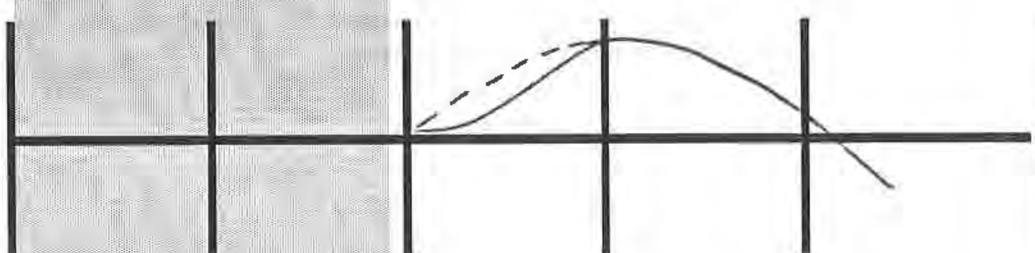
Figure 3 shows a version of the International Product Life Cycle. The Cycle of High-Technology (COHT) is offered as a more realistic way to view the international development of high-technology. The first two stages of the COHT show that 1) R&D does not occur in the market of the home country, it occurs in one of many markets in which the firm has international operations, 2) the firm has global scanning capabilities which allow it to select the market to locate the R&D based on their analysis of the environment, and 3) the firm may development the market application for the product in the local market or may immediately export the product (i.e., R&D location decisions are independent of initial market introduction strategies).

The COHT is in its initial stages of development. More research needs to be conducted to determine other significant features of R&D investments decisions. However, it is evident from this preliminary assessment of the global environment that public policies do interact with other decision criteria to influence the location of R&D activities.

Cycle of Operations for High Technology

Stage	Stage 0 Patent Driven	Pre-Stage 1 Supply Driven	Stage 1 New Product	Stage 2 Maturing Product	Stage 3 Declining Product
Goal	Patent Rights	Application	Market Leadership	Differentiation	Reposition
Focus	R & D	R & D	Marketing	Marketing	Marketing
Environment	Simultaneous world development	Global search for application			

X = M



Capabilities	Global research	Integrated market development
Strategies	Monitor global scientific advances	Global scan for viable markets

Figure 3

Appendix A

Depth-interview Respondents

Company	Title	SIC	List
Ethyl Corp	Director Financial Relations	281	DB
Quantum	Corporate Relations	281	DB
Monsanto Co.	Director of R&D	281	DB
Flamemaster	Operations Manager	281	HTB
Upjohn Co.	Investor Relations	283	DB
Squibb Corp.	Director of R&D	283	DB
Warner Lambert Co.	Investor Relations	283	DB
Baxter Travenol Laboratories	V.P. Research	283	DB
Litton Industries	Chief Scientist	357	DB
Honeywell	Chief Scientist	357	DB
Kulicke & Soffa Industries	VP Technology/Product Design	357	HTB
Miniscribe Corporation	Dir. of Corporate Adm.	357	HTB
Priam	Project Manager, New Products	357	HTB
Becton Dickinson & Co	Director - Research Center	38	DB
Foxboro Co.	Manager Public Relations	38	DB
Allied Signal, Inc.	Vice President-Technology	38	DB
Fischer & Porter Co.	Director R&D	38	HTB

RESPONDENT LIST

COMPANY	TITLE
Missing	DIRECTOR OF RESEARCH
3M	DIRECTOR INTERNAT'L TECHNICAL OPERATORS
ABBOTT LABORATORIES	V.P. R&D
ADVANCED MAGNETICS	MARKETING DEPARTMENT
AIR PRODUCTS	GENERAL MGR. TECHNICAL PLANNING
ALLIED SIGNAL	V.P. TECHNOLOGY
APOGEE	PRESIDENT & CEO
ARISTECH	DIRECTOR OF RESEARCH
BAUSCH & LOMB	INVESTOR RELATIONS
BAXTER TRAVENOL	V.P. RESEARCH
BOONTOON	VICE PRESIDENT
BRITTON LEE, INC.	EXECUTIVE V.P.
C-COR ELECTRONICS	V.P. ENGINEERING
CHATTEM, INC.	DIRECTOR R&D
CONTROL DATA	TECHNICAL DEVELOPMENT MANAGER
CONVEX COMPUTERS	V.P. ENGINEERING
CYANAMID	DIRECTOR, DISCOVERY RESEARCH CENTER
EASTMAN KODAK	SENIOR V.P., DIRECTOR OF RESEARCH
ENTRONICS CORPORATION	EXECUTIVE V.P.
ETHYL CORP.	DIRECTOR
FINNIGAN	RESEARCH MANAGER
FISCHER & PORTER	R&D DEPARTMENT
FISHER SCIENTIFIC	DIRECTOR OF R&D
GAF CHEMICALS	V.P. R&D IN CHEMICALS
GENEX	CCO
GOULD	V.P. DEVELOPMENT
FLAMEMASTER	OPERATIONS MANAGER
HONEYWELL	CHIEF SCIENTIST
HYCOR BIOMEDICAL	V.P. R&D
INGENE	V.P. R&D
JOHNSON CONTROLS	DIRECTOR OF RESEARCH
KULICKE & SOFFA INDUSTRIES	U.P. TECHNOLOGY & PRODUCT DESIGN
LITTON INDUSTRIES	CHIEF SCIENTIST
NUCLEAR METALS	V.P. TECHNICAL DIRECTOR
OLIN	PUBLIC RELATIONS DIRECTOR
OPTICAL COATING LABS	RESEARCH MANAGER
PENNWALT	VICE PRESIDENT
PERKIN-ELMER COMPANY	V.P. ENGINEERING
PITNEY BOWES, INC.	DIRECTOR OF APPLIED SCIENCE & TECH.
PRIAM	PROJECT MANAGER, NEW PRODUCTS
QUANTUM	CORPORATE RELATIONS
RHEOMETRICS, INC.	DIRECTOR OF MARKETING
RORER GROUP, INC.	PRESIDENT OF CENTRAL RESEARCH
SCHERING-PLOUGH, CORP.	DATA FROM ANNUAL REPORT

SMITHKLINE BECKMAN	PRESIDENT
SQUIBB CORPORATION	V.P. RESEARCH PLANNING
STERLING DRUG, INC.	DIRECTOR COMMUNICATIONS
SYSTEMS INTEGRATED	DIRECTOR OF ENGINEERING
UNISYS	V.P., ECONOMIC ANALYSIS
UPJOHN	INVESTOR RELATIONS
WARNER LAMBERT COMPANY	INVESTOR RELATIONS
XEROX	MANAGER OF RESEARCH & PLANNING

Appendix B

DOC3 Definition of High Technology Products

Description	SIC*
1. Guided missiles and spacecraft	376
2. Communications equipment and electronic components:	
Radio-and TV-receiving equipment, except communications types	365
Communications equipment	366
Electronic components and accessories	367
3. Aircraft and parts	372
4. Office, computing, and accounting machines	357
5. Ordnance and accessories, except vehicles and guided missiles	348
6. Drugs and medicines	283
7. Industrial inorganic chemicals	281
8. Professional and scientific instruments (excludes category 3825)	38
9. Engines and turbines	351
10. Plastic materials and synthetic resins, synthetic rubber and other man-made fibers, except glass	282

Total Technology Intensity Coefficients
(Average For 1977–1979)

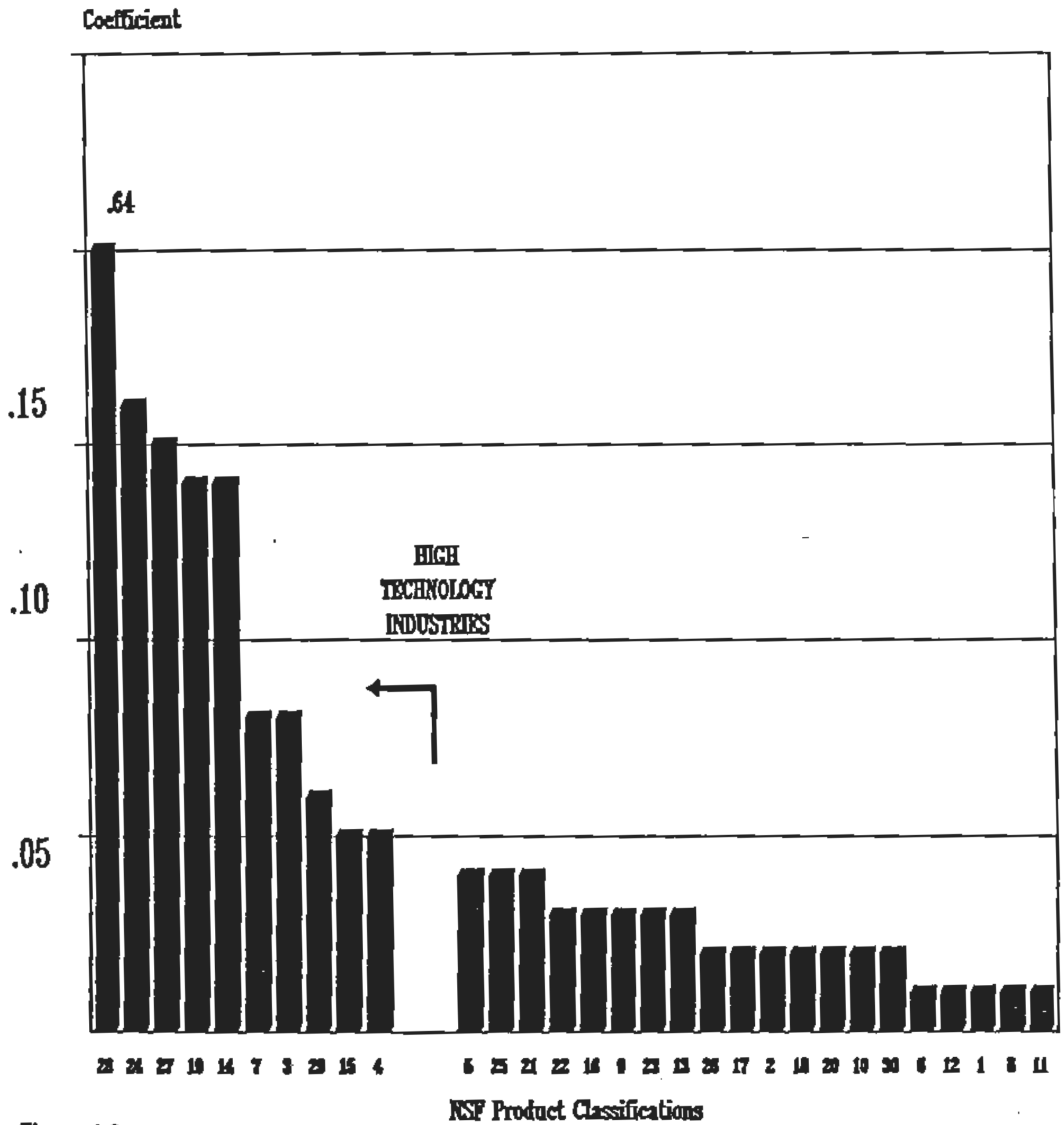


Figure 1.3

Notes

[1]Possibly, there is difficulty developing a model of foreign direct investments because the entire realm of FDIs is too comprehensive for one model. Therefore, the emphasis of this research has been to narrow the field of FDIs to just those made at the R&D stage.

[2]For example see the citations in the references for: Council on Competitiveness; Davis (1982), Olmer (1985), U.S. Department of Commerce (1982, 1984).

[3]The product categories selected were chosen based on the U.S. definition of high-technology products and the groupings used in the Market Watch listings. The four categories chosen were the most closely defined by both sources.

[4] The Mann-Whitney U-Test was used to test for significant differences between sub-samples.

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THE ROLE OF MARKETING IN REGIONAL ECONOMIC DEVELOPMENT: EFFICIENCY AND FAIRNESS ISSUES

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ABSTRACT

This paper examines the marketing effects of economic development on the quality of life in a region, how various constituency groups are differentially affected, and how they can have an input into the development of a strategic marketing plan and into its implementation. The issues discussed include the economies of scale of the quality of life factors, control and coordination of the marketing planning and its implementation. The discussion finally concentrates on increasing efficiency in the allocation of resources among marketing mix elements and on securing fairness in the distribution of outcomes.

INTRODUCTION

Marketing has become an integral element in regional economic development--both for efforts to attract new industry to an area and, more recently, for efforts to assist in the retention and expansion of resident industries. Although within some regions and communities the primary thrust of the marketing effort is promotional (Beaumont and Hovey 1985, Schwartz 1983), all elements of the marketing mix can at times become part of the overall effort (Goeke 1987). Moreover, regional economic development is a macro-level economic activity involving societal goals and multiple interests or constituency groups. Broadly viewed, the manipulation of the marketing mix in this context involves applying resources to achieve desired outcomes for the region.

However, there are four essential differences between the application of marketing principles in the business/corporate context and in regional economic development. First, in most marketing situations, all parts of the marketing mix are under the control of one entity. However, in the economic development context, this control is widely dispersed across various interest groups in the region and community. This dispersion may force different constituencies to take into consideration broader social goals than their own specific interests. However, inherently, it will reduce the efficiency of societal resource applications through redundancy, synergy loss, and lack of coherence.

Second, in most marketing situations the results of marketing actions accrue primarily to the entity which controls the marketing mix. In economic development there are direct and indirect marketing outcomes that affect a broad spectrum of constituencies. Outcomes include broad social welfare goals such as quality of life factors involving employment, income, pollution, recreational opportunities, and similar elements. Not only entities that control the economic development process are beneficiaries of the marketing outcomes, but also the residents in general. The question here is to what extent the outcomes are fairly distributed among the constituency groups in the region.

The third difference, which is shared by a few other entities, is that when a region or community is successful in attracting new firms, those firms become a part of the local economy; in effect, a part of the product for the next round of efforts. This fact can change the nature of the region forever: its power structure, its size, its value system, its age and social class profile, as well as the relationships among the residents.

The fourth difference concerns the elements of the marketing mix. Whereas, a firm must adapt its mix to environmental variables, in an economic development context, environmental variables are not accepted as given, but are considered as viable independent variables for proactive manipulation.

These differences, number of constituency groups, societal goals in the form of quality of life factors, and application of marketing mix elements are depicted in Figure 1. Examples of constituency groups that control resources as well as benefit from the marketing outcomes include residents in general, government, chamber of commerce, businesses, utility companies, churches, and labor unions. As generally depicted in marketing literature as 4Ps, application of marketing mix elements consist of location, product, price, and promotion (Goeke 1987, Nason, Dholakia and McLeavey 1987). Quality of life factors (QOLFs) include income, employment, health care facilities, recreational facilities, traffic levels, etc.

MARKETING EFFECTS ON QUALITY OF LIFE

The quality of life is a multidimensional concept (Wilford 1987, Winnie 1977). Its multiple dimensions include such factors as job opportunities, variety and quality of health care, course offerings in local high schools, air and water quality, recreational and entertainment opportunities, the level of traffic congestion, shopping opportunities, crime, police and fire protection. Residents would be expected to weigh each factor differently in assessing their own quality of life perceptions. Some may give a specific factor a weight of zero, in effect not including that factor in their assessments. They would also be expected to perceive the same factor levels differently. One person may view a given level of traffic congestion as mild while another may view it as extreme. A person who is unemployed may perceive that there are few job opportunities while someone who is employed may think that jobs are abundant.

The perceived quality of life (QOL) can be expressed as a function of several quality of life factors that make it up (QOLFs):

$$QOL = f(w_{ij}x_{ij})$$

Where w_{ij} indicates the weight assigned by constituency group i to quality of life factor j in evaluating their quality of life, and x_j represents the level of QOLF j as perceived by constituency group i (Figure 1). In turn, it is assumed that objective measures of the levels of QOLFs are a function of each element of the marketing mix: $x_j = f(4Ps)$. However, since the x_{ij}'s represent perceived levels of these factors, the functional relationship between the 4Ps and the x_{ij}'s will be moderated by other factors such as values held about fairness, or personal views on solutions to problems that may influence perceptions.

Within the economic development context, marketing mix elements are manipulated with the intention of directly affecting those x_{ij}'s which are relevant to a target business's or industry's decision to move to or remain in a the region. However, with any marketing action, there will almost certainly be direct and indirect effects on non-targeted as well as on targeted x_{ij}'s. Some of these effects will represent externalities defined by Nason (1986, p. 284) as "any effect, positive or negative, resulting from a market transaction that is <u>not anticipated</u> by the parties to the transaction in their calculus of their <u>own goal achievement</u>" (emphasis added). Thus, externalities include unanticipated effects on the parties to the transaction or on other constituency groups. Additionally, anticipated effects that will be incurred by other constituencies, not a party to the transaction, and that were ignored in the decision process are part of externalities. Given the fact that "the identification and analysis of market externalities are at the core of macromarketing" (Nason 1986, p. 288), it is useful to explore the role of marketing in regional economic development from this perspective.

Communities might conduct gap analysis to understand how the quality of life in their regions may change if they take no new actions in any of the marketing mix components. The predicted profile should be compared against the desired target profile:

$$QOL_{Target} = w_{T1}x_{T1} + w_{T2}x_{T2} + \ldots + w_{Tn}x_{Tn}$$

$$QOL_{Predicted} = w_{T1}x_{P1} + w_{T2}x_{P2} + \ldots + w_{Tn}x_{Pn}$$

Where w_{Tj} is the weight applied to the QOLFs in the analysis, x_{Tj} is the target level of the QOLFs, and x_{Pj} is the level of the QOLFs that are predicted in the absence of a change in the marketing mix. Next, they can develop strategic plans to close any gap between the predicted and the desired target profile (Nason, Dholakia, and McLeavey 1987). In some cases, the plan may require increased activity and in others it may require a retrenchment, or possibly demarketing, as when projections indicate growth beyond the desired level.

ISSUES OF EFFICIENCY AND FAIRNESS: APPLICATION OF MARKETING PRINCIPLES TO REGIONAL ECONOMIC DEVELOPMENT

The central premise of this conceptual framework is that regional economic development decisions that ignore broader social consequences of marketing mix applications will result in "misallocation of resources and maldistribution of benefits" (Chaganti 1981, p. 58). Therefore, the application of marketing principles to regional economic development should be evaluated by two criteria: efficiency and fairness. Efficiency concerns the application of a region's resources in a manner to minimize the costs of final outcomes, i.e., an efficient application of the 4Ps of economic development in generating changes in the x_{ij}'s of the quality of life model. Fairness concerns the equity in the allocation of these outcomes, i.e., changes in the x_{ij}'s, across constituency groups (Cox, Goodman & Fichandler 1965, Nason 1986).

Efficiency in the Manipulation of the Marketing Mix

Control of Resources: Direct control over elements of the marketing mix usually derives from ownership of or legal responsibility over resources that are applied in implementing the mix. For example, several groups usually have direct control over funds to be applied in promoting a region or community through advertising. Economic development corporations or associations; utility companies; state, county, or city governments; real estate developers;

private corporate parks; chambers of commerce; railroads or port authorities; labor unions; churches; and banks are among the possible entities that control and/or own resources.

Manipulation of the Marketing Mix: Economic development efforts may embrace all parts of the marketing mix in attracting or retaining businesses (Goeke 1987, Nason, Dholakia and McLeavey 1987). Place, or location, represents the specific site for a business within the region. It reflects the current and potential state of the region's infrastructure as well as existing buildings, construction sites and zoning. It can be assessed in order to identify the strengths and weaknesses of the region for competitive purposes. Location can be affected by manipulating several factors of the product.

Product is the most diverse aspect of the marketing mix when viewed from the perspective of economic development (Figure 1). Product can be conceived of as including the infrastructure of the region (roads, railroad sidings, water supply, energy sources); the quantity and quality of the existing labor force; the presence of vocational schools; the quantity and quality of restaurants, entertainment, and recreational opportunities. Product can be directly affected by real estate companies, developers, or municipalities through the creation of industrial parks. Some communities build speculative buildings to attract businesses who need immediate occupancy. Governmental agencies acquire land through eminent domain and then offer to sell it to prospective businesses (Auerbach 1985). Local or state governments develop local technical schools and training programs. Utility companies, local governments, economic development corporations, and other entities provide prospective firms with economic development professionals to assist in planning their relocation--selecting a site, making arrangements for various utilities. Roads, bridges, access to interstate highways, rail spurs, toxic waste disposal facilities, and other infrastructure elements can also be manipulated by the entities which have control over those resources.

Price, to resident or potential firms, can be manipulated through changes in taxes, costs of land or buildings, labor wage concessions, or interest rates on loans. Price can be directly controlled by various groups. Labor negotiates special wage and benefit concessions to attract or retain businesses. Banks offer special loan packages. Local governments, chambers of commerce, or others establish revolving loan funds to provide low-cost financing. Local governments negotiate the designation of areas within their jurisdiction as special enterprise zones, which provide special incentives for businesses locating in those areas. Local and state governments negotiate special tax packages for new business prospects.

The marketing of a region may involve the manipulation or the promotion of a number of the product factors to accommodate resident industries or to attract potential industries to the region. Using promotional and sales techniques the region can be successfully positioned. Advertisements in site location and other professional publications, news releases for publicity, sales promotion materials, presentations at company headquarters and similar activities are being utilized extensively.

<u>Problems of Efficiency</u>: The inherent divergence of interests, objectives, or strategies among the constituency groups creates important efficiency problems. The major difficulty is to coordinate the various elements of the marketing mix and to coherently position the region to the target market. Efficiency is threatened by three factors.

First, different constituency groups may take redundant actions. Since each marketing mix element can be controlled by multiple entities, there are ample opportunities for redundant resource allocation. For example, a utility company, the chamber of commerce, a regional economic development association, and mayor's office may all advertise for new businesses. Independently, all may have hired economic development specialists to develop their respective programs. Obviously, this redundant activity wastes a region's scarce resources.

Second, synergy may be lost by not manipulating the different elements of the marketing mix in a consistent, mutually reinforcing manner. Lack of integration prevents the individual elements from producing a combined, synergistic effect. Since multiple entities within the community control each element, the coordination necessary to produce an internally consistent marketing mix is difficult to attain.

Third, coherence may be lost because of different groups' working at cross purposes. Various constituency groups may attempt positioning the region differently to their target markets. An extreme example could result from one constituency's positioning an underdeveloped region on the basis of its natural beauty and pro-environment inhabitants in an effort to develop the tourism industry and another group's positioning the region on the basis of lax environmental regulations and pro-business governmental officials. This not only prevents their efforts from being mutually reinforcing, but can result in one groups' efforts counteracting another's. While this conflict would obviously arise because of different values, goals, and objectives of the entities manipulating the marketing mix, the loss in efficiency would arise in the implementation of the mix. Even if different entities shared common objectives, they may choose to position the region in different and possibly inconsistent ways to achieve the same objectives.

Usually, various constituency groups control a variety of marketing mix elements. As these groups independently pursue their own agendas for economic development, it is reasonable to expect that efficiency will be reduced through all of these three factors--redundancy, loss of potential synergy, and mutually countervailing marketing actions. Therefore, some mechanism must be installed for coordination of efforts in order to improve efficiency.

Fairness in the Distribution of Outcomes

The central assumption in the application of marketing principles to regional economic development is that there is a functional relationship between the manipulation of the marketing mix and changes that will be forthcoming in the region, i.e., changes in the x_j's in the QOL model. The fundamental question to be answered is to what extent it is possible to affect fairly the residents' quality of life through marketing activities for economic development. One should realize that the problem is further complicated by the fact that fairness is a perceptual concept which is directly involved in the QOL definition.

Effects of Marketing on QOL: The implementation of marketing mix programs in economic development affect the quality of life directly and indirectly. The changes in 4Ps to accommodate resident industries or to attract prospective ones directly shape the region's QOL profile. For example, improvements of product and location, such as better roads and highways, community beautification, the development of a vocational training center, improved water supplies, more reliable energy sources, or improved waste disposal practices, all have a direct effect on the community.

The manipulation of marketing mix components indirectly affects the quality of life in a region partly as a consequence of a characteristic found in few marketing contexts: when new industries are attracted to a region, they become a part of the product. This effect also may be observed in the military, universities, and organizations which seek to increase their membership. Becoming a part of the product produces secondary effects. Examples of these secondary effects include changes in the predominant social class or educational profile of the community; shortages of workers, water, or electricity; changes in the membership of local groups; changes in the level of competition for local small businesses; changes in the balance of power between business and labor; changes in the local political power structure; increases in traffic congestion, water, and air pollution; and increased demands for services such as schools, fire and police protection, and waste disposal.

Economies of Scale in Marketing: Some indirect effects of marketing on a region's quality of life profile depend on threshold effects related to economies of scale. Below some threshold level of potential demand, it is economically unfeasible to establish even the smallest scale of operation for some public or commercial services or retail businesses. Increases in the population could create the critical mass necessary to sustain a regional mall, a regional or community cultural center or auditorium and the theatrical or musical performances which they could facilitate, local hospitals or health centers, specialized course offerings in the schools, and specialty stores or services which could not be supported with a smaller population base. An increase in manufacturing activity could facilitate spill-over effects, such as the emergence of local businesses to supply materials or services to the manufacturing firms. An increase in the labor pool could enable the development of local vocational training centers.

Problems of Fairness: The distribution of marketing outcomes in form of quality of life factors across different constituencies within the region or community is an important issue. From a macromarketing perspective, this involves reconciling marketing externalities:

> Macromarketing thus not only requires information on market externalities but the ability to place those externalities in the context of the market and social systems involved so that effective and coordinated plans can be developed for remediation -- if desirable (Nason 1986, p. 288).

However, for several reasons fairness is a difficult criterion to satisfy. First, the outcomes of marketing actions (x_{ij}'s) are not distributed evenly across the various constituencies. Different groups will not share equally in the benefits, and the ratio of benefits to costs will likely be different across groups. Second, outcomes are weighted differently by different constituencies (w_{ij}'s). What is seen as a positive outcome by one group may be seen as a negative outcome by another. Third, different constituencies have different economic development objectives and those of some groups may be pursued at the expense of others'. Finally, groups affected by marketing actions may have little or no control over resources applied in those actions or the way they are applied to improve the quality of life in the region.

(1) Unequal Distribution of Outcomes: The outcomes of marketing actions are not distributed evenly across different constituencies. As an extreme example, to retain a General Motors assembly plant, an entire ethnic community in Detroit, Poletown, was razed to provide a construction site for the plant (Auerbach 1985). The negative effects of this action accrued almost entirely to the residents of Poletown, most of whom were elderly and retired. Workers benefited by retaining their jobs and the city of Detroit benefited by retaining a part of its tax base. This example also illustrates another inequity that may arise--the ratio of benefits to costs may be unequally

distributed across constituencies. This effect is also illustrated in a current battle over the water quality of the Pigeon River that flows through North Carolina and into Tennessee (Herndon 1989). The choice there involves jobs at Champion International's paper mill versus the ability to use the heavily polluted water, including dioxin, downstream for recreation, irrigation, or drinking.

(2) Differential Weighing of Outcomes: Even if the actual distribution of outcomes is equal across constituencies, the perceived impact on their quality of life may be different because of differential weighing of these outcomes by various groups (w_{ij}'s). Individuals and groups with different value systems will evaluate outcomes differently. In addition, both positive and negative outcomes may be more extremely weighted by those directly affected. As an example, some people consider the growth of their community to be positive while others consider it to be negative. This problem is currently producing a "Yankee-Yuppie Clash" in some New England communities. Yuppies are moving from cities, such as Boston, to previously small, rural towns. Their attitudes toward growth and increases in local services are at odds with those of the Yankees, who have long-term ties to the community (Marquand 1989).

(3) Diverse Objectives: As a result of differential weighing, groups differ in their desired target profiles for a region and their associated hierarchies of economic development objectives (Goeke 1987). Using the QOL model, these profiles can be depicted in the following manner:

group 1	x_{11}	x_{12}	x_{13}	x_{14}
group 2	x_{21}	x_{22}	x_{23}	x_{24}
group 3	x_{31}	x_{32}	x_{33}	x_{34}
group 4	x_{41}	x_{42}	x_{43}	x_{44}

Where the x_{ij}'s represent the levels of QOLFs j desired by different constituency groups i.

