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VI

Theories of Competition and Exchange

MACROMARKETING AND THE STUDY OF COMPETITION: A POPULATION ECOLOGY APPROACH

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ABSTRACT

This paper addresses competition from the perspective of population ecology in which it is only one form of interaction between organisms who share a common environment. After a brief look at the contributions of micro-economics to the study of competition in marketing, attention is given to more recent contributions from scholars of consumer behavior. Through the study of consumer perceptions, new issues ar raised about the processes of competition. A brief sketch of the population ecology approach to the study of competition follows, especially as it relates to the issues raised by the consumer behaviorists. The paper concludes with an evaluation of the possibilities for further research in macromarketing.

MACROMARKETING AND THE STUDY OF COMPETITION: A POPULATION ECOLOGY APPROACH

Because of its level of aggregation and its public policy implications, competition is a macromarketing phenomenon. Macromarketing scholars are concerned with the structure of the market and with the dynamics of the process of competition.

In this setting, and in this year of enormous changes in the social and economic order in many countries, it must also be said that the study of competition often has ideological overtones. As Lane (1991) has written, "Among humanists and psychologists competition is thought to be at the unfavorable end of a single dimension whose favorable end is cooperation. Among economists, competition is the favorable end of a dimension whose unfavorable end is monopoly" (p. 317). Indeed, the tension between these two views has informed a number of discussions at past Macromarketing Seminars.

This paper addresses competition from the perspective of the population ecologist who views it non-ideologically as one of a number of forms of interaction between organisms who share a common environment. It begins with a brief look at the contributions of micro-economics to the study of competition in marketing and turns to more recent contributions from scholars of consumer behavior which, through the study of consumer perceptions, raise new issues about the processes of competition. A brief sketch of the population ecology approach to the study of competition follows, especially as it relates to the issues raised by the consumer behaviorists. The paper concludes with an evaluation of the possibilities for further research in macromarketing from a population ecology perspective.

Competition in Economics and Marketing

Many, perhaps most, would agree with Bartels (1988) that "Economic theory has provided more concepts for the development of marketing thought than has any other social discipline" (p. 186). Specifically, he argues that the "structure of competition has been interpreted in terms of pure competition, monopoly, monopsony, duopoly, duopsony, oligopoly, oligopsony, and realistic competition" (p. 187).

Although Bartels did not mention "monopolistic competition," (indeed, he does not mention Edward Chamberlin) that concept probably has had the most clear and direct influence on marketing scholar's thinking about competition. Grether (1967) has argued that the influence was an interactive process with marketing scholars having had some impact on Chamberlin's thought.

Central to the construct of monopolistic competition is the concept of product differentiation which strikes most marketing scholars as bringing needed "realism" to the analysis. However, the concept of product differentiation creates certain problems for the study of competition itself. As Alderson (1965) put it:

> Chamberlin's analysis largely adopts the viewpoint of the single firm marketing a differentiated product. He makes use of the concept of an industry consisting of a number of firms, but the concept is difficult to define within the framework of his theory. In the strictest sense each seller constitutes a one-firm industry under monopolistic competition since no other firm is supplying precisely the same thing (p. 120).

Alderson saw that, once it was admitted that competitors supply products which are imperfect substitutes for one another, the boundaries of the market become unclear. In other words, there are no clear conceptual rules for deciding who was competing with whom. Grether (1967) argued that "the stress on the individual enterprise and its uniqueness in a universe of heterogeneity created a more serious problem in terms of macroanalysis for Alderson than for Chamberlin. . . (because) . . . Alderson's stress on the on the functional behavior of organized behavior systems led him into a broad sociobehavioral type of analysis far beyond that of Chamberlin" (p. 317).

From the perspective of the economist, the problem of market definition is rooted in the concept of cross elasticities of demand which, in turn, is a matter of product substitutability. As put by Papandreou and Wheeler (1952), "Firms must be placed in the same group if they sell substitute products" (p. 31). An example of this is embodied in the market definitions of the U. S. Justice Department's (1984) merger guidelines with respect to the product boundaries of markets:

> In general, the Department will include in the product market a group of products such that a hypothetical firm that was the only present and future seller of those products (a "monopolist") could profitably impose a "small but significant and nontransitory" increase in price. That is, assuming that buyers could respond to an increase in price for a tentatively identified product group only by shifting to other products, what would happen? If readily available alternatives were, in the aggregate, sufficiently attractive to enough buyers, an attempt to raise price would not

prove profitable, and the tentatively identified product group would prove to be too narrow (p. 4).

The guidelines admit that direct evidence will be available only rarely and that "it will usually be necessary for the Department to infer the likely effects of a price increase from various types of reliable, circumstantial evidence," specifically mentioning "buyers perceptions that products are or are not substitutes" and "similarities between the products in customary usage" (p. 5). Of course, these latter two are the subject of much research in marketing, the topic of the next section.

Influences from Consumer Behavior

As documented elsewhere (Mittelstaedt 1990), the consumer behavior branch of U. S. academic marketing thought has moved almost entirely away from economics as a source of conceptual borrowing and embraced psychology as its "mother discipline." To the extent consumer behavior scholars have set the research agenda for the discipline, the concerns over such issues as the nature of competition have tended to drift from view.

However, during this period in which the consumer behavior "movement" was gaining ground, the nature of psychology was changing and, beginning in the 1960s, the cognitive approach began to reach ascendancy. Among the analytical tools relevant to this approach which were quickly diffused into consumer behavior, and thereby into marketing theory, were the various multivariate statistical techniques which allowed researchers to not only speak of, but actually measure, such phenomena as "perceptual maps" (of product/brand positions), "multi-attribute/benefit structures," and "attribute trade-offs." Because all of these various techniques are based on the premise that competing brands within the consumer market are imperfect substitutes, it seems natural that they might be related to the question of market structure. Indeed, Myers and Tauber (1977) present an excellent exposition of the various techniques and show that the unifying theme of all of them is that they relate to market structure.

In this milieu, a series of papers by Srivistava, Shocker and their colleagues appeared which explicitly link perceptual theory, multivariate statistics, and the structure of markets. They begin their analysis with two premises which draw heavily on the ideas of Stefflre (summarized in Myers and Tauber 1977, Ch. 7):

(1) People seek the benefits that products provide rather than the products per se. Specific products or brands represent the available combinations of benefits and costs.

(2) Consumers consider the available alternatives from the vantage point of the usage contexts with which they have experience or the specific applications they are considering. It is the usage requirement which dictates the benefits being sought.

They went on to say:

> From these two premises, we can define a product-market as the set of products judged to be substitutes, within those usage situations in which similar patterns of benefits are sought, and the customers for whom such usages are relevant (Day, Shocker and Srivistava, 1979, p. 10)

Their three Journal of Marketing articles (Day, Shocker and Srivistava, 1979; Srivistava, Leone and Shocker, 1981; Srivistava, Alpert and Shocker, 1984) form a logical development of both concept and method. The first reviews seven empirical methods for implementing a customer-oriented product-market definition. Three are based on purchase or usage behavior (cross-elasticity of demand, similarities in customer usage behavior, and brand switching) and four based on customer judgments (decision sequence analysis, perceptual mapping, technology substitution, and customer judgments of substitutability.) The latter, customer judgments of substitutability, consist of five techniques, one of which is the analysis of "substitution-in-use." They concluded that, while "the suitability of different empirical methods is strongly influenced by the character of the market environment, on balance, those empirical methods which explicitly recognize the variety of usage situations have widest applicability and yield maximum insights" (Day, Shocker and Srivistava, 1979, p. 18).

The next two papers applied a methodology based on consumer judgments of substitution-in-use to consumer financial services available to assist in making retail purchases. Although the inherent substitutability of money makes all consumer credit financial services roughly competitive, their study found that consumers grouped these financial services according to three use-situation characteristics: (1) the dollar amount required for the purchase, (2) the location (local versus out of town), and (3) credit availability in the establishment where the purchase was being made. Applying hierarchical clustering to the resulting data showed that, in the broadest sense, all services are roughly competitive but that some are more similar in the benefits they provide for given situations and, in that sense, were closer competitors. As one example of their findings, while borrowing against a savings account and a finance company loan were seen as equally useful for certain kinds of purchase situations, they were only vaguely related to the use of an installment loan from a bank or credit union. This was because, people considered the use of borrowing against their savings or going to a finance company as an appropriate solution to their needs and wants only when there was no credit available from the seller; installment loans from banks or credit unions were alternatives to credit granted by the seller. Further, there is a hierarchy of use situations such that those services which are suitable for use in a wider variety of situations (e.g., checks) compete with more services than those which are useful in a narrower set of situations (e.g., retailer offered credit). (Srivistava, Leone, and Shocker, 1981)

The 1984 paper (Srivistava, Alpert and Shocker) combined multi-dimensional scaling and clustering to the situation-in-use data. As examples of the findings, travelers' checks were perceived to be closer substitutes for bank credit cards than were bank debit cards. Further, because bank credit cards were perceived as suitable for both local and out of town purchases while traveler's checks were suitable for only the latter, it could be concluded that bank credit cards were always a competitor to traveler's checks but that traveler's checks were a competitor to the bank credit card for some, but not all, customer usage situations.

In summary, starting from the premise that demand is heterogeneous, in the search for a new method of identifying boundaries, the Srivistava, Shocker, et.al. approach identifies at least three intuitively appealing facets of competitive interaction: (1) Competitive rivals exist at different levels of generality meaning that some offerings within the marketplace have more competitors than others; although A and B may compete with each other, A may have more direct rivals than B. (2) The intensity of competition between any two pairs of competitors can vary within a market; the competition between A and B may be more intense than between B and C. (3) The competition between any pair of rivals can be asymmetrical; A can be more of a competitive threat to B than B is to A.

In all probability, these findings surprise no one. Yet they do not appear to be easily accommodated in traditional economic analysis. This may explain why most of the recent theoretical work on market definition for antitrust purposes has focused on the geographic dimensions of the market (summarized in Scheffman and Siller 1987). Although they do not make the attempt, Greenhut and Benson (1989) claim that "the theory of product differentiation can be analyzed with advantage under the confines of the 'spatial price theory' framework of thought" (p. 4). The work of Phlips (1988) makes some progress in this direction but, to make the promise come true, economic theorists would have to adopt a "spatial view" of a product market and, in the process, give up the assumption of the homogeneity of demand. While we do not contend that this cannot happen, another source of theory about competition exists in the population ecology literature. It is to that we now turn.

The Population Ecology Approach

The field of population ecology is defined by Krebs (1972) as "the scientific study of the interactions that determine the distribution and abundance of organisms" (p. 4). Although competition is only one form of interaction among organisms, ecologists have focused on it as a major determinant of the structure of ecological communities, defined as "living systems of interacting species populations" (Giller 1984, p. 2).

While interaction among organisms takes many forms, some of which are "active" (e.g., fighting among animals) while others are "passive" (e.g., tall plants shading shorter plants), there are only three basic outcomes, defined as changes in a species' life chances as a result of changes in the density of another species: (1) increases in the density of one species may increase the survival, growth, or fecundity of another species or (2) it may cause decreases or (3) it may have no effect (Begon and Mortimer 1986, p. 63).

Figure

Effects of Species 1 on the
Fitness of Species 2

		Increase	Neutral	Decrease
The Effects of Species 2 on the Fitness of Species 1	Increase	++		
	Neutral	0+	00	
	Decrease	-+	-0	--

The Figure summarizes the six possible outcomes of interactions between any two species. The "00" cell represents total independence; it is included for completeness only. Interactions "+0" (commensalism), "-0" (amenalism) and "++" (mutualism) are often described by population ecologists as "minor" categories of interaction. While biologically interesting, they have received little attention in the literature of the field [Begon and Mortimer 1986].

The most obvious example of a "+-" interaction is the predator-prey relationship but the category also includes such variants as the herbivore-plant and parasite-host relationships. Perhaps because of the economic importance of these interactions, the "+-" form has received considerable attention in the ecological literature.

To the ecologist, the term "competition" is limited to the situation in which increases in the density of species A decrease the life chances of species B and vice-versa, the "-,-" interaction. In other words, ecology views competition as the biological equivalent of a zero-sum game, resulting from the "situation in which there is not enough of an environmental resource for both of two individuals or two species populations. Use of the resource by one individual or species reduces the amount available to the other, and the growth or survival of the other is affected by the shortage." (Whittaker 1970, p. 17).

Competition exists among individuals of the same species, intraspecific competition, which is density dependent because the probability of an individual being adversely affected by limited resources increases as the number of other individuals of the same species increases. Interspecific competition exists among between species within the same genus and/or among species of different genera. It might be noted that, in the literature of ecology, the concept of interspecific competition most often refers to interaction among species of the same genus. As Darwin (1859) wrote, "As species of the same genus have usually, although by no means invariably, some similarity of habits and constitution, and always in structure, the struggle will generally be more severe between species of the same genus, when they come into competition with each other, than between species of distinct genera" (p. 76).

In most natural environments, the relationships become complex, varied, and asymmetrical. Thus, rabbits may be prey for coyotes who, in turn, are the hosts for parasites such as lice. The coyotes compete with each other for the rabbits and other prey and also compete against other predators such as hawks, eagles, and owls. Because the coyotes can take much larger prey than their bird competitors, they have food sources available to them which are unavailable to their rivals. On the other hand, coyotes can also take smaller prey making the competition between coyotes and the bird predators asymmetrical. Population ecology explains these complex relationships through the concept of the niche.

In ecological theory, every species has its own niche within a particular community. This niche exists in an n-dimensional space with each dimension representing an environmental variable capable of affecting the species' ability to survive and/or reproduce. The niche itself is defined as an n-dimensional hypervolume, "every point in which corresponds to a state of the environment which would permit the species to exist indefinitely [Hutchinson, 1957, p. 417]."

The "Principle of Competitive Exclusion," also known as Gause's Law, says that two species cannot coexist permanently in the same niche. Since it is obvious from observing nature that similar species coexist within the same community, the relevant question must be "What degree of niche similarity allows species to coexist while avoiding competitive exclusion?"

Niche theory answers this question by invoking the concept of niche overlap. Niches of competing species are not coterminous hypervolumes. Rather, species tend to share some part of each others' niches, resulting in simultaneous demands upon some resources by two or more species. In other words, niche overlap leads to competition among species in only a part of each species' realized niche. While either species may dominate its rival within the overlap area, neither can ever be completely displaced.

In short, the situation in a natural environment is such that there are interactions of many kinds among species. While the relationships among individuals within a species are always competitive, the relationships with other species within the same genus are only partially competitive. Depending on the degree of niche overlap, they will vary in intensity. The relationships with other species from other genera might be competitive (and vary in intensity) or might take one of the other forms of interaction. In other words, the relationships (including competition) between many pairs of species will be non-symmetrical.

The Interaction of Competition and the Environment

Because competition is defined, in the ecological literature, as rivalry for the same set of resources, it is implicit that there is an interaction between competitive processes and the nature of the environment. In general, it is presumed that the structure of the competitive environment is the outcome of the process. Ecologists measure species diversity (the numbers of individuals in each species within an environment) as the "structure" of the environment and presume that, at the moment of time at which the measure is taken, it is the result of the working out of the relationships of the species within the environment. Put in terms familiar to economic theory, the central paradigm of population ecology is that conduct produces structure.

In turn, that structure affects the nature of the competitive process itself. Three principles seem to dominate the thinking on this matter. First, it is generally agreed that, other things being equal, larger environments support greater diversity, although there are differences of opinion as to the reason for this relationship (c.f., Hairston 1984; Terborgh 1973). For example, larger islands tend to support a wider variety of species within a genus than nearby smaller islands (MacArthur 1972, p. 103).

Second, and in a similar fashion, it is generally held that richer environments tend to support greater numbers of species (Begon and Mortimer 1986, p. 212), although there are notable exceptions such as the harsh environment of the Sonoran desert which supports a variety of species of vascular plants which rivals many more favorable forest environments (Whittaker 1972).

Third, with respect to the effects of environmental change, the traditional, intuitively appealing wisdom is that environmental stability enhances diversity. Empirically, environments which appear to be both rich and stable (rain forests and coral reefs) support the largest concentrations of individuals and the greatest variety of species. Further, some environments that are less rich, but stable (e.g., deep water ocean bottoms), appear to sustain greater species variation than comparable richer, but less stable, environments (e.g., shallow water ocean bottoms) (Clapham 1973).

Related to the diversity of species is the relative incidence of generalist and specialist species; presumably, environmental stability provides greater survival opportunities to species with narrower niches (specialists) thus increasing the observed diversity. As Clapham concludes, "There is a direct correlation between high ecosystem stability, high community diversity and high community stability" (p. 119).

It must be noted that many environments have been studied in which temporal instability seems positively related to species diversity (e.g., Grant 1981; Herbert 1977; Ranta and Vepsalainen 1981; Schlosser 1982). Obviously, this phenomenon presents difficulties for the conventional explanation and requires the addition of "other variables" to construct an explanation which accounts for the observations. Several have been advanced, including spatial heterogeneity (environmental "patchiness") and the linking of subsystems, but little has been settled. As a current writer (Lomnicki 1988) observes, "The relation between species diversity and ecosystem stability is one of the most debated problems of ecology" (p. 202).

Potential Contributions of Population Ecology

The potential contributions of a population ecology approach to the study of competition in macromarketing stem from that approach's capacity, both conceptually and methodologically, to describe and analyze diverse relationships among interacting organisms. Some of these are described briefly in this section. No conclusions are made about the ability of received economic theory to cope, descriptively or analytically, with these relationships; those assessments are left to the reader.

First, the ability to analyze relationships among species at various levels in the hierarchy of biological taxonomy suits the examination of analogous questions of interest to the students of marketplace competition. The phenomenon of intertype competition provides many such questions, as the competition among VCRs, cable television, movies and the video tape rental industry. Other issues may involve more complex relationships such as those among, say, the varied effects of casino gambling on other businesses within the same community.

Second, population ecology is capable of dealing with simultaneous competitive and non-competitive relationships within markets. Automobile rows and shoppping centers are obvious examples of such relationships. As another example, it might be supposed that automobiles and gasoline are complementary products. However, the sales response of large cars and small cars are likely to be quite different in the face of an increase in gasoline prices; similarly, the effects on gasoline sales of a relative change in the prices of large and small cars are likely to vary, depending on the direction of the relative price change. As a final example, it appears that the relationship between national brands and private brands may be dependent on the way price changes are communicated to the buyer. A recent study (Sethuraman and Mittelstaedt 1992) found that "cents-off" coupons offered by manufacturers (a price reduction) reduced the market share of private brands but, when the coupons for a national brand were offered by the retailer (as part of the store's advertising) the effect was to increase the market share of private brands.

Third, the ability to describe and analyze competition in degrees of intensity leads to questions about sustainable diversity in the marketplace. We believe it can be maintained that there is a difference in the competitive situation, say, two market, each of which is served by three radio stations; in one market all three stations play rock and roll music, in the other market one station plays rock and roll, one plays country western, and one plays classical. Traditionally, economic analysis has approached this question in its spatial context (the

Hotelling effect) while marketing has considered it in a product attribute context (the "majority fallacy.") Population ecology suggests that the sustainability of diversity is a function of the interaction of environmental conditions and niche overlap. In turn, this suggests that, to the extent the spatial and product space environments are independent, the applicability of spatial models to the study of product spaces and vice versa may lack the explanatory power of explicitly interactive models.

Fourth, population ecology accommodates the analysis of asymmetric relationships. For example, the intensity of competition would seem to be different to a larger, more inclusive firm and a smaller, narrower rival. For example, Ozment and Martin (1989) studied the impact of the presence of a chain discount retailer (e.g., Walmart) on the structure of retailing in smaller markets (population between 8,000 and 50,000). They conclude that, "In general, it appears that the structure of retailing is altered as small businesses that are unable to compete head-on with the large chains drop out of the market and new businesses emerge that provide either services or products that complement the (chains) offerings" (p. 104). Other examples would include the survivability of regional brands competing against national brands or the full line manufacturer competing against the short line manufacturer, with the resultant effects on market structure.

Fifth, the population ecology literature contains many measures suitable for describing such phenomena as overlap and the intensity of competition. Two representative studies are mentioned. Using the pair-wise analysis and overlap measures from the ecological literature, Stassen (1990) examined the overlap of assortments, similarities of prices and driving distances among all grocery sellers in a metropolitan market. Among the findings was that the stores tended to duplicate the prices of their nearest rivals while simultaneously diffentiating their assortments from them. Borrowing measures of competitive intensity from the literature of plant ecology, Mittelstaedt and Stassen (1989) calculated competition coefficients for the several forms of food retailers, restaurants, and liquor stores from Census of Retailing data. Among their findings were the variations in intensity of competition within the various categories of retailer and the lack of symmetry between grocery stores and the specialized food retailers (e.g., bakeries, dairy stores).

Finally, the population ecology literature contains several models and theories which are of potential benefit to macromarketing researchers because they incorporate differences in environmental conditions and their effects on the competitive process. For example, Mittelstaedt and Stassen (1992) applied ecological theory to the effects of seasonality and income levels on the proportion of shopping goods sales made through general merchandise retailers as contrasted to single line retailers. Looking across SMAs, per capita income was positively related to the share of single line retailers while seasonality (as measured by the differences between mean-January and mean-July daily high temperatures) was positively related to the market share of the general merchandise retailers.

One model of competitive growth, the Lotka-Votera (which is actually a set of models) has gained wide use in the organizational literature (cf. Carroll 1982; Freeman and Hannan 1978; Hannan and Freeman 1977). In spite of its applicability to some questions of competitiveness (e.g., the survivability of various forms of restaurants in the face of varying market environments, Wholey and Brittain, 1989), it is yet to make any substantial inroad into the marketing literature. It would seem to be especially useful for examining the relationships and outcomes of competing technologies (e.g., VCR vs. Beta format).

Evaluating the Potential of Population Ecology

Obviously, this is not the first attempt to make a case for the inclusion of population ecology or, more generally, the concepts and tools of biology into the study of economic and/or marketing phenomena. Acknowledgment must be given to such writers as Boulding (1950), Penrose (1967), Reidebach and Oliva (1981), Henderson (1983) and Lambkin and Day (1989). However, we would agree with the assessment made by Carman at the 1987 Converse Symposium that the use of organic analogies has not provided "as many insights as we would like." He goes on to suggest two reasons:

> One reason, of course, is that they involve structures and functions that may not model closely enough the structures and functions of marketing systems. However, the basic flaw of these physical and organic system analogies is that they are not purposeful systems. That is, they are not capable of establishing or changing their goals. Higher order animal systems, alone, are purposeful (pp. 100-101).

These are serious charges and, in the end, we believe they are related to the same issue. As long as we focus our attention exclusively to the biological analogy of the firm to the organism, the outcome is likely to be a conceptual dead end and empirically empty. The use of the biological analogy for the growth of markets, while somewhat more promising, misses the larger value of the population ecology approach to the study of competition.

We believe that a more fruitful approach to the study of macromarketing phenomena lies in approaching market structure as Srivistava, Shocker, et.al. do - through the needs and wants of consumers. Because people do not purchase firms to satisfy their needs and wants, this approach takes us away from the firm as a unit of analysis and puts the focus on the market and the alternative products which are related, one to another, as consumers buy and use them. It is our contention that population ecology has appropriate tools and models to study the variety of relationships which consumers create by variations in purchase and use.

The more serious question involves the purposefulness of systems. A natural environment is not a purposeful system. However, the question remains: Are markets purposeful systems in the sense that, as systems, they are capable of establishing or changing their goals? There is no doubt that actors within the market may establish or change goals. There is no doubt that economies can change their goals. However, if we retain our focus on the interactions within the market, including the "impersonal force of competition," as the determinants of market outcomes, we doubt that markets can be said to be purposeful systems. By keeping the focus on the interaction between purposeful actors within a market, the biological analogy may have many contributions to make to macromarketing thought.

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TECHNOLOGICAL INNOVATION AS AN EVOLUTIONARY PROCESS: EXTENSION OF THE POPULATION ECOLOGY MODEL IN STRATEGIC MARKETING

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ABSTRACT

This paper examines the population ecology model as it has recently been developed in the marketing and strategic marketing literatures and suggests that it be modified to include considerations of the interrelationships of technology, product, organization, consumer preferences, marketing and finance which determine the S-shape of the logistics curve. These factors provide the fundamental driving force behind strategy. The paper identifies the implications of the S-curve which determine the nature of the development of technology. It then analyses the process of technological development in order to demonstrate why the logistics curve takes the familiar S-shape, and identifies the stages through which technology development must pass in order to determine the logistics curve. This leads to an alternative population ecology model of the role of marketing in technological innovation which is tested with data from extensive studies of the history of Grand Prix motor racing innovation.

1. ORGANIZATIONAL ECOLOGY

Population ecology is concerned with the environmental adaptiveness and adaptation of organisations ('collectivities of organisms' rather than individual organisms). It describes how successive waves of organizational forms emerge in response to discontinuous environmental change and develop through stages, each of which is characterised by the advent of a new species, eventuating in a stage wherein a dominant species is apparent (Lambkin 1990: 158; cf. inter alia Aldrich 1979; Hannan and Freeman 1977; Kimberly, Miles & Associates 1980; Singh 1990). In evolutionary biology, the process of population growth is represented in terms of r, the natural rate of population increase and K, the upper limit of sustainable population size. 'Where the populations considered are expanding exponentially in an uncrowded environment and where resources are not limiting, selection will favour an increase in the value of r [the natural rate of increase]. In more stable and long lasting environments where resources are limiting, selection may well favour those characteristics that enable an individual to maintain itself in such a competitive environment. Efficiency rather than simple productivity will be selected for. These two poles of a continuum of ecological strategies have been termed r selection and K selection, after the two terms in the logistical growth equation:

$$dN/dt = rN[(K-N)/K].$$

The term in brackets represents the restriction on population growth by an increasingly limiting environment. At N=K (the carrying capacity of the environment) dN/dt = 0' (Shorrocks 1978: 93-5).

The logistical growth curve provides an understanding of how the mechanism by which markets grow. There is a tendency, as a technology develops, for product development cycles to shorten and product life cycles to lengthen: the result is that the environment tends to become more stable. The strategies observed to be successful at each of these, earlier and later, stages are quite distinct. Species that are r-dependent correlate closely with technological products which either have short life cycles or are at the post-introductory phases of

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their life cycles: r-based products exist under conditions of low population density marked by small market penetration and limited competition; the mortality of a single product could at this stage be catastrophic to the development of a complete new technology. Under such conditions of high environmental change, the surviving organization will be the small entrepreneurial company with the attributes of rapid development or adaptation, a high maximal rate of increase (r), early reproduction or an ability to react rapidly when the market conditions are correct, and a tendency to concentrate on one technology (Fawn 1990: 83-4).

At times of environmental discontinuity marked by low population density and a correspondingly low intensity of competition, e.g. the initiation of a new product life cycle as a result of a radically-innovative technology coming into being, such entrepreneurial organizations may, despite their lack of experience, enjoy lead time advantages over ossified established organizations characterized by structural inertia. Lambkin and Day (1989) consider in further detail the environmental conditions in which particular will prove to be adapted. Their predictions are framed in terms of three dimensions of the environment: 1. the variability of, or extent of change in the environment depicted by a continuum from radical change (described in terms of a CONCAVE environment) to incremental change (indicative of a CONVEX environment); 2. the frequency of environmental change depicted by a continuum from fine- grained or frequent change to coarse-grained or infrequent change; and, derived from these, 3. uncertainty depicted by a continuum on which radical and frequent change imply high uncertainty while incremental and infrequent change imply low uncertainty.

Lambkin and Day predict that the course of product-market development will involve three 'niches', each characterized by a specific combination of environmental conditions and indicative of a particular adaptive strategy based on a unique approach to niche width. (A niche is 'a distinctive combination of resources that supports a given form of organisation'. Niche width varies from specialism (the organisation concentrates its resources in a narrow segment of the environment which it exploits intensively) to generalism (the organisation disperses its resources more thinly across a broad spectrum of the environment to balance its risks). The predictions can be summarized thus:

Niche 1, the embryonic market, refers to the inaugural stage of a discontinuously innovative product-market where uncertainty, reflecting concave, fine-grained environmental variability, is maximal. These conditions are well-suited to new entrants and while population density is low and competition between new entrants and established organisations is low, it is considerable among the new entrants. Competition is especially strong in the area of technological development where there is much trial-and-error, rapid change and competition among the new entrants to match and exceed each other's performance. The dominant organisational form is likely to be r-specialists, some of which will overcome the problems of inexperience but many of which will fall by the wayside.

Niche 2, the developing market, refers to conditions of relative uncertainty marked by concave-to-convex, fine- to coarse-grained environments and increasing population density as early followers enter the marketplace. Technological development slows and the increasing competitive intensity reflects marketing concerns. This situation favours K-generalists who are likely to predominate.

Niche 3, the maturing market, refers to an increasingly certain and predictable market place, characterised by a convex, coarse-grained environment. Population density is high, approaching the market's maximum carrying level. Technological and marketing knowledge is pervasive and competitive advantage lies in the incremental improvement of productive and marketing operations: small numbers of highly efficient firms are likely to predominate. Resource restrictions may favour resource partitioning in which K-specialists exploit opportunities for segmented strategies; but K-generalists are likely to predominate.

2. IMPLICATIONS OF THE LOGISTICS CURVE

Analysis of the logistics curve indicates that when N is small, r is important and that when N approaches K, K is the dominating factor. It must be noted, however, that even in the latter instance, r has a major influence on the steepness of the curve or the speed at which maturity is achieved. Although it is easy to identify r with innovation and K with maturity, therefore, this may oversimplify and fail to comprehend the underlying process of technological development. Since technological innovation, production, marketing, strategy, finance and organization form a continuum of behaviours that is of central explicative significance (Foxall and Fawn 1991), a change in one is bound to have ramifications which seriously affect the others and thereby alter product development over the life cycle. At the earliest phase of the introduction of a product, the innovation rate is high, but a second phase emerges in which innovation is supplanted by considerations of production efficiency (Ansoff 1984). A third phase arises in which marketing is of predominant importance and a fourth in which strategy assumes overriding significance and a high rate of innovation reappears as a strong force.

2.1 The Evolutionary Driving Forces

If the ecology model is to stand, it is necessary to identify the evolutionary driving forces and relate them to the r & K factors and to the phases just described. We start from the assumption that the consumer makes rational choices about purchasing products

The basic assumption is that when a consumer buys a product, he wants benefit from that product which is greater than the investment that he makes in the product (costs). It is therefore necessary to identify the benefits and the costs involved

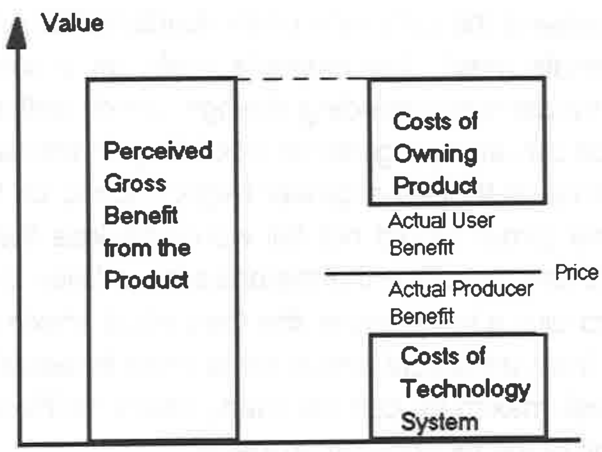

Fig 1 - The Economic Forces Leading to Customer Benefit

On the left hand side of figure 1 is the benefit that the customer receives from the product. On the right hand side of the figure are the costs to the producer and also the operating costs to the user. The way figure is drawn identifies the benefit after costs of user and producer have been taken into account. The distribution of benefit between user and producer is governed by the pricing mechanism.

The biggest box to be considered in the figure is the benefits box, and this is directly affected by the worth of the utility of the product which is in turn a function of the technology. Obviously there are interrelations between the boxes, because increasing the technology level increases benefit but may also increase producer costs and user operating costs.

However, if you start with a new product just launched on the market, the obvious way to increase user benefit is to improve by a percentage the largest item in the figure - the Gross Benefit from the Product. This means increasing the utility of the product which in turn means investing in technology. This is an r type process and implies that early in the product life cycle efforts will be concentrated on r type activities.

2.2 The Mechanisms of Technological Advance

There are two major areas of opportunity in creating technological advance.

The first is increasing the utilisation of the fundamental properties of the individual materials used. One example might be in the fact that iron atoms have a fundamental bonding strength which defines the ultimate load that can be carried by a girder in a building. In the early days of the use of iron, the loads that an engineer might impose on that girder and be sure that the girder would not fail would be less than the modern designer would use, because the materials have been developed such that it is safe to use a load nearer the theoretical maximum. The word fixation (taken from biological evolution) is used to describe how much of the theoretical maximum can be used, where 100% fixation defines the ultimate limit of the technology property.

The second relates to the fact that a product is a technological system. The system puts together individual technological properties in a way which provides utility to the user. The greater the utility, the greater the complexity of interfaces between the technological properties used and the more difficult it becomes to add utility without affecting existing defined interfaces.

2.3 The r-driven Innovation Phase - Technology Property

In the r-driven phase technology property use development is rapid: in fact, the increments of product performance based on technology property are related in a percentage fashion to the difference between the actual level of technology achieved and the ultimate theoretical performance of the technology.

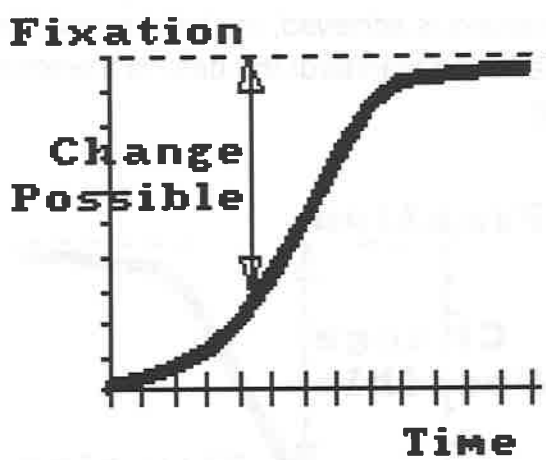

Figure 2a - Technology Property Development over Time

Absolute levels of technology performance increase therefore appear as an inverted S-curve when plotted against time (Figure 2(b)).

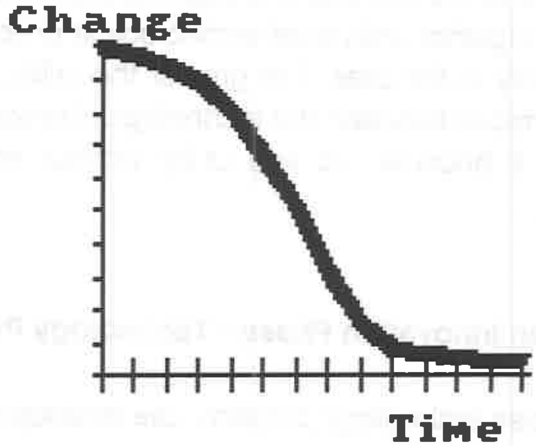

Figure 2b - Absolute Technology Property Performance Increment Increases over Time

However, consumers do not respond to absolute levels: they measure improvements relative to the performance they currently enjoy. When a significant improvement is achieved, the base simply moves up to make the new fixation level the standard; the base is therefore on the S-curve itself (Figure 2(c)).

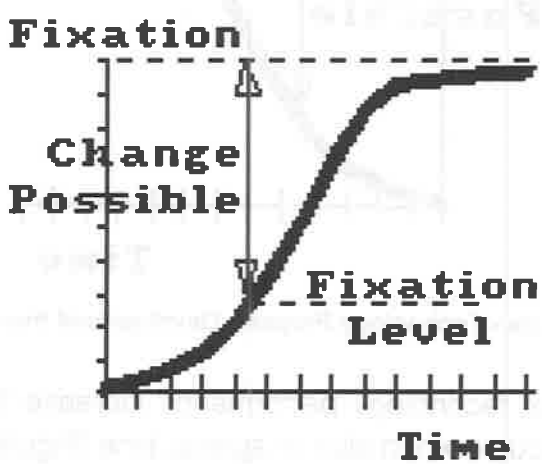

Figure 2c
Perceived Technology Property Development as a Function of Current Technology Levels

The improvement perceived by the customer must therefore be the absolute improvement plotted against time divided by the base (Figure 2(d)).

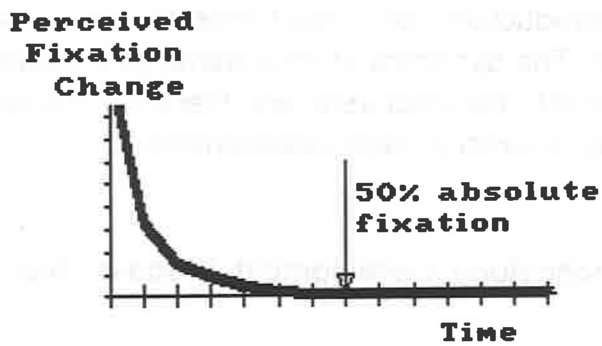

Figure 2d - User Perceived Technology Property Increments Change over Time

This curve is interesting because it has a very sharp cut off shape. It appears that at a comparatively early stage in technological development, the improvement in the utility gained from technology development cannot be perceived by the consumer and the consumer quickly becomes unwilling to pay for technological innovation for its own sake. It is thus arguable on the basis of both technology properties development and market considerations that the firm should move from an r environment which requires technology-push innovation to a mature product K-type basis founded upon the needs of the consumer at a very specific point in the development cycle.

2.4 Innovation in a K environment

So far we have advanced the argument that technology push innovation in the technology properties development arena (r type) is limited by considerations of consumer demand and that the motivation for this form of innovation will cease as a driving force at a comparatively early stage in the technology evolution cycle. We now hypothesize that there is a second reason for technology development which is initially a weaker force but which exists at all times. Although the consumer cannot measure advantages of one product against another in monetary terms, he or she can identify the current standard of product in the market and any product that does not meet this criterion will be discriminated against if all other things are equal. Attributes that make such a difference include price and design in a form sense. There are therefore static pressures to innovate in the areas of production (cost) and design (form). Change introduced to improve these areas will also allow the introduction of improvements in utility (product improvements). The dynamics of improvements introduced at different times by different manufacturers will therefore cause a continuing pressure for incremental product development.

2.5 The Technology Development Process: the r Technology Phase

Technological development is an evolutionary process. As the design of a product system is improved, it adds functionality and complexity. The basic motivation for product improvement is always the consumer reaction to an existing product and market feedback in the form 'I like the product but wouldn't it be nice if it would do this as well?'

Figure 3a - A Basic Technology Product

Responsive management of technology seeks not to abandon the existing design and start over but to modify by adding a technology and providing an interface moving from Figure 3a to 3b.

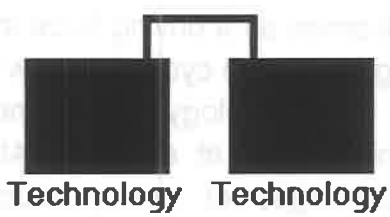

Figure 3b - A Technology Product Which Has Been Improved

The process is continuous and, as product development occurs, more technologies are added.

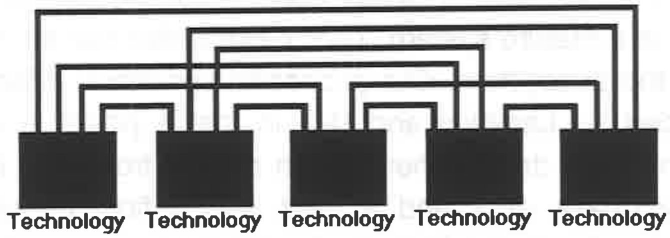

Figure 3c - A Maturing Technology Based Product

After several rounds of 'wouldn't it be nice if...?', the problem of adding another technology is that of incorporating a multiplicity of interfaces: any additional technology affects all of the existing interfaces and eventually the problem becomes so complex that, if it is conceived simply as the iteration of technologies, it is unmanageable.

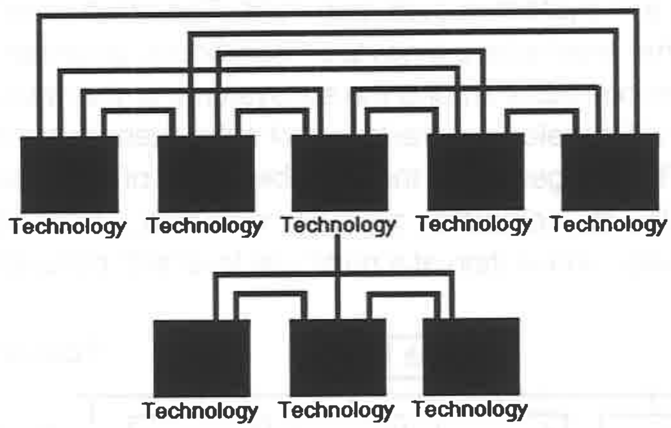

Figure 3d - Technology Product Structure Emergence

The solution to this problem is described well in biological evolution as 'canalization': innovation is possible only if it is contained within the technology box and does not affect the interface definition. The technology is therefore mature in its overall form; at the product level, it can be considered to be of a K nature.