To illustrate the diverse, and sometimes conflicting objectives of the various constituencies and the impacts which accrue to them, several groups should be taken into consideration: labor, small business owners, local manufacturers, government officials, and the residents in general (Figure 1).

Residents of a community play multiple roles and belong to multiple constituencies. Their roles may at times place them within the management or the labor constituencies. At other times, or with respect to other issues, they may play roles of other constituency groups such as parents or as members of some leisure interest group. These roles affect their weights and target levels associated with the various QOLFs. Their objectives for development depend upon the memberships which they hold, including their occupations and social classes, and the perspective which they adopt on a particular issue at a particular time. At times, individuals' goals will be in conflict with one another. For example, what is good for them as parents may be unattractive for them as managers of local manufacturing concerns. In addition, some marketing actions will have both attractive and unattractive consequences from the perspective of the same role. For example, growth of the region may have positive consequences resulting from economies of scale for shopping, entertainment, or education, but have negative consequences in terms of crowding, traffic congestion, increases in housing costs, or pollution (Myers 1987).

The time perspective of objectives is also important. Often, there is an short-term urgency associated with creating jobs through retention, expansion, and attraction of businesses. However, success in this area may lead to long-term deterioration of the quality of life. This can have adverse effects on the competitive advantage of the region for future marketing efforts. Firms and individuals will be less willing to move to the area and will be more likely to move away (Myers 1987).

Various groups will probably differ in the mix of service firms versus manufacturing firms which they desire for the region (Gillis 1987). Labor groups and local small business owners may prefer the outcomes derived from increasing the number of basic manufacturing jobs. Others, such as the elderly or those responding in the role of consumers or parents, may prefer an increase in the number of available services such as health care, education, entertainment, dining, or recreation opportunities.

(4) Lack of Control: Groups which are affected by marketing actions may have little or no control over the resources applied in those actions or the way they are applied. This introduces an important potential source of unfairness. An action may adversely affect a group which is essentially powerless to influence the planning or the implementation of that action. This is essentially what happened to the residents of Poletown in the previous example.

TOWARD INCREASING EFFICIENCY AND FAIRNESS

In order to improve the efficiency and fairness of the marketing outcomes in economic development, input from multiple constituencies is necessary at three different stages. The first is in formulating economic objectives for the region. This is necessary for determining common, fair objectives for which all in the community can work. The second is in the development of the strategic marketing plan. This is necessary for the development of an internally consistent marketing program for the region. The third is in the implementation of the plan. Input at this stage can ensure that agreed-upon goals are pursued and that outcomes are derived as expected.

The success of the internalization of outcomes (Nason 1986) or the influence of any constituency group on the marketing program depends on two things. Each group needs access to the decision-making process and to the control over the elements of the marketing mix. In other words, they need to participate in formulating objectives, in controlling marketing planning and in controlling implementation.

Formulating Objectives for Economic Development

Setting quality of life objectives for a region is central to developing an efficient strategic plan and assessing the role of marketing in implementing that plan (Nason, Dholakia, and McLeavey 1987). Strategic objectives affect the target market, the region's positioning through the marketing mix, the target profile of the region, and the outcome distribution across the region's constituencies. For a fair distribution of outcomes, competing desired target profiles for the region must be reconciled, since expending resources for one objective may preclude spending for another. This requires some basis for assessing the various constituencies' objectives, weighing the different constituencies' desires in formulating the target quality of life for the region, and arriving at an overall objective for economic development. While the assessment of different constituencies' objectives is rather straightforward, provided the groups can be identified (to be discussed later), a weighing system to reconcile differing objectives is not. Criteria must be established for determining what is a fair allocation of outcomes (Auerbach

1985). Should a group's objectives be weighed according to their proportional representation in the community, according to their economic contribution to the community, according to their political power, or according to their ownership of the resources that will be applied in implementing the community's strategic plan? What consideration should be given to affected groups whose membership is small and who own few resources? These are extremely difficult questions which the residents of a community must answer if multiple objectives are to be reconciled.

Control over Objective Formulation and Marketing Planning

Factors affecting control: Whether a constituency group can influence the decision-making process depends on: (1) the information held by the group regarding the timing and nature of the decision-making process, (2) whether the group has control over parts of the marketing mix, (3) whether the group is formally organized and has a continuing life, (4) the local power structure. The effects of each of these will be examined in turn.

First, for a constituency group to influence the formulation of objectives and the preparation of strategic planning for economic development, that group must know when, where, and how that process is to take place, and by whom it will be conducted. Not all decision-making takes place in a public forum (Kumcu 1988). Some takes place in an informal, unscheduled fashion and some is engaged in by private organizations, such as chambers of commerce or utility companies. Even if the group knows that the decision-making process is occurring and knows its location, it may not know how it will proceed: what criteria are to be applied, who is to be consulted, will the process be iterative, will a planning document result?

Second, since so many different organizational entities have independent control over different parts of the marketing mix (a good example is Indiana's Strategic Economic Development Plan -- ISEDP, Kumcu 1988), they may engage in planning to utilize those elements of the mix under their control to pursue whatever objectives they choose. This planning may take place in private and may not involve any consultation with other constituencies. In fact, members of other constituencies may never know that the planning has taken place. Other constituencies may also lack information regarding the progress of the marketing operations being implemented under the plan.

Third, the influence of a particular constituency depends upon its degree of organization and whether it has a continuing life as a group. Groups that have not coalesced prior to when the decision-making process arises will be at a disadvantage in influencing that process. Those who share common interests and objectives will not necessarily know each other, will not have a ready structure within which to share information or make decisions, and will not be able to exhibit the strength of numbers in the process. A group that emerges in an ad hoc fashion in response to a decision-making opportunity may have some difficulty in developing a structure and in communicating with its latent members. In addition, such a group may have little influence at later stages if the decision-making takes place in an iterative fashion, as the group is unlikely to maintain its existence over a long time period. This is especially true if the formation of the group was a response to a specific event, as when an opposition group forms following the announcement that a new prison facility is to be located in their community. If the initial response was an emotional one, the individuals may be unable to maintain the fervor which facilitated the group's emergence. As the perceived immediate threat is resolved, the group may also dissolve rather than maintaining a long-term proactive interest in their desired profile for the region.

Finally, the local power structure is another factor that determines the influence of any constituency group on the decision-making process. For example, the chamber of commerce may have a very good working relationship with local elected officials. Together, officers of the chamber and elected officials may choose economic development objectives to pursue through elements of the marketing mix which are under their control. Economic development professionals may be employed by the chamber of commerce, by the mayor's office, by an economic development corporation, or by a utility company. In each case, their access to the local power structure and to the elements of the marketing mix which may be employed will be different. People who have achieved a high degree of prestige within a region may be appointed to planning commissions, and may in fact hold membership in multiple groups with input to the decision-making process. For example, a member of the chamber of commerce (which is private) may be appointed by the mayor's office (which is public) to a local planning task force, and may be a full-time employee of an economic development corporation. This could give the chamber of commerce greater influence in the decision-making process than would otherwise be the case. Those outside of such a power circle would be at continuing disadvantage throughout the planning and implementation of the marketing plan. Those who are within the circle have a greater chance of pursuing their private interests in the process. They have greater access to information and to existing and continuing organizational structures. Because of their access to power sources and means, they also have more confidence that resources not under their direct control will be made available for the marketing mix in the implementation of their plan.

Access to planning process: Since objective selection and planning may be accomplished by so many independent entities, gaining access to the process and coordinating the goal formulation of multiple constituency groups is a very difficult task. This task is complicated by the accountability of the various entities (Goeke 1987, Kumcu 1988). For example, since a chamber of commerce is a private corporation, its staff and officers are accountable to the board of directors and to the membership. Pursuing objectives contrary to the desires of these parties could violate the employees' fiduciary duty. Economic development corporations are not-for-profit corporations. Their accountability is to their board of directors, and not to the general public. Labor leaders are responsible to their membership. Negotiations with prospective firms or with firms which are considering leaving the community could involve objectives that are not generally supported among the residents. One of the few entities which has broad accountability is the government, as it is responsible to all constituency groups living within the governmental unit's boundaries. However, even in this case certain interest groups may have inordinate influence in the planning process. The preparation of New Mexico's five year strategic economic development plan represents a good example. Although the Governor of the state considered a balanced regional representation in his appointments to the planning commission, one group of representatives was able to exercise more influence so that the final recommendations of the commission did not properly address regional and ethnic differences in the state (Shama 1988).

In addition to the differences in accountability, another problem is the desire to avoid interference or opposition to economic development efforts undertaken in the pursuit of a single constituency's objectives. This desire can lead to efforts to maintain secrecy and to thwart the voicing of opposing opinions. Groups who take this viewpoint would be opposed to open forums in which multiple objectives could be discussed.

Coordination of the planning process: If economic development is to be undertaken in the pursuit of common goals and is to present a coherent positioning of the region to the target markets, some entity must take on the responsibility of coordinating the planning and of facilitating input representing multiple perspectives (an example is the Indiana Economic Development Council, Senate Bill No. 477). This organization that usually has a "comprehensive macromanagement" function should present several characteristics (Zif 1980). First, the entity should have a continuing existence. Temporary organizations will not be able to monitor the progress toward the objectives and ensure that other objectives are not substituted as the plan is implemented. Second, the entity should be willing and able to take on this responsibility. This involves an interest on their part and the staff and other resources required to carry it out. Third, this entity should be willing to give fair treatment to the desires of the multiple constituencies and have the trust of these groups. This element is necessary to gain the cooperation of the various parties in implementing the plan, since no entity will have direct control over the holders of the various elements of the marketing mix. Those parties who control the elements of the marketing mix would be reluctant to commit them to common goals if they thought that their interests would not be protected. Fourth, the entity should have influence within the local power structure. This is desirable since persuasion will be necessary to convince the various constituencies that certain objectives should be considered appropriate for the entire community.

In some communities the organization that emerges with these characteristics is either a private organization, such as the local chamber of commerce (Barton and Boyle 1985), or some consortium of private or private and public organizations. In effect, what on occasion emerges is a de facto parallel government that sets objectives and allocates resources to change the profile of the region.[1] For some members of the community, this is a non-representative government; they neither know of its existence nor have access to its deliberations.

Constituency participation: Several different mechanisms can facilitate the input of multiple perspectives into the decision-making process. One is the use of public hearings in which any individual may voice an opinion (e.g., ISEDP 1984). As economic development is a continuing process, periodic hearings may be useful to accommodate changing perspectives among the residents--especially since the profile of the region will evolve as new residents are attracted. Another mechanism is the periodic administration of public opinion surveys (Goeke 1987, Green and Bruce 1976). This process does have the potential for abuse and would need to be monitored carefully. Opinions on a given issue cannot be expressed if the relevant questions are not asked or if the appropriate response categories are not provided. Another way to encourage input from multiple constituencies is to form advisory boards with representation from identified groups. However, people with common interests who have not organized in some way are unlikely to have their interests represented within these boards.

If there is no opportunity for an individual to make an input and the individual is not a member of an existing group, organizing an ad hoc group is another possibility. This requires that individuals with common interests be identified and persuaded to organize. This may occur in a reactive fashion, as individuals perceive that an announced marketing effort is a threat to their desired profile for the region, rather than in a proactive fashion in organizing to participate in the creation of a plan that would bring about a future that they envision. Organizing ad hoc groups is probably easier when an issue is emotional and long-term participation may be difficult to maintain.

If there is no public mechanism for individual or group influence, access to the process must be attained through other means. One alternative is to draw the issue into the political arena--soliciting the involvement of elected officials or through editorials in the local media. Politicizing the issue can also serve to make the planning process more public since elected officials serve the broadest constituency within the region. Another way is through personal contacts with persons involved in the process. Others could include organized or individual letter writing to the decision making bodies or writing letters to the editors of the local newspapers.

Control over Implementation of Marketing Plan

Coordinating and manipulating the entire marketing mix so as to present a coherent positioning of the community proves to be very difficult, because various marketing elements are under the control of so many different entities (Nason, Dholakia, and McLeavey 1987). If the mix cannot be manipulated in a coherent fashion, agreed-upon goals will only be attained by chance. There are two implications of this proposition. First, if the community is to be positioned in a fashion so as to reach consensus goals, there must be some mechanism for coordination of efforts. Second, in the absence of such coordination, each group that controls some element of the marketing mix is free to manipulate it in the pursuit of that group's own objectives. Membership among groups pursuing particular objectives, or controlling resources do not necessarily overlap. Consequently, control over the marketing operations is sometimes direct and sometimes indirect.

Indirect control over operations: Those groups with no ownership or control over resources must rely on indirect influence to affect the application of resources to the marketing mix (e.g., ISEDP 1984). These groups may have formed in response to a real or perceived threat to the desired profile of their region. They may have common interests, but may not possess common resources. The influence mechanisms available to these groups are similar to the mechanisms available to influence the decision-making process.

Similar to participation modes, they may try to politicize the issue--attempting to have ordinances passed to affect the application of resources or seeking the intervention of elected officials in a less formal approach at persuasion. They can attempt to have judicial restraining orders issued to halt applications which they oppose. They can attend public meetings or hearings and voice their opinions. For example, in 1988, 11,000 people attended an Environmental Protection Agency hearing which considered Champion International's pollution of the Pigeon River (Herndon 1989). They can organize boycotts of local businesses which are engaging in applications that they think are inappropriate, or organize public demonstrations (Nason 1986). Alternately, they can organize letter-writing campaigns to the offending firms or to newspapers. They can use personal influence to try to influence acquaintances who hold positions with direct control over resources.

Direct control over operations: A similar "macromanagement" entity to coordinate and control the planning process may be desirable for the coordination and/or implementation of the strategic marketing plan in order to achieve high efficiency (Zif 1980). In most cases, whether assigned or self-selected, it would be desirable that the same entity performs both planning and coordination or implementation functions. Formation of an economic development corporation, or some other entity with continuing existence, desire and ability, and resources may serve this purpose (e.g., Indiana Economic Development Council, Kumcu 1988). In other cases, the assumption of this function may be by default: with the power going to the entity which happens to have the vested interest, the personnel and other resources to accomplish the task. This, of course, will further enhance the emergence of a parallel government not accountable to the broad constituency. However, several things can be done to ameliorate this effect.

First, the entity that is assigned or assumes an active role in the planning and manipulation of the marketing mix may be encouraged to report to the governor's or mayor's office. This solution, of course, will legitimize the entity considerably, while allowing the supervision of its activities, and the accountability of its performance. Second, an advisory board could be established with membership drawn from multiple interests groups to ensure their influence on policy issues. High-level, elected government representatives may be made part of this board. Such an organization would ensure the influence of interest groups regarding the priority of their objectives and implementations of plans, and therefore, may serve as a consensus-building device. At the same time, their cooperation may be secured in making available necessary resources. Finally, funds available for planning and implementation may be mutually controlled by the legislature, government and interest groups. While this would help to reduce the threat of an interest group emerging as the parallel government, other problems will abound. This entity will have to rely on persuasion to gain the cooperation from those with control over resources. The position of officers and board members within the local power structure will greatly affect their ability to secure this cooperation and support. Again, multiple memberships on local and regional planning boards and other entities will increase the influence of individuals involved in the process. The balance between efficiency and fairness needs to be established at this stage rather than sacrificed.

SUMMARY & CONCLUSION

Within a marketing framework, there are issues of efficiency in the application of resources for economic development and issues of fairness in the allocation of outcomes across residents of a region. Outcomes which accrue to the residents of a region are sometimes direct and sometimes indirect. These effects are not shared equally by different constituencies. Individual constituency groups vary in their ability to control both the selection of objectives for the marketing plan and to control the manipulation of the marketing mix in implementing that plan. This control depends on whether individuals with common interests are organized, whether their group has a continuing existence, whether there are resources under their direct control, and on their position within the local power structure.

Influencing the planning and implementation of the marketing mix by individuals or groups with no direct control over resources may be facilitated through the establishment of formal mechanisms -- public meetings or hearings, the establishment of advisory boards, or the assumption of a coordination function by entities with accountability to a broad constituency within the region. Informal procedures may also be followed: letter writing, use of personal contacts with those in positions of power, and ad hoc boycotts.

The application of marketing principles to economic development may ensure a coherent policy towards existing and targeted new businesses and the consideration of the objectives of multiple constituency groups within the region in an equitable manner. Although there is a likelihood of a parallel government, it is necessary that some entity come forward to coordinate the planning and operational activities. Those who accept this responsibility must use persuasion to secure the cooperation of the various parties with control over the diverse elements of the marketing mix. The ability to gain this cooperation should be a function of the position of this entity within the local power structure and whether the entity has the trust of the diverse constituency groups.

NOTE

1

The authors thank an anonymous reviewer for providing the parallel government label for these emergent organizations.

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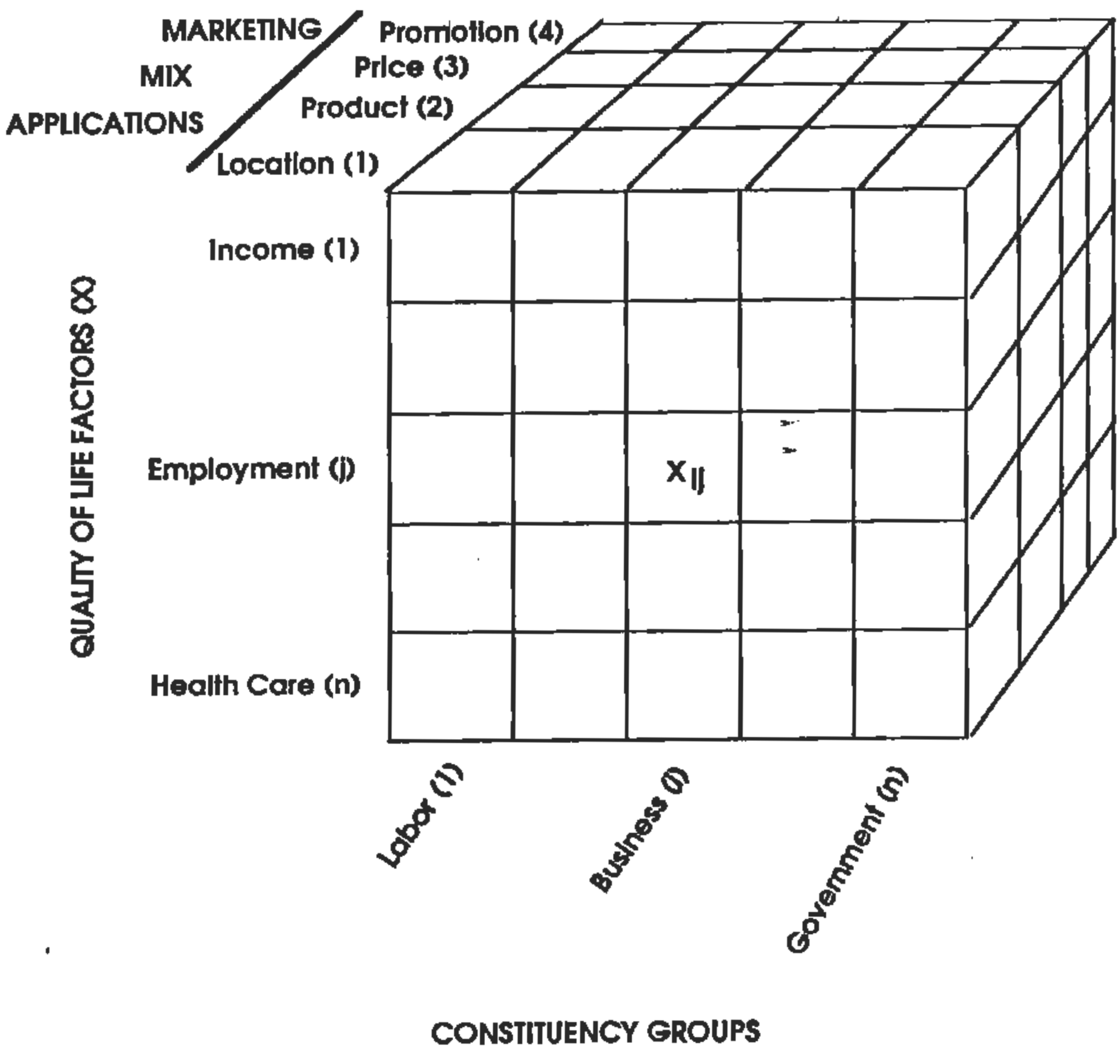

Figure 1: Marketing Applications, QOLFs, and Constituencies

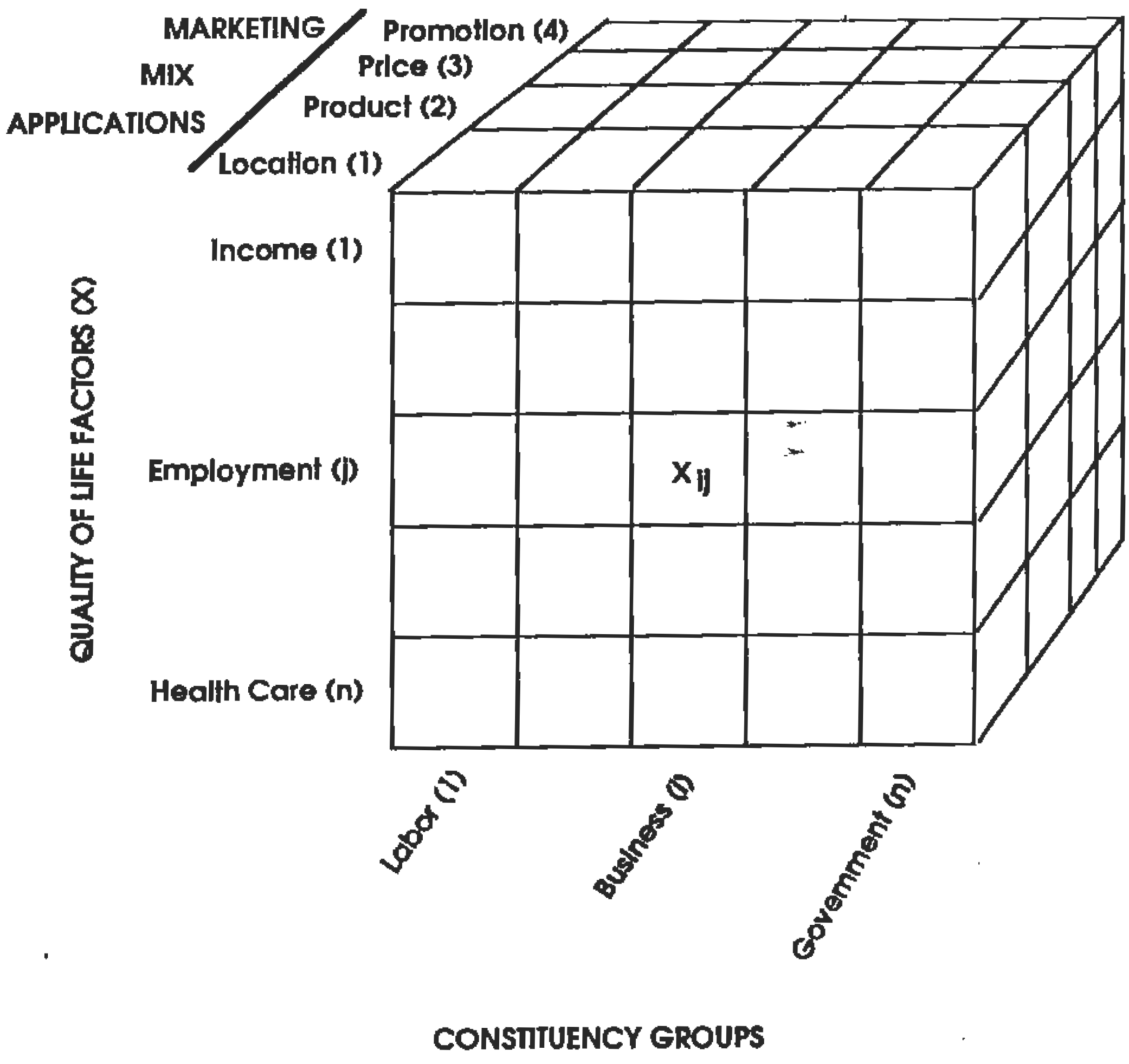

Figure 1: Marketing Applications, QOLFs, and Constituencies

G.2

THE ROLE OF MARKETING IN REGIONAL ECONOMIC DEVELOPMENT: EFFICIENCY AND FAIRNESS ISSUES

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ABSTRACT

Analysis of regional economic development from a marketing perspective has become an integral element of the relevant literature--studying both the efforts to attract new industry to an area and, more recently, the efforts to assist in the retention and expansion of resident industries. Although within some regions, the primary thrust of the marketing effort is promotional, all elements of the marketing mix can at times become a part of the overall effort. Price, location, product, and promotion are utilized either to accommodate resident industries or to attract prospective industries to the area. Broadly viewed, the manipulation of the marketing mix involves applying resources to achieve desired outcomes for the region.

Communities can engage in gap analysis, anticipating how their areas will change if no new actions are taken in any of the marketing mix components. Based on this analysis, they can develop strategic plans to close any gap between the predicted and the desired future profile. In some cases, the plan may require proactive measures and in others a retrenchment, or possibly de-marketing, as when projections indicate growth beyond the level desired by the constituents. In any case, neither the active manipulation of the marketing mix nor its neglect is benign. Both have important consequences for the quality of life for the residents of a region.

This paper explores the effects of four essential differences between the application of marketing principles in the business/corporate context and in regional economic development. First, in most marketing situations, all parts of the marketing mix are under the control of one entity. However, in the economic development context, this control is widely dispersed across various interest groups in the region and community. Inherently, this will reduce the efficiency of societal resources through redundancy, synergy loss, and lack of coherence.

Second, in most marketing situations the results of marketing actions accrue primarily to the entity which controls the marketing mix. In economic development, there is a broad spectrum of constituencies that control the economic development process. At the same time, these groups are beneficiaries of the marketing outcomes. As a consequence, the question is to what extent the outcomes are fairly distributed among the constituency groups in the region.

The third difference, which is shared by a few other entities, is that when a region or community is successful in attracting new firms, those firms become a part of the local economy; in effect, a part of the product for the next round of efforts. This fact can change the nature of the region forever.

The fourth difference concerns the elements of the marketing mix. Whereas, a firm must adapt its mix to environmental variables, in an economic development context, environmental variables are not accepted as given, but are considered as viable independent variables for proactive manipulation.

As a result of these differences, there is a high likelihood that regional economic development decisions that ignore broader social consequences of marketing mix applications may result in misallocation of resources and maldistribution of benefits. Therefore, the authors propose to evaluate the application of marketing principles to regional economic development by two criteria: efficiency and fairness. Efficiency concerns the application of a region's resources in a manner to minimize the costs of final outcomes. Fairness concerns the equity in the allocation of these outcomes among constituency groups.

Problems of Efficiency: The inherent divergence of interests, objectives, or strategies among multiple groups who control the resources creates important efficiency problems. The major difficulty is to coordinate the various elements of the marketing mix and to coherently position the region to the target market. Efficiency is threatened by three factors: redundancy of marketing measures, synergy loss, and lack of coherence in policies.

Problems of Fairness: The distribution of marketing outcomes in form of quality of life factors across different constituencies within the region or community is an important issue. However, fairness is a difficult criterion to satisfy for four reasons. First, the outcomes of marketing actions are not distributed evenly across the various constituencies. Different groups will not share equally in the benefits, and the ratio of benefits to costs will likely be different across groups. Second, outcomes are weighted differently by different constituencies. What is seen as a positive outcome by one group may be seen as a negative outcome by another. Third, different constituencies have different economic development objectives and those of some groups may be pursued at the expense of others'. Fourth, groups affected by marketing actions may have little or no control over resources applied in those actions or the way they are applied to improve the quality of life in the region.

Toward Increasing Efficiency and Fairness: To improve the efficiency and fairness of the marketing outcomes in economic development, input from multiple constituencies is necessary at three different stages. The first is in formulating economic objectives for the region. This is necessary for determining common, fair objectives for which all in the community can work. The second is in the development of the strategic plan. This is necessary for the development of an internally consistent marketing program for the community. The third is in implementing the plan. Input at this stage can ensure that agreed-upon goals are pursued and that outcomes are derived as expected.