2.6 Technology Development in Subsystems: K-development

The result is the emergence of separately managed self-contained subsystems (Figure 3(d)) in which the technology is forced into taking on a structure. The technology structure and basic interface structure becomes stable and can therefore be considered mature. The development that occurs subsequently is contained within the parameters of a mature system. Type r innovation can be observed but only within the subsystem. Our proposed sequence differs here from that advanced by Lambkin and Day in that it posits a sequence of mature technology development which ranges from r to K without an intermediary phase of 'r and K', but with a final phase of mature technology development which can be described as 'r in K'. We would also draw attention to the possibility of the emergence of further levels of structure since the same argument with respect to developmental sequence can be advanced in the context of the development within a subsystem.

The r activity will generate greater complexity within the subsystem, and the interface constraints will eventually become unmanageable as they mature into a K system in their own right. The solution will then be to create another level where innovation can occur, provided that it does not affect the interfaces among the subsystems at that level. Eventually, the product will develop several layers of subsystem in an 'inverted tree' formation. This suggests that there will be bursts of innovation within the overall cycle of complete product evolution, each burst being associated with r innovation at a particular level within the structure.

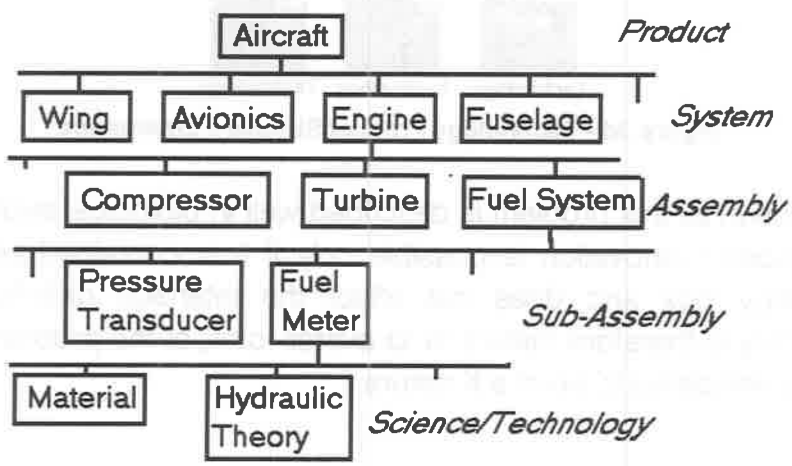

Figure 4 -Aircraft Technology Structure Development

This is exemplified by showing the levels of structure as they occur in the case of an aircraft. At each level of organization, there is the possibility of a separate company evolving. The evolution of a new level of structure also radically alters the role of the company in the structure above it. It is probable, therefore, that the emergence of a new level of technology is dependent to some degree upon organizational evolution (see Foxall and Fawn 1991). In sum, the evolution of a product depends upon the entire structure of interactions among technologies, consumer, production, organization and finance. These interactions force a development curve of an S-shape, and this curve itself interacts upon the other factors. The evolutionary process is dynamic, and if any one factor is missing, the overall product development can be impeded.

3. AN EXPLORATORY TEST BED

The empirical investigation on which our theoretical development rests examines the changing relationships between motor racing and production car manufacturers as Grand Prix racing has developed from a sport into an industry (Foxall and Johnston 1991a; Johnston and Foxall 1991). Grand Prix motor racing provides an authoritative example of the sequence we posit because it is minutely documented as an industry from the very first stages. In particular, our account is concerned with the changing status of motor racing from a source of technological innovation for car manufacturers to the focus of a complex industry in its own right based on innovations in organization and strategy. Detailed empirical evidence has been presented elsewhere as:

(i) a general history of motor sport with respect to its technological, operational and sporting nature (Foxall and Johnston 1991a, 1991b); this account indicates the main changes in the sport and their causes: sporting trends, technical developments, and the basic commercial function of the participants; and

(ii) case histories which exemplify the advent of full commercialisation of the sport, describing the commercially-inspired, technically-driven partnerships (a) among the Ford Motor Company, Cosworth Engineering and Team Lotus, and (b) between Williams Grand Prix Engineering and Honda Motor (Johnston and Foxall 1991).

These historical accounts detail the evolution not only of the technologies on which the transfer of core innovations depends but of the organizational and strategic developments which both facilitate and rely upon the availability and transfer of complementary assets relating to marketing and promotion.

There are several other reasons why Grand Prix motor sport provides an appropriate context in which to explore the evolutionary models discussed below and to propose their development. First, the popular image of Grand Prix motor racing, among enthusiasts as well as the general public, runs entirely counter to the evolutionary concept. This image is of a technologically dynamic research and development activity which employs state-of-the-art technical innovations and is responsible for their frequent transfer to production car manufacture with spectacular results. The implication is that motor sport is continually responsible for the generation of highly discontinuous technological innovations. Grand Prix Formula One, the premier formula of motor sport, is international, attracting global attention commercially, technologically, and visually. Historically, it has always been connected with motor car manufacturers whose advertising attests positively to the technical advantages of being so closely involved with innovative activity. The inference is of constant revolution based on discontinuous innovation rather than of evolution. Such an industry provides an appropriate test bed in which to evaluate, through historical and case study research, the appropriateness of the evolutionary analogy.

Second, Grand Prix motor racing has always been associated with the marketing of motor cars, their components and other complementary products. It is also a major spectator sport, televised throughout the world, attracting sponsors and advertisers, which have no formal link at all with the motor industry. It is, therefore, a useful context in which to investigate the relationships among economic development, technological innovation, and marketing. The involvement of car manufacturers in motorsport has been consistently justified on the grounds of its provision of important technological spin-offs for production car manufacture. This assertion is especially prominent nowadays as the promotional material of the car companies and the expectations of the trade and specialist popular press attest.

Third, the environment within which Grand Prix motor racing occurs is varied and apparently influential on the progress of the sport and industry. Regulatory sporting bodies, for instance, determine the direction and pace of technological development. Rules and regulations govern all categories of the sport and are subject to change by those bodies rather than through the dynamics of innovation. Firms may develop innovations within he existing guide-lines rather than with future applications and prospective spin- offs in mind. The proliferation of regulations is as likely to impede as to stimulate the development of innovations that can be effectively applied in commercial motor car manufacture. Further, it is likely that the frequent changing of regulations has increased technical uncertainty and that this has influenced the development of the vertically-integrated forms of organization that characterize the sport. The organization of Grand Prix motor racing has changed dramatically since the 1950s from a situation of manufacturer domination to domination by constructor teams and their associates. The currently-prevailing complex organizational forms involving coalitions of technical sponsors (notably car and component manufacturers), non-technical sponsors (firms in other industries), and constructor teams, is worthy of investigation. The environment also includes the spectacle of motor sport itself, with its unique opportunities for technological competition, advertising and publicity. Finally, consumers of motor cars and the non-motor products of the non-technical sponsors constitute an important part of that environment.

Fourth, evolutionary analysis has recently attracted a great deal of abstract theorizing without a corresponding volume of empirical analysis relating to the entire history of industries. Few industries are as amenable to an analysis which covers their entire history and few are as closely documented as Grand Prix motor racing. Automotive technology itself is but 130 years old; motor racing began just a few years after the inauguration of the internal combustion engine and its records of technological and commercial progress including objective data on the competitive performance of various design configurations pitted against one another in races enable us to follow the entire trajectory of technological, innovative, environmental, economic and marketing influences and components of the resulting industry. Moreover, it is possible to separate technological performance (on the track) from commercial performance.

Fifth, The process of Grand Prix motor racing innovation can be readily described in terms derived from the evolutionary model. We can identify elements of the environment - the sport's governing body and the macro-level organizations responsible for running motor racing events; we can identify their effects on the micro-level, constructor organisations, initially the manufacturers and then the enthusiast-constructors and their coalitions with technical and non- technical sponsors. The chief influence of the environment on constructor organisations has been through the provision of regulations which have governed the technological development of engines and chassis. We have documented in some depth the way in which the regulations put out by the sport's governing bodies have repeatedly affected the way in which some technologies have been developed while others have been discarded. But the effect of regulations has been more pervasive than the exertion of a guiding effect on the technological imperatives of Grand Prix motor racing innovation: they have also influenced the micro-organisational framework - the constructor teams emerged as a means of coping with new regulations within the technological framework then available.

4. ORGANIZATIONAL ECOLOGY OF GRAND PRIX INNOVATION

4.1 From the r-specialist stage to the K-generalism stage

It is not possible to put precise dates to the r-specialist and K- generalist stages but the transition from former to latter is apparent in the early years of the twentieth century. The r-specialist builders of racing cars are evident from the earliest days of racing, even before the petrol-driven car had established its preeminence over water-powered steamers and electric vehicles. This phase continued until a few years after the first Grand Prix in 1906 and the highly-regulated conditions under which motor racing was then conducted. The dominance of the factory organisations stems from this time and reflects the need to obtain increased power from engines of statutorily limited capacity, something only the car manufacturers could deliver.

From this period until the mid-1920s, the manufacturers were actively involved in motor racing, obtaining the benefits of technology transfer and using racing as a means of establishing the desirability of motoring for the general public: it was a way of selling road cars. Technological advances could be profitably marketed by the manufacturers and they could best advertise their prominence through motor racing. By the early-to-mid1920s, motor car design had advanced to the point where the customer was unable to differentiate any benefit from technological advance. The manufacturers, therefore, pulled out of motor racing and concentrated upon manufacturing their main produce lines - the production road car, of which the paradigm example is the Model T Ford.

During the late r-specialist/early K-generalist period, the uncertainty of the environment is apparent from the high degree of variability in regulations and technological parameters as the nascent motor industry and motorsport searched for the standards which would define the future. Technological change was fairly rapid and the motor manufacturing organisations as they existed in motorsport, based largely at the track, can certainly be described as r- specialist. Important regulatory changes began to define the context within which both technological change would occur and the sport itself could prosper. This was the period when 'the general form of the racing car [was] established' (Court 1990) during which time the combinational nature of innovation is most apparent with different manufacturers making separate contributions to various parts of the racing car. Cars ceased to be primitive and began to show signs of developing into the standard racing machine. The shakeouts of 1909-11, probably marking the completion of the r-specialist phase, and, more particularly and importantly, the period 1928-30, marking the point at which the manufacturers could not longer gain major financial advantage from involvement with motorsport, are turning points predictable from the population ecology model. Where the first inaugurated the K- generalist phase, the second consolidated it to the extent that it endured until the end of the 1950s.

Development during this time was highly- dependent upon the provision of adequate finance which was sporadically available from private enthusiasts but only the generous sponsorship by Italian and German governments, fascist and national socialist respectively, brought European car manufacturers back to the sport and allowed those willing to cooperate and propitiously geographically placed to prosper. Technical development showed a rather continuous trend during 1930s and 1940s though there were some notable incursions from aero-technology (Court 1988). The era during which most of the radical innovations for the motor industry came from the track was over.

A longer interlude following the second world war preceded the innovations in motor racing technology and, equally importantly, in organization and the racing environment which has characterized the sport since the mid-1960s. This interlude includes great uncertainties of a technological and economic nature, the interruption of organisation followed by attempts by the sport's governing bodies to regain regulatory control of the sport and a number of attempts to set a steady environment by imposing new regulations and by initiating the two Grand Prix formulae. Again rapid technological development, this time as a result of wartime innovation, led to improvements in engine performance. And again, there was a shakeout - typified dramatically by Alfa's withdrawal in 1951 on account of its inability to secure the financial support required to create a new car.

4.3 The Emergence of 'r in K'

Major technological transfers occurred principally in the early days of motor racing when the discontinuous innovation required by car manufacturers depended on their having a close relationship with developments in the nascent sport to the extent of effectively basing their research and development functions 'at the track'. This imperative became weaker as innovations became relatively continuous or dynamically-continuous, used by many motor manufacturers only in the top end of their ranges and for the advertising and other promotional spin-offs they provide. Moreover, the history of motorsport indicates the emergence of far more subtle and complex relationships among sport enthusiasts, constructor organisations, and sponsors. Our case studies (Johnston and Foxall 1991) exemplify the processes of technological development and innovation, commercial relationships in the form of sponsorship, and strategies of commercial exploitation between motor sport and production car manufacturers. The variety within the different initiatives highlights the disparate and dynamic nature of such processes as well as bringing to the fore the changing nature of Grand Prix racing as a commercial enterprise and the implications for the development and diffusion of such technology.

With much engine technology available 'off-the-shelf' (other parts such as gearboxes, tyres, differential assemblies could also be purchased), the teams or constructors involved were forced into programmes of constant development in order to find a competitive edge: such an environment necessarily produced a varied selection of technological innovations as well as a group of organisations that were at the forefront of technological progress. What the Ford/Cosworth/Lotus partnership began, other organisations were quick to capitalise on. Not only did automotive technology benefit to an extent by the influx of more commercially-minded companies looking to improve their products (whether or not these were automotive in nature), but the Grand Prix racing 'industry' consolidated arrangements that brought stability to the competing teams. What had once been a technical relationship on the track was now effectively extended to cover issues arising out of finance, resources and personnel, aspects of a series of commercial relationships.

Teams that were linked only by a set of sporting and technical regulations became joined in a network of technologically-driven but commercially- motivated organisations. While technology had always been (and remains today) the pivot of the sport, it had by this time been removed from the hands of the automobile manufacturer to a new type of user for whom its utility and development were not judged primarily by criteria derived from the mass production of automobiles. As an advanced engineering facility, such organisations are capable of generating technical solutions to automotive- related problems in their quest for improved efficiency, though such solutions may be vastly expensive, highly sophisticated and limited in application. However, such innovative thinking and controlled experimentation as the track-based test-bed provides are valuable assets within the motor sport industry both technically, insofar as the constructor teams are lead users (von Hippel 1986) and for marketing and promotional purposes.

In the process of becoming externalised from the commercial vehicle manufacturers who traditionally financed their programmes, these organizations were forced to develop more commercially-based skills than they previously required. Essentially, this meant exploiting their own resources and capabilities more fully and, eventually, seeking to maximise their gains from the technologies (core engineering innovations and complementary assets such as marketing, image, associations, publicity) developed in the process of racing. Indeed, the various links among the firms comprising such coalitions depend vitally upon the forging and maintenance of complex commercial interactions and the transfer of complementary assets as well as that of core technologies. Changes in regulations have had far-reaching implications for particular constructor organisations and the interpretation of these regulations by constructors, coupled with constructors' perceived abilities to implement them economically, have sometimes influenced whether motor racing has taken place at all. With the passage of time, the motor racing event organisers have assumed increasing control of technological developments as winning has become a thing in itself and exceedingly important. Since the 1960s, technical and non-technical sponsors have became especially significant, providing finance and in some cases technology to constructor organisations, and requiring from them either technological developments, usually incremental, or less tangible assets which can be used in the promotion of their own goods.

It was the beginning of motor racing as a significant sporting event and the general expansion of the British and European motor industries which determined the environment for Grand Prix motor technology which led to important changes in company performance. Regulatory changes which were too exacting for enthusiast teams to compete under led to the resurgence of manufacturers for a while. Private financing was again necessary though it is noticeable at this stage that component manufacturers developed cars such as the Vanwall and the BRM. However, the technology remained steadfastly at the first level, with one organisation providing all the technology to produce a car. But new regulations, new technologies and a new commercial and sporting ethos required a new organisational form: the small almost r-specialist firm created and envisaged by enthusiasts but taking partners, both technical and non-technical sponsors as required, was the sole kind of organisation that could adapt to changes in the environment and come eventually to dominate the sport and motor racing industry.

During the early 1960s, specialist builders emerged and they have ever since shown a meteoric rise. New companies, such as Lotus, proved capable of providing the overall system design at the first level, but subcontracted major parts of the car to outside suppliers - typically the engine, initially to Coventry Climax and then to Ford. The new organizational form allowed r-type development to occur at the component level, r within K. Tyre manufacturers, who were encountering rapid technological change due to the introduction of the radial tyre which doubled tyre life and thus reduced the tyre market in size were able to exhibit technical prowess through motor racing. They devoted resources to tyre design in the industry and the visible signs were that tyres became much wider between 1962 and 1965 and thereafter became smooth (slicks).

However, since that time - although there has been some important technological development, especially in tyres - there has been a move towards greater standardisation in general. The environment has become known, with fewer regulatory changes and a greater emphasis on commercialisation and on the sport. Overall this period has been marked by continuous, at best dynamically-continuous, innovation. There has been a growing emphasis on complementary assets and their transfer to both technical and non-technical sponsors. The constructor coalition, a network of component manufacturers, sponsors, and teams, managed by the constructors, has become the dominant form of organization.

Not least, the innovativeness of these organizations is manifested by their capacity to organize the financial resource base of motor racing technology development. Colin Chapman of Lotus realized first the potential of complementary assets as a separate technology to be developed in an era of Grand Prix motor racing as a major spectator sport with world-wide television coverage, and inaugurated sponsorship initially with tobacco companies which has now expanded to include organizations such as Shell which have obvious connections with motorsport and with those such as Benetton where the connection is the more tenuous.

5. CONCLUSION

Our analysis has presented an alternative sequence of evolutionary development in technological innovation to that proposed by Lambkin and Day. While our approach is also derived from considerations raised by the population ecology model, we find evidence, both theoretical and empirical, for a sequence in which the r-innovation is superseded directly by K- innovation, without the intermediary 'r and K' phase. However, on consideration of the implications of levels of technological development, we propose a final stage, 'r in K', in which the entrepreneurial development of innovation in technological subsystems takes place within an overall strategic context that is marked by the activities of K-generalists. Whether our framework can be generalized beyond the histories of Grand Prix motor racing and aerospace to which we have alluded remains to be demonstrated, but we note that these industries' histories of technological development are among the best documented on record.

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A Metatheoretical Framework for Exchange Theory: Implications and Operationalizations in Marketing

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Marketing theories may be classified on the basis of underlying exchange paradigms. This article examines exchange paradigms in three dimensions (objective-subjective, harmonic-conflictual, individualistic-dyadic) relative to their underlying definitions of fundamental aspects of exchange. A 2 x 2 x 2 typology is created, with each cell containing exchange theories and marketing schools based on the combination of paradigms comprising that cell. Operational implications of these paradigms and means of integrating paradigms are discussed. Empirical and methodological problems with the dyadic paradigm are noted. It is suggested that Hechter's rational choice theory of exchange adequately explains the nature of the exchange dyad from a perspective of methodological individualism, and can be the basis for further conceptual and empirical development of exchange theory in marketing.

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INTRODUCTION

The concept of exchange has gained near universal acceptance by marketing scholars as being fundamental to marketing (cf. Alderson 1965; Bagozzi 1975, 1978, 1979; Hunt 1976; Kotler 1972, 1984) and has been incorporated into the American Marketing Association's definition of marketing (Brown 1985). Houston and Gassenheimer state that "exchange can and should serve as the theoretical hub around which these other marketing theories connect to form an integrated structure" (1987, p. 17). However, research on exchange theory as an explanatory model within marketing has been limited (Houston and Gassenheimer 1987; Hirschman 1987). Proposed explanations include the level of abstraction (Hirschman 1987), irrelevency to practitioners and inadequate theories (Ferrell and Perrachione 1980). Additionally, exchange literature in marketing has often lacked integration with new developments in sociology, psychology, and management theory. Paradigms of exchange borrowed from other fields have rarely been specified, leading to opacity in theory making and overlooking of the positive and negative implications of these paradigms (Bagozzi 1978, Ferrell and Perrachione 1980).

Given this centrality of the exchange concept it is reasonable to demand that any acceptable theory of marketing behavior be based on well-defined paradigms of exchange made up of metatheoretical assumptions that consistantly and operationally define exchange and other terms comprising the "fundamental explananda of marketing" (Hunt 1983). Conversely, exchange paradigms should be definitionally complete and operational, and thus useful to scholars. This article classifies exchange paradigms in three dimensions relative to their underlying definitions of fundamental aspects of exchange. Subsequently, operational implications of these paradigms are examined and methods of comparative analysis are discussed, including the use of transparadigmatic and other criteria to integrate exchange paradigms and by extension marketing theories.

METATHEORETICAL ISSUES IN EXCHANGE THEORY

In seeking a typology of exchange paradigms to distinguish how each paradigm views the who, what, how and/or why of exchange, a natural place to look is current typologies of general marketing thought. Sheth, Gardner, and Garrett's (1988) two dichotomies classification of marketing schools (see Figure 1) contains elements of a usable typology but is not directly usable for classifying exchange paradigms. In their interactive-noninteractive dichotomy, Sheth, Gardner, and Garrett (1988, p. 20-22) do accurately portray the controversy in the marketing and sociology literature between the individualistic paradigm, which contends that exchange dyads are reducible to individual motivations and behavior, and the dyadic paradigm, which defines the minimum analyzable unit of exchange as the dyad. However, also presented as part of this same dichotomy is the issue of harmony and conflict in exchange dyads, which is distinct from whether dyads are reducible.

FIGURE 1
(Sheth, Gardner, and Garrett 1988)

Classification of Marketing Schools

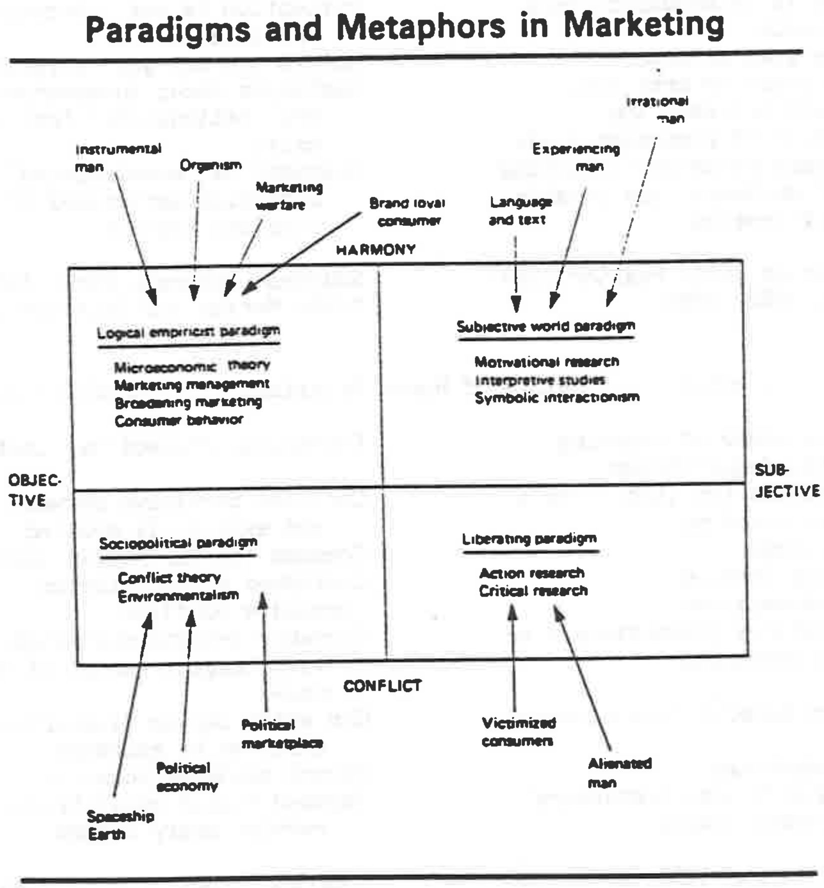
	Noninteractive Perspective	Interactive Perspective
Economic Perspective	Commodity Functional Regional	Institutional Functionalist Managerial
Noneconomic Perspective	Buyer Behavior Activist Macromarketing	Organizational Dynamics Systems Social Exchange

In addition, Sheth, Gardner, and Garrett's economic-noneconomic axis addresses the distinction between utilitarian and behaviorist motivations for exchange, which have been converging in the literature around common concepts of goals and reward seeking (Blau 1964, Turner 1991), but does not deal adequately with the objective-subjective controversy prevalent in the philosophy of marketing science literature.

Another approach to classifying metatheoretical assumptions regarding exchange is to consider the four world views of marketing as proposed by Johan Arndt: "These alternative realities are based on different metatheoretical assumptions about the nature of science, the subjective-objective dimension, and the explicitness of long-term conflicts in society" (Arndt 1985, p. 15). Shown in Figure 2, Arndt's model is insightful in explicating four cells differing in definitions of what is exchanged (ontologically real vs. socially constructed) and the nature of power in exchange and other human relations (harmonic vs. conflictual).

However, Arndt does not distinguish between individualistic and dyadic paradigms regarding the nature of the exchange dyad, grouping together instrumentalism and functionalism as well as other marketing approaches and their underlying exchange assumptions with radically different views regarding the nature of society, social order, and markets. Given the controversy regarding these two "sociological traditions" (Ekeh 1974) in the marketing literature (Sheth, Gardner, and Garrett, 1988; Bagozzi 1978; Bonoma, Bagozzi, and Zaltman 1978), a third "Individualistic-Dyadic" axis is clearly warrented. Figure 3 summarizes the differences in metatheoretical assumptions along each of these axes.

FIGURE 2
(Arndt 1985)



There are many other metatheoretical assumptions regarding exchange in the literature, but many (scarcity, heterogeneity, separation, among others) are accepted without controversy by exchange and marketing theorists and are not focused on here. Others, such as the treatment of externalities and the regulative role of society are subdivisions of the axes described above (in this case, externalities and regulation flow from the harmonic-conflictual distinction). However, it would be helpful to provide an overarching framework of exchange paradigms to include all of these concepts. One method would be to classify them into those regarding the environment encompassing the exchange dyad, those regarding the nature of the dyad itself, and those regarding the forces within the dyad. The objective-subjective, individualistic-dyadic, and harmony-conflict axes provide examples of each type of paradigm regarding exchange, and thus serve as a significant and useful starting point for elaboration.

FIGURE 3
METATHEORETICAL ASSUMPTIONS REGARDING EXCHANGE

Nature of Reality

Objective

Reality is concrete
Perception is intersubjectively certifiable
Actors are goal oriented
Exchanges occur to meet real needs and increase the real value of possessed goods
Laws of human behavior (including laws of exchange) are capable of being created

Sources: Arndt 1985; Frazier 1983; Hunt 1976, 1983, 1984

Subjective

Reality is socially constructed
Perception is not intersubjectively certifiable
Actors are not goal directed
Exchanges occur independent of any "rationality" that may exist
Research is "encapsulated" with the direction determined by socio--logical factors

Sources: Anderson 1983, 1986; Morgan 1980; Morgan and Smircich 1980

Nature of Human Relations

Harmonic

Conflict as means of reaching resolution/equilibrium
Conflict abstracted into actor's response function
Market exchange
Long run equilibrium
Long run cooperation
Exchange returns proportionate to actor's resources

Both actors benefit from exchange

No forced exchange
Dynamic equilibrium- continuing evolutionary change

Sources: Alderson 1957, 1958, 1964; Arndt 1981, 1985; Houston and Gassenheimer 1987; Reidenbach and Oliva 1981

Conflictual

Pervasive, dialectical conflict

Conflict pervasive between actors and explicitly modeled
Command (hierarchical) exchange
Continued disequilibrium
Pervasive conflict
Exchange returns dominated by actors with largest amount of resources/ power
One actor can be deleteriously affected by exchange
Forced exchange possible
Imposed static equilibrium- eventual revolutionary change

Sources: Arndt 1985; Morgan 1980; Turner 1991

Nature of Social Entities

Individualistic

Individual is the minimum analyzable unit of social behavior
Exchange explainable by individual psychological processes
Social systems do not have existence or utility/response function distinct from individual members
Exchange occurs between individuals to meet individual goals

Individuals cooperate in exchanges to create social/public goods to satisfy individual goals or response function

Sources: Homans 1961; Sheth, Gardner, and Garrett 1988; Turner 1991

Dyadic

Exchange dyad is the minimum analyzable unit of social behavior
Exchange not reducible to individual processes or behavior
Social systems are "emergent" from individual actors, with distinct needs and values
Exchanges occur between individuals or emergent social organisms to meet social needs
Individuals cooperate in exchanges to create social/public goods to satisfy normative or functional mandates of society

Sources: Ekeh 1974; Bagozzi 1978; Bonoma, Bagozzi and Zaltman 1978; Turner 1991

EXCHANGE AND MARKETING: OPERATIONALIZATIONS AND COMBINATIONS OF PARADIGMS

Each of these exchange paradigms has significant operational implications for virtually every theory in marketing. Consider for example the concepts of the product life cycle, market segmentation, and marketing strategy. In the objective paradigm, these concepts are based on the real needs of actors; products become obsolescent for utilitarian or behavioristic reasons, segments exist based on real, underlying values or behaviors related to exchange, and marketing strategies aimed at affecting exchange succeed or fail in a lawlike manner. Conversely, in the subjective paradigm, human behavior is ultimately irrational, and no life cycle, segmentation, or strategy can be intersubjectively certified.

In the harmonic paradigm, product life cycle, market segmentation, and marketing strategy are all based on a long term meeting of minds between exchange actors, with marketing being inherently a "win-win" proposition (Sheth, Gardner, and Garrett 1988, p. 196). In the conflictual paradigm, striving for resources is pervasive and equilibium does not exist in social relationships, leading to exploitative, deceitful, and politically oriented product and market strategies, and unequal exchange.

In the individualistic paradigm, the characteristics of both individual and organizational market segments are individually based, the product life cycle occurs due to new products meeting individual needs better and being purchased (exchanged), and marketing strategy is performed to meet the interdependent but still distinct needs of both the consumer and the marketer. In the dyadic paradigm, the needs of market segments, the needs met by a product, and strategies adopted by marketers are all based on societal needs which determine individual needs. The needs of organizations cannot be analyzed in terms of the individuals comprising them.

These paradigmatic axes can be combined to form Figure 4, a 2 x 2 x 2 typology with each cell a unique combination of exchange paradigms containing exchange theories and marketing schools that generally rely upon those paradigms. It is important to note that substantial differences may still exist between theories inhabiting the same cell. First, exchange paradigms underlying theories may be similar but not identical. For example, Morgan and Smircich (1980) discuss degrees of objective and subjective orientations. Second, theories may differ along some other definitional axis. Even within a cell or combination of paradigms substantial differences in approach to issues such as rational choice, conflict resolution, etc., will cause theories to cover unique ground. Within a cell, tools of analysis common to that combination of paradigms can be used to resolve differences; between cells only metatheoretical approaches will avail.

FIGURE 4
COMBINATIONS OF EXCHANGE PARADIGMS

INDIVIDUALISTIC CELLS:

Harmony

OHI Instrumentalist Man	Interpretive Man SHI
Microeconomic Theory Consumer Behavior Rational Choice Theory Logical Empiricism Economic Man Commodity School Functional School Regional School	Motivational Research Interpretive Studies Experiencing Man Holistic Construal Constructed Reality Encapsulated Research Study of language metaphors Buyer Behavior School
Objective	Subjective
Political Economy Political Marketplace Pervasive Conflict between individuals Unequal Exchange	Critical Approach to Marketing Alienated Man Victimized Consumers Interpretive Studies of Conflict
OCI Political Man	Liberating Man SCI

Conflict

DYADIC CELLS:

Harmony

OHD Instrumentalist Society	Interpretive Society SHD
Organizational Behavior Functionalism Normativism Structuralism Functionalist School Institutional School Managerial School Systems School (part)	Systems Theory (Some) Interpretive studies of emergent society Experiencing Society Social Exchange School Systems School (part)
Objective	Subjective
Conflict Structuralism Pervasive conflict between social organisms Dialectical Conflict Conflict Functionalism Conflict Normativism Organizational Dynamics School	Pathological Society Ideological Warfare between warring social constructs Classical Marxism Society Evolving by Revolution
OCD Political Society	Liberating Society SCD

Conflict

Occasionally, authors and marketing schools do not fit neatly into one particular cell. One reason is that most schools and some authors at one time or another go through battles regarding these issues, resulting in ambiguous or changing positions. For example, Bagozzi's writings on exchange begin (1974) with an article that is arguably in the SCD (Subjective-Conflict-Dyadic) cell, but later articles and books (1975, 1978, 1979, 1980, 1986) are SHD (Subjective-Harmony-Dyadic). Additionally, even high-quality research by authors is at times incompatible with their own metatheoretical framework. Bagozzi's (1986) discussion of social processes of exchange, role theory, social comparison, and natural selection is simply incompatible with dyadic irreducibility, but is very valid within an individualistic paradigm.

The OHI (Objective-Harmonic-Individualistic) cell may be called the Instrumental Man approach (Arndt 1985). It remains the most common combination of paradigms for marketing theories, despite continuing criticism from advocates of other paradigms. Combining the appropriate matatheoretical assumptions from Figure 3 (as is done for all cells), OHI proponents define exchange based on 1) a real and substantial universe accessable through intersubjective certifiability, 2) individual or group social actors acting for rational reasons reducible to individual motives, and 3) long term harmony in the exchange dyad. In sociology, proponents of the OHI viewpoint have included Homans, Blau, Emerson, Becker and more recently Coleman and Hechter (Homans 1961, Blau 1964, Emerson 1962, 1972, 1987, Becker 1976, Hechter 1983, 1987). Marketing scholars in the OHI track include Hunt (1976, 1983) and Kotler (1972). Marketing schools of thought in this category would include the commodity, functional, and regional schools.

The OHD approach to exchange may be seen most clearly as an Instrumental Society perspective. The objective and harmonic nature of exchange transactions remains the same as for the OHI cell, but with social relations irreducible to individual behavior, the rational actor is now an emergent social actor, either a dyad or perhaps even society as a whole (Bartels 1968, Bagozzi 1975, 1979). This emergent actor now acts in a manner determined by normativist, functionalist, or structuralist needs in society; indeed, this "ecological orientation" is said to be a base perspective for marketing thought (Bartels 1968). Nonetheless, exchanges are maintained to be predictable, and social behavior lawlike. Prominent sociologists in the OHD frame include Lévi-Strauss and Parsons. Marketers with an OHD perspective include Alderson (1957, 1965) and Bartels (1968). Marketing schools include the functionalist, institutional and many aspects of the managerial school. The systems school may be viewed as either OHD or SHD. An excellent example of an OHD living systems exchange theory is Kiel, Lusch, and Schumacher's (1992) evolutionary exchange paradigm. Described as a "universal" paradigm, it is explicitly based on metatheoretical assumptions that include those comprising the OHD cell.

There is substantial confusion in the literature regarding how the two functionalists Parsons and Alderson stand on dyadic reducibility. Each made contradictory statements on the subject (cf. Barksdale 1980, Hunt, Muncy and Ray 1981, vs. Alderson 1964, Turner 1991 p. 54-55), yet both must be considered dyadicists, based on their latter writings and theoretical constructs. For both Parsons and Alderson, system ecology was paramount. In Alderson's case, his basic units of behavior were the household and the firm, both multi-person entities.

Adherents to the OCI paradigms view reality as concrete, conflict as pervasive in society, and individuals as the basic units of society. This Political Man approach differs from the OHI approach in that an implicit or explicit dialectical conflict orientation is taken. Exchange conflict is considered inherent in a world with scare resources (Arndt 1985), with harmony and/or equilibrium as unattainable. Cooperative and market responsive activities would be viewed as temporary strategies only; continuing strategies of war making, dominance, and control might become the only viable social strategy.

Surprisingly, little sociological or marketing work has been done from this perspective. Most literature dealing with pervasive conflict is written within the dyadic paradigm; however, that makes conflict the result of societal imperatives, which is not the only possiblity. In practice, this perspective, which can be viewed as containing the managerial school of marketing "enhanced" with pervasive conflict, or the organizational dynamics school with dyadic reducibility, is widely adopted by marketing practitioners. In this realm, "laws of exchange" that do not account for negotiating power, bluff and counter-bluff are not valid. Power, dependence and perceptions thereof play a major part in determining the outcome of negotiations.

The OCD or Political Society cell is one of the most prominent perspectives in marketing today under the name of the Sociopolitical paradigm (Arndt 1985). This framework is identical to the OCI perspective except that dyads are not reducible; individual actions are not taken to satisfy personal motives, but within the context of an existing social structure (Stern and Reve 1980); marketing constructs and propositions are framed relationally rather than as a function of individual values (Stern and Reve 1980; Arndt 1983; Frazier 1983; Achrol, Reve, and Stern 1983; Hutt, Mokwa, and Shapiro 1986). The organizational dynamics school of marketing would appear to be an OCD school. Sociologists taking an OCD perspective generally follow in the footsteps of Weber and Marx, who took a more dialectical and certainly darker view of the pervasiveness of conflict in modern society. While Marx and Marxists ended up in the Subjective camp, Weber maintained his belief in a "materialist conception of the social world, which is defined by hard, concrete, ontologically real structure" (Morgan 1980, p. 609). In a world of intractable, pre-revolutionary conflict, the scholar seeks to understand these conflicts and the way power is used to control individuals in society.

Weber discusses modern culture in terms that should make modern marketers pause; he critiques a world of over-individualization, injustice, and suffering as a culture unfolds and differentiates to a greater degree, leading to a society less able to support stable forms of interaction (Helle 1985, p. 14). It is certainly appropriate for marketers to examine whether marketing activities do contribute to a social pathology.

Advocates of the SHI or Interpretive Man cell believe "the social world has a very precarious ontological status, and that what passes as social reality does not exist in any concrete sense, but is the product of the subjective and inter-subjective experience of individuals. Society is understood from the standpoint of the participant in action rather than the observor" (Morgan 1980, p. 608, Anderson 1983, 1986, Arndt 1985). With an emphasis on harmony rather than conflict and individualism rather than dyadicism, the SHI paradigm creates a marketing approach heavily emphasizing personal experience, language metaphors, and subconscious, irrational valuations (Arndt 1985, Morgan and Smircich 1980).

In an interpretivist framework, marketing exchange (or other activities) are not viewed as capable of being explained as rational acts or in a lawlike manner. Rather, these exchanges may only be understood within the context of and from the position of the subject(s) exchanging (Anderson 1983, Muncy and Fisk 1987). Each research program is "encapsulated" within its own assumptions and viewpoint, with science itself being sociological in nature (Anderson 1983, Gioia and Pitre 1990). Interpretivist research in consumer behavior may generally be classified in this area, as research seeking to understand the nature of personal desires. Motivational research based on irrational, subliminal urges would also fall into this catagory. More predictively focused consumer behavior research generally flows from an OHI perspective. The buyer behavior school may generally be classified as an SHI orientation, although many exceptions exist.

The SHD or Interpretive Society cell is similar to the SHI cell except the subjective, inner desires expressed are those of a society qualitatively different from individuals (Ekeh 1974). Comprehension of the exchange process is even murkier in this framework, as individual exchange acts are determined by societal norms, structures and functions, and those societal activities are subjective to the society itself. Logically (from an interpretive framework), to understand societal acts you must be inside the society, but since a society is an emergent process seperate from man, such a melding is impossible. If strictly practiced, the result is incomprehension.

Marketing schools of thought holding to a degree of SHD orientation are the exchange school and the systems schools (Bagozzi 1975, 1978, 1979, Reidenbach and Oliva 1981). In Bagozzi´s defense, his subjectivism and dyadic orientation are fairly mild, and are barely mentioned in his most recent work referencing exchange (1986). In regards to dyadicism, Bagozzi (1978) holds that a relationship between two dyads is reducible to the individual dyads, which is a form of individualism. However, he gives no rationale for why further emergent processes would not form between two dyads (Bagozzi 1978).

The SCI or Liberating Man (Arndt 1985) cell, like the OCI combination of paradigms, contains a relatively smaller quantity of writing. The SCI perspective lends itself to normative and activist approaches to the human condition while avoiding some of the extremes of the SCD approach (see below). While maintaining the subjective nature of reality, an SCI theorist would approach exchange as being responsive to individual values, dependence and power. Whereas an objectivist conflict theorist would study conflict inductively, a subjective conflict theorist would study the subject in an interpretive manner.

Subjective conflict theorists tend to believe in a "pathology of consciousness", where "the process of reality creation may be influenced by psychic and social processes" which constrain and alienate humanity (Morgan 1980, p. 609). The role of the theorist is to uncover the nature of power, pathology, and exploitation, and to prescribe individual action to change the constraining system. A certain amount of activist and macromarketing literature is written from this perspective.

The SCD, or Liberating Society (Arndt 1985) cell is the classic radical Marxist approach. Writers speak of using "the reality-constructing practices of psychoanalysis to challenge the appearance of reality underlying the theories which legitimate social order" (Smith 1990, p. xiv). Reality is not only subjective, but inherently dialectical; "material conditions can be reduced to beliefs about experience, and knowledge can be explained in terms of causal relationships between experience and beliefs" (Smith 1990, p. 3). Unequal exchange is a significant topic of discussion, and it must be noted that much of Marx's economic theory is exchange theory, presenting propositions regarding the long term outcome of unequal exchange (Turner 1991, p. 195, p. 299).

The SCD metatheoretical framework is expressed in radical theorists speaking of history as the "evolution of a collective mind" (Smith 1990, p. 3), and the Liberating Society metaphor becomes one where society is overthrown by its own contradictions and internal "neuroses" (Smith 1990, p. 4), replaced eventually by a classless, harmonic organism. Since Marx views marketing activity as inherently unproductive, there are very few Marxist marketing theorists, and thus little written in the mainstream literature from this perspective.

The activist and macromarketing schools have proven quite difficult to classify in this framework. Not only do subjective and objective writings abound, but individualistic and dyadic works are both prevalent, depending on whether the topic is "micro" (consumer welfare) macromarketing or "macro" (marketing systems) macromarketing.

TOWARDS INTEGRATION

Many marketing theorists contend that a "neutral" marketing paradigm does not exist (Arndt 1985, Carman 1980, Leong 1985). In analyzing exchange theory, Bagozzi states that "no single systematic exchange paradigm can be identified across the behavioral sciences. Rather, each discipline has conceived of exchange in a narrow, specialized way. Typically, the conceptualization found in a particular discipline is tied inplicitly or explicitly to the Weltanschauung of that discipline", and individual economists, sociologists, psychologists, anthropologists, and marketers all may view exchange differently (Bagozzi 1979, p. 432). On the other hand, for marketing scholars who believe that marketing is a science, the goal of marketing theory is the creation of comprehensive, well supported laws that explain and predict exchange between actors. Such a theory would be based on common, well defined, operational paradigms of exchange.