The success of this process or the influence of any constituency group in the marketing program depends on two things. Each group needs access to the decision-making process and to the control over the elements of the marketing mix--in other words, control over objective setting and planning, and control over implementation.

The paper concludes that in order to develop an efficient and fair strategic marketing plan for the regional economic development a central planning agency may be useful and necessary. Although this may cause problems of its own, the chances can be increased that a broad spectrum of constituency groups be satisfied with the quality of life outcomes of the marketing plans.

(The full paper is available from the authors.)

G. 3

Agricultural Development Projects in Niger as Social Marketing: A Post-Mortem

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Abstract

After over a decade of experimentation with large scale integrated agricultural development projects, development many development professionals working in the Niger Republic turned away from this approach. Projects failed to increase agricultural productivity or rural incomes. A post-mortem of three multi-million dollar projects in Niger suggests that application of the marketing concept to the design and implementation of these projects might have provided a corrective. Analysis employs data on the diffusion of agricultural innovations collected in thirty rural communities in Niger in 1983. A review of the projects' strategic assumptions, especially their conception of target market, and the implicit marketing mix provides a grid for evaluating project performance superior to that provided by the standard evaluations of financial performance and rates of product/service acceptance. Policy implications are summarized.

INTRODUCTION

Curiously social marketing perspectives have rarely been applied to the design and implementation of agricultural development projects in West Africa (cf. Tansuhaj and McCullough 1988), although they have been commonly applied to the delivery of public health products and services (e.g., Fine 1988; Kotler 1975; Nicther 1984; Republique du Senegal 1980). Paradoxically, advances in the theory and technique of services and social marketing (e.g., Fine 1981; Berry, Shostack and Upah 1983; Webb, et al. 1988) and knowledge of the marketing conditions in Africa (e.g., Kaynak 1981; Nwokoye 1982) could be combined to provide guidance to project planners and implementors. The product/service offerings and impacts of massive social marketing campaigns to increase agricultural productivity in countries like the Niger Republic (shown in the Figure) can be improved by the application of a strategic marketing perspective. The success of such programs is criticial if the Sahelian nations are to overcome the devastating effects of ecological deterioration and economic underdevelopment. The willingness of the implementing agencies to adopt such a social marketing perspective is of course another issue, one not dealt with here.

For over ten years, from about 1971 to about 1983 regional integrated rural agricultural productivity projects were a cornerstone of the Niger Republic's development strategy for rainfed agriculture (Republique du Niger 1976; 1979). Project sites included six of the country's seven administrative departments. Since they were financed by different bi- and multi-lateral donors each project differed slightly in outlook, but all conformed to the same general formula oultined in the country's three year plan (Republique du Niger 1976). From 1979 to 1983 alone, donors obligated some 29 million dollars to these projects. However, beginning in 1983, government and donor dissatisfaction with projects outcomes led to changes in rural development strategy (Republique du Niger 1983; 1987). The explicit goals of the projects included increasing per hectare productivity of peanuts, black-eye peas (cowpeas), millet, and sorghum and increasing rural incomes. Although the projects did not explicitly adopt a strategic social marketing perspective[1], social marketing aims were fundamental intermediate objectives: to increase the acceptability of new agricultural practices, including animal traction, through training and extension.

Selected results of an evaluation of three projects conducted by Niger's Ministry of Planning (Republique du Niger 1985a, 1985b) are presented here. Included in the evaluation were: a) the Zinder Department Regional Development Project, located in the east central part of the country and funded by the European Development Fund of the European Economic Community; b) the Maradi Rural Development Project, based in the centrally located Maradi Department and funded by loans from the World Bank; and, c) the U.S.A.I.D-funded Niamey Productivity Project located in the westernmost Niamey Department.

Results show that the projects failed to achieve their goals. Why was this so? Anthropologists and political economists have usually analyzed the failure of planned rural development in the Third World in terms of cultural and ecological incompatibilities between developer and developing cultures, and/or capitalist exploitation and peasant resistance (Amin 1976; Bartlett 1980;

Bernstein 1981; Bernstein and Campbell 1985; Deere 1986; De Janvry 1981; Derriennic 1977; Dunn 1978; Franke and Chasin 1980; Greene 1986; Horowitz and Painter 1986; Wulff and Fiske 1987; Grillo and Rew 1985; Olivier de Sardan 1984; Rey 1973; Spittler 1979; Stull and Schensul 1987; Suret-Canale 1977; Uphoff 1986; Waldstein 1986). The analysis presented here suggests that the lack of sustained increases in agricultural productivity and rural incomes uncovered by the evaluation was the result of poor social marketing practice. Incompatibilities between the strategic planning and marketing techniques employed by the projects and the goals, values, and consumption patterns of the product/service recipients that endured throughout the life of the projects constrained their success.

EVALUATION METHODS

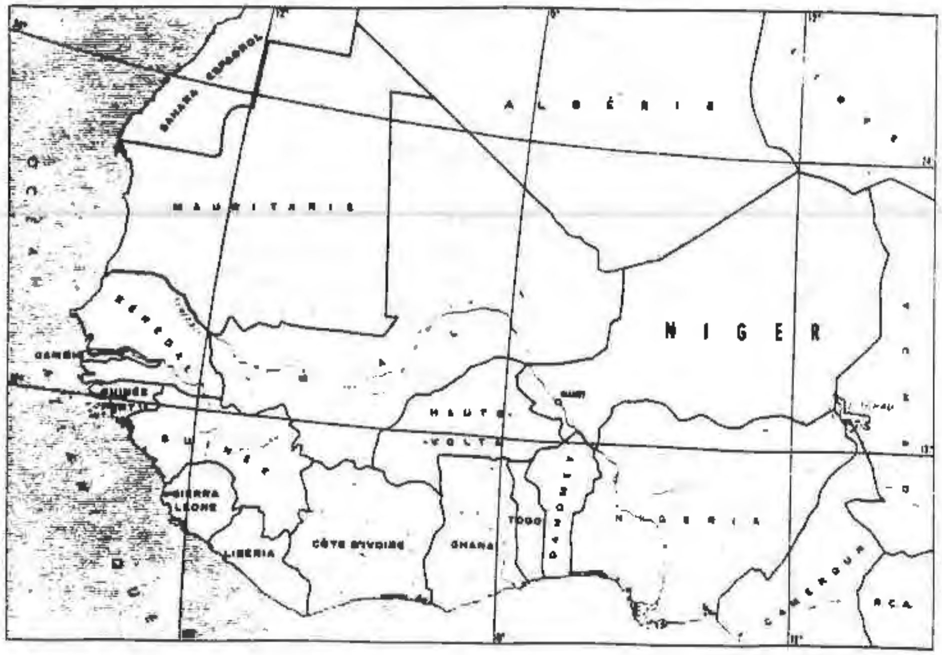
The Ministry of Planning's evaluation of the projects aimed to generate improvements in rural development policy (Patton 1978) and was conducted at two levels. First, the Ministry compiled exhaustive sets of project documents and conducted a detailed analysis of them. This external evaluation (Patton 1982) based on project documents elucidated both the the marketing plans and marketing mix implicit in the projects' strategies. The review also revealed that the projects had conducted very limited research to analyze the opportunites and constraints inherent in the marketing environment or to define target markets. Further, the indicators that they monitored were primarily of two types. The first was fiscal data required by donor and government auditors. The second included data on the results of the promotional and personal selling components of the marketing campaigns, e.g., rates of application of technologies and techniques promoted by the projects. Only secondarily was data on service delivery, product performance, and product/service acceptance collected. Not until very late in the game was data on product and service perception, adoption, and repeat use collected, let alone employed to adjust the marketing strategy.[2]

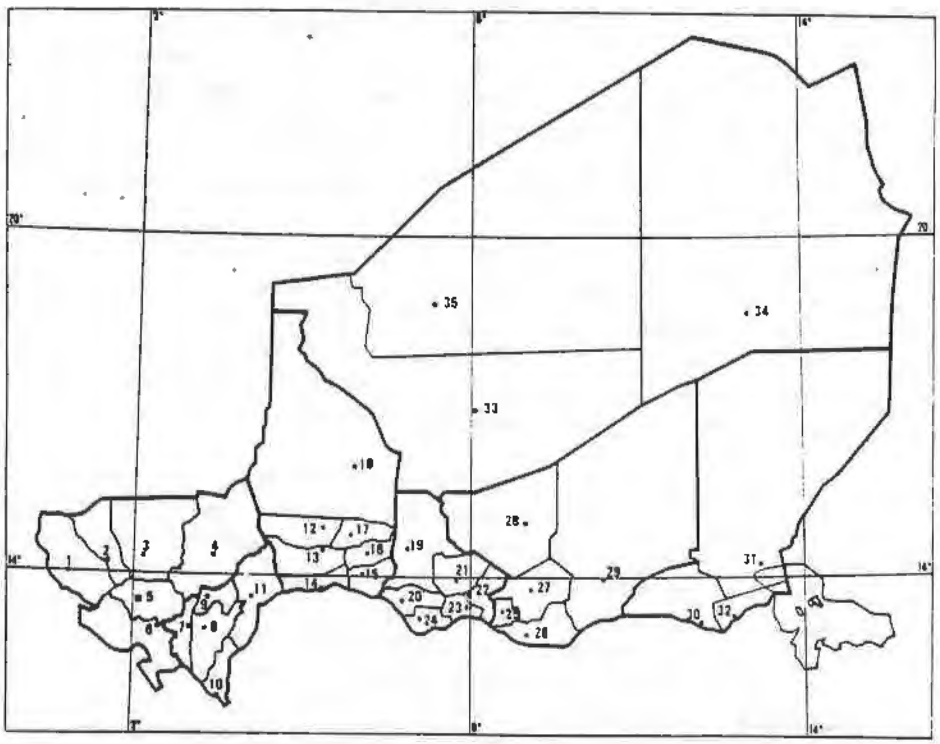
The second element of the Ministry's evaluation consisted of a survey of consumer knowledge, attitudes, and use of the information and products marketed by the productivity projects (Kosecoff and Fink 1982; Patton 1980). The external evaluation enabled the Ministry to design this study which produced data to compare and contrast the results of the projects' marketing programs with the goals enunciated in the projects' strategic planning documents.

Ten villages, of which one was a control, were selected for extensive study in each project zone, according to criteria related to probable degree of project impact. These criteria included proximity to project services, duration of project activity in the area, number of trainees residing in the village, and accessibility. Site selection was made in collaboration with project monitoring and evaluation units in order to avoid later disavowal of survey results. Where possible, villages previously studied by social scientists were included in the sample. The evaluators familiarized themselves with the results of such research. In each village, a stratified random sample of ten household was selected for study. The stratification criteria was participation in project training activities. A maximum of five household benefiting from participation were included in each village sample.

The male and female heads of each of the 300 households were subjected to a battery of questionnaires concerning project goods and services. The

FIGURE THE NIGER REPUBLIC





DEPARTEMENTS	ARRONDISSEMENTS
NIAMEY	1. Téra _ 2. Tillabéri _ 3. Ouallam _ 4. Filingué _ 5. Niamey _ 6. Say _
DOSSO	7. Birni-Ngaouré . 8. Dosso _ 9. Loga . 10. Gaya . 11. Dogondoutchi .
TAHOUA	12. Tahoua . 13. Illéla . 14. Birni-Nkonni _ 15. Madaoua _ 16. Bouza _ 17. Keita _ 18. Tchin-Tabaradene _
MARADI	19. Dakoro _ 20. Guidan Roumji _ 21. Mayahi _ 22. Tessaoua _ 23. Aguié _ 24. Madarounfa _
ZINDER	25. Matamèye . 26. Magaria . 27. Mirria _ 28. Tanout _ 29. Gouré .
DIFFA	30. Maïné-Soroa . 31. Nguigmi _ 32. Diffa _
AGADEZ	33. Agadez _ 34. Bilma _ 35. Arlit _

questionnaires were produced by a committee representing the Ministries of Planning, Agriculture, and Education. Skilled Nigerien social scientists, fluent in the local languages (Djerma-Songhay and Hausa), conducted the inquiries in each project zone. While time consuming, this method provided another guarantee that research results would be accepted by the government units concerned. Questionnaires surveyed household demographics and wealth, probed knowledge about and use of agricultural techniques promoted by the projects, the training experience, subsequent agricultural extension work, literacy, and participation in cooperative activities promoted by the projects.

Intensive agroeconomic research on current agricultural practices was conducted in the ten villages in Zinder department during the 1984 cropping season by graduate students from the University of Niamey. The Maradi and Niamey projects discouraged the Ministry from conducting such research. Since the Zinder project had terminated, agricultural practices could be examined in greater detail there. Students resided continuously in the villages for several months in the villages. During this time, they surveyed farmers' fields, inventoried inputs and outputs, and observed farming techniques. The senior evaluators conducted periodic supervisory visits with the students.

EXTERNAL EVALUATION RESULTS

The external evaluation of project documents reveals a set of explicit and implicit elements of the strategic marketing plans common to the projects.

Marketing Goals

All of the projects sought to diffuse techniques which included some subset of the following:

- o sowing of genetically improved or at least "selected" seeds
- o disinfection with fungicidal seed treatments
- o sowing at densities recommended by research
- o cereal and legume monoculture
- o use of recommended doses of chemical fertilizers
- o use of animal drawn plows to prepare the ground, sow, weed, and harvest
- o increase cash crop acreage
- o pesticide use
- o use of manure to improve basic soil fertility
- o enlistment of young trainees in the extension effort

Strategic Assumptions

The projects developed a number of strategic assumptions to guide their marketing plans. These assumptions, abstracted from project documents, are shown in Table 1.

Table 1

Strategic Marketing Assumptions of Rural Development Projects in Niger

Target Market

- o Substantial numbers of farmers shared a strong, if latent, need for modern agricultural technology and techniques (latent demand).
- o Farmers seek to increase agricultural production per unit area.
- o Farmers are basically full-time agriculturalists.
- o Young farmers are most likely to adopt agricultural innovations.
- o Farmers are ignorant of modern practices.
- o Young farmers will exercise opinion leadership and diffuse agricultural innovations.
- o Farmers are interested in increasing commercial production.
- o The village is a fundamental unit of cooperation and service consumption.
- o Men, who provide the bulk of agricultural labor, will invest in agriculture.

Product/Service Mix

- o An extendable package of improved agricultural techniques exists.
- o An extendable package of improved agricultural technologies exists.
- o Literacy training will enable villagers to take charge of input supply and manage credit.

Pricing/Costs.

- o Input prices are reasonable given increases in yields with application.
- o Costs of applying improved inputs are within the reach of farmers.
- o Projects can manage short and medium term credits for agricultural inputs effectively.

Place/Distribution.

- o Projects can assure input supply in the short run.
- o The state and/or the private sector will assume input supply in the medium term.
- o Producers' cooperatives can manage input supply in the long term.
- o Stand alone training centers will be an effective site for information transfer.

Promotion.

- o Promotional packages of agricultural technologies supplied to young farmer trainees will stimulate demand.
- o Word-of-mouth will spread demand for the input package from trainees to secondary target market groups.
- o Government extension agents can effectively communicate new product/service information to farmers.
- o Short visits by government extension agents to conduct informational meetings in villages are an effective promotional technique.

COMPARATIVE EVALUATION RESULTS: ANALYSIS OF THE MARKETING MIX

Target Market

Surveys conducted in the Niamey Department revealed a set of target market characteristics which contradicted many of the projects' strategic marketing assumptions about their target markets (e.g. Arnould 1986a). They included:

1. an exaggerated sense of inter-village autonomy
2. the weakness of traditional structures of cooperation and mutual aid
3. a deeply anchored tradition of seasonal labor migration
4. the marginalization of women from agriculture
5. the small size of most farms
6. the existence of widespread share-cropping, especially along the Niger River.

The first two characteristics would prove to undermine the Niamey project's promotional strategies based upon contrary assumptions. The remaining points call into question acceptability of product/service offerings, since as discussed below, the benefits of the project's product/service offerings were based upon contrary assumptions about farm ownership, size, and labor force. In fact, a 1983 study showed that only about three percent of farmers met the land and labor resources profile necessary to break even using the products offered (Ithaca International 1983). The fifth point hints directly at the latent cost problems associated with adoption of the product/service package.

Surveys conducted in Zinder as early as 1975 revealed the following characteristics of target market households which suggest that the projects' assumptions about households presented in Table 1 were faulty. First, there is a lack of communication and regular social intercourse between members of different socially recognized age categories. Second, dependent members of the farm household are not authorized to take decisions on farm management. Elders decide; young men execute their decisions. Third, men and women pursue complementary farm level activities and their active collaboration in farming is limited. Fourth, farm heads are more concerned with subsistence production than commercial crop production, thus lessening their concern for improving output. Fifth, for agricultural and agronomic reasons, farm heads are unable to leave their farms during the cropping season for long-term training. Sixth, the custom of non-intervention in the economic affairs of other households is deeply rooted, thus undermining the notion that villagers could become effective promotional agents. Other studies in Zinder showed that most farmers are more interested in increasing farm productivity per unit of labor input rather than per unit area as the project assumed. Further, many farmers are in fact, part-time agriculturalists who farm to earn their subsistence and seek to minimize their agricultural labor time in order to engage in other off-farm cash earning activities. Thus, the projects' concept of target market households was faulty (Dixon and Smith 1983).

Product/Service Mix

Just as the projects'strategic assumptions about the target market proved faulty, so to did many of the components of their strategic marketing mix. Selected results of the extensive 1984 comparative evaluation are therefore presented next. Summary results of the intensive agroeconomic survey of consumer adoption of project goods and services in Zinder Department also conducted in 1984 are found in Table 2. A small percentage of the fields surveyed received the full battery of techniques proposed by the project; similarly only two percent of fields surveyed by the project in Maradi received the complete battery of technical themes.

Table 2

Diffusion of Agricultural Innovations in Zinder, Niger Republic

Themes Applied	Rates of Application					
	Fields	%	Farmers	%	Trainees	%
monoculture	57	* 13				
animal plowing			8	19	7	50
pesticides			6	15	3	16
selected seeds			29	100	11	100
seed dressings			16	40	6	30
seeding density	7	+ 1	11	28	8	44
chemical fertilizer	46	# 7	19	26	11	63

* N=480 + N=660 # N=660

Source: Republique du Niger 1985b.

<u>Monocropping</u>. Table 2 indicates that the diffusion and generalization of monocrop agriculture was a failure in Zinder. Extensive survey results indicated that only a quarter of fields were monocropped in Maradi, fewer in Zinder. In Niamey, most were monocropped, but due to more erratic rainfall in Niamey department cereal monoculture was practiced prior to project intervention there. In Maradi and Zinder, farmers usually practiced monocropping with sorghum and peanuts because of water requirements, and physiological comportment, respectively. Farmers continue to practice it on these crops, while cultivating crop associations of cowpea and millet varieties. Recent research supports farmer practice over project recommendations. It shows cereals and legume monocropping to be both more risky, and no more productive than mixed cropping under Sahelian conditions. In addition, monocropping concentrates pests, makes crops more vulnerable to localized patterns of drought typical of the arid climate, and provides less protection for highly erodible soils than multiple crop associations (Miles 1982).

<u>Animal Traction</u>. Almost all long-term trainees were given animal traction

equipment after the completion of their nine-month training program. In Niamey some 600 sets of animal traction were marketed between 1979 and 1984; the number officially distributed to farmers increased from 311 in 1971 to 3000 in 1982 in Zinder, while some 2500 sets were distributed to farmers in Maradi by the project.

In Maradi, a quarter of farmers in the project zone in our 1984 sample were equipped, but another survey found that overall only eight percent of farmers in Maradi were equipped (RONCO 1983). In Maradi department, in contrast to Zinder, some private channels for equipment purchases had emerged, but there were few sources of spare or replacement parts. From 1979 on, some two-thirds of farmers obtained their equipment from private channels stimulated by commercial agricultural opportunities offered by markets south of the border in Nigeria.

Long-term promotional training sessions, conducted at the thirty odd centers established by the projects, recommended the use of animal traction for plowing, seeding, weeding, and, in the case of peanuts, for harvesting. Survey and other data showed that farmers strategies for the use of their equipment differed from those intended by the projects. The equipped farmers in our sample used their equipment, but only in Maradi did they use them for more than one operation (45 percent of villagers and 81 percent of trainees). For example, many farmers wanted equipment to ease their labor burden rather than to expand farm size. Most used the equipment on individual rather than the larger household fields, and on subsistence crops rather than more liquid cash crops. While a few farmers did employ animal traction in agriculture, almost all used the carts obtained through the projects to transport produce, goods, or adobe bricks.

The expected demonstration effect of equipment distribution was limited outside of Maradi. In Zinder in 1980, only two percent of farmers had equipped themselves with plows, while 12.5 percent had obtained animal drawn carts. In 1984, the survey data indicated that animal traction had spread to only 19 percent of ordinary farmers in the villages studied in Zinder. Virtually all ex-trainees had obtained their equipment from the training center, and no private channels for equipment purchases had emerged there. In 1984, some ten years after introduction, only half of long-term trainees still used the equipment and 15 percent of farmers used equipment, but only one percent of the fields surveyed received mechanized cultivation.

The reasons for the difference between the projects and the farmers' stragies for equipment use reveal technical flaws in the product. Incremental improvements to agricultural productivity from animal traction hardly covered the costs of the equipment loans, nor dry season oxen fodder costs, nor amortization (Ithaca International 1983; Wybo 1983). In addition, the long term effect of shallow plowing on Sahelian soils actually tends to create impermeable hardpans and may increase soil erosion (Reiz 1983). Renting out their carts for transport was farmers' best bet for obtaining cash to cover equipment loans and amortization.

<u>Selected Seeds</u>. The Nigerien national collection of millet and sorghum varieties alone numbers in the hundreds. Not surprisingly, virtually everyone reached through the intensive survey in Zinder uses selected seeds of some kind. Using micro-climatically adapted seeds is a part of traditional African

agriculture practice (Richards 1985). Already in 1976 in Matameye county, Zinder, over half of farmers used improved seeds, and this use was limited primarily by availability. In Maradi, the project loaned over 11,000 farmers improved seed worth about $63,000 in its first phase of which it recovered about 90 percent.

In the Ministry's extensive survey conducted in 1984, some fifty percent of farmers in Niamey used selected seeds, but only about a third did so in Zinder and Maradi. In Zinder about a third of all fields surveyed were sown with improved seed. Thus use of so-called improved seeds declined during the life of the Zinder project.

The projects faced a number of problems associated with seed improvement with which they could not or would not contend. First, a number of the varieties developed by research were rejected by the target market because of consumption related deficiencies (poor taste and processing characteristics). Second as one review indicated, the agronomic performance characteristics of so-called improved varieties when compared with local varieties did not provide a significant incentive for farmers to pay for such seed (RONCO 1983). Third, efficient channels of distribution for improved seed did not emerge in the private sector, nor did the projects produce sustained improvements in public sector channels of improved seed production and multiplication; thus offer sometimes was less than demand. Fourth, drought and insect attacks frequently compromised farmers ability to repay their loans, and projects ability to produce seed. When drought struck, state agencies usually insisted on loan repayment in spite of bad harvests. This could boost effective loan rates from 15 to 20 percent of production to 50 percent or more. Thus farmers became wary of accepting seed loan services from the projects and sometimes adopted a guerilla strategy of passive resistance with regards to loan repayments (cf. Spittler 1979). Thus, in Zinder recovery rates for peanut seed loans averaged around 68 percent. In Niamey short term loan recovery rates remained below 50 percent. Fifth there was a deterioration in the terms of exchange of market prices between improved and ordinary seed which reduced market incentives to use the former.

<u>Chemical Fertilizers</u>. Application of phosphate and nitrogen fertilizers has an exponential effect on cereals yields in nutrient poor Sahelian soils. Product awareness among farmers is high. In Zinder in 1979, three quarters of contact farmers were aware of the utility of chemical fertilizers and almost half percent claimed they applied it to their millet fields. In Maradi, fertilizer use increased 50 percent per year from the mid-seventies until 1981. Part of this increase may be explained by the high rates of national subsidies applied to fertilizer, on the order of 50 to 90 percent in Niger and 90 percent in nearby Nigeria. Further in Maradi, almost one-third of fertilizer passed through newly emergent private channels which handled supplies from Nigeria primarily.

In spite of high product awareness, acceptance of this product innovation was limited among trainees, and even more so amongst ordinary farmers. A fifth of ex-trainees in Niamey and two-thirds of ex-trainees in Maradi and Zinder questioned in our 1984 sample used fertilizer. A study conducted by the Maradi project found that no more than a quarter of farmers used chemical fertilizers and only four percent of fields received fertilization. Furthermore, doses diverged widely from recommended norms. In 1984, chemical fertilizers were used by a minority of farmers in Zinder; only seven percent of 660 of the fields surveyed by the graduate students were fertilized. Nationwide, a 50 percent decline in fertilizer use occurred after Nigerien subsidies were removed.

Informants cited lack knowledge about the product, lack of access, and income effects to explain non-adoption. Most farmers lack the cash to purchase expensive chemical fertilizers (as well as improved seeds and seed dressings) at the start of the rainy season when the households' need is greatest and their cash on hand lowest. The projects, like the government parastatals, had serious trouble granting agricultural credit in time to fund farmer purchases of fertilizer. Even when they did grant credit in a timely manner, serious accounting irregularities within both the parastatal input supply and cooperative organizations turned public opinion against them, and led many ordinary farmers to avoid using these credit, savings, and fertilizer supply facilities. Furthermore, many individuals and cooperatives had difficulty meeting annual fertilizer loan payments of 150 percent, especially when these were combined with equipment loans. Loan delinquency (arrears of 10 percent or more) closed off official channels of distribution of fertilizer and other agricultural inputs to many cooperatives and to both delinquent and responsible farmers within them. Until the mid-1980s projects failed to seek solutions to these channels problems. Finally, the poor quality of fertilizers delivered through private channels may help to explain farmer reticence towards fertilizer application (RONCO 1983).

Failure to apply fertilizer is thus subject to channels effects, risk associated with the product when rainfall is deficient, and income effects. As with the application of other themes, emergent intrahousehold conflict over resource use also explains part of limited product acceptance. Conflict arises between fertilizer use on household fields managed by the household head that provide subsistence production, and its use on individual household members' fields that are used for cash crop production and provide individuals with cash income. Use of fertilizer thus provides a focus for broader tensions over the control of resources within the contemporary peasant household (Meillassoux 1981; Raynaut 1979; Arnould 1989).

Discussion: Technical Themes and the Marketing Environment. In the above sections, strategic errors in both the design and quality of several elements of the product mix promoted by the projects have been discussed (Lewis and Booms 1983). A brief evocation of the political dimension of the marketing environment is presented to illustrate the projects' more general myopia with regards to this environment.

Innovations in agricultural technology represent capital expenditures, changes in cultivation practice, and labor allocation which affect the basis of the household economy. In addition, household production of millet and sorghum lies at the heart of pre-Islamic Nigerien culture and religion (Nicolas 1960, 1975), social organization (Charlick, n.d.; Meillassoux 1981; Raynaut 1973, 1976; Arnould 1982), and individual comportment. Survey responses show that "cultivator", and not farm entrepeneur, is the primary self-construct of the Hausa commoner (talakawa) in Zinder (e.g., Crow and Henderson 1979). Thus while the projects' social marketing efforts sought to effect what were thought to be relatively simple changes in cognition (knowledge) and action; in fact deepseated values associated with farmer self-construct were affected, values being notoriously difficult to change even through social marketing techniques (Kotler 1975).

From the consumers' viewpoint, project interventions are also conditioned by recent history. The projects' goals were consistent with a string of propaganda type messages exhorting increased productivity which reverberate back to the days of compulsory peanut cultivation in the mid colonial period (Collins 1974; Olivier de Sardan 1984; Suret Canale 1977; Spittler 1979). Older farmers associate the renewed impetus on increased agricultural productivity with the old slogans. Older farmers remember that production increases frequently accompanied lowered commodity prices, increased taxes, dishonesty at the buying points, and even collusion between government agents and merchants to extort exaggerated profits from producers (Arnould 1987; Collins 1974), intra-household conflict over the distribution of revenues, and may even result in famine (Salifou 1975; cf. Watts 1983). Farmers thus have legitimate fears that technology adoption leads to increased dependence upon bureaucratic decision-makers and economic processes beyond their ken and control. Thus there is an underlying political and symbolic dimension to messages calling for new technology adoption which struck strong negative chords among target consumers. In some cases, then, the association between increased production and the risk to farmer independence and well-being overwhelmed the positive technical attributes of certain innovations. The general suspicion with which government-initiated proposals (negative information sources) are viewed in rural communities (Spittler 1979) is such that the legacy of negative impacts on rural autonomy and survival overshadows technical considerations. These considerations raised the risks and implicit costs of product/service adoption, and thus contributed to the cost/pricing problems discussed below (Lewis 1976).

Pricing/Costs

From the beginning, the projects confronted cost and raw materials problems with animal traction equipment. Manufacturing equipment, steel bars, even wood for the yokes had to be imported along import channels that were both slow and long. Delays in raw materials delivery, incorrectly filled raw materials orders, and production slow-downs plagued the projects and their customers. A predictable result of these inefficiencies was high production costs. Since the projects were not concerned directly with profitability, a compromise strategy between cost- and demand-based pricing was generally adopted. Equipment was offered on credit at subsidized prices with five year payback periods in order to stimulate demand. But it was never clear how "market share" could be maintained without subsidization given the alternative of cheap hand tools. And even at subsidized prices, equipment costs to consumers averaged around $300, roughly equal to the average annual per capita income!

Some 70 to 90 percent of trainees in the long term programs were given animal traction equipment, the full complement including, plow, seeder, and cart with a pair of oxen, a yoke, and various plowing and weeding attachments. Contact farmer participants in short-term training programs were also encouraged to obtain this equipment from the projects through cooperative channels. But by the end of the period in question, only farmers in the most southerly, higher rainfall zone, could apply the package of themes with any degree of certainty of recovering sunk costs, paying for farm labor, and covering their subsistence requirements.

Estimates of the improvements to household income from application of the product/service package diffused by the projects is complicated by the distortions in production data. In Maradi the project claimed to have influenced farming practice on between 15,000 and 30,000 hectares in 1980-1982. While the project claimed that yields doubled on fields where the themes were properly applied, government production data on average yields registered no apparent effect of project activities. In Maradi, a survey conducted in the mid-seventies indicated that the average annual agricultural revenue per hectare was on the order of $60. The Maradi department project found that application of the full panoply of technical themes produced a net revenue of about $65 per hectare. In Zinder, the project aimed to increase net revenues from about $47 per hectare in 1974 to about $200 by 1982. Survey results found per hectare production values ranging between $64 and $122 in two villages in 1980 and averaging about $170 in one village in 1984. In the latter village, the range was from $103 to $420. While fragmentary, these data raise doubts about the efficacy of the technical package. Even where the package was applied, revenue increases were hardly such as to compensate for rates of inflation in consumer goods prices on the order of 30 percent per year. In any case, revenues did not increase as anticipated from the consumption of the projects' product service offerings.

The projects' strategic marketing assumptions about costs, pricing, and perceived benefits were virtually all in error. The fundamental problem was that average annual rainfall declined about 30 percent from 1969 to 1989 throughout the Sahel, and the average length of the rainy season declined from about 27 to about 22 days. These climatic changes decreased the productive potential of the land base and rendered the input package, which did not provide solutions to the change in rainfall regime, very costly to target farmers. Instead of modifying product/service offerings to respond to these changes in the marketing environment and the resultant evidence of problems with product/service quality, projects continued to promote the same offerings.

Place/Distribution

Designing an effective system of distribution for the products and services promoted by the projects was a perennial problem. The project zones are vast territories the size of small American states with populations living in thousands of dispersed communities which average some 600 persons in size. The projects were ill-equipped to deal with the following general inadequacies in the distribution environment: the lack of access roads to producing areas; the absence of dispersed storage facilities; poor warehouse practice; and communications systems too limited in scope to have much impact on business transactions (Nwokoye 1981). Thus, for example, poor quality rural feeder roads constrained both the product and service delivery programs (e.g., pest control) as well as agricultural product marketing. Unreliable postal and telephone communications between Niger and Nigeria limited the extent to which inputs and potential markets in the latter could be tapped by the Nigerien projects.

To facilitate distribution, the projects generally aimed to use cooperative headquarters as retail depots for inputs. Distrust of private entrepreneurs among government cadre, and a distribution system characterized by many layers of illiterate, undercapitalized, unspecialized marketing intermediaries (Arnould 1986b) led the projects to avoid the use of the ubiquitous marketing middlemen. Each of the projects constructed dozens of cooperative warehouses, but very few of the cooperatives either organized by the projects as in Niamey, or with whom the projects dealt as in Maradi and Zinder ever became truly operational for reasons discussed in the section on promotion (cf. Painter 1986). Among functioning cooperatives, persistent problems with input supply included delays in forwarding stocking requests to project headquarters, warehouse management problems, accounting, and credit provision. Furthermore, for historical reasons common in Less Developed Countries (LDCs), where the private sector became active in input supply, it did not always deliver required inputs to points of sale convenient to most farmers. More lucrative opportunities in consumer goods marketing and raw materials export marketing distracted merchant interest from input marketing (Nwokoye 1981; RONCO 1983).

In the 1984 evaluation, from 13 to 43 percent of informants in the ten villages surveyed in Zinder complained that the lack of inputs at affordable prices was one of the main constraints to their use. Given the inefficiencies of transport and other marketing infrastructure within the marketing environment typical of countries like Niger (Arnould 1985; Nwokoye 1981), travel to obtain inputs from known distribution points was often judged too costly by the target market. Thus inconvenient locations of points of purchase remained a disincentive for many potential consumers of project product/service offerings.

Promotion

Surveys of the target market populations indicated that desire for improved technology was high as indicated, for example, by positive responses of 84 percent of men and 26 percent of women in a three village study in Zinder conducted in 1977 (Crow and Henderson 1979). In a 1981 survey from half to four-fifths of farmers interviewed in Maradi and Zinder wanted to be informed about new practices by trainees (Republique du Niger 1981).

Under the reasonable assumption that lack of information was a major constraint to the adoption of the package of goods and services proposed by the projects, informational campaigns termed "training" by the projects was directed at two groups. Included was long term training for the primary target market, young farmer couples, and short term training for the secondary target market, older, contact farmers. According to service marketing theory, such programs should have aimed : a) to increase consumer involvement and reduce the perceived risk of innovations; b) paid strict attention to increasing consumers awareness of product/service benefits; and c) stressed source credibility and location (Gotlieb 1984; Langeard, et al. 1981). However, the projects never bothered much with consumer involvement with service consumption nor source credibility. Neither did they use the training centers to further investigate the kinds of techniques and technologies desired, or the information needs of the target market.

Long-term Training. Nine-month training sessions for young farmer couples was offered at special rural training centers where groups of 20 participants received practical demonstrations in the use of animal traction equipment, fertilizers application, improved seed, and new cultural practices. In addition, literacy training was provided and in Maradi, themes such as civic responsibility were added to the program. Training centers were scattered throughout the project areas to facilitate consumer access. In all, thirty young farmer training centers were established and some 5100 trainees (less than one percent of the agriculturally active population) were trained for one agricultural season each in using the new technologies and applying the new techniques.

In theory, trainees were village representatives. The Maradi project developed the most specific target market definition for long term trainees including the following criteria: a) farm head; b) control of six hectares of land; c) authority over three adult labor equivalents. Other projects were less specific. The criteria for inclusion in the long term training were often violated as villagers and field staffs scrambled to fill recruitment quotas. In the early years, suspicious and disdainful villagers sometimes sent socially marginal individuals. In later years as appreciation of the resale value of the farm implements grew relatives of village elites were disproportionately sent (Republique du Niger 1981).

Upon returning to their villages, the trainees were to act as opinion leaders and role models for the diffusion of techniques to the mass of ordinary farmers. To help them do this, trainees were equipped with animal traction equipment with which to demonstrate the improved practices on their farms and were supposed to receive supervisory visits from extension personnel.

Short-term training. Short-term training usually consisted of one to five day sessions offered to contact farmers at the young farmer trainee centers, or at canton and county (arrondissement) project offices. These sessions varied little in either form or content from year to year. The standard litany of technical themes, cooperative marketing procedures, and the year's credit terms were the usual focus of these sessions in spite of the significant changes in the marketing environment (e.g., drought, changes in market prices). Nevertheless, significant numbers of people were reached by these informational campaigns. In Niamey 2614 cooperative officers were trained in 1982 and provided refresher courses in subsequent years. In Maradi in 1982/83 alone 2528 cooperative officers, 490 cooperative marketing officers and 618 cooperative administrative counselors were offered refresher courses. In Zinder, over 5000 contact farmers were trained in agricultural themes and many received refresher courses every year for five or more years. Over 6000 cooperative delegates and 700 cooperative officers received training in cooperative affairs.

Promotional Staff. There were many problems with the promotional staff fielded by the projects. In Niamey, for example, of the first group of extension agents trained by the project to market the products and services provided all were subsequently fired for incompetence. Of a further 100 agents trained in 1983, only 50 percent applied the technical themes promoted by the project correctly. In Maradi, the project began by trying to train some 900 extension workers to conduct short-term training. The project claimed to have reached 76 percent of the households in the project zone in 1981 through its promotional agents. However, the project found this method unwieldy given the costs of maintaining the staff of 900 agents. It then shifted the burden of promotion to its long-term trainees.

Persistant personnel problems indicate not only that the marketing staff's abilities were limited, but that there were problems with the product/service offering itself. Motivation, logistics, and supervision difficulties persisted amongst the salesforce since the projects conducted very little internal marketing to build knowledge, morale, and conviction, nor did they offer the marketing staff incentives linked to performance. Of course, it must be added that the projects were sometimes unable to do so because of rules applied by the government to cadre temporarily seconded to the projects.

<u>Results of Long-term Training</u>. Survey results of the impact of the promotional campaigns varied. An evaluation conducted in 1982 found that one third of farmers in Maradi were convinced to apply the themes by long-term trainees although less than a fifth were so motivated in Zinder. Further, two-thirds of the ex-trainees claimed to provide counsel to their peers either through field visits to demonstration sites or information exchange. Results of our comparative evaluation survey in 1984 confirmed that farmers believed that the training was useful, wanted their male children to benefit, expressed their willingness to contribute financially to training if needed, desired literacy, and sometimes admitted trainees had improved agricultural output relative to their own. But farmers were frequently unable to identify specific positive benefits of the training. The highest rate of villager recognition that ex-trainee efforts had resulted in selective application of the proposed techniques emerged in Maradi where some what less than half (44 percent) of the farmers questioned said they were convinced to apply new techniques and technologies by ex-trainees. However, other information sources were often cited by farmers. The comparative survey also found that the intention to help other farmers was high among long-term ex-trainees (varying from 82 to 100 percent), and that half of ex-trainees in Zinder and all of the ex-trainees in Maradi had undertaken to transmit promotional messages. While half of them reported they had no trouble in transmitting messages, a third claimed other farmers were reticent to attend to their messages. In addition, ex-trainees also complained that other farmers were uncooperative and would not attend extension sessions.

As for the long-term ex-trainees themselves, a 1983 survey in Maradi noted a substantial loss of recall knowledge of technical themes. Supervisory missions, when undertaken at all, usually took the form of brief flying visits by extension staff. Over the long haul, ex-trainees often gave up the new practices and about a quarter sold some or all of their equipment. Nonetheless, some ex-trainees used their experience to launch careers outside of agriculture.

<u>Impact of Short-term Training</u>. The results of literacy training and short-term cooperative training on farmer ability to manage input and supply and credit were disappointing. In Zinder, literacy training was successful for about 12 percent (or 16752 people) of enrollers between 1971 and 1982. A 1980 survey of long-term trainees revealed that a bit less than half of the men could read and calculate (40 percent and 46 percent, respectively) while only one third of women could still read some. In Maradi, some 1450 (38 percent of enrollers) persons were trained to functional literacy between 1977 and 1983.

Even such limited success in functional literacy as was achieved did not translate into effective management of credit and input supply. The projects, especially those staffed by government cadre, refused for many years to transfer any management responsibility to the cooperatives. Not until 1983 did they do so. In all regions, the disorder inherited by the farmers in their cooperatives' accounts far surpassed their ability to cope, given the level of training they had received. In Niamey, the lack of cooperative spirit for cooperative tasks, of confidence in officers, and of a sense of responsibility for common property noted in the discussion of the target market above, resulted in serious cooperative management difficulties in spite of a heroic effort in 1982 to develop local language accounting forms. Farmers in Maradi were uninterested in the cooperative marketing channels given more lucrative parallel marketing opportunities across the southern border in Nigeria.

<u>Problems with Promotional Strategy</u>. While project evaluations of their sales force were generally favorable, an evaluation of the promotional campaign conducted in 1982 pointed to a number of problems in the promotional message and methods. These problems are summarized in Table 3.

Problems of the kind summarized in Table 3 are inimical to proper delivery of marketing messages. They constitute a violation of what Grove and Fisk (1983) call the "dramaturgical fabric" of the personal selling aspects critical to social and services marketing. Farmers could not fail to perceive the contradictions between message and media entailed in the flying visits of unmotivated extension staff to deliver hackneyed, out-of-date promotional messages of questionable experiential veracity. Nor could they fail to note the lapse in "dramaturgical discipline" occasioned by the limited product/service knowledge of trainers, or the failure of cadre to appear for scheduled training sessions. Finally, the failure of cadre to turn management responsibilities over to farmers or to provide proper accounting of cooperative accounts led to a breakdown of "dramaturgical loyalty", that is, a violation of the representation of their role as service providers presented by the projects.

None of the strategic assumptions about promotion proved wholly correct. Demand did not spread on the strength of trainee promotional efforts where technical results compromised message content. Word-of-mouth was ineffective, especially in Niamey where negative inter-household information management characterized the target market. Extension agents were not perceived to be credible information sources, and in the farmers' eyes often lacked technical competence and incentive. Short informational presentations were unconvincing to farmers. And finally, selective, individual based training programs accorded ill with the traditional group-based system of pedagogy.

The low rates of adoption of new technologies and techniques relative to the amounts of money expended by the projects on promotional activities, may also be linked to a culturally inappropriate model of the diffusion of technologies and the nature of the farm household (Dixon and Smith 1983; Meillassoux 1981). First, commonly recognized innovator characteristics are negatively related to farm resource manager characteristics in Niger (Gatignon and Robertson 1985; Arnould 1989). Second, young trainees while more cosmopolitan in outlook, less risk averse, and sometimes better educated than their parents, nonetheless do not control the resources which would have allowed them to experiment with innovative product/service offerings. Further, young men and women are highly

Table 3

Problems with the Development Projects' Promotional Strategies

Problems noted with the Niamey project's promotional efforts included

1. the limited duration of training program vis a vis the number of themes;
2. outdated messages, either farmers were already doing it or research or circumstances in the marketing environment had rendered the message obsolete;
3. communication techniques which were basically authoritative messages delivered by supposed experts were ill-adapted to an audience which did not share this perception of the message givers and who preferred a more interactive communication style;
4. lack of tools to deliver promotional messages;
5. failure of long-term trainees to hold promotional sessions with other village farmers;
6. problems of cooperation between project staff and government cadre who were called upon to participate in the promotional campaign;
7. poor timing of the delivery of promotional messages (i.e, training) and the opportunities for application of the messages provided by the agricultural calendar;

In Zinder, problems noted with the project's promotional efforts included

1. lack of interest of short term trainees due to lack of results of application of technical themes;
2. routinization of messages delivered, i.e., boredom;
3. irregularity of trainers and extension workers' work habits which impacted negatively on target market perception of messages;
4. confusion about the roles of the contact farmers who were often perceived by other farmers as agents of the state with privileged access to credit and other resources, rather than positive information sources;
5. lack of technical knowledge among message givers; and
6. poor pedagogy, for much the same reasons as noted in Maradi.

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dependent upon normatively conservative, extended family networks for economic security, and self-help (Arnould 1984a; Wallendorf and Arnould 1988). Third, farmers were usually taught, and therefore, perceived the series of themes as a single product, rather than a set of related products thereby increasing perceied complexity of the product/service offerings. Consumer ability to develop new knowledge of the product/service offerings, i.e., trialability, was constrained by the single season long-term training period and the low level of post training follow-up and extension work (Andreasen 1983). Finally, a number of the proposed technological innovations proved incompatible with farmers' experience. Consumers, especially those subjected to the short-term promotional campaigns, were not so much educated about the new technologies, but simply exhorted to use them with promises of improved productivity. Linkage of demonstrably risky products (chemical fertilizers) with practices of demonstrated disutility (high density monocropping) and those of unknown utility (plows, pesticides), in a context of low product category knowledge, low personal influence of supposed opinion leaders, e.g., the government agents and ex-trainees, and negative evaluation of information sources (government agents) also triggered instances of non-adoption (cf. Arnould 1989).

DISCUSSION

The effectiveness of the productivity projects' social marketing efforts was compromised by several factors. Foremost was the absence of an effective planning process. That is, the projects failed to collect information from significant parts of the marketing environment on a continuous basis and reformulate short- and long-term plans on the basis of this information. Appropriate marketing research and intelligence gathering methods such as Farming Systems Research/ Extension (FSR/E) were not employed (Jones and Wallace 1986; Brush 1986). As a consequence, the projects attended overly to the technical goals of the funding sources and neglected the evolving needs of channels members and the target market conditioned by climatic change and political variables. These needs were sometimes expressed by target farmers to field staff and researchers but were often ignored. For example, "low tech" methods and materials for water harvesting to improve water availability for plants, to control soil erosion, and to reforest denuded fields with multi-purpose windbreaks could have been provided through in-field training and extension services. They would have met farmer demand for more reliable agricultural yields and improved access to water and firewood (Reiz 1983). Similarly short cycle, drought resistant crop varieties with both forage and food potential and reprocessed natural phosphate fertilizers, available from local sources, are products for which there was a potential demand which the projects ignored.

The projects also fell into a number of snares confronted by many service firms. They attempted to deliver too many services to too many sites. They tried to do this although few crucial elements of the marketing environment were conducive to success and their product/service offerings had not been adequately tested or test-marketed. Further, they violated a number of the principles of success for new service development that emerge from comparative private sector examples. First, they did not clearly define the product/service offerings and position them as something different from government provided services which suffered from negative consumer perceptions. Second, they failed to identify a core market segment, its needs, and evaluation of the costs and benefits attendant upon acceptance of the product service offering. Third, they were unable to create a specialized, replicable, cost-effective delivery system that was responsive to evolving client needs. Fourth, they never built a clear, positive service image among the target market. Fifth, they did not solve the problems of perceived risk, location, and consumer involvement with the product/service offerings. Sixth, the lack of consistency and singularity of product/ service offerings, simplicity of delivery, and confusion of image muddled the communication process (Langeard and Eiglier 1983). Seventh, they violated fundamental transactional norms of service delivery

(Grove and Fisk 1983). Finally, and perhaps most fundamentally, the projects understanding of target market household structure and dynamics was faulty (Arnould 1984a; Deere 1986). In short, the marketing concept is conspicuous by its absence in project activities.

CONCLUSION

The failure of project product/service offerings to produce sustained increases in productivity and rural incomes in Niger was the result of poor marketing strategy. Evident incompatibilities between the strategic planning and implicit marketing techniques employed by the projects, and the consumption goals, consumption patterns, and values of the product/service recipients endured throughout the era of integrated rural development projects. The product/service offerings of such massive social marketing campaigns can be better designed to avoid common pitfalls by application of a strategic marketing perspective. Ten years of muddling and even suffering and hardship, not to mention useless expenditures of millions of foreign aid dollars, could have been avoided with the application of a strategic approach to the social marketing of agricultural innovations in Niger.

Evaluation of the regional development projects led the government of Niger to to reformulate its social marketing strategy in agriculture. The revised strategy provides lessons for policy makers in other African environments (Republique du Niger 1983). In the latter part of the 1980s some projects (Niamey, in particular) began to focus their interventions upon communities which voluntarily self-selected for collaboration with them. Identification of key participants and key needs of participating villagers through a kind of "focus group" diagnostic methodology preceded product/service design and delivery. Projects tried to tailor some product/service offerings to the evolving needs of their target markets, including the water management techniques mentioned above for example. An attempt was also made to add cost containment to the attributes of the product/service offerings. Promotional activities were focused on the volunteer communities. Information was delivered in a more intensive and convenient manner by a smaller, better trained and motivated staff who often resided in the village. This method improved trialability, decreased perceived complexity, and facilitated consumer involvement with service delivery. The Niamey project addressed farmer credit problems directly by underwritting contractual relations between a specialized cooperative development firm and individual villages. While the projects were ultimately unable to overcome structural obstacles to product/service delivery within the Nigerien marketing environment such as those related to transportation and a porous customs frontier with Nigeria, and to deliver product/services which met the needs of every village, some limited local successes were registered.

Notes

1. Social marketing is defined as follows:

> Social marketing is the design, implementation, and control of programs seeking to increase the acceptability of a social idea or practice in a target group(s). It utilizes concepts of market segmentation, consumer research, idea configuration, communication, facilitation, incentives, and exchange theory to maximize target group response (Kotler 1975: 283).

2. A complete list of documents consulted is contained in the evaluation reports (Republique du Niger 1985a, 1985b). These two reports as well as some of the supporting documents are in the collection of the Office of Arid Lands Studies' Arid Lands Documentation Center, 845 N. Park Avenue, Tucson, Arizona 85719.

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THE EUROPEAN COMMUNITY AND 1992: AN ANALYSIS OF THE IMPACT OF PUBLIC REGULATION ON MARKETING

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ABSTRACT

In 1985 the European Commission published a "White Paper," which has as its purpose to create an European barrier-free market for goods, services, capital and people by 1992. This "White Paper" includes some 300 directives which address three categories of non-tariff barriers.

A systems approach distinguishing three essential marketing system processes is utilized to provide a framework for the examination of the impact of the 1992 program of the European Community on marketing. The marketing system processes link marketing with the environment. This enables the examination of direct and indirect effects of changes in a regulatory environment on marketing. In the context of General Systems Theory indirect effects are further subdivided into first, second and multiple level impacts. Even though the focus in this paper is on the short term effects of Europe 92 a framework is provided for the full and comprehensive examination of this major piece of European public regulation.

INTRODUCTION

As Carman and Harris state "in a market-oriented economy, legal rights are essential for the creation and functioning of markets. The definition of these rights sometimes determine whether exchange will even occur; more often they affect the terms of exchange." (Harris and Carman, 1984, p. 43) If the impact of public regulation on the marketing system is important then a framework describing this interaction is needed. This paper represents an effort to develop such a framework based on General Systems Theory. The application of General Systems Theory to macromarketing has been explained by Dixon (1984).

One major change in public regulation is the 1992 program of the European Community further referred to as "Europe 92". In 1985 the European Commission published a "White Paper," which proposed an European barrier-free market for goods, services, capital and people by 1992. This "White Paper" includes some 300 directives which address three categories of non-tariff barriers, namely;

* physical barriers, such as e.g. custom controls

* technical barriers, such as e.g. product standards

* fiscal barriers, such as indirect taxation e.g Value Added Tax (VAT).

These directives are in various stages of development and acceptance and can be divided into three groups; directives that have been accepted by the council of ministers (I), directives that are proposals not yet accepted by the council of ministers (II), and directives that are no more than ideas for proposals still to be submitted (III). Europe 92 has been referred to as "probably the biggest story of the remainder of the century" (R. Smith, CEO Bell Atlantic) and "one of the biggest peace time revolutions in the history of Europe" (Willy de Clercq, Commissioner of the European Community). It is therefore appropriate to analyze Europe 92 as a major effort in public regulation and how it will affect marketing in the European Community.

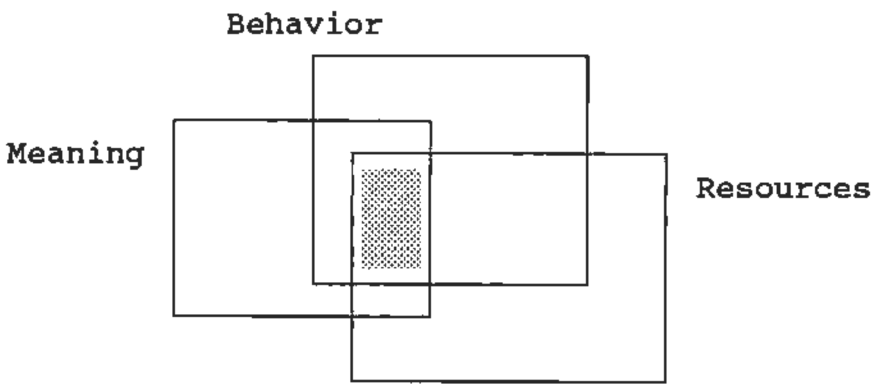
Although, within the context of General Systems Theory the interaction between public regulation and the marketing system is a two-way process, only the impact of public regulation on the marketing system is examined in this study. The model provided in this paper, thus, focuses exclusively on the impact of public regulation on the marketing system and not vice versa. Europe 92 is analyzed in the context of this model.

PUBLIC REGULATION AND MARKETING: A MODEL FOR ANALYSIS

Interacting Environments

In the environment, three interacting systems can be identified; 1. The System of Behavior, 2. The System of Resources, and 3. The System of Meaning. Each of these systems consists of an hierarchy of subsystems, systems, and suprasystems. The intersection of these three types of systems indicates potentially observable behavior, that is, behavior which is consistent with the available resources and with the culture in which the behavior takes place. This intersection of the different types of systems is depicted in Figure 1. It is important to note that the intersection of these systems is not static, one or more of the systems can "move" over time or space, thus influencing the location and shape of the intersection.

FIGURE 1
THE INTERSECTION OF DIFFERENT SYSTEMS



If one of the systems "moves," the initial change in the size and shape of the intersection is only a direct effect. Since the three systems interact, the other systems may react to the change, giving rise to indirect effects. Therefore, in relating these three systems not only the intersection but also the interaction among the three types of system hierarchies should be considered. Further, interactions do not only take place between system hierarchies but also between subsystems within any particular hierarchy. An example of a "move" creating direct and indirect effects is Europe 92.

Europe 92 is a change in public regulation in the European Community. Public regulation is part of the system of meaning hierarchy and a change in public regulation as represented by Europe 92 can thus be described by a "move" of this system. The initial shift leads to a change in the shape and size of the intersection of the three systems hierarchies. This kind of effect on behavior is referred to as a "direct" effect. Since marketing is a subsystem of the economic system, which in turn fits into the hierarchy of behavioral systems, a change in public regulation such as Europe 92 has direct effects. The marketing system not only interacts with other behavioral systems (e.g. political and educational systems) but, as shown in figure 1, also with the system of meaning and the system of resources.

The reaction of the two systems (behavior and resources) to the change in the system of meaning will lead to a further change in the shape and size of the intersection, further changing the behavior consistent with the available resources and the system of meaning. These changes are referred to as "indirect" effects of Europe 92.

The Impact of the Environment on Market Exchange

Dixon and Tuninga (1987) have shown how market exchanges consist of three essential processes, namely, communication or transfer of information, transfer of property rights and transfer of matter-energy. These processes link marketing with the three environmental fields; the System of Behavior, the System of Meaning, and the System of Resources.

Behavioral systems clearly have an effect on all three components of marketing; communication, transfer of property rights, and transfer of matter-energy. For example, if many people commute by car then radio advertising will be more important. If there is strict enforcement of contract law then the development of "black" markets for certain goods and services will be less likely. The shift of consumption towards services means that the marketing system has to perform less work in terms of shipping and storing.

Similarly, the system of meaning has inputs to all three components of the marketing system. First, social attitudes have an effect on the contents of advertising. Second, these attitudes have an effect on the nature of the transaction. For example, many countries have laws controlling the sale of handguns. Third, the change to more fuel-efficient and less polluting cars has resulted in a change in the nature of the matter-energy transferred.