Integration of exchange paradigms is sought to improve our understanding of the exchange environment and process. This can come at the level of marketing theory or exchange paradigm. Integration at the paradigm level can occur when a new or existing metatheoretical assumptions develops enough to be able to efficiently encompass phenomena explained by an alternate assumption. For example, introducing postponed and speculative conflict into the harmonic paradigm constitutes an attempt at greater integration of conflictual behavior. Other attempts could include making the dyad multidimensional, with some aspects objective, harmonic, etc. and other aspects subjective, conflictual, etc. Integration can also occur when a metatheoretical assumption is found to violate some transparadigmatic norm that may exist. For example, an internally inconsistant or totally nonoperationable paradigm is likely to fall by the wayside. Any successful integration would improve our understanding of the dyad.

Efforts in this article to integrate the metatheoretical assumptions described above will focus on the individualist-dyadic and harmony-conflict axes; so much has been written in the marketing literature regarding objectivity and subjectivity that further discussion here would add nothing (cf. Anderson 1983, 1986, Hunt 1990).

The concept of dyads as the irreducible level of analysis for social phenomena (including exchange), considered irrefutable by many sociologists and marketers until fairly recently, has come under increasing attack from several fronts. The doctrine of methodological individualism has been revived by the works of Homans (1961), Blau (1964), and Hechter (1983, 1987), among others. Hechter´s work in "Rational Choice Theory" has been a substantial recent addition to exchange theory; he creates an OHI based theory that seems to successfully address the issue of solidarity, or social order, a key concern of sociologists and exchange theorists.

The question of solidarity is the question of how and why individuals create social order; why utility maximizing individuals refrain "going their own way", with societies never persisting. Since exchange relationships involve a continuing social structure subsequent to an individual transaction, this issue of solidarity is critical not only to areas such as channel organization, but to all marketing theory.

Dyadicists account for social order through the use of emergent properties of social relationships (Turner 1991). In addition to criticizing dyadic formulations that are irreducible (in contrast to dyads that can be explained by individual constructs), Hechter formulates how normative obligations can arise in group settings as rational, individual responses to personal needs (Hechter 1983, 1987). This formulation is based on individuals coming together to produce joint goods that are unable to be produced efficiently by individuals. Normative obligations affecting the exchange relationship arise as a direct response to the degree of dependence of individuals on each other, and compliance with exchange agreements is based on a group's control capacity, which is a function of monitoring and sanctioning power (Hechter 1987, p. 49).

In particular, Hechter's work demonstrates that a modified utilitarianism can account for facets of social order that caused many theorists to previously abandon methodological individualism. Indeed, his model of dependency, monitoring and sanctioning, and economies thereof may account for the emergence of solidary exchange and other social relationships better than dyadic models. Additionally, dyadic irreducibility has been questioned on a variety of methodological grounds.

First, a dyadic approach assumes that individual action is essentially determined by an existing social order. Turner's criticism of Parson's work is applicable to all dyadic frameworks: "Indeed, Parson's work is replete with reverse causality chains in which a systemic whole existing prior in time to the emergence of subsystems causes the perpetuation of a subsystem because of its selective advantage in meeting problems faced by the systemic whole" (Turner 1991, p. 75-76).

Second, models based on emergent properties (which itself may be a metaphysical concept without testability) do not properly take into account individual differences in exchange behavior, including individual self-interest (Turner 1991, p. 355). In effect, dyadic models predict more dependence and adherence to social norms and structures than actually exists, which makes suspect their internal and external validity and efficiency.

Third, the construct validity of dyadic models of exchange may be questioned based on their use of terms for ultimate cause and effect that may not be operationable and often aren't properly connected to the balance of the theory. Jacoby calls construct validity "the most necessary type of validity in scientific research"; concepts must have "identity apart from the instrument or procedures used to measure them" (Jacoby 1978, p. 92). The only solution to these difficulties is to reformulate theories of exchange and marketing in the dyadic paradigm to make them based on the individualist paradigm. Not only is this easily achievable, but the incorporation of Hechter's work as described above should provide additional insight into the exchange processes in these theories.

The third metatheoretical axis, that of harmony and conflict, presents a different problem of analysis. The dialectical approach to conflict has clearly failed to present society with a predictable theory of conflict, exchange, and social change. Nonetheless, it is apparent that conflict is indeed pervasive in human interaction, and the harmonic approach to exchange has also proven inadequate in explaining perpetual human disequilibrium. Our understanding of conflict is woefully inadequate; we as scientists remain mystified why some societies, be they nation-states or marketing channels prosper and why some are torn apart. It is clear that part of any theory of organizations that arises to contribute to a general theory of exchange and/or marketing must deal more thoroughly with these conflict issues.

Research on power and conflict in marketing relationships has generally been within the political economy framework and its accompanying economic and social control systems (Arndt 1981). This framework, while useful, has fallen short of providing a conceptual base explaining exactly how marketing entities integrate economic and sociopolitical factors into decision making regarding exchanges, except to state that such decisions would be influenced by existing societal norms and structures. (Arndt 1983, Gaski 1984). Turner, viewing the conflict inherent in exchanging scarce resources, argues that "much of conflict theory might be seen as a subset of ideas that can be derived from exchange theory" (1991, p.228). If this is so, then the development of an extended exchange theory that advances our understanding of the cause, duration, function, and level of violence in marketing conflict is possible. Such a integration of conflict sociology into marketing would unify economic and political motivations and constitute a significant advance in marketing thought.

FINAL REMARKS

Hechter's Rational Choice Theory does not currently address all the issues required of an exchange theory. However, it does make specific predictions concerning exchange that are empirically grounded and testable. For example, "the prospects for solidarity will be maximized in situations where actors face limited (and, to them insufficient) sources of benefit; where the opportunities for multiple group affiliation are limited; and where their social isolation is extreme. But even in these most favorable of circumstances, solidarity can only be achieved when groups have the capacity to monitor members' behavior so that selective incentives can be dispensed to promote compliance." (Hechter 1983, p. 53). This model, with its central concepts of dependency, economies of monitoring, and economies of sanctioning should prove superior, both methodologically and empirically, to dyadic explanations of exchange transactions and organizational behavior in accounting for when actors act collectively, when they attempt to "free ride", and how they use and respond to coercive measures. A fuller treatment of transaction costs is required; nonetheless it seems to be a positive step towards a substantive exchange theory.

This article has sought to meet the challenge of using the concept of exchange to provide an integrative framework for marketing theory. While much work remains to be done, there is convincing evidence that metatheoretical study of exchange does result in operational implications for marketing. It is hoped that this framework and the discussion of these issues will challenge marketing scholars to rectify the paucity of research in exchange theory, and that further exposition and integration of the metatheoretical assumptions regarding the environment encompassing the exchange dyad, the nature of the exchange dyad, and forces within the exchange dyad will provide a basis for further progress in marketing theory.

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VII

Marketing Structure and Organization, Political Economy, and Public Policy (A)

MULTINATIONAL MARKETING MYOPIA: MULTIPLE MANIFESTATIONS

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ABSTRACT

The authors advocate a three-level analysis of world markets which includes the world-economy or the global perspective, the national economy or societal perspective, and the individual or experiential perspective as developed by Wallerstein (1974, 1979, 1980), Taylor (1989) and others. This three-tiered analysis is then applied to rapidly unfolding events in Europe in general and Eastern Europe and the Commonwealth of Independent States in particular. Analysis suggests that events in Europe should not be reviewed simplistically but, rather, in great depth inasmuch as they are replete with many complications affecting the future integration or possible disintegration of these markets.

MULTINATIONAL MARKETING MYOPIA: MULTIPLE MANIFESTATIONS

> Macromarketing refers to the study of marketing systems, the impact and consequences of marketing systems on society, and the impact and consequences of society on marketing systems.
>
> - Shelby D. Hunt and John Burnett

INTRODUCTION

U.S. marketers appear to want to focus on well-defined and predictable markets. This observation can also be applied to the efforts of both theoreticians and practitioners in their analysis of world markets. Their tendency is to think either in broad generalities such as "Western Europe" or "Latin America" or in myopic detail such as Luxembourg or Belgium. This paper suggests that neither of these views is optimal. The world economy is a living, breathing macrocosm with living, breathing microcosms, each in some way interdependent with the others. As is true of all living things, explanation and understanding of a particular phenomenon comes from the convergence of exploration obtained through the use of multiple levels of analysis. While some mathematicians might contend that the whole of a given quantity is equal to the sum of its parts, this paper proposes that a Gestaltist or synergistic view is more correct.

For example, one might like to believe that events in Western Europe in general, and in the European Community [EC] in particular, are sustainable in the short run, and that expansion through the incorporation of selected Eastern European and even west Asian countries is possible in the long run. While the benefits of such a unification are theoretically appealing, anthropologists, linguists, political scientists, economists and some marketers have raised serious doubts about its plausibility. The notion of a homogeneous mega-market designed to effect global economies of scale, both in production and marketing, might be unrealistic. Additionally, events that may appear to be confined to a narrow region of the world in the short run may have significant impact throughout the world economy in the long run. Interconnectedness of the world economy is becoming more, not less, complex and events in one part of the world may have a subtle, if not direct, impact upon other parts of the world economy.

To focus narrowly on the short run success of the EC (multinational marketing myopia?) and the arrival of "1992" might come at the expense of overlooking the lack of success experienced by the Latin American Free Trade Area, the Central American Common Market, and certainly the Comecon. Current literature recognizes the existence of the possibility of both integration and disintegration with respect to economic development (Czinkota 1991).

In an attempt to analyze the market place at multiple levels, this paper will apply an extended version of "world-systems" theory, borrowed from political geography and geopolitics, as a conceptual framework for analysis. The world economy will be analyzed with primary emphasis focused on recent events in Eastern Europe and the now-defunct Soviet Union. This framework will allow a multidimensional view of the current status of the EC and the impact of these events on the world economy in general and the progress of EC unification in particular.

The purpose of this paper will be, on the one hand, to look at the theoretical and practical probability of creating mega-markets. On the other hand, however, the possibility exists that cultural, economic and other dissimilarities simply preclude the development of some markets beyond certain sizes resulting at best, in numerous mini-markets.

THE EUROPEAN COMMUNITY: PAST, PRESENT AND FUTURE.

What began in 1922 with the creation of the Belgium-Luxembourg Economic Union, extended in 1948 with the creation of the Benelux, and reconfigured in 1957 with the creation of the European Economic Community (consisting then of only six countries), reached in 1988 its present status of twelve member countries. Some suggest it may well look forward to even larger membership and for a variety of reasons.

The upheaval in the now-defunct Soviet Union and Eastern Europe in the late 1980s and early 1990s has had, and will continue to have, serious implications with respect to the total economic integration of the EC anticipated in 1992 and later. In 1985, the EC proposed reforms designed to ease tensions among Western European neighbors. This was intended to be accomplished by removing some of the remaining trade barriers and the mountains of bureaucratic red tape, allowing for countries to more efficiently conduct business. However, the EC did not envision republics from the now-obsolete Soviet Union or various Eastern European Bloc countries applying for member status.

With the collapse of the Comecon and the Soviet Union, at least three members of the former group, namely, Poland, Czechoslovakia, and Hungary, have now applied for special associate membership in the EC. It is alleged that others might also follow, namely, Estonia, Latvia, and Lithuania. Additionally, it is possible that the Ukraine, Belarus, and possibly even Russia itself will follow suit, for a total of approximately twenty-two members. What is to prevent all of what was once the USSR -- now the Commonwealth of Independent States -- from seeking to participate in this economic miracle of Post World War II? Is it not possible that an economic union might emerge, reaching from the Mediterranean to the south and the Arctic Ocean to the north, and from the Atlantic Ocean to the west and the Pacific Ocean to the east? Indeed, what is envisioned by some, including these authors, is the possible emergence of the world's largest economic union -- and market place -- encompassing most if not all of Europe and most if not all of northern Asia. Assuming these possibilities, in conjunction with the great strides these newly emerging democracies have made or might continue to make, a realistic posture must be maintained. History does not reverse itself overnight as has been noted by Czinkota (1991, p. 23):

> Yet, all the announced intentions for change do not automatically result in change itself. For example, the abolition of a centrally-planned economy does not create a market economy. Laws permitting the emergence of private sector entrepreneurs do not create entrepreneurship. The reduction of price controls does not automatically make goods available for purchase. It must be understood that there are deeply ingrained systematic differences in interests and values within Eastern Europe. Highly prized and fully accepted fundamentals of the market economy in the EC, such as the reliance on competition, the agreement with profit motivation, and the willingness to live with risk on a corporate and personal level, are not yet accepted or ingrained in Eastern Europe.

However, these events cannot be ignored. They will require serious consideration on the part of the original EC members as they strategically address new member issues. The current dilemma faced by existing EC members with respect to the status of new applicants from Eastern Europe is reminiscent of the classical argument between Western and Eastern economists. A brief review of that debate appears below.

The Western view, originally formulated in 1817 by David Ricardo, yielded the theory of comparative advantage which has now become the West's classical modern economic theory of free trade. It was suggested that unrestricted trade between two countries would be advantageous when the goods were desirable to both but produced with a differential degree of efficiency. This differential degree of efficiency would lead each country to become specialized in specific product production, thus creating economies of scale and the reduction of costs and subsequent market prices (Samuelson 1967). Alternatively, the Eastern view, as proposed in 1841 by Friedrich List, argued that Ricardo's comparative advantage thesis was faulty because it proposed a short-term perspective with a tendency to prevent industries in lesser developed countries to compete with industries in more advanced economies. It was suggested that a long term perspective would be more advantageous in which advanced countries helped lesser developed countries, resulting in technological advances which would exceed initial losses in product output, revenue and profit (Senghaas 1977).

This traditional economic debate, to some degree, highlights the polar alternatives available to current EC members. Eastern European and other countries might either be integrated into the EC or turned away, possibly reverting back to a Warsaw Pact configuration composed exclusively of Eastern European members, less the historical domination of a now-defunct USSR. While this debate was presented to provide a starting point and to frame, in a dichotomous fashion, market integration issues, by no means should it be construed that the alternatives available to EC members are simply black and white. For example, problems exist with original EC members making decisions about new member status all the more difficult. As Quelch, Buzzell, and Salama (1990) reported from comments made by John Harvey Jones, the major notion of unification is not necessarily a positive sum game for all existing parties involved. If increased efficiency in the market place is truly the outcome of the EC, then market shares within industries could vary greatly, shifting in favor of those more efficient producers. It is unclear whether European governments are willing to accept the rationalization that the benefits of a more competitive Europe outweigh the well-being of home-based companies and industries. Both internal EC issues and Eastern European and Commonwealth of Independent States integration issues have important implications for the world economy and might be considered within the hierarchical framework provided by "World-systems" theory.

WORLD-SYSTEMS THEORY DEFINED

World-systems theory, as a perspective to global economic analysis, was developed to analyze, in a macro-longitudinal fashion, intersocietal and transocietal social developmental change. World-systems theory suggests that a global perspective is required to understand social and economic change. Since each society is simply a component of a larger whole (the world-system), change must be viewed, at least initially, in its widest possible context. Attempts to explain the social activity of one society, as if it operated in a vacuum, isolated from other interrelated societies, would provide only a partial and distorted view of the change mechanism(s) in action. The use of an isolationist perspective in analyzing societal change has generated criticism leveled at proponents of Modernization theory. This theory, which dominated economic developmental thought throughout the 1950s and 1960s (c.f., Parsons 1951; Rostow 1960), tends to eliminate many of the processes, antecedent or otherwise, which influence change.

Therefore, unlike Modernization theory which presents societal development as if it occurred in isolation from activity outside the realm of societal borders, world-systems theory attempts to account more dynamically for change by incorporating the interrelatedness of societies. This interrelatedness is composed of cultural, normative, economic, political and military dimensions bounded by a geographic network via channels of material goods exchange. The networks or channels which are formed by these exchanges are called world-systems. This world-wide perspective, with its focus on global thinking, is summarized by Inkeles (1975, p. 467) when he writes:

> The widespread diffusion of this sense of a new, emergent global interrelatedness is expressed in numerous ideas, slogans and catchphrases which have world wide currency, such as "world government," "the global village," "spaceship earth," "the biosphere," and the ubiquitous cartoon of a crowded globe with a light fuse protruding from one end, the whole labeled "the world population bomb."

Although the world continues to shrink as a result of rapidly increasing communication and transportation technology, portions of the world continue to defy this trend, seeking to isolate themselves from the mainstream of reality, ideology, and growing experience. Cases in point would include the People's Republic of China and Cuba. The following section attempts to define what should constitute a total world economic or market system.

COMPONENTS OF THE WORLD-SYSTEM

The world-system perspective, predominantly advanced by Wallerstein (1974, 1979, 1980), has boundaries although, in contemporary thinking, is viewed as a global interrelationship of societies networked together by economic and political systems. Originally, world-systems were not global because regions of the world were unconnected due to the lack of any appreciable and consistent exchange. However, by the nineteenth century, a truly global perspective was thought to have been realized.

A number of theoretical considerations must be presented to focus the world-systems perspective. First, world-systems are considered to be historical in orientation. Institutions, developed to regulate competition and social order within the world-system, evolve over time and, in some cases, even become extinct. This historical perspective is reflected in three modes in which material exchanges occur: mini-systems, world-empires, and world-economies.

Mini-systems are based on a reciprocal-lineage mode of production. This production method is dominated by a hunter-and-gatherer type of exchange which tends to be reciprocal in nature. Wallerstein (1974, 1979,

1980) suggests that mini-systems have, for the most part, been incorporated into one of the other two larger world-systems.

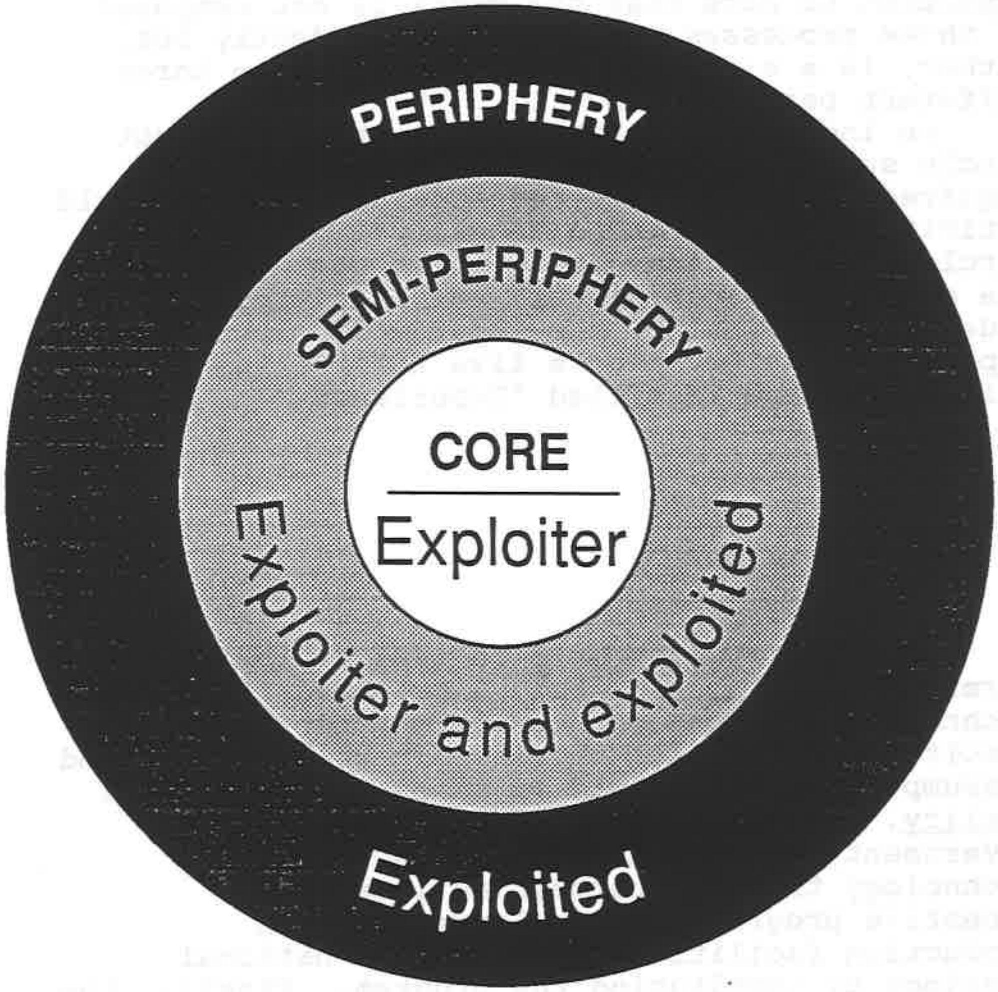
A world-empire is based on a redistributive-tributary mode of production. This production mode is driven by large scale agricultural production which produces surplus goods. Agricultural producers exchange their surpluses for commodities produced by craftsmen as well as pay tribute to those with political and military power. Thus, in this system, unlike the mini-system, material inequality occurs. The world-empire can encompass multiple cultures but is guided by a single state apparatus. Examples of world-empires might include the Roman or Chinese empires.