Finally, resources also provide important inputs to all three components of marketing. Communication equipment availability influences marketing communications. The rapid diffusion of microcomputers has led to new laws regarding copyright and ownership of software. Geography influences physical distribution.

The Impact of Public Regulation on Market Exchange

Public regulation is part of the system of meaning. It is clear from the above discussion that public regulation has direct and indirect effects on the three components of market exchange. Although interaction between public regulation and other systems and other levels within its own system hierarchy is a two-way process this paper focuses on the impact of public regulation on the marketing system directly and indirectly through other systems or system levels. The solid arrows in Figure 2 refer to the direction of the relationships examined in this paper. The other arrows refer to relations not examined here.

In terms of communication, for example, public regulation defines which television commercials are acceptable to be viewed by the public at large. Also, the legal system as part of the system of meaning defines contract law and thus provides the environment in which the transfer of property rights can take place. A government agency such as the American Food and Drug Administration, for example, determines what matter-energy can be legally transferred. Deregulation in the transport industry has an impact on how the transfer of matter-energy is being accomplished.

These examples describe some of the direct effects of public regulation on marketing. It is clear that public regulation can also affect the marketing system through its impact on other systems or system levels. For example, the regulation of economic behavior through anti-trust laws has an impact on the number of marketing exchanges that are completed in society.

In the next section Figure 2 is applied to Europe 92.

FIGURE 2:
A MODEL OF THE IMPACT OF PUBLIC REGULATION ON MARKETING

SYSTEM OF BEHAVIOR

SYSTEM OF MEANING

PUBLIC REGULATIONS

MARKET EXCHANGES:

A. TRANSFER OF INFORMATION

B. TRANSFER OF PROPERTY RIGHTS

C. TRANSFER OF MATTER-ENERGY

SYSTEM OF RESOURCES

PUBLIC REGULATION AND MARKETING IN THE EUROPEAN COMMUNITY

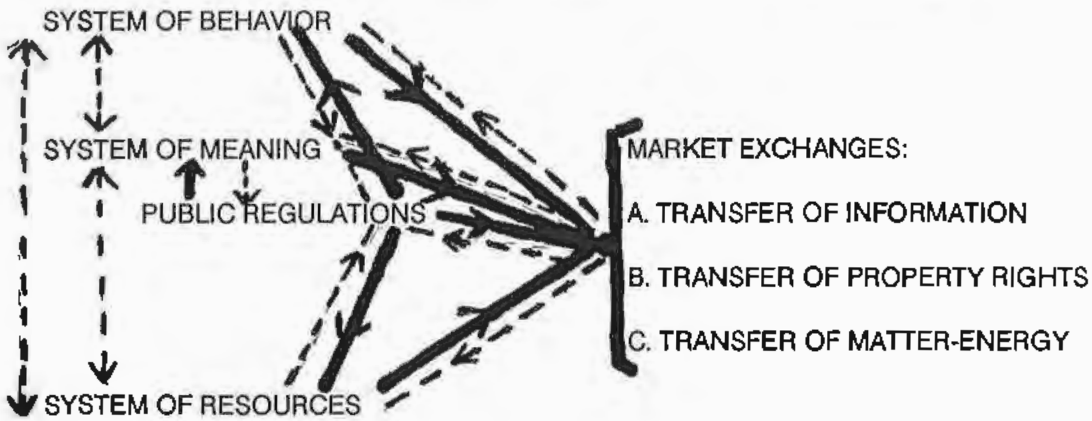
In Table 1 the overview of the most important pieces of Europe 92 relates the environment to specific marketing system processes. Table 1 lists the directives of Europe 92 by number (as listed in the White Paper), type and the three marketing system processes that they are most closely related to.

TABLE 1:
THE IMPACT OF PUBLIC REGULATION ON MARKETING
THE DIRECTIVES OF EUROPE 92

	Type of Directive	Directive Number
Marketing		
a. Communication	I	37,60,69
	II	42,47,52,54,59,90,91,96,97
	III	2,62
b. Transfer of Property Rights	I	73
	II	98,99,100,101,102
	III	85,86,87
c. Transfer of Matter-Energy	I II III	All other directives not explicitly mentioned under communication and the transfer of property rights.

Note: Some directives can be listed for various marketing system processes. This table lists each directive only once according to its primary aim to regulate some aspect of marketing.

Figure 2:
A Model of the Impact of Public Regulation on Marketing



PUBLIC REGULATION AND MARKETING IN THE EUROPEAN COMMUNITY

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c. Transfer of Matter-Energy	I II III	All other directives not explicitly mentioned under communication and the transfer of property rights.

Note: Some directives can be listed for various marketing system processes. This table lists each directive only once according to its primary aim to regulate some aspect of marketing.

The type relates to the level of development and acceptance of the directives; type I directives are directives that have been accepted by the council of ministers, type II directives are proposals not yet accepted by the council of ministers, and type III directives are no more than ideas for proposals still to be submitted to the council of ministers.

The relations shown in Table 1 involve both direct and indirect effects of public regulation on the various aspects of the marketing system of the European Community. Next, the direct and indirect effects on the various marketing system processes are examined separately and in light of the model depicted in Figure 2 above.

Direct Effects of Europe 92

a. Transfer of Information - Communication

Directive II-90 deals with radio and television programming. Part of this directive prescribes the amount and type of television and radio advertising. This directive calls for an increase of cross-border advertising to 15% of the program day. This amount can be even greater for those member states that already exceed this limit. (Broadcasting, June 23, 1986, p. 69) This will increase the accessibility of television for communication with European customers. In addition, if more resources can be committed to television advertising, changes in the way companies communicate with customers will result i.e. a possible shift in the allocation of resources from print to broadcasting. This directive also specifies the type of information that will be allowed on the air. For example, advertising for tobacco products will be prohibited. Also advertising regarding alcoholic beverages should avoid encouraging minors to drink. In addition to specific limitations on advertising of certain products, minors are protected from certain kinds of advertising. All advertising will be checked for compliance with this regulation before it is put on the air.

Another directive which also involves the means of communication is I-69. This directive proposes a European standard for cellular phones. This adds another dimension to the way people will be able to communicate in the European Community.

Communication is also affected by Europe 92 through regulations on information provided to consumers on the labels and/or packaging of products; this involves pricing, contents (both type and safety issues). For example, directive II-60 introduces regulation regarding the pricing and ease of comparisons at the point of sale with respect to basic consumption goods. This will certainly have a direct impact on the awareness of consumers regarding information on products in the most general sense.

b. Transfer of Property Rights

The community wide protection of brands and trademarks is provided for by directives II-98, II-100, II-101 and II-102. They describe the contractual environment in which the transfer of property rights can take place. In addition to the establishment of European regulations, national brand and trademark regulations will still coexist. Directive II-99 suggests the harmonization of these national regulations. Directives I-73, III-86, and III-87 deal with the protection of property right of semi-conductors, biotechnical inventions and computer software. These proposed and implemented changes regarding property rights will clearly have an impact on the transfer of property rights.

c. Transfer of Matter-Energy

This is the area which gets the largest amount of attention in the White Paper of the European Commission. This group deals with two question namely; what is being transferred and how matter-energy is transferred.

The first question is addressed by the largest number of directives on any single topic in Europe 92 and involves the harmonization of numerous product and service standards, the liberalization of capital movements, and freedom of movement of people.

An example of this are regulations regarding pollution of the environment. These directives specify standards that must be adhered to in the production and utilization of certain goods and services. Directives II-29 and II-34 specify catalytic converters as a requirement for cars by 1992. Directive II-34 provides for additional flexibility in terms of pollution standards for cars with small engines. These European standards clearly have an impact on the type and kind of matter-energy that is being transferred. (M. de Rijk, Intermediair, March 10, 1989, pp. 5-7)

The second question is addressed by at least 21 directives that directly refer to the transportation sector. These directives have an impact on all types of transportation i.e. road, water, air and railroads. Issues addressed range from excise duties on fuels to border-crossing documentation and safety standards for the various modes of transportation.

Indirect Effects of Europe 92

The indirect effects of Europe 92 can be examined at three levels; 1. impacts within a system or system's hierarchy, 2. impacts of one system on another, and 3. impacts of the environment on all systems and system levels. The examination of the impact of Europe 92 within one system or system's hierarchy is further referred to as a "first level impact." The examination of the impact of one system on another is described as a "second level impact." These two levels of examination represent mostly short term implications. The third level of examination provides a long term perspective. In the long run changes in behavior and other systems will lead to changes in all aspects of the environment. This interactive process of changes will result in additional changes in the European marketing system. The examination of these long term effects is not part of this paper.

The impact of a change in economic behavior on marketing behavior represents a first level impact. Changes in economic behavior as a result of Europe 92 are expected to lead to a restructuring of virtually every industry in the European Community. This is exemplified by the increased cross-border merger and acquisition activities of European businesses. For example, on November 16, 1988 Britain's General Electric Co. and West Germany's Siemens made a joint bid to takeover Plessey Co. If the bid is approved this would mean a first step in the restructuring of the European defense and telecommunications industry (Maremont, November 28, 1988, p. 51). Another example is that Riboud, the CEO of BSN, a major French food conglomerate, points out that his company must grow quickly to survive the fast and massive restructuring of the European food industry (Comes F, January 9, 1989, p. 55). Another industry widely expected to be affected by Europe 92 is the banking industry. Experts predict that the number of European banks could be reduced by as much as 50% as a result of mergers and a banking industry shakeout (Forman, April 4, 1989, p. 1).

The result of the increased merger and acquisition activity is a change in the number of market exchanges as well as a change in the pattern of market exchanges. The number of market exchanges is affected in two important ways: 1. the merging of companies internalizes market exchanges and thus reduces their number 2. increased competition will lead to price reductions and therefore to an increase in overall purchasing power of European consumers. This could result in an increase in the number of possible market exchanges. Which of the two effects is larger remains to be seen. Both effects, however, are bound to change the pattern of market exchanges and thus the structure of the European marketing system.

The impact of directive II-90 regarding radio and television advertising on communication has been considered above. Changes in advertising using these two media will have an impact on the composition and utilization of other means of communication. This type of effect is a first level impact.

There are no first level impacts directly related to marketing when examining the system of resources because first level impacts refer to the impact of Europe 92 within a specific system or system's hierarchy. The marketing system is a behavioral system and although not part of the system hierarchy of resources it interacts with this hierarchy. It should be clear however that other first level impacts within the system of resources do exist. For example changes in standards and/or taxes on the utilization of resources will change the composition of resources used in society. An example is Directive II-126 which attempts to harmonize taxes on various fossil fuels. In various countries of the European Community, depending on its relative price effects, this may lead to a change in the volume of fossil fuels used as well as to a change in usage of alternative energy sources. That this has marketing consequences is clear, but the impact on the marketing system will be considered as a second level impact in this paper.

Similarly there are no first level impacts for the system of meaning directly related to the marketing system. However, the momentum that Europe 92 has created particularly with younger generations will have some important consequences for additions and the full implementation of Europe 92. Since public regulation is part of the system of meaning such changes in attitudes on Europe 92 are considered a first level impact.

Below second level impacts of Europe 92 are examined.

a. Transfer of Information

The changing pattern of competition as a result of mergers and acquisitions and a change in buying power of consumers affects not only the marketing system in terms of pattern and number of market exchanges but will also have implications for the transfer of information (communication).

Transfer of information can be changed in two ways; the amount of communication and the type of communication. An example of a change in the amount of communication as a result of a change in economic behavior is the following; increased competition for Fiat in its Italian homemarket, where it has a 61% marketshare, will force the company to allocate more resources to communication through various promotional activities.

Similarly a change in resources available because a change in the infrastructure of the European community will change the type of communication utilized. The diffusion of car phones, for example, will lead to a change in the way sales representatives will communicate with their customers.

The impact on communications as a result of changes in the system of meaning, among other things, will change the content of advertising. A change in attitudes from nationalistic feelings towards more European feelings will change the messages communicated to European consumers.

As shown above Europe 92 has direct effects as well as first and second level indirect effects on communication.

b. Transfer of Property Rights

Like the other marketing system processes the transfer of property rights can be affected through all three systems hierarchies. The next two paragraphs describe examples of the impact of the systems of behavior and resources hierarchies. These effects are referred to as second level impacts and are of an indirect nature.

If there will be strict control and enforcement of the European brand law the development of illegal practices such as the sales of counterfeit brands will be reduced.

The European-wide distribution of computer hardware resulted in a similar increase in the distribution of computer software. This change in the infrastructure of computer systems on a European scale made the protection of property rights to computer software sellers more important. This importance is recognized through a separate directive (III-87) on the protection of computer programs.

c. Transfer of Matter - Energy

Increased competition is expected to change the structure of almost all industries, as was suggested above, and this will affect the transfer of matter-energy in two important ways; what is going to be transferred and how matter-energy is transferred. These two question can be addressed in terms of the impact of all three systems on the transfer of matter energy.

The restructuring of industries will forever change the flow of good and services in the European Community. A restructuring of the distribution sector as a result of pressures internal and external to the industry is part of the restructuring of the overall European economy. It is clear that a change in the behavior system will change the transfer of matter-energy and therefore the marketing system. In addition a change in the structure of various industries as a result of Europe 92 will also change the availability of good and services. The expectation is that the assortment of goods and services to European consumers will increase. Thus, not only the manner of transfer but also the type of goods and services transferred has changed and will continue to do so.

Some criticism of Europe 92 has originated with respect to the natural environment or the system of resources. Environmental pressure groups particularly are worried that not enough of the regulation of Europe 92 is directed toward the conservation of the natural environment. Furthermore these groups are worried that the protection of the environment will be lowered to the lowest common denominator among the member states. Certainly any change in the conservation of resources will lead to a change in resources utilized in society and thus in the composition of matter-energy transferred.

The same change in attitudes of European consumers as was suggested earlier will increase the acceptance of European products/services over domestic products/services. Again, this will change the kind of matter-energy being transferred.

CONCLUSIONS

In this paper a model for the analysis of public regulation and marketing has been provided by relating the three systems to the three marketing system processes. The framework provides for a distinction between direct and indirect implications. Indirect implications can further be subdivided into first level, second level and "multiple" level impacts.

It has been shown that the effort of the European Community to eliminate all non-tariff barriers, in this paper referred to as Europe 92, affects all marketing system processes. Not only are the marketing system processes affected but also the number and pattern of marketing exchanges and therefore the structure of the European marketing system. It is therefore clear that studies of the European marketing system should include all aspects of public regulation as described in Europe 92.

In this study multiple level impacts of Europe 92 have not been examined. The approach here has been on the short term implications and to leave the examination of multiple level impacts, which represents a long term perspective, to future studies. This short term perspective has also been taken recognizing that a number of directives that are part of Europe 92 are not yet accepted by the council of ministers or are still in a developmental stage. The discussion of the short term implications is not the result of limitations of the framework for studying public regulation and marketing as provided in this study.

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H. 2

THE PERESTROIKA POTENTIAL

Prepared for presentation
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EXECUTIVE SUMMARY

In the past decade, Russia has begun to lose momentum. The Soviet Union has been plagued by declining rates of economic growth and stagnation. A country that was once quickly closing on the world's advanced nations lost one position after another. These economic problems affected other aspects of Soviet society. The social sphere began to lag behind in terms of technological development, personnel, know-how, and quality of work. Russia was unable to meet the growing requirements in housing, quality and quantity of foodstuffs, health services, and education. A gradual erosion of the ideological and moral values of the Soviet citizen began. Alcoholism, drug addiction, and crime grew. Many Party organizations were unable to uphold principles or to attack bad tendencies, slack attitudes, or the practice of covering up for one another. The great feeling of solidarity that was forged during the Revolution, the first five-year plans, the Great Patriotic War and postwar rehabilitation weakened.

Therefore, the accession of Mikhail Gorbachev, ushered in a new era of political and economic reform within Russia. Gorbachev, beginning with his first address as leader of the Soviet Union, called for frank debate about Soviet problems and hailed the principles of "Glasnost" (openness) and "Perestroika" (restructuring). The principal priorities of Perestroika include political, social, economic, business, and technological reforms. An individual must know and feel that his contribution is needed, that his dignity is not being infringed upon, that he is being treated with trust and respect. Gorbachev maintains that "getting the individual involved in all processes is the most important aspect." He realizes that, without public support, his reforms will surely fail. (Gorbachev, 1987)

However, Gorbachev has met resistance. Several hard core communists do not believe in Perestroika and feel it is a ploy by Gorbachev to gain political power. Political officials fear a narrowing of their spheres of influence, managers fear increased responsibility and the uncertainties of innovation, and workers foresee possible displacement. Also, the economy is expected to worsen in the short run in terms of temporary inflation and even further shortages in products before factories can respond to the restructuring. All in all, the Soviet citizen has yet to see any benefits from Perestroika.

We agree that Gorbachev must have public support in order for Perestroika to succeed. However, the public must see an improvement, under these reforms, in their quality of life. Unless the Soviet citizen can see clear benefits from Perestroika, they will be unwilling to take the risks inherent in these reforms.

We have identified key areas which must be addressed in order to improve the quality of life of the Soviet citizen. First, are agricultural and manufacturing reforms. It is crucial that the Soviets see an end to food and quality consumer good shortages. The essence of Perestroika lies in the fact that it unites socialism with democracy. Therefore, political reforms are required. There must be a "democratization" of the Party's activities with all matters to be decided by the people. The development of the service sector will be necessary to absorb some displaced workers and to offer opportunities to entrepreneurs.

Finally, in order for the Soviet Union to sustain all these reforms, it will need to increase its level of scientific and technological expertise. There are basically three ways to improve Soviet technology. First, make the Soviet scientists and engineers more productive by reducing the research institutes to more manageable size in order to increase their effectiveness. Also, scientists and engineers must be allowed to attend conferences and symposiums to expose them to the leading edge of technology in a rapid manner. Second, establish joint ventures with Western companies which have already developed the desired technology. A major obstacle to joint ventures is the lack of convertibility of the ruble. Third, import the desired technology from other countries. Soviet technology must be improved in order to meet the demand for high quality consumer goods in the Soviet Union, in addition, to competing worldwide with Soviet exports.

Implementation of the reforms of Perestroika will not be easy. It has affected each of the multitude of different socioeconomic groups within the Soviet Union. Gorbachev now has a mandate from the Soviet people. A mandate for change in which the Soviet people now have a voice in their country's future.

INTRODUCTION

On March 11, 1985, a new Communist Party General Secretary was elected in the Soviet Union. He was Mikail Gorbachev, who convinced conservative politicians, economists, ideologues and planners that it was time to consider frank discussion of Soviet problems. He believed a total political, social, and economic restructuring was critical to the survival of the Soviet Union. His plan is called "Perestroika".

Thus, Gorbachev, beginning with his first address as leader of the Soviet Union, set about shaking up the higher echelons of the Communist Party and Soviet State as they had not been shaken in decades. (Colton, p. 68). He demanded dynamism, decisiveness, social economic "acceleration", and reconstruction" of economic management. (Ievgeny, p. 26). Those who shape the massive $3 trillion Soviet economy began to realize he was right, and have since made economic and industrial reform through Perestroika the number one priority of today's Russia.

In his writings Gorbachev has described the Soviet Union as a "huge, failing industrial corporation whose workers are demoralized and whose managers are complacent about everything but privilege". (Goldman, p. 107). Over thirty five years of a mismanaged centrally planned economy have nearly destroyed not only any semblance of technological and competitive standards compared to capitalist economies, but also the general morale and initiative of the people. Gorbachev has promised that no one's standard of living will suffer through the changes, and now he faces the greatest managerial challenge ever in achieving his goals while keeping this and other similar promises.

Gorbachev's reform program has been radicalized considerably over the past 3 1/2 years. In part, this has been the result of his growing political power and the logic of reform. As one writer has noted, reform is a "slippery slope". (Beissinger, p. 317). It has no boundaries; successful change in one sphere of social life often requires alterations in other spheres. Moreover, satisfying one demand quickly leads to the emergence of further demands. The logic of reform has led Gorbachev down a seemingly endless path of evermore radical measures.

The Russians want something better. They are tired of the long lines and the lack of high quality food and consumer goods. Perestroika is a big change from the past. It is essentially, the question of compatibility between Gorbachev's reforms and the original Bolshevik Movement; of whether free thinking can be rekindled in a nation of followers; of how individualism can be instilled in a collectivist society.

The purpose of this paper is to discuss the political, economic, service, industrial, and technological potentials of Perestroika.

POTENTIALS UNDER PERESTROIKA

HISTORICAL, POLITICAL, LEGAL: "WE SEEK A DIFFERENT ROAD"

In April 1985, at the first regular plenum of the Central Committee of the Communist Party, Gorbachev unveiled his chosen slogan-"acceleration: (Uskoreniye) of the socioeconomic development of our society." One seemingly calculated to bring in a new era while shedding the "quiet life" a good phrase for the approach of his predecessors Chernenko and Brezhnev. (Colton, p. 88).

At the apex of the Soviet hierarchy, Gorbachev, less than four months into his administration, ejected rivals from the Politburo and Secretariat into early retirement. Into the inner sanctum of Politburo members, candidate members, and central committee secretaries (numbering 26 individuals), Gorbachev was able to bring in no fewer than 12 newcomers- the same number as in the last 10 years of Brezhnev's reign. At the middle layers of the establishment, functionaries had lost their positions in droves. Gorbachev purged Brezhnev's cronies. Clearly, there was an exodus of the old guard, although such exodus had been slower from the Central Committee (the broadly based collection of Party notables that normally meets twice a year to ratify Politburo decisions).

Gorbachev's top priority in office to date has been economic and socio-economic reform, rather than political reform. "The development of Soviet society," he said at the April 1985 Plenum, "will be defined in decisive measure by qualitative shifts in our economy, by the transfer of it onto the rails of intensive growth." (Pravda, 4/24/85, p. 1).

In the absence of far reaching political change in the restructuring of the economy, the Soviet leadership faced the legacy of ineffective and failed reforms of previous administrations. The major turning point came at the January, 1987 Central Committee Plenum, when Gorbachev articulated the new policy establishing "democratization" as a pre-condition for successful economic reform. As he later noted in uncharacteristic candor, "It is either Democracy, or social inertia and conservatism; there is no other way, comrades." (Pravda, 2/26/87, p. 2).

Since such a statement, barrier after barrier in political life has fallen. In the autumn of 1987, Glasnost the term variously rendered in

English as "openness", candor", or "publicity", has surfaced in Russia as an indictment of Stalinism, calling for a multiparty system and even to a certain extent criticisms of Lenin himself.

Gorbachev himself is not always clear about the distinction between Glasnost in the Soviet Union and traditional western interpretations of "freedom of information." On the other hand, he announced to a Central Committee Plenum in January, 1987, "We need democracy as much as we need air." He went on to note, that the Communist Party of the Soviet Union "is firm in its conviction that the people should know everything. Openness, criticism and self criticism, and control carried out by the masses will guarantee the healthy development of our society . . . " (Powell, p. 3).

Glasnost is a dangerous destabilizing policy without far reaching changes in political institutions and encouraged greater political activism without providing channels through which problems could be resolved. This forced Gorbachev and his followers further down the path of reform.

Successful reform is a dual process. Implicitly it breaks down existing institutions and mobilizes citizens out of accustomed roles for creating new institutions to integrate conflict and to channel participation. Gorbachev's democratization program has been relatively successful in achieving the first part of this process. Unfortunately, the Soviet system now faces competition for the political loyalties of its citizens. As Leonid Abalkin, one of Gorbachev's economic advisers, boldly stated: "Can we, while retaining Soviet organizational society and a one party system, ensure a democratic organization of political life?" (Pravda, 6/30/88, p. 4).

By opening the door to Soviet politics, Gorbachev has unleashed forces in the Soviet society beyond his control. Democratization brings with it the danger that the strong forces of society will penetrate deep into the Communist Party splintering it into nationally based or ideologically based factions. Moreover, as the citizens obtain more and more rights and are learning not to fear the consequences of freer expression, deep fissures can develop.

But what of Perestroika? Clearly the restructuring of the Soviet legal system is viewed as vital both to protecting basic rights and to preclude a return to oppressive rule by the Soviet leadership. Although some lawyers and legal scholars are hopeful that the so called "era of stagnation" (as the Brezhnev years were known) is over, many human rights activists are particularly pessimistic. Nevertheless, Gorbachev, principally through Glasnost, has made progress concerning human rights. This progress is evidenced by the release of political prisoners, relaxed censorship, and allowance of certain public demonstrations. To the western perception, there can be no doubt that the Soviet hard-line position is softening.

If Gorbachev succeeds in promoting democratization and revitalizing the economy smoothly, without threatening the Party's control, he will endure and so will Perestroika. Dissidents, believing that deception is the key word, claim that any changes made through Glasnost and Perestroika will only be short lived and that the surfacing of good will by the Soviets will disappear as soon as an arms control agreement has been completed. In their view, the changes presented by the Soviet leadership are directed more at pacifying than bolstering the dissent. Andrei Sakharov believes, otherwise, stating that "Objectively, something real is happening. How far it is going to go is a complicated question. But I myself have decided that the situation has changed." (NYT, 2/9/87, p. 1 and NYT, 4/3/87, p. 1).

The ultimate fate of Perestroika one can only quote a cynical dissident when asked how far Gorbachev will go; "we shall see, we shall see." (NYT, 2/12/87, p. 1). Although the primary emphasis of Perestroika is not political reform, changes in the political structure are essential to effectively implement Perestroika's economic reforms.

SOCIOCULTURAL CHANGES UNDER PERESTROIKA

Gorbachev states that the first priority of Perestroika is to put the economy into some kind of order, to tighten up discipline, to raise the level of organization and responsibility and to catch up in areas where they are behind. The principal priorities lie in a profound structural reorganization of the economy, in reconstruction of its material base, in new technologies, in investment policy changes, and in high standards in management. (Gorbachev, p. 13). He adds that the initial task of restructuring is to "wake up" those people who have "fallen asleep" and make them truly active and concerned to ensure that everyone feels as if he is the master of the country, of his enterprise, office, or institute. The individual must feel that his contribution is needed, that his dignity is not being infringed upon, that he is being treated with trust and respect. (Gorbachev, p. 16). Gorbachev seeks to affirm social justice for all, equal rights for all, and high responsibilities for each.

Perestroika is viewed in various ways by various people in the Soviet Union. Perestroika, as a whole, corresponds to the interests of the working class. If it succeeds, they will benefit through higher quality and greater quantity of goods and services, through a more tolerant attitude toward extra jobs, through more democratic production management, more effective resolution of social matters, an acceleration of housing construction, and the extension of the rights of work collectives in the fight against formalism and bureaucracy. The most advanced stratum, which consists mainly of highly educated and highly qualified workers, will gain the most from Perestroika. It will gain from ending wage-leveling practices (there will be fair rewards for quality work), from an economic reform that allows for leases and subcontracts, and combined teams for difficult jobs. They will also gain from moving towards self-administration through the election of managers. The stratum of workers with medium qualifications will also gain more from Perestroika than it loses. Many people in this stratum advocate the reform. However, most of these people do not possess sufficient initiative and are not socially active because they have become accustomed to following orders rather than acting on their own. The stratum of workers with little education and low qualifications are either skeptical about Perestroika or do not take any interest in what is happening. (Zaslavskaya, p. 8).

Perestroika spells for the collective farmers a return to the ideas of developing cooperatives, freeing the collective farms from petty bureaucratic interference and restoring collective farm democracy. Therefore, the long-term strategic interests of collective farmers coincide with Perestroika. However, in the past collective farms did not bear any responsibility for the results of their work and therefore did not run any economic risk. The collective farmers are out of the habit of fending economically for themselves and this worries many. Nevertheless, the more creative, confident group of collective farmers willingly accept the new conditions of management. (Zaslavskaya, p. 8).

There is a heterogeneous attitude of the group of Scientific-Technical intelligentsia towards Perestroika. For the most innovative and highly skilled of this group, Perestroika promises considerable gain both in income and prestige. However, there is a broad range of scientific-technical workers who have grown accustomed to cozy workplaces, hefty salaries, and no accountability. (Zaslavskaya, p. 9).