A world-economy is based on a capitalist mode of production in which commodities are created for exchange and whose value is determined by the forces of the market place. Within a world-economy, there are multiple societies and political states but a single economic division of labor. Without multiple political states, competition would be eliminated and a world-empire would be formed.

Finally, the structure of the world-system is based upon a hierarchy stratified by core, peripheral and semi-peripheral zones. Exhibit I provides a visual representation of this hierarchy. Each concentric circle represents differing concentrations of economic production and might be alternatively viewed as a continuum with end-points represented by developed and lesser-developed countries. Production of commodities within core zones results from capital- intensive technology and highly skilled, well-paid labor. Alternatively, the reverse is true of the production of commodities in peripheral zones which are typically labor intensive, low in capital technology and often politically coerced. The production of commodities in semi-peripheral zones is characterized by a balance of production activity similar to that found in both the core and peripheral zones. Semi-peripheral zones are highly dynamic in terms of the world economy and offer great opportunities for technological advance.

Exhibit I.

WALLERSTEIN'S STRUCTURE OF SEPARATION AND CONTROL



Source: Taylor, Peter J. (1989) Political Geography: World Economy, Nation-state, and Locality, (2nd Ed.) Essex, England: Lomgman Scientific and Technical, p.37

This review provides the foundation for the world systems perspective. While it is appropriate for marketers to keep in mind the interrelatedness of societies and global-level activity, the world systems approach can address societal change on multiple geographical scales. Building upon Wallerstein's three-tiered structure of societal interrelatedness, Taylor (1989) proposed a related three-tiered model which provides an opportunity to analyze world events using differing levels of analysis. It is important to note that the model is not composed of three processes operating independently but, rather, is a single process examined from three different perspectives.

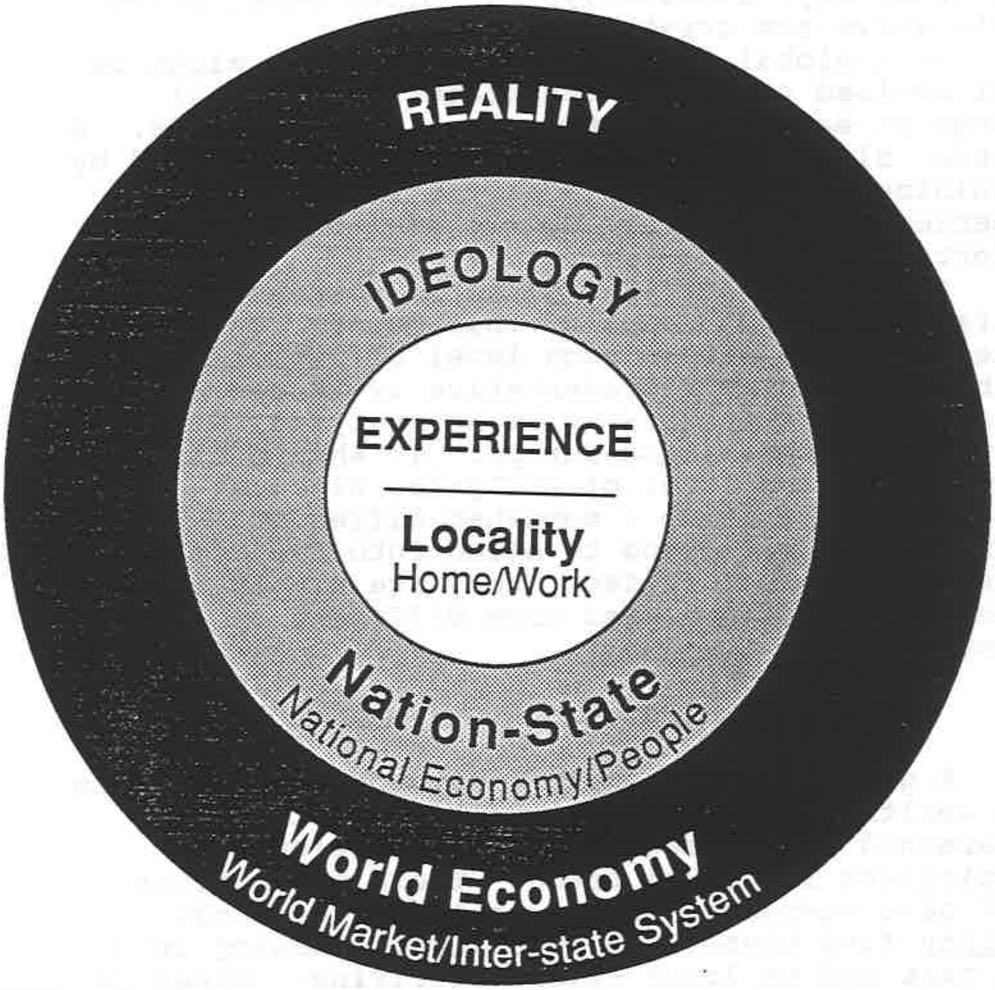
As indicated in Exhibit II, the outer-most circle suggests that a global perspective is required for an undistorted understanding of world activities and is titled "Reality". The middle circle is the nation- state which operates between the global and local levels and is titled "Ideology." Finally, the inner-most circle represents the way people live their lives on a daily basis and is titled "Experience."

An example might help to make Taylor's terminology more concrete. A proposed transfer of technology from one country to another might result in a potential increase in world output and consumption. This would be an example of global reality. Further, the recipient country's government, instrumental in attracting this technology transfer through an investment incentive program such as lower taxes on production facilities, exhibits its national ideology by instituting the program. Finally, the people living in the designated community within this country are subsequently and directly affected by this national decision. They realize this through the construction of the production facility, increased local employment, potentially higher incomes and, hence, overall improvement in the quality of their lives. This grassroots awareness reflects direct individual experiences.

The above example demonstrates that the level of Experience provides the opportunity to look at the production and consumption of commodities at a reduced macro-level. At this level of analysis,

Exhibit II.

TAYLOR'S STRUCTURE OF SEPARATION AND CONTROL



Source: Taylor, Peter J. (1989) Political Geography: World Economy, Nation-state, and Locality, (2nd Ed.) Essex, England: Longman Scientific and Technical, p.37 the true value of commodities (in this case, the transfer of technology), as set by world market activity, is distorted. This distortion is caused by a filtering of world market activity through nation-based Ideologies. Thus, Reality, a truly holistic world-market process, is altered by the nation-state thereby providing the sphere of Experience which becomes the world as it is known. Since each nation-state distorts reality in a different way, alternative and often conflicting world views are created.

In a global market place, marketers might be well advised to assess the status of societal change at each of the three levels of analysis. A static, distorted and myopic view, as portrayed by a unidimensional analysis at the level of Experience, might prove detrimental to marketing efforts in the long-term.

A complete analysis of world systems theory is far beyond the scope of this paper. Only selected areas within each level of Taylor's model -- believed to be representative of issues of concern to marketers -- will be analyzed, with particular emphasis on Europe. It should also be noted that each level of analysis, although capable of providing a somewhat different perspective, will tend to blend into the adjacent level(s) because, in fact, they are simply the same phenomenon analyzed from different perspectives.

REALITY: THE GLOBAL PERSPECTIVE

A glance at the world today would demonstrate the wealth of nations is, in large part, determined by the degree to which nations participate in global trade. Those few nations that have chosen to remain isolated from this <u>reality</u> find themselves actually digressing into the past and to lower levels of living. Cases in point would include Albania, Cuba and, until more recently, the People's Republic of China. Further, <u>reality</u> demonstrates a tremendous amount of turmoil created from the desire of increasing numbers of countries (or groups of peoples within countries) to move from dependent to independent status and from planned to free market economies. Examples would include entire countries such as Estonia, Latvia, and Lithuania withdrawing from the now-defunct USSR, as well as partial country members such as Croatians and Slovenians seeking independence from Serbian-controlled Yugoslavia, or Macedonians seeking independence from Yugoslavia, Greece, and Bulgaria. Although this transition appears to be concentrated in Eastern Europe, other parts of the world appear on the brink of similar changes: Finnish-speaking minorities seeking independence from Sweden; Kurds seeking independence from Iraq and Turkey; Corsicans seeking independence from France; and Flemish-speaking Belgians seeking independence from French-speaking Belgians. These are simply Ideological events blending into the Reality level of analysis.

A brief historical analysis of pre-1992 Yugoslavia might serve as an example as to why much of the current tension exists in and among certain Eastern European countries. Yugoslavia has had a history extending back about three thousand years during which time it "belonged to" the Illyrians (ca. 750-550 BC), the Celts (ca. 500-200 BC), the Romans (ca. 165 BC-565 AD), the Ostrogoths (ca. 300-500 AD), the Byzantians (ca. 800-1100 AD), the Ottomans (ca. 1300-1520 AD), the Austro-Hungarians (1815-1915), and the Communists -- under the influence of the USSR and the Warsaw Pact countries -- following World War II (Barraclough, 1982). A time-tested definition of what constituted "Yugoslavia" would challenge the very best of historians, economists and politicians.

Surrounded in 1991 by Italy, Austria, Hungary, Romania (Transylvania), Bulgaria, Greece (Macedonia), and Albania, the people of Yugoslavia were exposed to cultural, economic, and political influences from all sides. Of further importance, both to geopoliticians and marketers, is the fact that its three largest cities were located in three distinct cultural areas: Belgrade (Serbia), Sarajero (Croatia), and Zagreb (Slovenia). Finally, these diverse influences had resulted in at least five main political subunits in the country, namely, Bosnia-Herzegovina, Croatia, Montenergo, Serbia, and Slovenia.

Although this example perhaps epitomizes selected Eastern European problems, examples can be cited from parts of Western Europe as well. A more recent but brief historical review of Germany would demonstrate this point. In 1789, that area of Europe which one often thinks of as "Germany" actually consisted of 1789 relatively autonomous city-states, dukedoms, etc. Following the Napoleonic Wars in 1815, the Prussians of northeastern "Germany" began to exert influence over these micro-Germanic units, eventually leading up to the formation of the Zollverein in 1871, the year of the formation of the German Second Reich. This included all of the

Confederation of German States, Bavaria, much of modern-day Poland, and portions of Czechoslovakia and France.

Following each of the world wars of the twentieth century, Germany was partitioned, with portions going to selected victors, namely, France, Poland and Czechoslovakia, etc. In 1990, that portion partitioned into an autonomous East Germany was reunited with West Germany to form the present unified nation of Germany.

Recent events in Germany raise some questions concerning just how far the EC might be extended. The first involves a lack of tolerance toward minority groups, many of which immigrated to Germany following World War II and which are now being encouraged to return to their respective countries of origin. The second involves misgivings some prior East Germans are having in adapting from a planned, socialist economy -- with its various forms of security -- to a market driven economy -- with its various forms of risk. Some have even suggested integrating some socialist programs into existing democratic programs of the unified Germany. Finally, a third problem has emerged in eastern Germany involving a minority of German Slavs known as Sorbians. This region has been occupied by Prussians, Sachsens, Nazis, Communists and now Germans, and its citizens currently are seeking to establish an autonomous nation, Lusatia.

Despite this unrest and uncertainty, economic integration has been the single most dominating event in Europe in the past forty-five years and has come to be believed by many as simply the early stages of something that will be perpetuated in time to encompass all of Europe and possibly significant portions of Asia which once were part of the now-defunct Soviet Union.

Given the success of the EC since 1958, it is not surprising that Poland, Czechoslovakia and Hungary have applied for membership. It is also not difficult to envision the day when autonomous nations created out of a collapsed USSR will also apply for membership, including Belarus, Ukraine and even Russia. A common market of twelve nations in early 1991 and a free trade area of nineteen member nations -- the result of a merging of the EC and European Free Trade Area into the European Economic Area -- by late 1991 might very well become a mega-market consisting of closer to twenty-five or even thirty different nations by the year 2000. Both Taylor (1989) and Wallerstein (1974, 1979, 1980) would seem to suggest the ultimate possibility of a world-systems economy and of two-hundred-plus nations of the world becoming a single global market place.

However, although recent events suggest that certain countries might well be integrated into the present EC, by the time compatible Eastern European countries are possibly joined by the Baltic countries and even selected remnant republics of the Soviet Union, the contrast might simply be too extreme and, hence, unmanageable.

If, on the one hand, internal affairs within Germany are causing expressions of concern for the EC and if, on the other hand, internal affairs within what was "Yugoslavia" are causing still further concerns within what might very well become a still larger EC, what might marketers expect in the way of a still larger mega-market in the 1990s and beyond? (It should be remembered that certain problems in the Balkans and the Crimea contributed, in part, to both world wars fought in Europe in the twentieth century.)

Perhaps an all-Western European, or a combination Western and Central European market, is sufficiently compatible as to bring to pass successful integration. However, the inclusion of all of Eastern Europe, possibly extending into Asia, might simply be too diverse, hence, dysfunctional, resulting in selected diseconomies of scale. Is it not possible that attempts to create a still greater mega-market might result in some loss of the "ideal" size, extensions which lend themselves to less than "profitable" relations? One is simply reminded of break-even and marginal analyses which demonstrate the point at which profit maximization is realized and those regions to either side of that point which indicate less profitable ventures. One is also reminded of the "weakest link" principle which states that a chain (the EC?) is only as strong as its weakest link. Should the EC continue to expand to include steadily weaker economies, could this not threaten the very existence of the EC?

The following section addresses idealogy and the societal perspective. It is intended to identify certain potential social and cultural problems which may create and thus produce profound effects on what might otherwise be perceived as reasonable economic behavior.

IDEOLOGY: THE NATIONAL PERSPECTIVE

The ability of a nation to compete in the world economy is based on the strength of its national ideology and its ability to focus efforts toward competitive production and marketing. The development of a strong ideology -- sometimes defined as geopolitical cohesiveness -- enables a nation to provide assurances, both domestic and foreign, that market share can be obtained, developed and maintained with some degree of confidence and stability. It is unclear, to date, if these newly formed nations (as well as groups of nations) possess the political strength, capital, and infrastructure to compete effectively in the world economy.

Ideological Considerations

At some point in time, the ideology of a given nation must enter into the analysis. The question might be raised as to what constitutes a nation or a nation-state. Root (1990) contends that to qualify for nation-state status, a group of people would require a common language; a common religion; a common history drenched in folklore, tradition, and heroes and heroines; and common colors, shapes, forms, and objects of nature. In other words, a group of people would have to share in common a rather large set of cultural intangibles.

In contrast to this, Danilo Turk, a professor of international law in Ljubijana, Yugoslavia, recently contended that a state (distinct from a nation) has ". . . three conditions which must be met: a specific land mass or territory, a given mass of people, and an effective state power sufficient to implement and defend the sovereignty of that territory and that people" (Thurow 1991a, p.1). Not once was specific mention made of economic compatibility in either discussion. Nor was any mention made of natural resources (other than people), specialization and division of labor, surpluses with which to trade, or exchange with other groups of people in a viable market setting.

In their attempt to begin to specialize, individual countries have often developed their own standards in the conduct of business. Quite often, this constitutes an obstacle to trade. In order to enhance market integration, some standards have been blended. One of the best examples of this -- at least in the EC -- has been the technical integration of much of the infrastructure of the member countries, including transportation, communications, etc.

The following discussion addresses concerns associated with the willingness of members to support the development and integration of marketing infrastructure.

Marketing Infrastructure

With the increased splintering of many existing countries into newly emerging democratic nations, one of the overriding issues to be considered with respect to possible integration of certain Eastern European or even Asian countries into the EC is the underlying assumption that they will be able to contribute positively, at least partially, to the standardization of marketing activity and to increasing economies of scale. While a number of marketers have suggested that total global standardization of marketing activity is not feasible (Douglas and Wind 1987; Killough 1978), it has been suggested that global marketing strategies are still possible (Douglas and Wind 1987; Hill and Still 1984). The distinction to be made is that globalization may best be viewed as a market-by-market proposition as compared to a country-by-country perspective. It should also be noted that research has indicated that standardization of marketing strategies might best be suited to marketing infrastructures which are more highly developed and comparable (Peebles, Ryans, and Vernon 1978).

The development of a country's or a region's marketing infrastructure and its ability to service consumer demand is an important issue to consider (Bello and Dahringer 1985; Thorelli and Sentell 1982). The cost of developing a marketing infrastructure, especially if modifications are significant to accommodate a new influx of commodities, would be staggering. According to Czinkota (1991), many newly emerging democracies are deficient in their marketing infrastructure. Problems are reported to exist in the areas of transportation, communications systems, funds transfer systems, and market intermediaries.

Despite the belief that the integration of marketing infrastructures of certain of the participating countries might be wrought with difficulties, evidence is emerging that this obstacle can be overcome. In a recent Associated Press release, it was noted that Finland is developing its highway system to link with the Russian Arctic seaport of Murmansk (Las Vegas Review Journal 1991a, p.8B). The highway -- to be known as Via Baltica -- will also extend southward through Estonia, Latvia, and Lithuania to the Polish border, complying specifically with all EC standards in anticipation of increased traffic among these countries. The highway will connect with a major Polish construction project which will begin in Gdansk on the Baltic Sea and will link together with a proposed highway extending through Warsaw, Poland to Budapest, Hungary and eventually to Ankara, Turkey.

This project is part of long-run plans for the development of the Trans-European Motorway. To the extreme west, additional plans have been proposed to link southwestern France with Madrid, Spain and Lisbon, Portugal. In closing, the article stated, "What we are talking about here is a vision of a new Europe. Murmansk (Russia), Helsinki (Finland) . . . will no longer be isolated from the rest of Europe" (Las Vegas Review Journal, 1991a, p.8B).

Despite some of the concerns expressed in this paper, with respect to Ideology, as individual countries attempt to integrate their respective economic, technological and other systems into those of other countries, the past thirty years of the EC have demonstrated that it can be done. The political and military differences and disputes that have existed between and among such world powers as France, Germany, Spain, and England over the past four hundred years -- including two major world wars in the present century -- have not precluded enormous gains within the EC. It is believed by some that with enough time and the tremendous evidence of the economic benefits to be derived from integration, it will continue to extend eastward to include both Scandinavian and Slavic countries, if not more. Truly one of the world's largest macro-markets is in the process of being realized as the world enters the Twenty-first Century.

While the success of this integration of a major component of the marketing infrastructure might appear to undermine the general thrust of this paper, the authors contend that it occurs within a truly viable part of a growing EC, quite in contrast to events more to the south and east.

Whereas some of the many Ideological concerns among nations appear to be in the process of being addressed, other areas of concern exist at the inner circle of Taylor's model, namely, at the Experience level. Here, people must deal with their cultural and ethnic differences (especially with respect to those new members of Eastern Europe and the now-defunct Soviet Union) which have experienced tremendous difficulties over the past several years. This inner circle of Taylor's model, the sphere of Experience, and the least macro of levels, is reviewed in the following section.

EXPERIENCE: THE PEOPLE AND THEIR CULTURE

Culture

Culture might be defined as a constellation of socially constructed practices (Fox 1985). These practices accumulate over time and form a culture's heritage. While a culture certainly wants to maintain its heritage, Marx (1978, p. 9) presents an interesting perspective when he writes in The Eighteenth Brumaire of Louis Bonaparte that there is a negative side to cultural heritage. He writes: "the tradition of all the generations of the dead weighs like a nightmare on the brain of the living." While one's culture provides purpose and direction, it also constrains one's ability at times to be flexible and adjust to new situations.

It is also known that culture provides a set of norms which guides one's interpretation of the environment, the formation of attitudes and values and, ultimately, the way one behaves when confronted with a variety of situations. While members of a given culture might be continually exposed to alternative cultural values, the degree to which these new values influence traditional cultural norms, as reflected in decision making and behavior, has been shown to be variable (Tse, Lee, Vertinsky, and Wehrung 1988). One of the most salient dimensions of culture is language, and there exists no global language. Sapir (1949) and Whorf (1956) both argued that meaning can not be transferred between languages in cases where cultural views of the nature of reality are different.

Many of the original members of the EC have long-standing relationships with one another and have learned over time each other's cultural idiosyncrasies. However, this does not suggest that problems do not exist. Hall (1960, p. 131), for example, wrote:

> The Germans, the English, the Americans, and the French share significant portions of each other's cultures, but at many points their cultures clash. Consequently, the misunderstandings which arise are all the more serious because sophisticated Americans and Europeans take pride in correctly interpreting each other's behavior. Cultural differences which are out of awareness are, as a consequence, usually chalked up to ineptness, boorishness, or

lack of interest on the part of the other person.

These problems might manifest themselves often when one starts to learn more about Eastern European cultures. Aside from language differences, cultural differences have much more broad-based implications and extend to include economic and political differences. The capitalist view of exchange is based on market place activities with profit maximization as the primary goal. Durkheim (1964) notes, however, that exchange does require some degree of normative consensus. Not only does exchange need to be agreed upon, but members of the exchange parties must also agree that they are equally matched for successful and equitable transactions to occur. Curtin (1984) has reported that groups with diverse cultural backgrounds require what he calls "trade diasporas" for successful exchange. Trade diasporas are groups of specialized negotiators which are culturally integrated and capable of developing cross-cultural trade agreements. Only after trust is developed can these trade diasporas dissipate and "trade ecumene" develop. Curtin (1984) defines trade ecumene as a level of cultural understanding capable of sustaining trade between cultural groups independently of the trade diasporas.

This might suggest that Eastern European countries and certainly members of the Commonwealth of Independent States will need major assistance in conducting business as well as in consumer training in order to operate efficiently in the EC should they in fact seek membership. Never having had the need for advanced levels of consumer-oriented problem solving and decision making because of their centrally planned economies, an open market environment might have a tendency to cause poor decision making and choice behavior because of limited market-based training (Johansson 1990).

Given the above reasoning, it is not surprising to find that culture has been shown to greatly influence product choice (Lipman 1988). The degree of acculturation has also been shown to influence the acceptance of standardized products (Schiffman, Dillion, and Ngumah 1981). Jain (1984) noted that nations in different stages of economic development require product modifications such that the product is best suited for the current stage of market development. This would be consistent with the concept of compatibility in product diffusion processes (Rogers 1977).

Additionally, differences in income levels across Western and Eastern Europe have shown a diversity in cultural behavior (Boddewyn 1981; Quelch, Buzzell, and Salama 1990) and the tendency to discourage product globalization (Boddewyn 1981). The authors expect that this would also be true for most members of the Commonwealth of Independent States.

If globalization or standardization were possible, it might be more appropriately applied to industrial goods as opposed to consumer goods (Boddewyn, Soehl, and Picard 1986). Among consumer goods, durables tend to be less influenced by cultural dimensions than nondurables and, therefore, lend themselves better to standardization (Hovell and Walters 1972).

These issues require consideration of the fact that differences between Western and Eastern Europe, as well as among members of Commonwealth of Independent States might be too great to allow mass entry into the EC. One need only recall that even in the single state of Russia, over 50 unique ethnic groups continue to exist, each with its unique cultural and historical values, attitudes, and priorities. Allowing selected Eastern Europe or western Asian states into the EC might disrupt an already strained relationship among the original members and have a debilitating effect on its ongoing successful operation. The world economic system might be better served if the Eastern European nations and members of the Commonwealth of Independent States develop their own economic community(s), supported and nurtured by the West, until a smoother transition into a capitalist-based market economy can be accomplished.

With the recent expansion of the European Free Trade Association in October 1991 to include its present seven members plus the present twelve members of the EC and named the European Economic Area (EEA), any further expansion would be in the direction of Slavic nations with their own unique ethnic and cultural backgrounds (Las Vegas Review Journal 1991b, p.5F). Perhaps in the short run, it might be advisable for Eastern European countries and members of the Commonwealth of Independent States to consider entry into this group first, followed by application for membership into the EC on a country-by-country basis.

Concerns for Disintegration

Up to this point, this paper has focused on the success of and potential for continued economic integration. However, the authors are equally sensitive to the success of and potential for the disintegration of larger political and economic units into steadily smaller ones. The only certainty in modern-day Europe would appear to be uncertainty. The rigidities of the past are being cast off in an atmosphere of relative freedom. But the question remains, politically, culturally and in terms of marketing considerations, just how small should a country -- or a market -- be and still warrant political recognition or single-market consideration? And what will become of economies of scale, both in terms of production and marketing, should still smaller autonomous countries emerge, each with distinct culturally-and ethnically-defined groups of people?

Culture or Ethnicity as the Basis for Market Segmentation

Whenever Americans speak about Europe in general or Western Europe in particular, the conversation seems to proceed as if there were no cultural or ethnic subgroups. This would suggest that European markets might be defined effectively by means of political boundaries, with an occasional consideration given to multiple languages as in the instance of Belgium with its two languages or Switzerland with its three major and one minor languages.

However, it might be argued that these and other markets might better be defined or segmented when one gives credence to culture or ethnicity as the basis for market definition or segmentation. Spain, a more recent member of the EC, might be used to provide an example to support this argument, given its large population base and geographic size. Marketers might be compelled to consider Spain as a relatively homogeneous country. A more careful analysis of Spain, however, would demonstrate the existence of at least four main cultural, ethnic and/or linguistic groups: the Catalonians to the east, concentrated around Barcelona; the Basques to the northeast, concentrated around Pamplona or Vitoria; the Gallacians to the northwest, concentrated around LaCoruna; and the Spanish, dominating the central and southern regions surrounding Madrid (Price, 1987, p.86-87).

With this understanding, should Spain still be considered a single homogeneous market or, at least, four distinct cultural, ethnic and/or linguistically segmented sub-markets? This paper does not have the luxury of either time or space to analyze the arguments which might be used to define and defend these sub-groups. The authors simply raise the concern that if the peoples of these sub-cultures believe they are distinct and warrant autonomous status, and wonder about just what insight might result if intensified marketing research addressed such sub-cultures. Is it not true that people behave on the basis of what they believe? If they believe they are different, will they not behave differently in the market place?

From a marketing perspective, a set of psychographic and demographic preconditions would make a great deal of sense. However, one would have to wonder about the total absence of any economic rationale, i.e., economies of scale both in production and marketing.

Once more, with the demise of the Warsaw Pact Poland, Hungary, and Czechoslovakia have applied for associate status with the EC. However, this has not been as positively received as anticipated, leaving both politicians and marketers pondering future ramifications. The present status of Poland and Hungary, countries slightly more stable and homogeneous with respect to their populations, is less problematic than the situation to be found in Czechoslovakia. In the latter instance, the two major ethnic groups -- the Czechs to the north and west and the Slovaks to the south and east -- have been engaged in a bitter conflict for many years and show no indication of reconciliation of their differences. Even within these groups, there is not homogeneity, either ethnically or politically. For example, the Czech Republic consists of two subparts, namely, Bohemia and Moravia, while a more detailed composite analysis would show that 9.8 million (or 63%) are Czechs; 5.0 million (32%) are Slovaks; 600,000 (or 4%) are Magyars (or Hungarians); and the remaining 200,000 (or 1%) are either German, Polish, Ukrainian, Russian, or other (PCGlobe 1991).

Perhaps one might be compelled to ignore a cultural submarket of 800 thousand or about 5% of the population but can one ignore the distinctions that exist between the Czechs and the Slovaks?

Further, should the EC continue to spread to the south and east, how might one deal with such complex cultural combinations as what was once a unified Yugoslavia? Current events demonstrate that this was not a homogeneous country and that schism has already been realized in the recognition of the autonomous states of Croatia and Slovenia. Should one choose to ignore the tremendous ethnic diversity of this small southeastern European country, one still cannot ignore the significant economic and cultural disparities that exist among or between the areas surrounding Zagreb to the north (which is dominated by the Slovenians), Belgrade to the east (which is dominated by the Serbians), and inbetween and to the west (which is predominately Croatian). To this day, there remain traces of still smaller ethnic groups such as Austrians, Magyars (Hungarians), and Rumanians to the north, Albanians to the extreme south, and Macedonian Slavs, Bulgarians and Greeks to the south and east. Finally, what should marketers do with the still two smaller enclaves of Bosnia-Herzegovina and Montenegro?

It is interesting to contemplate the continuing surge to the east of the EC throughout the decade of the 1990s. However, despite widespread optimism, continued success is not expected by all in the near future, at least not in a south-easterly direction. Marketers should take note that continued success might be slowed in the very foreseeable future.

Geographical and Population Size as the Basis for Political and Market Segmentation

To what extent should ethnicity be assumed as the basis for autonomous country formation among national and international leaders and policy makers? And further, to what extent will this prove of any consequence to marketers? The greater the ethnic diversity in a given country or region, the greater will be the tendency for ever-smaller countries (and markets?) to emerge. Of growing concern is just how small an ethnic group might be and still warrant acceptance as the basis for the formation of an independent nation.

In a recent article by Thurow (1991b, p.1) he stated:

> From the Soviet Baltics in the north to the Balkans in the south, a host of lyrically-named European nationalities, finally out from under the thumb of Communist regimes, are pursuing their long repressed yearnings for nationhood. In June of 1991, Slovenia and Croatia moved to secede from a Serbian-dominated

> Yugoslavia, and . . . one Soviet republic after another has boldly declared its independence (from the now-defunct Soviet Union). Cheering them on are smaller, lesser-known minorities that one day would like to do the same, or, at the very least, demand autonomy within their present countries.

Examples of these ethnic groups include Romania's Hungarian minority who seek to reobtain its Transylvanian homeland, referring to the small size of such recognized countries as Luxembourg as the basis for small yet viable autonomy. Further citing Thurow (1991b, p.1):

> If they recognize Lithuania, Latvia, and Estonia's independence from the Soviet Union which has now occurred, how do they deny the same right of sovereignty to the people of Slovenia, Croatia, Moldavia, (the) Ukraine, Georgia, Slovakia, or even Lusatia . . . or who's to stop the Moldavians living in Romania from following suit, perhaps reclaiming the historic Moldavian territory of Bassarabia?

In that same article, when referring to the "Lilliputian of Europe," namely, Luxembourg, it is interesting to note that this small country has "belonged to" Burgundy, Spain, France, Austria, and France over the past four hundred years. However, in the very early 1920s, it could not decide whether it should align itself with France, Germany, or Belgium (which ultimately was the choice, namely, the Belgian-Luxembourg Economic Union in 1922).

And what of the other smaller European nations that enjoy autonomy and yet are even smaller than what a three-way division of Yugoslavia or a two-way division of Czechoslovakia have or will yet create, namely, Liechtenstein, Andorra, San Marino, or Monaco?

Should steadily smaller nations in Europe be encouraged to emerge? Or should all of Europe follow somewhat the alleged pattern of the United States in becoming one of the world's truly great melting pots, following in the footsteps of the EC as it continues to struggle in the creation of a unified mega-market? Citing Thurow (1991b, p.1) once again, there remain:

> ...anomalies, ironies, incompatibilities and inconsistencies in reviewing events of all of Europe over recent years. Whereas the Helsinki agreement of 1975 seemed to be a positive step in that it recognized the integrity of (then) current European borders, it is now regarded as part of the problem in precluding subethnic or subcultural groups from obtaining their rightful independence.

It has not been the purpose of this paper to answer such questions but, rather, to analyze present day events within the Wallerstein and Taylor frameworks. The authors believe that there are, indeed, problems of Reality, Ideology, and Experience which will confront both Europe and the rest of the world well into the Twenty-First Century.

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

As can be seen, Reality, Ideology, and Experience continue to manifest themselves throughout Europe and compel marketers to be cognizant of differences among the many present subgroups. Marketers must avoid the problem of regarding world markets myopically, i.e., at only one level of analysis. They must begin to analyze market opportunities at all three levels.

Despite the marvelous success of the EC as it and the rest of the world await 1992 -- somewhat the antithesis of "1984" -- what might marketers and politicians expect in the years to come? The authors believe that distinctions among Reality, Ideology, and Experience are very real in the global economy and warrant constant surveillance.

There is a Reality that economic integration within a free market enterprise system will continue to increase throughout much of Europe, although exceptions will continue to be manifest, as in the case of Yugoslavia. Further, there is also a general Ideology that is preempting portions of the Ideologies of individual countries such that even those that have been historical enemies are coming together to reason because the economic benefits of free trade and integration are too overwhelmingly conclusive to ignore. Despite cultural, political, and economic differences, portions of which will also pass, contrasting countries are coming together to negotiate alternative integrative or cooperative programs.

The vast majority of world trade is, first, among the developed nations of the world, many of which are in Western Europe; second, between the developed nations of the world and their long-run, historical neo-colonialist trading partners; and third, with relatively modest involvement of third world countries.

Finally, as the world continues to shrink, due in large part to rapidly improving systems of technology and communication, the Experiences of individuals from many, although not all, nations of the world will continue to converge. This convergence will not be absolute but sufficient to permit world markets to become still more integrated and to emerge in an atmosphere of relatively free trade. Economies of scale, both in production and marketing, will continue to increase to the benefit of all those who participate therein. In the terminology of Wallerstein and Taylor, exploiters and exploitees will continue to relate and, of necessity, continue to converge; and those few countries which have chosen in the past to remain isolationist, or on the periphery, will eventually become involved in the world economy. However, this might not be the nature of Man. Only time will tell. Only myopic political, economic, or marketing thinking might curtail or postpone such a realization.

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MARKETING AT THE SECTOR LEVEL

A conceptual framework and applications, in particular with reference to agriculture

by M.T.G. Meulenberg and A. van Tilburg, Department of Marketing and Marketing Research, Agricultural University Wageningen.

ABSTRACT.

This paper is concerned with sector marketing, which is defined as collective marketing of the generic product of a group of companies. It is in particular concerned with the question whether sector marketing has unique features, justifying its differentiation within the marketing discipline. This question is analysed by using concepts from systems thinking. It is concluded that organisational features are the unique characteristic of sector marketing. Necessary and sufficient conditions for the viability of a sector marketing operation are given. A set of criteria for evaluating the organisational set up of sector marketing are proposed.

The developed conceptual framework for sector marketing has been applied to Commodity Boards in the Netherlands and to Grain Marketing Boards in some West African countries.

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1. Introduction

Marketing is a central activity of any company or organisation. Sometimes it is also practised by a group of companies, whose products have common characteristics. Such collective marketing operations focuse on common characteristics of the respective products. We will refer to them as sector marketing. Sector marketing can either substitute marketing operations of individual group members, e.g. a farmers' marketing co-operative, or it can function as a complement to marketing programs of individual members, like a promotional marketing board for agricultural products..

Sector marketing is practised in many types of industry, in particular industries characterised by small and medium sized firms. A case in point are agriculture, services and tourism. While sector marketing has lost importance in some industries because of the emergence of larger companies, it is stimulated on the other hand because of societal concern with respect to products and production methods, like environmental concern.

In this paper we address the question whether sector marketing has unique dimensions, which justify its differentiation within the marketing discipline. If the answer to this question is positive, it is worthwhile to have a good understanding of the conditions to be fulfilled for effective sector marketing and of its organisational aspects.

Our paper is organized as follows. First we will discuss whether sector marketing characteristics make it a specific differentiation within the marketing discipline. Afterwards we discuss conditions for effective sector marketing programs and organisational aspects of sector marketing. The results of our conceptual discussion will be applied to sector marketing in Dutch agriculture and in some West african countries.

2. Sector marketing as a special branch of marketing.

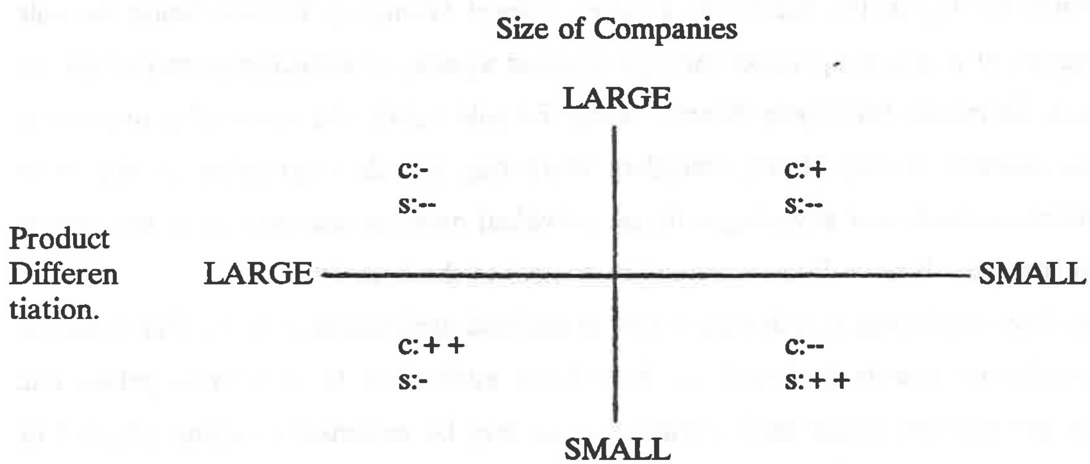
Sector marketing is defined as the collective marketing of the generic product of a group of companies.

In this definition a generic product should be conceived as the greatest common divisor of product characteristics of the relevant products of the companies.

Essential for sector marketing is that independent companies join a collective marketing program. Its relevance is positively related to the size of generic marketing problems.

Companies may join sector marketing programs, which are either substitutive and/or complementary to their individual marketing operations. Companies seem more inclined to complementary and less to substitutive sector marketing when company size and product differentiation are larger, and vice versa. However, large companies carrying national or international brands, may be not at all interested in sector marketing, since they feel strong enough to handle marketing problems of the generic product themselves (Figure 1).

Figure 1. Hypothesized influence of product differentiation and company size on complementarity or substitution of sector marketing to company marketing policies.



s: sector marketing substitutive to company marketing policies
c: sector marketing complementary to company marketing policies.
- : negative; -- : very negative ; + : positive ; ++: very positive.

Another aspect of sector marketing is the potential free rider problem. It has to be prevented by organisational structures which guarantee that companies live up to the obligations emanating from a sector marketing program. This seems in particular relevant to sector marketing of the complementary type, since in that case a company does not necessarily depend on sector marketing activities.

One might argue that sector marketing is specific because of its concern with generic products/services. But the classical marketing management approach is in principle also applicable to generic products, albeit sector marketing programs are often partial marketing programs and some marketing policies - like branding - are difficult to realise in sector marketing. It seems to us that sector marketing is in particular specific in respect to its organisational structure. Before elaborating in more detail the specificity of sector marketing we will review some concrete examples of sector marketing, in particular in the agricultural sector.

Some types of Sector marketing

Sector marketing is extensively practised in agriculture. A classification of sectormarketing in agriculture used by many authors (Abbott, Creupelandt, 1966; Morley, 1967; Hoos, 1979) is the following: Advisory and Promotional Boards, being involved in market research, sales promotion and product research; Regulatory Boards, being non-trading boards exercising control over exports and stabilizing prices by means of quantity regulations, fixed price or deficiency schemes; Price stabilization Boards with Trading Powers, which try to influence production into a specific direction by subsidy and advice and have the power to step in the market as a buyer; Export Monopoly Boards, being the sole buyer for export of a specific product through licensed agents, or subsidiaries owned by the Export Board; Domestic Monopoly Boards, being the sole buyer and seller of a product in the domestic market. Morley (1967) considers Marketing Boards cooperative in the sense that administrative costs and advantages to an individual member are related to the system use and that members have a direct voice in the control of the board.

In some countries marketing boards play a role in national agricultural policies. For instance: 'Statutory marketing boards in Israel, ..., have been authorized to determine prices and quantities in the markets under their control. ....., as may be expected, motions adopted by the board are products of elaborate negotiations in the lobbies' (Sadan and Melamed, 1979). Blandford (1979), depicts the scope and purpose of the West African Marketing Boards in their initial years as a marketing agency, acting as a stabilizer and as a fiscal agent. His critique about these boards concerns: '..objectives that are difficult to define, ..use for the ends of the government, ...institution of considerable permanence.' Canadian marketing boards differ greatly in their regulatory authority (Hoos, 1979).

In the United States Marketing Agreements and Marketing Orders are set up to improve agricultural producers' prices, incomes, and market power by provisions, like ' ... control of volume marketed, size, grade, pack, or container regulation; advertising and sales promotion; research and investigation; and the prohibition of unfair trade practices.' (Hoos, 1979). In 1987, there were 44 fruit, vegetable, nut, and specialty crop marketing orders in effect in the United States (Kohls, Uhl, 1991).

A great many authors have criticised Marketing Boards and Marketing orders, from the welfare point of view, like having a negative effect on resource allocation and consumer prices (Hoos, 1979, Forbes, 1982, Veeman and Lyons, 1979) or increasing price spreads between prices F.O.B. and retail prices (Thompson and Lyon, 1989). On the other hand, French and Nuckton (1991) conclude that the Marketing Order for Raisins in California, which controls the volume of raisins, may have served the public interest well.

Also a co-operative has the status of a sector marketing institution, when it is marketing the supply of companies of a sector. *A fortiori*, this holds true in case co-operatives are compulsory, like in some developing countries and during the past in east european countries.