Perestroika means more opportunities for managers. In the past they have acted according to directives and now they must act independently and with initiative. The restructuring seeks to enhance the functions and decision-making powers of managers in production enterprises. (Goldman, p. 110). However, this also means that they will accept additional responsibility and therefore, take more risks. Many managers have a conservative attitude towards Perestroika and are in no hurry to change the present system. (Zaslavskaya, p. 9).

The intelligentsia specializing in the humanities also have mixed attitudes towards Perestroika. Most members of this group suffered from the suppression of democracy and free speech. This section of the intelligentsia is lending all its strength to the restructuring cause. However, there are conservatives within this group who were the carriers of past dogmas and see the reforms as a "departure from socialist principles" rather than a step forward. (Zaslavskaya, p. 9).

Small entrepreneurs are active allies of Perestroika. The reform allows them to increase their incomes and to realize their abilities. Now a tremendous premium will be paid to entrepreneurship, independence of mind, quick communication, and shared learning - attributes which were once alien to Soviet economy. (Goldman, p. 109).

Currently, officials in retail trade are broadly involved with food distribution and can use shortages to their own advantage. As a result, this group opposes the reforms. (Zaslavskaya, p. 9).

Members of organized crime are hardened opponents of Perestroika. The reforms mean an end to their careers and a loss of prestige and power and also threatens them with prison sentences.

The situation of political officials would change drastically under the new conditions of Perestroika. Their sphere of influence would narrow and their staffs would be reduced. The interests of this group are to maintain and consolidate their power. Bureaucrats have their posts and privileges which they won't voluntarily relinquish. (Troosh, p. 4).

The work environment in the Soviet Union should also drastically change under Perestroika. The new system of economic relations will substantially enhance material incentives inducing a worker to perform better. Gorbachev states "From each according to his ability, to each according to his work." (Gorbachev, p. 17). The energetic, young, highly qualified members of society, (people who want to and can work harder, more efficiently and intensively, who want to continue their professional training), will gain more from Perestroika than they will lose from it. People who are currently getting more from society than they are giving to it will be relegated to the status they deserve. (Zaslavskaya, p. 8). These workers will have to work harder or face pay cuts or even discharge. (Goldman, p. 111). One author states that young men and women are enthusiastic about Perestroika. Older workers are more passive and reserved. Most of them came from the countryside and are more cautious and conservative than city-born folk. (Dorozhkinas, p. 28).

Under Perestroika the economy will respond to consumer needs. Goods in short supply will be priced higher (i.e. meat, television sets, fashionable clothes, etc.). The theory is that the new pricing mechanism may lead to temporary inflation, but higher prices and higher profits should stimulate factories to boost production, which in turn should lead to shorter lines and lower prices. (Goldman, p. 110). As a result of the material incentives that induce a worker to perform better, the final product accruing to society will grow and the quality of the product should increase substantially. (Zaslavskaya, p. 8).

ECONOMIC POTENTIALS UNDER PERESTROIKA

Although Perestroika does not involve abolishing all the state committees or ministries and the vastly largest portion of the economy will remain publicly controlled and owned, the principles and objectives of Perestroika restructures the economy toward a market-driven economy. Gorbachev, and many other public officials, emphatically pronounce Perestroika is neither abolishing or going against the ideals of Socialism, nor is it about restoring capitalism. It is true that Perestroika moves in the direction of more private control (mainly through co-operatives) and more decisions are being based upon market demands, but the Soviet economy will primarily remain centrally planned. "Mr. Gorbachev hopes to create a system that combines central control with local initiative." (Franklin, p.4). The overriding purpose of Perestroika is to replace administrative decision-making with sound economics. According to one author:

> "The customer, rather than the plan target delivered from on high, should start to count. The people in Gosplan, ... and the bureaucrats in the ministries are

> to concentrate on grand strategy and avoid meddling in details." (Franklin, p.5).

Increase productivity

The "new economic mechanism" proposed by Gorbachev not only advocates investment in new technology to increase productivity, but also the modernization of existing factories as crucial in boosting quality production:

> "The heaviest spending will be on machine-building, investment in which is supposed to rise by fully 80% between 1985 and 1990. Old machinery is to be written off at a sharply increased rate, and replaced by new equipment that is as close to being state-of-the-art as Russia can manage. The plan for 1986-90 says that 60% of all machinery is to be replaced. In short, Mr. Gorbachev is aiming for a massive refit of Soviet civilian industry." (Franklin, p. 12).

Under the "new economic mechanism", managers no longer have to wait for detailed instructions of how to devise a business plan or what strategies to take from the ministries. Under the new economic mechanism, managers have been granted limited amount of management autonomy and more incentives in order to increase production. The state still determines prices and basic pay scales, but now the manager prepares the business plan for a particular factory and submits it to the state for approval. Although part of what a factory produces will be to satisfy mandatory state orders, the idea or objective sought in delegating more responsibility to the manager in devising a business plan is to better meet the customer's needs. The manager is in the best position to judge the market and the consumer needs; hence a more suitable business plan directed toward meeting demand. Under this plan, factories will also decide what investments are most profitable. The plan allows managers to spend money (from amortization funds), on new technology, retooling, and restructuring of plant operations. (Pearson, p. 93).

Also under the "new economic mechanism", pay incentives or bonuses are granted to workers who increase productivity. Since the Soviet Union's labor force has stopped growing and increased productivity is crucial to the Soviet economical growth, pay incentives were a workable solution to expand production without being able to add workers. Another innovative experiment in labor conditions is the idea of paying bonuses to "brigades" or teams of workers who accomplish their contracted quotas. If the brigade achieves their plan or quota, the factory pays the brigade salary plus bonuses. The purpose of paying bonuses and merit raise is to give workers incentives to produce more, and to compensate for the drastic labor shortage in the Soviet Union.

Alcoholism can also have an impact on productivity. In Gorbachev's attempt to increase productivity and increase product quality, he has created an anti-alcohol campaign. The crackdown on alcoholism involved: banning any sale of alcohol before 2:00 p.m., closing more than two-thirds of the liquor stores, cutting production of wine and spirits, and increasing the fines for public drunkenness from 3 rubles to 30 rubles (about $36). Sales of alcohol fell 37% in 1986, which proved to be very important in Gorbachev's attempt to increase productivity.

Farming/Agriculture

Many believe Gorbachev needs to push the problems facing agriculture to the "front line" of Perestroika. The people in Russia need to see results or improvements, such as well stocked store shelves, before they will accept Perestroika. Adequate food is a primary issue in quality of life for the Soviet people and the key to Perestroika's ultimate success.

Having spent six years as the Central Committee's man in charge of agriculture, Gorbachev understands the urgency of change and reform needed in agriculture. Gorbachev proposes a radical shift in the way farming is organized, from a state-run farming system, to a long term land leasing system. Under land leasing, individuals and families become "masters of their own land". In order to boost productivity, and alleviate waste and spoilage, Gorbachev has introduced and is experimenting with a system that treats tenants of the land as owners who take personal interest and pride in reaping and producing the highest yield possible. Most of the leases can last up to fifty years, with the assumption that longer leases will benefit future growth and efficient usage of the land. The incentive under short leases would be to encourage farmers to exploit the land without investing into the future.

Joint Ventures

Gorbachev's interest in authorizing joint ventures in the Soviet Union, (especially with capitalistic countries) is primarily to be able to upgrade Soviet technology. Exposing Soviets to these countries' advanced technologies, will enable Soviet entities to be in a better position to compete globally. The Soviet laws on joint ventures are as follows: the Soviet partner must have 51% owner equity in joint ventures, and the managing directors (both Presidents and Chief Executive Officers) must be Soviet citizens. (Franklin, p. 5). Other restrictions include: discouraging repatriation of profits and limiting sales by jointly owned companies in Soviet markets. (Goldman, p.110).

By "opening up the borders" to foreign businesses, people like Donald Trump are taking advantage of conducting businesses in the Soviet Union.

Donald Trump flew to the Soviet Union in July of 1987 to negotiate the development of his luxury hotels with Gorbachev. (Norman, p. 93). Joint ventures are needed in both the service and manufacturing sectors to bolster the Soviet economy.

<u>More entrepreneurial and competitive work force</u>

The Soviet Union, in its efforts to boost their economic growth, do not have to look very far for entrepreneurs to make Perestroika work. Many Russians have acquired competitive savvy from a lifetime of "wheeling and dealing" in the underground economy of the Soviet Union. It's not surprising that Russians have developed this entrepreneurial spirit, since most of their work with the "black market" forces them to be great risk-takers. It is also not surprising that the failure of the Russian economic system has directed many Soviets to the black market to generate and subsidize their incomes. The unofficial service economy or underground economy "employs 20 million people and has an annual turnover of about 6 billion rubles, or $7.3 billion U.S. dollars." (Pearson, p. 95). The underground economy of the Soviet Union has not only created great wealth for these individuals, but it has also created a highly competitive, entrepreneurial work force - vital resources the Soviet Union could prosper from in their pursuit of Perestroika.

BUSINESS AND MARKETING

<u>Business and Marketing Objectives</u>

Recognizing the critical position of the Soviet Union, Gorbachev has embarked upon the twin policies of Perestroika (restructuring)and Glasnost. Gorbachev is not only putting his ideas up against tradition, but also against the leaders and followers in the Soviet nation, and is depending on the support of countries in the West as well as China and Japan.

Whether he succeeds or fails, Gorbachev's effort represents a serious experiment in administrative reform, that all managers should look to, considering he will probably have to exploit general management principles that are familiar to any executive - incentives, accountability, pride, quality. (Goldman, p. 107). He intends to diminish the role of administrative decision making and central planning; shrinking the control that Gosplan and Gossnab has - they will command the production and allocation only of priority goods like steel, coal, oil. Gorbachev also intends to increase the decision-making powers of managers. Perhaps the most radical reform is the advocating of election of managers and shop foremen by enterprise employees, in order to generate loyalty and a greater sense of participation in the workplace.

In addition to administrative reform, Gorbachev has proposed enormous steps toward economic reform. As of January 1988, economic decision making was officially decentralized. (Goldman, p. 108). Reducing state orders to such heavy industries as production of steel, coal and oil, and making them more competitive is another goal. Enterprises can no longer count on subsidies from the state budget, and must fund not only their current operations, but also their future growth with profits, depreciation, or loans. Enterprises that operate in the red will be declared bankrupt and closed down. (Goldman, p. 110). There will also be new pricing mechanisms in effect, and, after 1990, pricing will be out from under government control. Prices for materials will more nearly coincide with supply and demand.

Reforms with regard to international trade and business have gone into effect, and are continuing to be added. Gorbachev has authorized the largest enterprises and ministries to engage in foreign trade on their own, and most imports and exports may now be negotiated directly between Soviet traders and foreign partners. Another effort to expose Soviet trade to world competition and trade currents is to authorize creation of joint ventures on Soviet territory with foreign partners. The reforms allow foreigners no more than 49% of the equity in such ventures and the president and chief operating officer must be Soviet citizens. (Goldman, p. 110). There still exist restrictions, such as strict rules discouraging repatriation of profits and limiting sales in the Soviet market.

Gorbachev has also legitimized private enterprises, though there are strict limits on what new enterprises can undertake. They cannot hire employees, and can only operate these businesses when they have completed their regular work.

Present Accomplishments

One accomplishment in the business sector was the implementation of advertising. The first advertisements are to be printed in the Moscow edition of Isvestia, a real sign of the advent of free choice and free market economic measures. (Kuhn, p. 12). A letter was sent out to 5,000 leading businesses around the world, signed jointly by Nikolai Ivanoff (advertising manager) and Hartman Schanaur (West German publisher handling the ads). Pepsi and other U.S. corporations are nibbling at the ads, which will cost $50,000 U.S. dollars for one page of black and white. However, there is still the somber feeling of the government remaining in control. "Ads which do not meet the political, moral, ethical or ethnic standards of the U.S.S.R. are not permitted". (Kuhn, p. 12).

Another accomplishment is the modest increase in tourism in the service sector. Though tourism in Russia has expanded because of the increased information available since Glasnost was implemented, and, thus, increased interest, opportunities and facilities for tourists remain much the same. Conditions are somewhat primitive by Western standards, and tourists go for the educational and international experience, rather than for a vacation. (Cavalli & Lawrence, p. 1). Tourism could benefit from upgrading tourist services, such as hotels and transportation, to Western standards.

A third accomplishment is Gorbachev's pressure for discipline in the factories and his crackdown on alcoholism. This was particularly important in increasing the production of petroleum. Utilizing what Japan and the West consider good management principles, specifically "MBWA" - "management by walking around", Gorbachev has brought about successful changes and increased production. When Gorbachev flew out to the main production fields in Western Siberia, and spoke out for better quality and against vodka, then followed up his visit by firing local party officials and petroleum managers, production increased by 3% during the following year. (Goldman, p. 108).

A fourth accomplishment has been the establishment of some joint ventures with Western companies. Through joint ventures, the Soviets hope to fire up their economy by increasing competition. (O'Boyle, p. 1).

Perestroika and Glasnost have, overall, increased the prospect of Western firms doing business with the Soviet Union. However, only if each individual's economic situation changes for the better, will the people of Russia be able to see the advantages of the restructuring and be able to make choices with regard to the openness of Glasnost. Changes in the political structure must be second in priority after improvements in the individual economic situation.

TECHNOLOGICAL POTENTIAL UNDER PERESTROIKA

Now the U.S.S.R. wants to rebuild their economy through increased and improved technology: powerful computers and software, industrial robots, machine tools, factories capable of producing semiconductors and other microelectronic components.

To combat the poor quality problems in industry, Mr. Gorbachev has deputized a force of quality police. Since 1987, the Soviet Union has had an independent quality-control force which has been deployed in 2,300 plants that make consumer goods and machine tools. Unfortunately, quality hasn't improved. (Newman, p. 1).

The fastest way to improve the technological level of Soviet industry is to import the technology through acquisition or joint ventures with companies that have already developed the technology. In January of 1987, Moscow began opening the Soviet economy by announcing that it would allow joint business ventures. Western companies eagerly applied. Two hundred joint ventures have been formed since 1987. West Germany has formed the most joint ventures at 26 and more joint ventures are in negotiations.

One joint venture with West German based Salamander AG is a model of what Mr. Gorbachev is trying to accomplish with joint ventures. The Soviets provide the labor and raw materials and the Germans provide the manufacturing equipment, management techniques, and quality control. Everyday the modern, well-lit efficient shoe plant produces 4,200 pairs of basic, utilitarian shoes of quality previously unknown in the Soviet Union. The shoes are so popular, Soviets stand in line for hours to buy them and pay 80 rubles which is slightly more than one week's pay for the average Soviet worker. (O'Boyle, p. A1) If the Soviet Union can export goods of equal or better quality than the West, they will be able to compete in the world market and earn hard currency.

There are three main obstacles to increasing trade or establishing joint ventures with the United States. First, many U.S. businessmen feel the joint ventures will be unprofitable and risky because the Soviets require 51% ownership stake. Also, in the 1920's, the Soviets set a precedent for forcing all foreign businessmen to leave the country.

Secondly, The Soviet ruble is not a hard currency and the Soviet Union's hard currency earning potential has decreased in recent years with reduced revenues from raw material exports, notably oil. To buy this sophisticated know-how and hardware from the West and Japan, they need real money. People with any choice will not buy the shoddy goods presently produced in the Soviet Union, so, in order to earn foreign currency, they must rely on the sale of natural resources and arms. Last year they barely earned enough in this regard to sustain the economy at its present level. Hence, they crave foreign cash (Simon, p.69). This obstacle can be overcome by taking payment in product or bartering.

Thirdly, the Jackson-Vanik Amendment denies the Soviet Union low U.S. tariffs unless free minority emigration is allowed. Also, the Pentagon and allied military are fighting efforts to ease export constraints on the U.S.S.R by COCOM. (Ray, p. 26-27)

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I.1

AN EXAMINATION OF THE RELATIONSHIP OF PUNITIVE DAMAGES TO MARKETING SYSTEMS

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AN EXAMINATION OF THE RELATIONSHIP OF PUNITIVE DAMAGES TO MARKETING SYSTEMS

Abstract

During the past 20 years, marketers have been exposed to punitive damages claims in those cases where marketing behavior was deemed excessively negligent. In this paper, the primary purposes of punitive damage are identified, as are the various parties engaged in this arena. While each punitive damage claim is specific and distinct, an aggregated view of the cumulative effects and the processes which produce these effects is possible. Over time, these effects and processes are expected to produce a change in the marketing environment, changes which vary in terms of both their economic and social consequences. While the evolution of the legal and marketing systems will occur in tandem, the isolation and measurement of these effects is difficult because of the various levels of aggregation, the number of parties, and the spatial and temporal separations of causes and effects. Nonetheless, illustrative research propositions are provided.

Introduction

Courts have awarded punitive damages to plaintiff consumers because of extreme forms of marketing misbehavior since 1967 (*Toole v. Richardson-Merrell* 1967; *Roginsky v. Richardson-Merrell* 1967). Though this time period is relatively short in comparison with the history of punitive damages, which dates back approximately 2,000 years (Belli 1980), corporate executive have expressed concern about the impact of punitive damages on their operations. Indeed, many chief executive officers interviewed by representatives of The Conference Board (1988, p. 22) considered punitive damages to be the "wild card" in any liability litigation, product or otherwise. The question of punitive damages for consumer injuries has arisen more often during the past five years in the United States than during all prior years combined.[1]

Such concerns have lead to numerous proposals for tort law reform, ranging from caps on punitive awards to their outright prohibition. At least 22 states have passed such legislation during the past two years (Conference Board 1988, p. 22), and several others are contemplating similar action to limit punitive amounts. Most of these reactions are attempts to supply consistency to the somewhat unpredictable outcomes of judicial disputes (*Bass v. Cincinnati* 1989; *McKee v. Cutter Laboratories* 1989).

While punitive awards have resulted in a number of specific, positive managerial responses by both marketers and others (Morgan 1984), the broader impact of punitive damages on marketing's role at the societal level has not been investigated. The objective of this paper is therefore to bring into focus the various dimensions of this aspect of the marketing environment and to begin to lay the groundwork for empirical investigations regarding measurable impact on the effectiveness and efficiency of the mar-

[1]This estimate is based on a search of the computerized LEXIS (1985) legal database for all reported federal and state cases involving punitive damages for product liability claims.

keting system. First, an overview of the purposes of punitive damages is presented. Second, these purposes are discussed in terms of their potential impact on contemporary marketing practices. Third, modern corporate defendants' marketing practices and their probable responses to punitive damages are discussed. Finally, speculation regarding the resultant effects on society is proposed. Although many of the observation made here appear to rather obvious, we believe the complex nature of the parties and processes involved has not been discussed in the marketing literature. Such exposition seems a necessary prerequisite to empirical research in the area.

The Purposes of Punitive Damages

Punitive damages provide four primary social functions: compensation, retribution, deterrence, and law enforcement (Ausness 1986). These functions are not mutually exclusive and occasionally lead legal commentators to develop other subordinate purposes for punitive awards (Owen 1982). While many readers may reduce these arguments to a single function, say, deterrence, these distinctions continue to be maintained in legal doctrine and thus warrant our attention.

Compensation

At first glance, punitive awards are sometimes considered excessive, given acceptable compensatory amounts. Why should the plaintiff reap more than he/she merits on the basis of the case situation? The counterargument is that some plaintiffs cannot possibly be compensated adequately. For example, in *Grimshaw v. Ford Motor* (1981) the surviving plaintiff underwent scores of surgical operations over a period of several years. If given the option of avoiding the accident which caused his injuries and also foregoing the multimillion dollar jury award, he would undoubtedly choose to do so.

On balance, the compensatory function of punitive damages can be argued persuasively in both directions. Some legal scholars have considerable difficulty in accepting this rationale and generally downplay its significance (Attanasio 1988; Ausness 1986; Berger 1988). They argue that punitive damages should not be used to compensate victims simply because existing compensatory rules are inadequate. These latter rules should be made more effective instead of stretching the application of punitive damages.

Retribution

The punishment rationale for punitive damages is widely-accepted by the legal community. If the consumer has been injured by an intentional or grossly careless act, the offending company can be compelled to pay not only compensatory damages, but also punitive amounts. For example, a firm may be aware that people have been harmed already by its product. In spite of such knowledge, the company continues to market the good in the same fashion without any direct warnings to consumers.

The compensatory award is to make the consumer "right" or" whole." In other words, the consumer is, as far as is possible through financial payment, placed in the same position as he/she was in prior to the injury. The punitive award is to warn the organization and others like it that such behavior is offensive and sanctionable by society. So an additional financial settlement, punitive dollars, is extracted from the firm whose product harmed the consumer.

Retributive justice in the form of punitive damages is generally reserved for behavior which is widely known or thought to be wrong before its occurrence (Ausness 1986, p. 40). For example, in *Grimshaw v. Ford Motor* (1981), one plaintiff was originally granted a $125 million punitive judgment, later reduced to $3.5 million. Evidence suggesting that Ford executives knew about the automobile design flaw and went so far as to calculate the likely jury awards and settlements due to deaths and injuries associated with the design flaw was shown to the jury. Apparently the costs of redesign and recall outweighed the costs of death and injury, so the vehicle was not redesigned. The jury, through the magnitude of the initial punitive amount, attempted to punish Ford for what apparently was callous, calculated indifference regarding possible consumer suffering.

<u>Deterrence</u>

The deterrence function is often cited as justification for punitive awards several times the size of compensatory verdicts. A $1,000,000 punitive amount may seem exorbitant when compared with an accompanying $250,000 compensatory judgment, given the purpose of compensatory awards. However, juries do reach such decisions with surprising frequency (*Business Week* 1989).

Courts feel that if the punitive amount is large enough, it will signal others that similar behavior will be met with a proportionately large penalty. Large corporations may be required to pay much greater punitive awards than smaller firms, even though compensatory rulings are equivalent. Punitive damages therefore provide an avenue for plaintiffs to reach the so-called "deep pocket" defendant, the one with the most assets or largest insurance coverage.

Imposing greater punitive fines upon the largest corporations may be justifiable, however, since they are the defendants capable of unilaterally shifting the compensatory burden of their unconscionable acts to consumers when such behavior appears to be cost-justified on the basis of regulations or prior dollar settlements. Punitive damages, not being restricted to the rules for determining compensatory awards, allow courts to deter such conduct by altering these companies' cost-benefit equations.

Many other legal issues underlie the deterrent purpose for punitive damages and such a discussion goes far beyond the focus of this paper. Ausness (1986) and Owen (1982) lucidly develop many of these arguments, particularly the interrelationship between retribution and deterrence.

<u>Law Enforcement</u>

This is the weakest of the four major justifications for punitive damages. Through the use and threat of such awards, consumers are apparently able to develop and enforce societal standards for corporate behavior by litigating product liability claims against firms. Such actions supplement current regulatory and criminal procedures and amount to "fines" levied by consumers through the court system.

In addition, law enforcement has been used to explain extremely large punitive amounts as payment to plaintiffs for their actions as quasi-legal operatives representing society at large. This rationale has been sharply criticized (Ausness 1986, p. 70) and ignored by other legal experts.

Parties Involved in Directing Marketing Behavior and the Associated Processes

Ideally, if legal scholars could articulate a reasonable, precise theory of punitive damages which resolves the inconsistencies noted above, the legislative system could generate a coherent set of guidelines for the judicial system to utilize in determining punitive damages. Further, the business community would then be able to develop reasonable and socially desirable response strategies while also effectively managing their liability exposure.

However, the process is more complex than this. In addition, the pressures for change are building: the cumulative effects of a series of injured-consumer-versus-defendant-marketer lawsuits and the involvement of a number of other parties.

Every lawsuit involving a consumer and marketer that entails a punitive award potentially becomes a part of the environmental pressure placed on marketers. Primarily through the retributive function, the threat of punitive damages influences marketer behavior. Each dispute/lawsuit further defines the bounds of acceptable marketer behavior for the next generation of litigants. In this manner the legal system constantly evolves.

Changes in the marketing environment can also be traced to the involvement of a wide range of consumer interest groups (Bloom and Greyser 1981). The goals of these interest groups, often centered on health and safety issues and the financial impact of various industrial activities, can have both short- and long/term effects.

The concerns of these interest groups are manifested in many ways. They serve as "watchdogs" and are often intimately involved in publicizing the various indiscretions of manufacturers. They analyze the impact of various activities, both legal and manufacturing, in the marketplace. They also exert pressure as lobbyists at the federal, state, and local levels of government, often taking an activist role in proposing and shaping legislative reforms. They have also initiated litigation representing the interests of entire segments of the market or the population at large. In sum, we believe that consumer interest groups are a driving force behind many of the consequences likely to follow product liability developments.

The media are also integrally involved in the interplay between consumers and marketers. The retributive and deterrent functions of punitive damages are more effective when legal disputes are publicized in some form

(Tyebjee 1982). The media provide this service in their role as sentinel for the public good.

In addition, many parties are actively engaged in using the media for various purposes: public interest groups to publicize problems and/or exert pressures on the market; marketers to moderate negative effects on consumer markets and within the investment community; litigants to exert pressure on the other party in the true spirit of the adversarial dictum; and politicians for their own varied reasons.

Although consumer interest groups, the media, the legal community, and federal and state agencies and politicians are involved in altering the marketing landscape, they are not involved to the same degree. Clearly their interests vary from situation to situation. In all cases, however, at the core of the punitive damages arena we find the affected consumer(s): the plaintiff(s) and their representatives. We propose that both the adversarial nature of this process and the involvement of various parties will ultimately shape the macromarketing environment and affect the very operation of the marketing system. Perhaps the best way to understand the processes at work is to adopt sociologically-based models of communication effects which have incorporated the influence of individuals and the social systems they comprise (cf. McQuail 1984; Reingen, Foster, Brown and Seidman 1984; Rogers 1983).

As depicted in Figure 1, the dispute between customer and marketer can, over time, influence the perceptions and actions of somewhat distant parties and may eventually affect the actions of an entire industry. As a consequence of the litigated dispute, there is the high probability that both directly and indirectly implicated manufacturers will suffer a loss of trade. Ultimately, this loss of trade (or the potential for it) can in itself have a serious impact on the system as will be discussed below. The mechanisms underlying these effects stem from the consumers' exposure to and processing of the information available in the marketing environment (Bettman, Payne and Staelin 1986; Mazis and Staelin 1982; Mizerski 1982). Observable perceptual and behavioral manifestations of this ripple effect can be examined in terms of attitudes and preferences (Lutz 1981), expectations (Cadotte, Woodruff and Jenkins 1987), and, most importantly, the dynamics of consumer dissatisfaction (cf. Day and Landon 1977; Landon 1977; Richins 1983; Shuptrine and Wenglorz 1981). The expected word-of-mouth and media-instigated communication effects can add fuel to this fire. In addition, because consumers often use the actions and consequences of other consumers as surrogate indicators of the fate that will befall them (Claxton, Fry, and Portis 1974; Feick and Price 1987; Price and Feick 1984; Reingen and Kernan 1986), we can predict a gradual loss of trade with the cohorts of the affected parties within the local community and within an increasingly wider circle of communities.

In an age of instantaneous news coverage, it is likely that the ripple will spread rapidly. The Tylenol incident in the early 1980s is a case in point. In very short order, U.S. wire services and those of other industrialized countries carried news of this problem, and the actions and perceptions of consumers regarding an entire industry, over-the-counter products, were affected. Packaging changes were planned and introduced due both to the self-interests of the industry and to the surprisingly rapid

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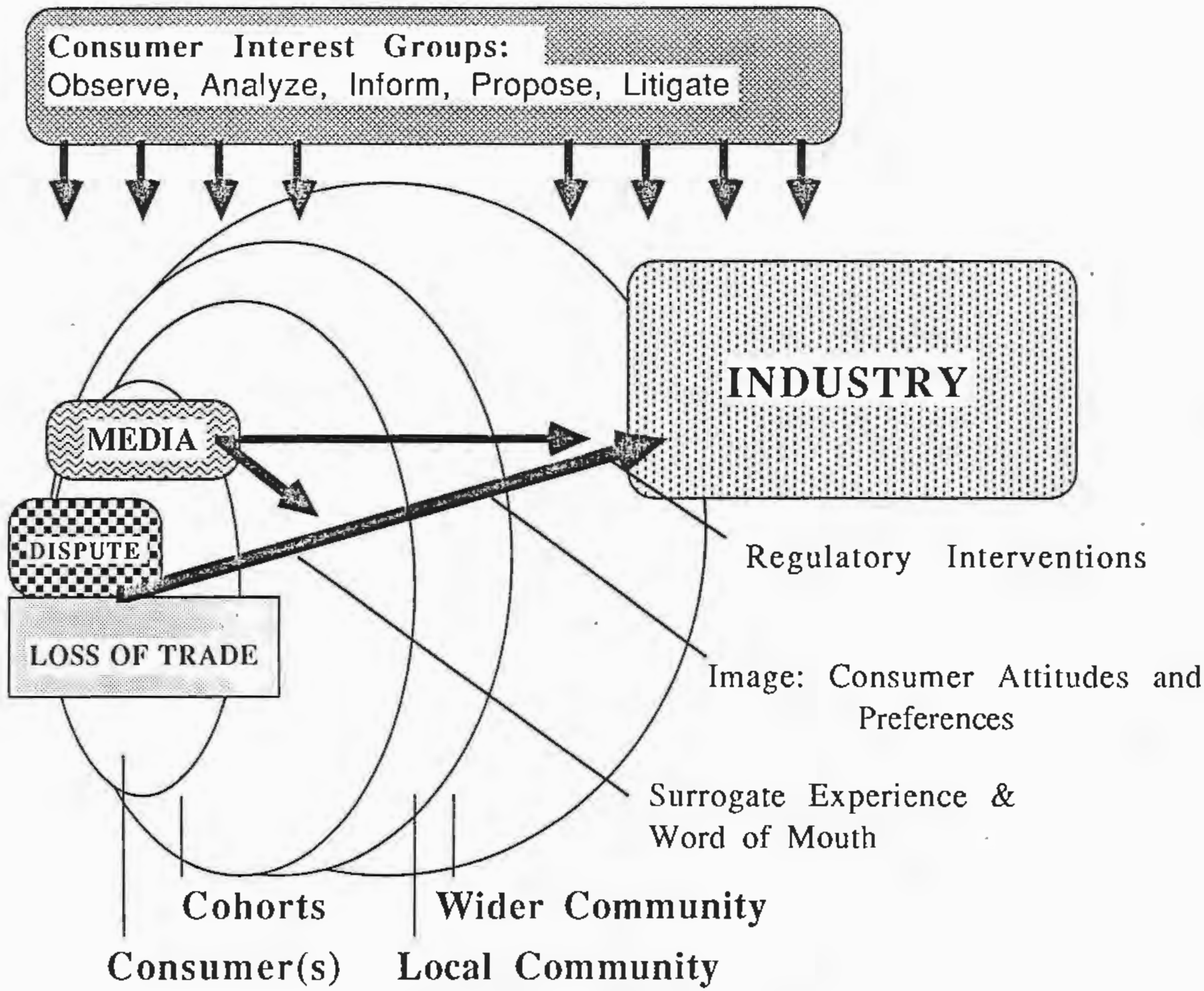

FIGURE 1: PARTIES INVOLVED AND BASIC PROCESSES

involvement of the federal government. In a similar way, the "news" about a liability dispute can spread and influence the very survivability of the firm and perhaps an entire industry in the most extreme cases. The final stages of a liability-induced ripple in the environment can also result in regulatory and legislative interventions which, of course, will bring us full-circle and create changes in the legal dimension of the marketing environment. The insinuations of politicians are a virtual certainty in instances where the public trust has been violated and/or a spotlight has been provided by the media.

In this way, there is the potential for a cycle of activity and influence following each liability decision. As the number of liability decisions increases and a greater variety of industries and marketing practices become caught up in this vortex, systemic changes in the nature of the marketing environment are likely.

Another example of the dynamics we foresee, one specifically involving a product liability scenario, is reflected in the recent problems surrounding so-called all-terrain vehicles (ATVs) (*Detroit Free Press* 1989). Although all of the constituencies we have identified--consumers (individual and aggregate), consumer interest groups, the media, the legal community, state and federal agencies, and politicians--are involved, the speed with which this "news" has spread and the degree to which changes have occurred is less than what was experienced in the Tylenol episode.

Perhaps the difference arises because in the Tylenol case an entire industry was involved, i.e., all OTC products affecting a large number of consumers. Perhaps the litigation involved in the ATV case has slowed the system down. Maybe the difference is intangible: something about recreational vehicles versus medication. Whatever the explanation, we would expect the degree of impact and the rapidity of these effects will vary from circumstance to circumstance. Beyond the intriguing empirical question this poses, we are interested in the cumulative impact of the spate of liability decisions which have come down and those which are on the horizon. How does all of this activity influence the way marketing will be practiced or the way the marketing system will operate? We turn next to this question.

Societal Responses to Emergent Punitive Damages Standards

The changes or outcomes associated with the amalgam of product liability decisions are identified in Figure 2.

Marketing Practices: Ethical Standards and Conduct

The ethical dimension of corporate behavior has increasingly been a topic of discussion and debate, in part because of the legal issues discussed herein. In its simplest form, the impact of a liability decision holds individuals and/or corporations accountable for their transgressions, be they intentional or grossly negligent in nature. As noted by Carroll (1987), Raelin (1987), and Laczniak (1983) awareness of the consequences of one's actions comprises a critical component of the ethical mindset of individuals and organizations. While individual decisions at lower levels of

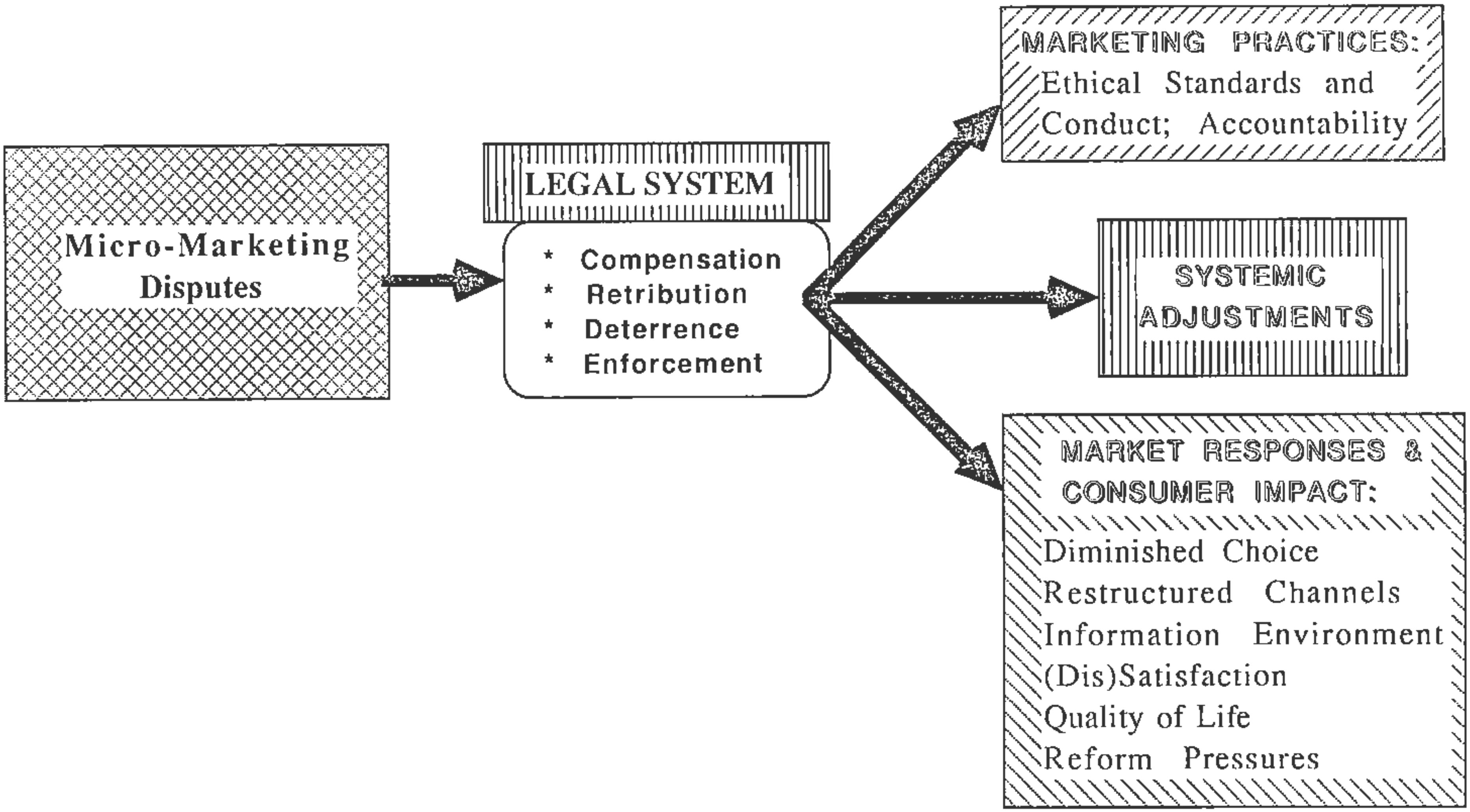

FIGURE 2: IMPACT OF LIABILITY DECISIONS

an organization may have been the direct cause of the liability problem, an organization's emphasis on speed and profits creates an environment for these indiscretions. Beyond this, organizations are culpable because of their failure to establish adequate checks and balances and failure to develop policy-making and decision-making criteria sufficiently sensitive to the issues of health, safety, and societal good.

The ethical dimension of corporate behavior continues to be examined and better understood and thus, either because marketers are cognizant of these issues or because they simply become caught up in the move toward more ethical cultures, we expect the liability to crisis to change and for the effects to be felt in the manner suggested above. The change is likely to be a drop in the frequency and severity of liability problems.

Slightly more complex is the notion of raising ethical constraints beyond the level of consequences to include a moral sense of right and wrong, of the societal good. As these micromarketing disputes continue to develop at the center of the punitive damages arena, we can envision a development similar to the natural environment movement of the 1960s and 1970s: a consciousness raising within the corporate community and beyond, with resultant changes in the macroenvironmental areas of ethics and morality.

Systemic Adjustments in the Legal Environment

At a minimum, each lawsuit incorporating punitive damages becomes a part of the case precedent for upcoming litigation. A particularly surprising ratio of punitive-to-compensatory damages, say, 20:1 (*Farrall v. A.C.&S. Co.* 1989), attracts media attention and becomes the "asking price" in subsequent related litigation. If the awards become attractive enough, they begin to stimulate additional litigation which might not have been initiated for a smaller payoff. So without a marketing response to change, the situation leading to litigation, the probability of successful punitive requests rises.

As trial court cases move through the appeals process, appellate courts begin to delineate the bounds for behavior deserving a punitive penalty. As a result, corporate legal counsel can summarize the outcomes of these reviewed cases and prescribe appropriate marketing actions. The role of legal counsel is clearly critical during times of judicial uncertainty, e.g., when unpredictable punitive awards result.

Ultimately, a series of lawsuits can lead to considerable pressure for legislative reforms. Many corporate leaders have been calling for changes in the application of punitive damages for business practices (Conference Board 1988) in an attempt to develop "similar penalties for similar crimes" as is being urged for criminal penalties (*Newsweek* 1989). Among the suggestions offered are placing upper limits on punitive awards ($250,000 is often mentioned), eliminating punitive amounts, or permitting judges, not juries, to determine punitive penalties. While product liability lawsuits usually involve the application of relevant state law, some experts are even suggesting that punitive awards should be applied according to federal legislative reforms. By arguing for federal laws, corporations are contradicting their typical contention that federal intervention in business activities should be minimized.

Some marketers have responded to the punitive damages threat and attendant developments by attempting to insure against punitive liability or, as a last resort, dropping or minimizing insurance coverage. Since punitive penalties are quasi-criminal sanctions, scholars have argued against allowing insurers to spread the risk of such awards because our society has always prohibited the use of surrogates to serve criminal punishments (Brogdon 1987). The alternative of foregoing insurance because of its expense is risky because a single punitive award could bankrupt a small corporation.

Responses Directly Affecting Consumers

Consumer Information Environments. There is already a trend toward alleviating some of the liability problem by burying consumers with warnings and instruction, thereby passing some of the burden along to buyers. In extreme situations, there is the legal concept of assumption of risk, argued recently in a number of cases involving warnings on tobacco products (*American Tobacco v. Superior Court* 1989; *Rogers v. R.J. Reynolds Tobacco* 1989). These cases have attracted ample attention in the legal community. Although the logic of providing additional information is compelling on the surface, arguments can be made that this is an ineffective solution. There is ample evidence to suggest that the limitations and tendencies of consumers as information processors will have to be carefully examined prior to invoking this particular stratagem (cf. Bettman, Payne and Staelin 1986; Feldman 1980; Hirschman 1983; Jacoby, Nelson and Hoyer 1982; Ursic 1985; Wilkie 1986). When these theoretically-based reasons to question the efficacy of these "solutions" or "remedies" are coupled with the widely acknowledged problems of illiteracy and language barriers, the likelihood that such warnings will be effective is reduced.

Health and Safety Issues. Each liability situation is an instance where the health and safety of at least some consumers have been influenced. In the aggregate, the safety of the environment and the "quality of life" is affected as well (Sirgy, Samli, and Meadow 1982). As these liability problems accumulate, there is, paradoxically, a strong possibility that the overall quality of life is improved. On the one hand, we can envision managers avoiding costly mistakes as they operationalize their newfound ethical standards. Furthermore, the attention of consumers, interest groups, and regulatory bodies can, with the able cooperation of the media, often be riveted on various problems which are being litigated. In this fashion, we have raised the stakes and informed the public with the expected by-products being a loss of trade and increased pressure on and involvement by policy-makers. As the ripple progresses (Figure 1), marketers will act to avoid future problems (loss of trade) and will be responsive to the pressure placed on the individual companies or entire industries.

Consumer (Dis)Satisfaction. The post-purchase dynamics of consumer behavior are also likely to be affected by punitive damages developments. Consumer responses to less than satisfactory exchanges range from refusing to trade with a transgressor, through complaining, boycotting, and litigating. From the standpoint of anticipating problems, marketers would be well advised to take greater care in developing policies and tactics which lessen or eliminate the probability that consumers will consider litigation.

Once the root of a liability problem begins forming, the dynamics which can lead to publicity problems and concomitant effects on the image and equity positions of the firm are set in motion. The question is then largely one of degree of response. Because consumer expectations provide the grist for future decisions, consumers' willingness to trade will be affected negatively. Finally, consumer satisfaction/dissatisfaction has been linked to work-of-mouth activity (Bayus 1985; Richins 1983; Shuptrine and Wenglorz 1981; MacKenzie and Zaichowsky 1981), one of the driving forces behind the ripple effect proposed in Figure 1.

The accumulated impact of liability transgressions alters the set of consumer choices: the cost of goods sold is increased as insurance premiums and verdict amounts are passed along to consumers. Or, at a minimum, the costs of stricter product testing and controls may be included. In addition, fewer companies may survive--some affected by the costs of doing business and some dealt a fatal blow by the size of the punitive award, particularly those which have no insurance coverage. Industries where smaller firms account for many of the product introductions/improvements will be particularly hard hit because of the difficulty of surviving litigation expenses and verdicts. Small firms unable to bear this risk may withdraw from the market or sell their interests to larger corporations which can easily withhold innovations which may functionally displace existing products. In short, several mechanisms can account for fewer firms and/or products available to consumers.

Final Considerations

As we developed this organizational scheme to identify the potential impact on the marketing environment we also considered the influence of the dynamics proposed here on the effectiveness and efficiency of the marketing system. Additional players are likely to be influenced by liability decisions: the direct and indirect employees of the defendant organization and the investment community. Beyond the changes in ethical standards and conduct noted earlier, there is a very real impact on the morale of the employees of the firm in the "hotseat." In extreme circumstances, the very survival of the firm is threatened. It is very likely that, because of the financial penalties, cost-cutting ensues and various employee positions are eliminated. Moreover, the leaders may be fined or jailed, and the vacuum that is created may never by fully corrected. There is also the problem of working for a company which has injured others--a crisis of conscience--that can emerge. Each of these effects can negatively impact the productivity of the workforce. The restructuring of the competitive environment might involve the death of a firm or its absorption by another.

We also speculate that the perceptions and actions of the investment community are affected by liability problems. The risk, the solvency, the production efficiency, the loss of profitable markets, ripple effects on sales of related and nonrelated lines, can all lead to a situation in which the trading value of a firm's stock may fall. The under-capitalized firm will cease to exist, and it is an empirical question as to whether or not the equity position of a company or brand is affected in the manner we have proposed.

Conclusions and Future Directions

The trend of punitive damages for serious marketing misbehavior has begun to attract the attention of legal and business professionals. It is incumbent upon marketing scholars to more carefully specify the effects and processes which we have begun to identify here. Testable propositions regarding both ethical and consequential dimensions of this discourse can be modeled after the recommendations presented by Hunt and Vitell (1986). Indeed, scenario-based survey research and delphi panels might be used to explore beliefs regarding the probability of various consequences, as well as their desirability and importance. Yet, perceptually-based examinations of this system of effects and processes will hardly be sufficient. Such data will not likely reveal the full depth and breadth of the effects/responses we have posited. Such research will be complicated by the number of different parties involved, the different levels of aggregation, and the spatial and temporal separations of causes and effects.

Research in this area might also reasonable be focused on what many believe to be more measurable and scientifically sanctioned phenomena, such as the efficiency of the marketing system, the structure and operation of channels of distribution, and expressions of consumer sentiment, to name a few. More specifically, Venkatesh and Dkolakia (1986) identify a series of issues and research orientations for those working in the macromarketing arena. Any facet or combination of facets might constitute a reasonable basis for research in this area. Venkatesh and Dkolakia (1986) identify three domains: conceptual, substantive, and methodological. And the focus of our analysis has been primarily on the conceptual and substantive domains. Adopting these prescriptions and their discussion of Coleman's (1984) micro-macro transformations, we believe the following propositions illustrate fertile dimensions for future research:

Type 1. Events occurring in the legal system lead to changes in the policies and procedures of marketing organizations operating in a specific industry.

Type 1. The same legal events lead some firms to eliminate certain items from their list of offerings, thereby diminishing consumer choice.

Type 2. The same legal events lead company X to shift from selling to leasing its offerings to customers in order to reduce its liability exposure.

Type 2. The same legal events lead to changes in the purchase habits and processes of consumers, e.g., greater willingness to pursue a litigated, as opposed to an arbitrated, solution to post-transaction problems.

These are merely illustrative of the types of empirical research that can be undertaken in this domain. At this juncture, we feel it is somewhat premature to construct complicated multi-level propositions or causal pathways.

Respectful of those reviewers who expressed interest in our ability to articulate methodological and empirical dimensions of an earlier version of this paper, we hasten to add the following disclaimer: Our primary intent is to focus the attention of macromarketing researchers on this complex arena. We profess little expertise in the transfer of these observations and speculative comments into actionable research propositions. In the spirit of Monieson's (1981) somewhat rueful comments on the question of usable knowledge in macromarketing, we claim/believe that speculative thinking is a worthy form of "research" in its own right. The types of responses, effects, and processes which we have noted are not very tractable in terms of levels of spending, alterations in the assortments of merchandise, or even in terms of changes in the practice of marketing, etc. While we firmly believe that observable effects will be reflected in the marketplace, many permutations are possible and should keep researchers interested in this area.

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I. 2

GENDER-BASED INSURANCE RATES: ISSUES AND IMPACTS

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ABSTRACT

Gender has long been used by actuaries in determining risk classification and pricing of insurance policies. In 1983, the Supreme Court ruled in the Norris case that insurance or retirement annuities offered through employers could not differentiate contributions or benefits by gender because this violates Title VII of the Civil Rights Act of 1964. This ruling, however, does not affect insurance policies or pension annuities which consumers purchase as individuals. Since the Norris ruling, federal legislation outlawing sex discrimination in insurance was proposed but did not pass in Congress. A few states, however, have enacted laws prohibiting sex discrimination in one or more types of insurance, and other states are considering such legislation.

Proponents of unisex insurance legislation argue their case on social, moral, and economic grounds. Their primary motivation is to effect social change by eliminating sex as a grouping criterion. Opponents of unisex insurance oppose it on the grounds of economic efficiency. Under a gender-based rating system, people are grouped together with others exhibiting similar risk. This allows prices to be more closely related to risks and, therefore, is considered fairer and more efficient.

To date, conclusive data to evaluate the price effects of unisex legislation do not exist. Tentative findings suggest, however, that the price effects stemming from unisex insurance are fairly moderate across all types of insurance. A more general analysis is presented which examines the possible micro and macro effects of unisex insurance on direct participants and secondary parties. From a micromarketing perspective, it appears that unisex pricing may be a wise marketing decision on the part of individual firms. Further, it also may be good public policy from a macromarketing point of view.

GENDER-BASED INSURANCE RATES: ISSUES AND IMPACTS

INTROOUCTION

The insurance industry is currently under fire by many people in several arenas. In California, voters approved Proposition 103, a referendum to cut auto insurance premiums by 20 percent (Kasler 1989). Some analysts view this as a signal of similar trends in other states. The AIDS crisis has potentially devastating implications for health and life insurance. In addition, affordability of health insurance is of public concern. A recent study by the Children's Defense Fund (Moskal 1989) found that 32.4 percent of poor children lacked health insurance of any type in 1986. Availability of property-casualty insurance coverage became a crisis in the mid-1980's as premiums were increased for some lines of liability coverage and companies stopped writing some forms of coverage altogether (Kasler 1989).

Another area of concern has been the industry's use of various rating factors for risk classification. Use of variables such as race, age, and gender have been scrutinized. Such practices as "redlining" certain geographic areas as undesirable property insurance risks have been attacked on the grounds of racial discrimination (Austin 1983). The use of race as a classification variable has largely been eliminated, but usage of gender and age remain controversial issues.

While all of the foregoing topics are worthy of attention, this paper will focus on the gender issue. In recent years some changes have occurred in insurance pricing related to gender. In 1975, a U.S. District Court ruled that female employees may not be required to pay greater contributions for the same benefits in Manhart vs. City of Los Angeles, Department of Water and Power (Federal Supplement 387, 1975, p. 980). In the Norris case in 1983, The U.S. Supreme Court ruled that employees paying equal contributions may not receive lower monthly benefits (Law Week 1983). These cases ruled that insurance and retirement annuities offered through employers could not differentiate contributions or benefits by gender because this violates Title VII of the Civil Rights Act of 1964, which makes it unlawful for an employer to discriminate on the basis of sex. Private insurance policies and pension annuities, which are not a benefit of employment, were not affected by these rulings.

Since the Norris case, legislation to outlaw the use of gender in insurance risk classification has failed at the national level, but statutes have been successfully enacted in a few states. Hawaii, North Carolina, Massachusetts, and Michigan now have statutes which prohibit discrimination by sex in automobile risk rating; Montana, however, is the only state to have enacted comprehensive unisex insurance legislation (Ryan 1986). In addition, Massachusetts administratively banned sex discrimination in all insurance lines in 1987 (Benjamin et al. 1988).

Advocates of gender-neutral rates (rates which do not take gender into consideration) argue that differential rates would be illegal if the national ERA had passed (Thom 1988). The possible effects of state Equal Rights Amendments on insurance pricing have been inconclusive. Pennsylvania is alone in interpreting its state ERA to include insurance rating (Forbes 1985; National Underwriter 1984a).

It is the intent of this paper to explore the arguments related to the use of gender in classifying insurance risk, with particular attention to automobile, life, health, and disability insurance. Furthermore, the goals of proponents of unisex insurance legislation will be examined, and the impacts that such legislation might have on both direct participants and secondary parties will be explored. Finally, the public policy implications of this legislation will be presented. The unisex issue is related to marketing in that it involves both the pricing and communications functions of insurance companies. Pricing of insurance may be inherently discriminatory, so the issue is which discrimination factors society finds acceptable and which factors are not acceptable. Macromarketing issues relate to the secondary effects of insurance pricing, which involve the insurance industry as a whole and the role it plays in society, as well as the role of government regulation and provision of insurance benefits for those who cannot afford them on their own. These secondary effects have economic as well as social ramifications for various segments of society.

THE CASE FOR REMOVING GENDER AS AN INSURANCE RATING VARIABLE

Advocates for removing gender as an insurance rating variable in determining risks and establishing prices argue their case on social, moral and economic grounds, but the primary motivation is social change (Austin 1983; Brostoff 1984; Hathaway 1988; Kaufman 1983; Lyons 1986; Wasilewski 1985). Kaufman (1983) describes the unisex issue as a trade-off between a social goal and short-term economic losses, and Lyons (1986) and Austin (1983) assert that proponents view this as a civil rights issue.

Social Arguments

Regardless of the economic ramifications, if society decides it does not wish to discriminate between certain groups, the issue is simply how best to achieve that end. Kaufman (1983) asserts that sex-based rates and benefits are based on an unhealthy conception of a society clearly fragmented into males and females for economic purposes. He argues that eliminating gender-based insurance is an important step in the fight for sexual equality.

Brostoff (1984) states that the insurance industry does not consider gender-based rating to be as invidious as rating based on race or religion. This point would seem to indicate a difference in values between those who view sex discrimination as a civil rights issue and those who do not. Kaufman (1983) points out that the initial choice of gender as a classification variable reflects a habit which makes this classification appear acceptable. Because the decision is made first to classify by sex and then to address the issue of equity among individuals, this indicates a mindset of thinking of individuals as part of a particular group--and not simply as individuals.

Race was eliminated as a rating factor because it was established that differences in longevity were caused by socioeconomic factors rather than inherent racial characteristics (McCluskey 1984). There is some evidence that women's longevity may be due to lifestyle factors as well, rather than inherent genetic traits (Brilmayer et al. 1980; McCluskey 1984). But as Brilmayer et al. (1980) point out, sex is irrelevant to longevity in the Title VII sense; it does not predict longevity in individual cases, and is a crude predictor even for groups and so, according to Title VII, would be unfair discrimination. In a Canadian case, the Ontario Human Rights Commission ruled that charging single males under 25 higher rates was discriminatory because the insurer failed to prove a causal link exists between the discriminatory factors--age, sex, and marital status--and high risk (Findlay 1985).

Just as race is no longer considered an acceptable grouping criterion, public acceptance of gender-based rating is eroding (Brostoff 1984). John Hancock, the seventh largest life insurance company, has supported efforts to equalize rates since a poll of their policyholders indicated 70 percent found the practice of charging men and women different rates offensive (Hathaway 1988; Thom 1988). This may be the first true example of market research being used to guide an insurance company on its unisex position.

The basic civil rights argument is one of social goals which are seen, by proponents, to transcend economic implications. An analogy might be made to the failed national Equal Rights Amendment. While advocates wanted to ensure the constitutional rights of women, opponents' arguments dealt primarily with the responsibilities associated with these rights. The argument that "your daughters will be drafted" reflects a paternalistic view that these daughters <u>would not want to accept that responsibility</u> associated with being an unequivocally equal member of society. In the insurance case, this paternalism takes the form of "women are better off economically under the present system." Such protection, keeping women in a separate class, may simply mask the industry's ultraconservative nature in responding to changing social conditions (Denenberg 1978).

<u>Moral Arguments</u>

Beider (1986) makes the point that distributive justice requires that benefits and burdens be apportioned among individuals in a way that reflects relevant properties that all have had a fair opportunity to acquire. This fair opportunity requirement would rule out characteristics over which people have no control. Williams (1978) states: "The fact is that race-based classifications are no longer used, and there is no evidence that the actuarial art has suffered. There is no evidence that abandoning sex-based classifications would have a different result" (p. 406).

<u>Economic Arguments</u>

Regarding the economic arguments surrounding implementation, Williams (1978) points out that such an argument is not normally a defense to a Title VII violation. Kurlowicz and Damiani (1987) conclude: "Accuracy and efficiency do not justify an offensive practice. To say that discrimination is often a rational and efficient form of behavior is not to say that it is socially or ethically desirable" (p. 118). Gray (1983) also states there is no reason why contracts of insurance deserve special exemptions from civil rights principles. Hathaway (1988) predicts that unisex rates would be economically neutral for insurance companies, if all companies within a state converted to unisex rates. Since companies sell more than one kind of insurance, none should be unfairly advantaged or disadvantaged.

Not only has the insurance industry been castigated for current sex discrimination in its pricing policies, but Denenberg (1978) contends that, historically, the insurance industry has neglected women as a market and openly discriminated against them. According to Denenberg, women are subject to a "double whammy." First, they are discriminated against in the sale and pricing of life insurance. And then, because they are neglected and unsold, they pay an extra premium to boot. "The women of America are financing the life insurance industry's self-imposed ignorance" (Denenberg 1978, p. 262). Denenberg (1978) cites the industry's lack of employment opportunity for women and minorities as a reason sales efforts have not been directed toward these groups. This neglect then permeates all processes of the insurer--underwriting, claims, and servicing. "Because low-income consumers, especially minorities and women, are neglected by the sales efforts of insurers, they tend to end up uninsured or insured with the wrong policies in the wrong companies . . . . When an insurer does not have adequate information about insurance for a particular group, it tends to overcharge to provide a cushion against any contingencies. Such insurers will frankly admit this has been the case with women" (Denenberg 1978, pp. 277-278).

Furthermore, actuarial science is not so exact as it appears. Separate tables for women in insurance are a fairly recent phenomenon. In life insurance, setbacks which did not fully cover the gap between men and women's life expectancies were used to calculate women's rates. So, for example, if the difference in life expectancy was five years, a setback of three years on the men's rate table was used. The end result was that women paid more (Gray 1983). Insurers frequently make up for their lack of knowledge by adding a cushion on the premium, which then hurts groups historically discriminated against, such as women and minorities (Denenberg 1978). Insurance is a product which is sold, not bought. Groups to whom insurance has not been made available suffer because sufficient data are not available to calculate risks and, therefore, rates (Denenberg 1978). Gray (1983) makes the point that insurers have been uncooperative in providing information regarding the assumptions used in projecting cost estimates for these groups so the impacts of unisex pricing can be evaluated.

Another argument is termed the 'overlap theory.' Few people live the "average" life expectancy. Of 1,000 men and 1,000 women aged 65, the death age of 84 percent overlaps, so only 16 percent account for any average difference in longevity (Gray 1983). Beider (1986) cites a study which suggests the longevity difference between women and men is absent among nonsmokers who do not die of accidents. Some recent estimates indicate gender differences across insurance types are small, smaller than differences between smoker and nonsmoker rates (Hathaway 1988). In auto insurance, the system used to record accidents may distort the statistics. For example, it was found in Pennsylvania that any accident involving a car a young male is authorized to drive is recorded as "young male car accident" regardless of who was driving at the time of the accident and who was at fault (Heen 1983). Therefore, the assumptions upon which much gender-based rating is based may be faulty.

Changing social structure--more single heads of households and female heads of households--may mean the assumptions upon which use of gender as a classifying variable is based are no longer valid. Austin (1983) points out that classification criteria used by insurance companies are tied to the social status hierarchy and companies "are blind to social conditions in a way that creates and reinforces impediments to individual mobility and advancement" (p. 545). In other words, while social roles and norms in society are evolving, the insurance system remains fixed. Insurance pricing systems may be tied to cultural stereotypes which are no longer valid. As Kaufman (1983) asserts, an ever-present danger in attaching discriminatory group labels to individuals is the formation or perpetuation of group stigmas and stereotypes.

While economic arguments appear to be secondary in the case for gender-neutral insurance, the National Organization for Women estimates that women pay almost $16,000 more than men in a lifetime for insurance (Business Week 1983). In Montana, the Non-Gender Insurance Project released a study demonstrating that before the unisex law took effect in October 1985, women paid substantially more for every type of coverage except auto insurance, and that over a lifetime a woman would incur $20,176 more in cost than a similarly situated man (Thom 1988). Gray (1983) contends that gender-based rates are neither fair nor cost-based. She argues that gender-based rates are not fair because they treat each woman as the average woman by applying to her average characteristics which she may not possess. Further, she argues gender-based rates are not cost-based because of the industry's use of setbacks, which use artificial gender differences not related to cost.

In general, it would be expected that comprehensive unisex rates would have the following effects on women: auto rates would increase, particularly for those under age 25; life insurance rates would increase; health insurance rates would decrease; and disability rates would decrease. The argument is made (National Underwriter 1984c) that health and disability insurance coverage is already provided on a unisex basis for most people because these are the forms of insurance most likely to be provided by employers. Fisher (1984) reports, however, NOW's argument that approximately 30 million women workers are not covered by disability insurance through their employers and nearly five million women workers are not covered by health insurance plans through their employers. While health and disability insurance are more likely to be covered by employers, those types of fringe benefits are more likely to be available for those in stable and well-paid employment than those at the margin (Denenberg 1978). Women and minorities, often low-wage earners, are less likely to receive such benefits. Private health insurance is prohibitively expensive for most women. If they don't have group coverage, chances are they only buy it if they know they have health problems (Gray 1983). Therefore, industry projections of purchase under gender-neutral rates may be faulty. If rates were lowered for women (by sharing risk across men), health insurance would become more affordable for healthy women as well. Women's groups argue that the insurance industry relies on sex as an actuarial factor because it is easy to identify and thus inexpensive to use, but that if lifestyle factors were substituted insurance rates would not go up for all women, and could go down for some health-conscious and safe-driving individuals (Calmes 1985).

As Kaufman (1983) points out, these economic implications have focused on the cost impact of merged-gender rates on men and women as groups, although cost changes would vary among individuals. In a broad sense, the real economic cost of unisex rates is primarily a transfer of income between men and women. The insurance industry would face some short-term administrative costs, but these would eventually be passed on to consumers in the form of higher rates, and these initial costs would be spread over time among millions of people.

Summary

Perhaps the case for gender-neutral rates can be best epitomized by Sheppard and Lewis-Carter (1978, p. 719):

> The real gut issues . . . are the rationality of an existing system which perpetuates and uses actuarial statistics with sex-based classification reflecting mortality and morbidity patterns which are outdated, societal stereotyping of women and ethnic groups, and economic conditions that compound these stereotypes. State insurance regulators can only begin to chip away at the inherent irrationality that causes discrimination in the marketplace. And only the collective social conscience can confront covert causes of discrimination in our society.

In summary, proponents of unisex insurance rates view classifying people as part of a group unfair discrimination, regardless of the outcomes to individuals. Therefore, the social goal of establishing individuals' civil rights overrides the economic implications, whatever they may be. The fact that implications are widely considered in terms of the 'typical man' or 'typical woman' only reinforces their argument that society exhibits a tendency to associate individuals as a part of these groups, and that in order to erase these stereotypes the acceptability of grouping people in this way must be eliminated.

THE CASE FOR RETAINING GENDER-BASED RATING

Economic Efficiency Arguments

Advocates for maintaining gender-based rating tables cite their fairness. The argument is that similar risks are grouped together, thereby charging everyone the most fair rate based on the level of risk. Schweiker (1983) likens classifying risks to fair pricing. Benston (1983) contends that, in order to be illegal, discrimination must be invidious or based on false, inefficient stereotypes. As stated earlier, the insurance industry does not consider gender-based rating to be as invidious as rating based on race or religion (Brostoff 1984). Benston (1983) argues that sex-based mortality tables use efficient stereotypes. In other words, the marginal benefits of using the prediction outweigh the marginal costs of making the prediction. Actuaries do not use sex stereotypes with the intent of harming a particular group. The concept of "fair discrimination" is based on use of sex as an efficient indicator of men or women as a class. In order to compete effectively in the marketplace, companies must use the most efficient predictors possible.

If sex is eliminated as a rating factor, insurers would have to rely on other classification factors that would not be as precise and could encourage insurers to avoid writing certain risks altogether (Chalke 1986; Miller 1985; National Underwriter 1984b). Insurers use cost-based pricing methods (Arndt 1985), and without gender it becomes more difficult to predict cost (Lyons 1986). The argument is made (Journal of American Insurance 1984; Lautzenheiser 1980; Miller 1985) that no other variable can replace the predictive validity of gender in determining risk, and therefore rates. Eliminating gender-based rates would mean insurance companies would not be able to operate as efficiently, in terms of relating prices to costs, as they currently do.

Economic Impact Arguments

The primary argument against eliminating gender as a rating variable is the predicted economic impact. According to the American Academy of Actuaries and the Committee for Fair Insurance Rates (General Accounting Office 1984), women would pay more for insurance, not less. One estimate suggests that eliminating gender from auto insurance rating would cost women at least $700 million per year in additional premiums. Assuming group medical and pension coverage, a typical woman may pay as much as $8,455 less than a typical man in her lifetime (Journal of American Insurance 1984). Using a Rawlsian ethical framework and applying the difference principle, any social or economic inequalities should be to the greatest benefit of the least advantaged members of society (Beider 1986). This would suggest, then, that women, who already are economically disadvantaged in this society, would be further ahead financially if gender-based rates were retained.

Keyfitz (1978) makes the argument that using gender-neutral rates to subsidize women (in life annuities) is a trivial way to right past injustices and discrimination against women. Moreover, insurance is a voluntary purchase. Those who would be "overpaying" under gender-neutral rates may choose to invest their money elsewhere. This phenomenon would be exacerbated if gender-neutral rates are not uniformly applied, but are adopted (as appears to be the case) in certain states, for certain types of insurance, and by certain companies (Minck 1978).

Carlson and Lord (1986) contend that prohibition of use of gender is indefensible on economic efficiency grounds; however, it is defensible based on equity considerations designed to benefit a previously slighted class. They further point out that such a social regulation does not always produce the intended results.

Summary

In summary, advocates of gender-based rating systems are primarily concerned with their economic implications, including price changes affecting individual policyholders, changes in availability of insurance coverage to certain groups, and administrative costs involved in implementing unisex pricing. Their argument focuses on discrimination as a fair means to an end--that is, discrimination which is used to classify similar risks for efficient pricing, without evil intent toward any particular group. An analogy might be a utilitarian ethical framework, in which the means of discrimination is justified by its economic efficiency.

THE CONFLICT BETWEEN THE TWO POINTS OF VIEW

As stated previously, the primary objective of unisex proponents is social equality for men and women, which would be effected by eliminating sex-role stereotypes. The argument has been made that this social goal transcends economic considerations (Kaufman 1983). Gender-based rates are based on stereotypes of group behavior which may or may not be valid assumptions about individuals (Austin 1983).

Opponents have argued that the present system is fair because: (1) individuals receive equitable treatment if the cost of insurance to each person is directly related to the degree of risk that person adds to the risk pool, and (2) equality among individuals in insurance is achieved when the present value of the expected benefit from an insurance contract is the same for everyone who made the same payments. Kaufman (1983) counters that both of these arguments are flawed from the standpoint of social policy. Inasmuch as the essence of insurance is that some individuals always subsidize the insurance of others, it is the initial choice of gender as a classifying variable, rather than other criteria over which the insured has some control, which reinforces social stereotypes and contributes to the fragmentation of society. While unisex opponents arguments' are based on the philosophy that it is not fair for one group to subsidize another, and that unisex rates represent a transfer of wealth from one group to another, proponents argue that spreading risk among a collection of individuals is the very essence of insurance, and that the only unfair aspect is in the use of immutable variables, such as race or gender, in classifying like risks.

In analyzing the conflict between these two points of view, two differences in perspective emerge. One is a difference in viewpoint about the purpose of insurance. A second might be a difference in level of analysis.

The Purpose of Insurance

Unisex opponents rely on the argument that, in a free market economy, insurance purchases are voluntary (Keyfitz 1978; Minck 1978). The crux of this argument is that, if prices become 'artificially high' for some risk classes and 'artificially low' for other risk classes, these buyers can choose to self-insure and/or invest their money in some other way. As Benston (1982) points out, the value to the purchaser lies in the utility to that person of avoiding the effects of risk.

Unisex proponents seem to perceive insurance in a different way. Rather than regarding it as a voluntary purchase, Austin (1983) states that insurance is a necessity in this society, so it is a "civil right." This perception of insurance as a necessity may well have been promulgated by insurers in marketing their policies. Indeed, as Barbara Lautzenheiser (1989) lamented, "As an industry we have done such a good job of convincing the public that insurance is a necessity, not a luxury, that they now believe us" (p. 1C).

Certainly, the potential exists for economic devastation to an uninsured individual who assumes all risks without insurance. On the individual level, drivers protect themselves from the 'uninsured motorist' with coverage on their auto policies. On a collective level, health care costs are of great concern, in part due to subsidization of those unable to afford health insurance. The movement for a national health insurance program is at least partially related to the difficulties placed upon a health care system where some people have health care insurance, some do not, and few can afford to "pay their own way" in case of major illness or accident. Therefore, unisex proponents contend that, in today's society, no one can afford to be without insurance; therefore, it is not a voluntary purchase, but a mandatory protection against financial ruin (and perhaps the only means of maintaining health and survival). Moreover, recognition of insurance as a necessity for most Americans implies that government should assume a greater responsibility for selection of classification criteria (Wortham 1986).

Level of Analysis

Opponents of unisex insurance concentrate mainly on the micro level, i.e., the individual exchange of value between the insurance company and the insured. By focusing on the specific marketing transaction, the emphasis is on fairness to individual customers, and therefore efficient pricing which allows each person the "best deal." It might be argued that, at this micro level, the insurance industry is simply complying with the marketing concept and satisfying customer needs in the most efficient way.

Proponents of unisex insurance, on the other hand, would seem to be focusing on broader, macro-level issues. Their social goal of ending sexual stereotypes is seen to transcend the implications of specific economic transactions. This might reflect a societal marketing concept philosophy, in that the well-being of society as a whole is viewed as outweighing the satisfaction of individual customers. It also may reflect a long-term time frame, beyond the shake-out which would be expected to occur in the industry if unisex rates were implemented, to a more stable period which would follow.

It seems inevitable that these differences in viewpoints regarding the purpose of insurance and the level of analysis would lead to a clash between these opposing camps. Both views may be supported logically at their level of analysis, so the difficulty lies in finding common ground. Perhaps, for marketers, the task entails considering both views simultaneously. The following discussion considers impacts of unisex insurance at both the micro and macro levels, within the context of a society where (1) the purchase of insurance is largely voluntary, but (2) the standard of living is high enough that for most people insurance coverage is considered a basic necessity.

IMPACTS OF GENDER-NEUTRAL INSURANCE RATING

Discussion of the impacts of unisex insurance will first focus on what unisex proponents want to accomplish, and then findings will be reviewed as to what its actual effects seem to have been. As stated previously, the primary, overriding objective of unisex proponents is to eliminate sexual stereotypes in society. This is a broad goal, and one which may be difficult to evaluate. As McCluskey (1984) points out, unisex legislation will not raise female salary levels or increase employment opportunities, but it will treat individuals equally, without regard to their sex, in determining insurance premiums. The underlying assumption here is that, by eliminating that 'initial habit' of categorizing individuals by their gender in assigning insurance risks, elimination of cultural stereotypes will follow.

Secondly, proponents have argued (Calmes 1985; Hathaway 1988; Thom 1988) that some women would pay less for their total insurance package under unisex rates. Concern has been expressed (Denenberg 1978; Fisher 1984) for the growing number of female heads of households whose employers do not provide insurance benefits. It has been predicted that many of these women would benefit under unisex pricing.

As for actual effects, unisex insurance rates have been in effect such a short time, in such a few places, that data are not available to evaluate its social effects (elimination of sex-role stereotypes). Therefore, the focus of this discussion will be on economic effects.

Predicted Micro Effects

In general, it has been predicted that, if unisex rates were adopted for all lines of insurance: (1) women's auto rates would increase, particularly those for young women, while young men's rates would decrease; (2) women's life insurance rates would increase; (3) women's health care rates would decrease overall, although Arndt (1985) contends younger women's health care rates would decrease at the expense of older (55+) women; and (4) women's disability coverage rates would decrease (Arndt 1985; Bennett (1986); Bernstein 1984; Business Week 1984; Forbes 1985, 1986; Fox and McIlwain 1984; Journal of American Insurance, 1983-84, 1984; McCluskey 1984; Miller 1985; National Underwriter 1984c; Rohm 1989; Soular 1985). On the whole, the preponderant belief is that the blending of risk categories would cause a rise in insurance rates for everyone (Fisher 1985; Forbes 1986; Galloway 1984). The generalization is made (Forbes 1986) that, where unisex rates are in effect, women are paying more and men are paying the same or less. According to Forbes (1986), "Equality has its price" (p. 10).

Actual Micro Effects

There are some difficulties in assessing the actual effects of unisex insurance. States enacting unisex auto insurance legislation have not provided much impact data, mainly because other changes in insurance laws were made simultaneously (Kocolowski 1984; National Underwriter 1984d). Wallace (1984) estimates the premium effects of gender elimination in Michigan's auto insurance rating were moderate and not likely to cause market disruption or cause availability problems for young drivers. Hathaway (1988) reports that gender rate changes due to John Hancock's switch to unisex pricing have been small, and less than differences between smokers and nonsmokers. Finally, the Montana Non-Gender Insurance Project's study found that women paid substantially more for every type of coverage except auto insurance before the unisex insurance law took effect (Thom 1988). Andrea Bennett, Montana's insurance commissioner, concurs with this assertion (Fruhling 1989). She says the unisex law is "working fine." As predicted, auto insurance rates increased for young women and decreased for young men. Women's health insurance rates decreased about 25 percent. Life insurance rates for women increased 10 to 30 percent, but these costs were offset because women now receive more money when they convert their life policies to annuities or cash payments. Bennett says time has leveled out many of the initially steep increases in auto insurance prices. Forty-five companies have withdrawn from the state, but all reportedly left for reasons such as business consolidation, unrelated to the unisex law. Meanwhile, 128 companies began doing business in Montana. While there has been a dearth in availability of some types of insurance coverage, proponents believe the advent of unisex insurance in heavily populated states such as Massachusetts and Pennsylvania will help the sparsely populated state of Montana. Unisex policies designed for those states might be adapted easily to Montana (Fruhling 1989).

Predicted Macro Effects

In terms of macroenvironmental effects, Bernstein (1984) predicts that national unisex insurance legislation would bankrupt more than twenty of the leading U.S. life insurers, while reducing the surplus of some 150 life companies by more that $14 billion. Concern also has been expressed that this one mandated rate practice would open the door to more such mandates on the insurance industry (Randall 1978).

Actual Macro Effects

Again, there are not conclusive data to evaluate the true economic effects of unisex insurance. It appears from the few findings available, however, that the effects are fairly moderate and probably would not have a great impact on most people when their total insurance purchases (across all types) are taken into consideration.

An Integrated Framework

The issue of micro versus macro concerns was mentioned earlier in terms of the opposing sides' arguments. This micro versus macro framework might be useful in analyzing possible impacts from a marketing perspective; namely, the micro effects on individual transactions and pricing, and the macro effects critical to public policy makers.

Table 1 presents such a framework, suggesting possible consequences of implementing gender-neutral insurance pricing, within the context of positive and negative effects on both direct and indirect participants. The entries in this table are drawn from the preceding discussion of the cases for and against unisex pricing and predictions of its impacts.

To summarize the consequences on direct participants in a micro context, women's health, disability and annuities probably would cost less, as would men's life insurance and young men's auto insurance (positive effects). On the other hand, the price of auto insurance for young women probably would increase, as would prices for women's life insurance and men's health and disability insurance and annuities (negative effects). As previously suggested, these changes might actually cancel each other out, bringing about little overall change across all insurance types.

The positive macro effects on direct participants, particularly if national unisex insurance legislation were passed, appear to be more uniformity in insurance rates and conditions nationwide and possibly more employers providing group coverage. The elimination of gender in determining rates, however, would most likely result in some increase in insurance rates in order to absorb the administrative costs of implementing the change and to provide a cushion for the increased uncertainty in risk resulting from removal of gender as a predictor variable. It is also possible that fewer employers would offer group insurance coverage because of rising costs or that insurers would target companies with a high percentage of male employees as attractive accounts, and thus might limit availability of group coverage to companies with a high percentage of female employees. Furthermore, success in eliminating gender as a predictor variable may encourage others to push for removal of age as a classifying characteristic for insurance.

The micro effects on indirect parties (not direct participants) might include the positive outcome of development of more precise indicators for classifying risks to replace gender as a variable. Negative micro outcomes could include more women spending a greater proportion of their household budgets on insurance (if predictions of increased costs are accurate) and

TABLE 1

POSSIBLE CONSEQUENCES OF IMPLEMENTING GENDER-NEUTRAL INSURANCE

		Micro	Macro
Direct	Positive	Decreases in: Women's health rates Women's disability rates Women's annuities Men's auto rates Men's life rates	If national legislation, more uniformity in rates and conditions More employers' group coverage
	Negative	Increases in: Women's auto rates Women's life rates Men's health rates Men's disability rates Men's annuities	Increased rates overall to absorb admin. costs and "cushion" for industry's lack of knowledge Less employers' group coverage Pressure to remove age as a classifying characteristic
Indirect	Positive	Development of more precise indicators for classifying risks	Positive reinforcement of women's equal place in society Greater employment opportunity and economic equality for women
	Negative	More women spending greater proportion of household budget on insurance More uninsured and underinsured families	Greater rifts between women's groups and insurance industry Less availability of insurance to "high risk" groups; more costs subsidized by taxpayers Increased employment discrimination Increased "feminization of poverty" Movement of insurance companies from states adopting gender-neutral legislation, causing employment shifts National health insurance

possibly more uninsured and underinsured families if costs are too high or availability of coverages tightens.

The principal positive macro effect on indirect parties would be reinforcement of women's equal place in society, which ultimately might manifest itself in reduction of sex role stereotypes, greater employment opportunities, and economic equality for women in society. The negative macro effects on indirect parties could include greater rifts between women's groups and the insurance industry. There could be less availability of insurance to "high risk" groups, in turn causing more costs to be subsidized by taxpayers. Sex discrimination in employment could increase if price differentials in group insurance coverage discouraged employers from recruiting women. The combination of predicted higher overall insurance rates and increased job discrimination could increase the trend toward feminization of poverty. If legislation continues on a state-by-state basis, it is also possible that insurance companies might relocate to states not adopting gender-neutral insurance legislation, causing shifts in employment in some geographic areas. Finally, many would view as negative the possible implementation of a national health insurance program, designed to aid problems in private insurance health coverage, but which would add government bureaucracy to replace at least part of the private insurance industry.

IMPLICATIONS

Two issues need to be addressed here: (1) Is unisex pricing a wise marketing decision on the part of individual firms? (2) Is unisex legislation good public policy from a macromarketing point of view?

Micromarketing

Whether unisex is good marketing depends upon what marketing philosophy a firm subscribes to, i.e., the marketing concept or the societal marketing concept. If a firm adopted the societal marketing concept, this would suggest that the well-being of society as a whole should be a concern, in addition to satisfying individual customers. The issue then becomes what ethical framework should be used in determining who is better off and who is worse off. If prices for the market as a whole rise as a result of unisex pricing, then not only are individual customers worse off, but society as a whole may not be better off, unless the social goal is seen as outweighing the economic cost (if indeed, equality does have its price). On the other hand, if women, who have faced historical discrimination by the insurance industry, are economically better off as a result of unisex pricing, then the difference principle would suggest that society as a whole has benefited. Finally, if indeed the elimination of gender-based rates made inroads in eliminating sexual stereotypes in society, or at least stopped perpetuating them, then the social goal would be met and the issue of whether 'women as a group' or 'men as a group' were economically better or worse off would become an irrelevant question.

Under the marketing concept, the key issue would be satisfying consumer needs and wants, so consumers' preferences should be the primary consideration. At least one insurance company, John Hancock, has made the decision on the basis of customer research that clients find sex-based rates offensive and has implemented unisex rates (Hathaway 1988). Another survey, conducted in Iowa, reported that 86 percent of Iowans favored requiring insurance companies to charge men and women the same rates, with only 12 percent opposing this proposal (Pins 1989). While more data are needed to draw any definite conclusions, these findings suggest consumers would prefer non-gender-based pricing of insurance. Perhaps some of the money being spent by the insurance industry lobbying to deter and repeal unisex legislation should be spent on consumer research!

Based on the Montana findings, that overall effects on prices and insurance availability have been moderate, and the available survey evidence that consumers are offended by sex-based rates, it would appear that elimination of gender in pricing insurance products would be good micromarketing. Indeed, those companies to lead in setting this trend may enhance their public images by positioning themselves as socially responsible, innovative companies in an industry characterized as dragging its heals against change.

Macromarketing

The macromarketing issue to be addressed is whether unisex legislation is good public policy. Again, the ethical framework chosen might determine the answer to this question. If the "fair discrimination" used in pricing insurance products is indeed providing the most economically efficient pricing system, then perhaps the ends justify the means. The possible negative consequences which have been predicted, such as shrinking availability of coverage for high-risk classes, might outweigh the possible positive effects.

There is also the point of view, however, that stereotyping people by assigning them to categories, whether or not they as individuals share the "average" characteristics of that group, violates an ethical imperative. This view would contend that this type of discrimination is always wrong, regardless of its consequences, and cannot be tolerated in a free society. As Brilmayer et al. (1980) point out, it is a circular argument to use expectancies generated by a predictor to justify using that predictor. The fact that gender is initially chosen as a rating variable reinforces the notion that stereotypes exist (Kaufman 1983), and thereby provides its own compelling argument for eliminating gender as a classification factor.

While short-run difficulties in pricing and availability might occur, there is no reason to believe that in a competitive marketplace needs would not eventually be filled. If not, it might be expected that consumers would revolt and demand changes in the system, as illustrated by California's Proposition 103. Therefore, a long-term view seems more appropriate at the macro level. In the long run, when pricing has stabilized, the potential positive social effects would seem to justify implementation of unisex rates.

Conclusions

From the evidence presented, it appears that the economic impacts of unisex insurance would be moderate, and that the social effects of reinforcing the principle that sex discrimination will not be tolerated are potentially quite positive. Proponents of gender-based discrimination in insurance have not demonstrated that the costs of unisex rating are significant enough to override the presumption that people should not be subjected to discrimination on the basis of innate human characteristics (Jerry and Mansfield 1985). As former Montana governor Ted Schwinden stated when he vetoed a bill to repeal the unisex law in 1987, he was guided not by what was good or bad for women's pocketbooks, but by the unequivocal language of the Montana constitution outlawing sex discrimination (Fruhling 1989). The industry's arguments that "women are better off" sound like the same paternalistic prattle used to "keep women in their place" for centuries.

Obviously, more data need to be collected on the effects of implementing unisex rates. Until such time as these data are available, however, it appears that unisex insurance is good marketing and sound public policy.

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THE AGENDA OF A ROUNDTABLE DISCUSSION OF MACRO-ORIENTATIONS AND THE STATE OF THE MARKETING PROFESSION

Chairman: George Fisk, Emory University
Panelists: Roger Dickinson, University of Texas-Arlington
Stanley Hollander, Michigan State University
Shelby Hunt, Texas Tech University
David D. Monieson, Queen's University
Alfred H. Walle, AACSB Representative, Ithaca College

Both the AMA and the AACSB are currently exploring their respective universes of discourse and how they can be adjusted to meet the needs of the emerging era. The American Marketing Association created a task force on the Development of Marketing Thought in late 1984 and its response has been published and critiqued in the Journal of Marketing. The American Assembly of Collegiate Schools of Business is currently in the process of examining and revising its accreditation standards and is actively searching for ways to make the accreditation process as effective as possible and a true reflection of the goals, methods, and responsibilities of business. In these two self-reflective endeavors, macro perspectives should be employed.

Looking at the AMA Task Force, we see many positive steps have been made. George Fisk, however, has observed that the document and its critiques focus almost entirely on "process," (i.e., how marketing thought is created, encouraged and disseminated). Fisk feels that various substantive issues (such as the degree to which marketing thought should have a macro thrust) are ignored.

Walle believes that the AACSB's decision to embark on a ground-up restructuring of accreditation standards is a window of opportunity to infuse the business curriculum with a macro perspective. In order to take full advantage of this opportunity, a dialogue on this significant opportunity should take place.