Dodds (1967) distinguishes 'Group marketing', as a type of sectormarketing, from Marketing Boards: '.... a number of farmers who join together to market their produce and accept the view that their production should be orientated to meeting the requirements of the market and are prepared to accept reasonable restrictions on individual action to fulfil this objective. Because this concept is not acceptable to all, a group will be selective in its choice of members. In this respect it differs from the traditional type of co-operative which a farmer can normally join by purchasing a small number of shares without accepting any responsibility, except, perhaps a moral one, to trade with it.' (Dodds, 1967).

Sector marketing has come into effect in other sectors of the economy, because of generic marketing problems, which can not at all or only partially be solved by individual companies. For instance, cities, regions or even countries have initiated marketing programs to stimulate tourism or to attract investors. Professional organisations of small or medium sized companies, like hair dressers & brokers, may develop joint marketing programs concerning promotion, services or pricing.

Having discussed characteristics and examples of sector marketing it will be discussed now whether sector marketing can be distinguished as a subdiscipline within the marketing discipline.

3. Can sector marketing be distinguished as a subdiscipline of the marketing discipline.

The specificity of sector marketing will be evaluated on the basis of a systems approach to sector marketing. Afterwards it will also be analysed whether sector marketing can be classified as an already existing subdiscipline of marketing, like macromarketing.

A systems approach to Sector marketing

Marketing theory analyses a specific aspect of the management of an enterprise. It analyses a firm from the point of view of its relationship with its environment. In systems terms (Hanken, Reuver, 1973) marketing theory transforms a real system, the company/organisation, into an aspect system, in this case the company/organisation as a marketer:

(R.S.; REL.E.)---> (M.S.; C.R.)

where:

R.S. = company/organisation as a real system,

REL. E. = relationship with the environment as problem area

M.S. = company/organisation as a marketing system,

C.R. = correspondence rule.

In this systems-approach sector marketing is specific in the sense that the real system consists of a set of independent companies, which are transformed into one coherent marketing system. Coupling of the real system and the marketing system requires a correspondence rule, which tells how variables of the marketing system are related to the real system.

A description of a sector marketing system on the basis of concepts of systems thinking (Churchman, 1967) illustrates the specific characteristics of the sector marketing system as compared to the individual company as a marketing system:

System characteristics	Company	Sector
Objective:	Specific level of:	
Primary	Profit Market share Goodwill	Profit Market share Goodwill
Secondary, Societal	---------	Financial support to sectors of economy

Objectives of a sector marketing system are similar to those of a company as a marketing system. They are more often partial, namely focused on a specific aspect of a marketing policy.
Sector marketing institutions, e.g. agricultural marketing boards, have sometimes additional societal objectives, like earning financial means to be invested in the expansion of the economy at large. Their objectives sometimes concern also human resource issues, like in the Dutch Commodity Boards the codetermination of workers in sector affairs.

Environment	Customers	Customers
	Competitors	Competitors
	Distribution Structure	Distribution Structure
	Government	Government

The environment of a sector marketing system contains in principle the same elements as the marketing system of an individual company. Being concerned with generic issues, like the natural environment, government and consumerism seem frequently more relevant environmental elements in sector marketing than in marketing by an individual company.

<u>Marketing Instruments</u>

"4 P's"	"4 P's"

The type of marketing instruments to be used by the sector marketing system is in principle the same as in marketing by a company as a marketing system.

The authority of decision makers on marketing instruments differs. A company has, within the limits of its capacities, full authority about the marketing instruments. However, the marketing competence of a sector marketing institution is restricted by the willingness of sector members to endow marketing decision making power upon a sector marketing institution. This is in particular relevant to the marketing instrument product. For instance, it happens that farmers decide about the quantity and quality of product supply and their marketing cooperative, c.q. marketing board, has to market it. Sector members also decide about the decision making capacity of the sector marketing institution with respect to other marketing instruments.

<u>Marketing organisation</u>

An internal organisational structure	Sector marketing institution, An internal organisational structure.

The execution of marketing by a sector marketing institution, like a marketing cooperative or a marketing board, is specific for sector marketing. The set up of these sector marketing institutions can be of three different types:

a) sector members decide themselves about the establishment of a sector marketing institution and are free to choose its organisational structure;
b) sector members are free to establish a sector marketing institution, but have to choose from a by law prespecified organisational structure;
c) sector members are compelled to participate in by government determined sector marketing institutions.

Marketing by such a sector institution can be organised in a similar way as by individual companies, like for instance by means of product managers, marketing managers and a marketing director.

The influence of sector members to marketing policies of the sector marketing institution, in particular to the market strategy of the marketing institution, is a specific element of sector marketing.

In conclusion, it seems that the organisational features are the specific characteristic of sector marketing systems. Sector members organise their collective marketing operation in a specific marketing institution, whose marketing policies, in particular market strategy, have to agree with the majority view of sector members. This has consequences for decision making with respect to marketing instruments, in particular product policies. In some instances the Sector marketing institution is imposed on sector members, like in the case of Marketing Boards in several African countries.

Whether these organisational characteristics of sector marketing make sector marketing specific as compared to marketing by a company depends amongst others: on the product quality of sector members; on the extent the products of sector members are processed e.g. a dairy cooperative versus a marketing cooperative of fresh vegetables; and on the room for marketing decision making, which is given by sector members to the management of the sector marketing institution, e.g. the management of a cooperative.

Can Sector marketing be classified within the domain of an already established marketing subdiscipline?

A final question is whether sector marketing can be classified as an already established marketing subdiscipline. On the basis of the " Three Dichotomous model" of Hunt (1991) sector marketing can be classified as profit oriented, positive but sometimes also normative, and macro since it is concerned with a group of companies. Therefore sector marketing might be classified as macromarketing. However, identifying Sector marketing as macromarketing is in our opinion confusing in view of the overriding importance of the societal perspective in macromarketing, which presence is of limited importance in many types of sector marketing (see also Hunt and Burnett, 1982). Izraeli and Zif (1977) and Zif (1980) argue that marketing management can be performed at the macro-level. Zif classifies macromarketing management on the basis of 'Bringing about exchanges' and 'Cultivating public support' in four groups: social performance orientation, business orientation, political orientation, and passive orientation. This pervasive classification suggests that sector marketing might be classified as macromarketing. However the strong societal connotation of macromarketing, which is not essential for sectormarketing, and the specific organisational aspects of sector marketing refrain us from classifying sector marketing as macromarketing.

The concept of domesticated markets of Arndt (1979), i.e. 'To an increasing degree, transactions are occurring in 'internal' markets within the framework of long-term relationships, not on an ad hoc basis.', is an essential feature of sector marketing. Actually, a Sector marketing institution has a fixed relationship with its suppliers, but in the case of sector marketing there is no market between suppliers and the sector marketing institution. In fact, a Sector marketing institution is marketing products on behalf of the firms of the sector. Consequently sector marketing should not be classified as domesticated marketing.

4. Conditions for developing and implementing viable sectormarketing.

We distinguish conditions for the viability of sector marketing into necessary and sufficient conditions. Necessary conditions have to be fulfilled in order to make sector marketing viable whatsoever. Sufficient conditions are conditions, which not necessarily have to be fulfilled, but whose fulfilment advances the willingness of sector members to cooperate in a sector marketing operation, respectively increases the probability of a successful sector marketing operation. This exposition is an extension and modification of an earlier discussion on that matter (Meulenberg,1986)

Necessary conditions

A. Sector marketing should provide a positive contribution to the income of sector firms. Sector firms will join a sector marketing operation if profits for a generic product can be increased by transferring marketing functions to the sector. The general framework for this question is:

$$Q_i = f(P_i, K_i, D_i, R_i)$$
$$C_i = g(Q_i, K_i)$$
$$W_i = Q_iP_i - C_i - R_i - D_i - F_i$$

where: Q_i: quantity sold by the individual sector firm i; P_i: price of product sold by i; K_i: quality of product sold by i; D_i: distribution of product sold by i; R_i: advertising made by i; C_i: variable costs for producing Q_i; W_i: profits of i; F_i: fixed costs of i.

In order to be viable, sector marketing should fulfil one of the following conditions:

a) no producer is worse off and some are better off than in a market situation without sector marketing, i.e.

$\Sigma P_{i,t}'Q_{i,t}' > \Sigma Q_{i,t}P_{i,t}$ and $P_{i,t}'Q_{i,t}' >= Q_{i,t}P_{i,t}$ for every i = 1....n; and t.

where $P_{i,t}', Q_{i,t}'$ = the price received, respectively the quantity sold by i in t, under the regime of a sectormarketing institution.

This can be brought about by:

- better prices as a result of more bargaining power, quantity regulations or quality improvement,
- larger quantities sold by market penetration or by creating new markets,
- a combination of the two foregoing procedures,
- lower marketing costs.

b) Sales of the sector increase, but some members are better and others are worse off.

$\Sigma_i P_{i,t}'Q_{i,t}' > \Sigma_i Q_{i,t}P_{i,t}$ and $P_{i,t}'Q_{i,t}' > Q_{i,t}P_{i,t}$ for some i, and $P_{i,t}'Q_{i,t}' = Q_{i,t}P_{i,t}$ or even $P_{i,t}'Q_{i,t}' < Q_{i,t}P_{i,t}$ for all other i.

In that situation side payments to the losers are necessary to get the support of all sector members for the sectormarketing operation.

Clearly, even if this condition is not fulfilled, government may enforce a sectormarketing institution upon a sector for societal reasons. But we will not consider such policy since it can be justified only because of political reasons or macro-economic reasons beyond the domain of the sector.

B. Products of sector members have to be homogeneous with respect to the product characteristics sector marketing is concerned with, e.g. tomato growers supply products to the market which are homogeneous with respect to the product variety and canned vegetables marketed by various producers as a branded product are homogeneous with respect to the processing method. Lack of such homogeneity implies the lack of a common basis for sector marketing policies.

C. There must be some overlap between the markets of the individual sector members. If the individual members of the sector serve different markets, there is no basis for concerted marketing action.

Sufficient conditions

There are various conditions which stimulate the emergence of sector marketing but which not necessarily all of them have to be fulfilled:

- Many firms of the sector have limited capacities for setting up a marketing program; small farmers are a case in point.
- The generic product, sector marketing is concerned with, is important for the income of sector members. If this is not the case, sector members are not so much interested in joint sector programs.
- Sectormarketing is supporting structural marketing problems.
- Sector firms are the main beneficiaries of the sector marketing program, and not the firms outside the sector.

All necessary conditions and a number of sufficient conditions should be fulfilled in order to implement successfully a sector marketing program.

5. Organisational structure of Sector Marketing

In section 2 various organisational structures of Sector Marketing, like, marketing boards and cooperatives, have been reviewed.

In the organisational structures of sectormarketing two dimensions can be distinguished, namely the marketing functions performed by the sector marketing institution and the organisational characteristics of the sector marketing institution.

Marketing functions to be performed

We argued that Sector marketing in principle can consist of a full marketing management operation. In practice sectormarketing often has a more limited task, as has been discussed in chapter 2. This task will depend on the willingness of sector firms to delegate marketing authority to the sector marketing institution. The conditions specified in chapter 4 will be crucial in this respect.

The marketing task of a sector marketing institution is concerned with:

- the marketing instruments Promotion, Price, Distribution and Product. Sector marketing can apply a marketing instrument more easily, if policies vis a vis this instrument are intervening less with policies of sector firms. We suggest that this intervention of sector marketing and company marketing is increasing in the sequence: promotion, price, distribution and product.
- the marketing research, deliberation, advice and policy; we suggest that there exists a hierarchy in this listing of sectormarketing activities: activities with respect to a lower ranking activity must have reached a certain minimum level before the next higher ranking activity can be performed effectively.

Organisational structure

The following criteria seem important for the choice of an organisational structure of Sectormarketing.

- * Marketing capacities of sector marketing institutions should be sufficient to perform the assigned marketing functions adequately.
  * A sectormarketing institution should have sufficient financial means and a stimulating business climate in order to attract capable personnel. In this respect it is important that the functions of a Sectormarketing institution are not marginalised by related sector firms. In fact, in order to attract qualified people, jobs must be challenging and financially rewarding.

- * Has the sectormarketing institution sufficient authority to execute the assigned marketing task?

Institutional capacities and performance are the most important 'Non coercive' power bases of a sector marketing institution. They determine the reward and expertise, which sector members experience from the sector marketing institution. Identification of sector firms with the Sectormarketing institution, another 'Non coercive' power source, does not seem strong. It seems to be stronger for a Sectormarketing institution based on private law as compared to a Sectormarketing institution based on public law.
A Sectormarketing institution established on the basis of a Public Law has a strong basis for wielding coercive power, since it can enforce regulations and levies upon sector members. When the sector institution is based on private law, sector firms can opt out and meanwhile profit from actions of that institution insofar they improve the market of the generic product of an industry in general, as happens to be the case by generic advertising.

Is the institutional structure flexible?

A Sectormarketing institution essentially constitutes together with the sectorfirms a vertical marketing system, being of the administrative or contractual type. This implies that Sectormarketing institutions should continuously adapt its marketing services to the needs of the sector firms. For instance marketing boards and commodity boards in western countries have to adapt their policies to the concentration in industries and retail organisations.

6. Application of the conceptual framework for sectormarketing on Dutch Commodity Boards and Grain Marketing Boards in West Africa.

In section 3 three types or sector marketing institutions have been distinguished. We will apply our framework as developed in sections 3, 4 and 5, on two of these types of sector marketing institutions, namely:

- Dutch commodity boards, being sector marketing institutions, which have been established by the consent of sector members, but which have been set up in accordance with a commodity board structure as specified by public law;
- West African grain marketing boards, which are imposed upon sector members by government on the basis of a structure specified by government.

The following characteristics may justify the selection of our examples:

- Dutch Commodity Boards are non trading marketing boards, serving the interests of sector firms in a developed country,
- West African grain marketing boards are trading boards serving the interests of both producers and society in a developing country.

6.1. *Dutch Commodity Boards*

Commodity boards embrace all companies participating in production and marketing of a generic product, e.g milk and dairy products. Fourteen commodity boards are established under the Industrial Organization Act of 1950. This act was based on the view that people of the same profession have the right to organize their own sector and to manage their own sector problems (see Meulenberg, 1987; De Vos, 1979). Apart from a marketing task Commodity Boards have other responsibilities, like co-administration of policy regulations of the Common Agricultural Policy. We will confine our discussion to the marketing task of Commodity Boards. Their sector marketing task is of the complementary type.

Characteristics of Commodity Boards as a sectormarketing institution.

Our description of the characteristics of commodity boards as a sectormarketing institution follows the approach suggested in chapter 3.

Commodity Boards have a profit oriented marketing *goal*: to serve the economic interests of sector firms. They should pursue this goal within a societal constraint, namely the general interest. The *task environment* not only consists of consumers, foreign competitors, distribution organisations and central government, but comprises also firms and business organisations, belonging to the sector in question. Having no trading powers, Dutch commodity Boards have a limited grip on *marketing instruments*. They are supporting marketing activities of individual sector companies by research and development, generic promotion, distribution regulations and marketing research. They have no authority with respect to prices.

Apart from marketing activities Commodity Boards are involved also in other activities, like the execution of CAP regulations.

Are necessary conditions for sector marketing fulfilled?

The increase of sales as a consequence of sector marketing activities of the Commodity Board should exceed marketing costs of the Commodity Board plus the additional direct costs of the members.

Total expenditure and promotional expenditure of Dutch Commodity Boards amounted in 1989 to 343 million and 144 million guilders respectively, which amounted to 0.8% and 0.3% of the value of Dutch agricultural production. Actually, these figures overestimate yet the relative costs of Commodity Boards since not only farmers but also processing industry and middlemen in question are served by a Commodity Board. Also it appears from Table 1. that annual expenditure of Commodity Boards increases less than the total value of Dutch agricultural production. Some Commodity Boards operating in markets with strong national brands, like the Commodity Board for Beer, have stopped generic promotion. There is a strong pressure from companies of a sector and from the government to strike a positive balance between revenues and costs of Commodity Boards by efficiency improvement.

Since we cannot measure additional income of Dutch agriculture and agribusiness emanating from Commodity Board efforts, we have no definitive conclusion in regard to the necessary condition of 'Profitability to the Sector'. In view of the, relatively speaking, low costs and the necessity of sectormarketing for generic products, like fluid milk, dairy products, fresh produce and meat, it is our 'guess' that Commodity Boards efforts strike a positive balance for Dutch agriculture.

Commodity Boards are concerned with generic products, like 'Milk and dairy products' or 'Meat and Meat products', 'Fruit and Vegetables'. Some Commodity Boards, like the Commodity Board for Beer and the Commodity Board for Margarin, Fats and Oils operate in oligopolistic markets with product differentiation, characterised by strong brands and a limited number of suppliers. According to our necessary criteria these sectors do not fit for sector marketing. In fact the Commodity Board for Beer spent in 1989 no money on promotion and technical research and the Commodity Board for Margarin, Fats and Oil only 162,000 guilders, being 0.03 % of its total expenditure.

The necessary condition of some overlap of markets of firms participating in a Commodity Board is fulfilled.

Are sufficient conditions for sector marketing fulfilled?

In 1970 the *number* of farms, with their main profession in agriculture, amounted to 151.3 thousand and in 1990 to 98.2 thousand. Today most Commodity Boards operate on behalf of at least 10,000 farmers, about 4000-5000 retailers, and hundreds, sometimes thousands, of wholesalers. However, concentration in processing industry, retailing and wholesaling is increasing. Both, in private and co-operative agribusiness large national and international companies have emerged which feel able to tackle generic marketing problems

Table 1. Expenditure of Dutch Commodity Boards and value of Dutch agricultural production (inclusive horticulture) in million guilders [1].

Year		1979	1984	1989
Commodity Boards				
(1)	Total expenditure	224.7(100)	294.1(111)	343.3(153)
(2)	Promotional expenditure	98.6(100)	125.3(127)	144.2(146)
Dutch agriculture				
(3)	Value of Production[2]	24250.0(100)	33145.0(136)	38770.0(160)

1) Sources: SER-jaarverslagen, The Hague, several editions; LEI Landbouweconomisch Bericht, Editions 1981, 1986 and 1991

2) Exclusive potted plants, flower bulbs, shrubs, trees and nursery products in 1979 and 1984.

themselves by proper marketing policies, in particular brand policies. Nevertheless, many of these companies seem in favour yet of sectormarketing activities of Commodity Boards in specific fields, like marketing research, generic promotion - if useful - and product research. But the structural changes in the sector as mentioned require more fine tuning between sector marketing and marketing of individual firms.

The *generic product is important* for individual firms belonging to a Commodity Board. During the past thirty years farms have specialised in dairy -, pig - or poultry farming. Also agribusiness companies and wholesale companies, in particular cooperatives, concentrate their operations on a limited number of agricultural products. Large food retail companies have shifted in the other direction during the past thirty years, towards selling a complete assortment of food products.

Commodity Boards are focusing on *structural marketing* issues, like the improvement of product image or competitiveness vis á vis foreign competitors.

The marketing programs of Commodity Boards try to improve the marketing position of *their members*, Dutch farmers and agribusiness.

We conclude that in many sectors, except for Beer, respectively of Margarin, Fats and Oil, the necessary and sufficient conditions are fulfilled for Sectormarketing. Fulfilment of the necessary condition of product homogeneity is weakening because of the rise of large companies in agribusiness, wholesaling and retailing, which sell products under brand.

Organisational structure of Sector Marketing by Dutch Commodity Boards.

Functions fulfilled by Commodity Boards.

While having a broader mission, Commodity Boards as a marketing board are a marketing board without trading responsibilities. Their activities comprise:

- marketing research, in particular 'What' and 'Why' with respect to market developments and technical research aiming at efficiency improvement and product innovation, thus strengthening the competitive position of the sector;
- market deliberation by the Board, by its committees and its representatives in governmental and non-governmental committees. Such deliberation concern 'What, Why, What if and What should' questions.
- marketing advice to sector firms and government is sometimes the outcome of deliberation; it is concerned with the generic product or sector and not with brands or specific companies. But large companies often seem more capable to influence the research programme of the Commodity Board and to use results of sector research and advice in company policies than small ones, amongst others since they have more specialists functioning at the interface between the individual company and the Commodity Board.
- marketing policy of the Board, by performing marketing activities itself, concerns mainly promotion. The effectiveness of generic promotion is permanently scrutinized in many Commodity Boards because of the increasing importance of branding by individual companies. On the other side the need for generic promotion is increasing for various food products because of consumers' concern about health, environment and animal welfare.
- marketing policy of Commodity Boards by issuing regulations is in particular concerned with product properties. The legal power of Commodity Boards to enforce regulations upon a sector is an valuable asset. However, in order to maintain good partnership between the Commodity Board and individual companies, regulations should not be restrictive to marketing policies of individual companies. This point is becoming more relevant with increasing concentration in agribusiness.

Institutional characteristics of Commodity Boards.

Generally speaking, Dutch Commodity Boards seem well *qualified for their task*, but this point cannot be substantiated by hard facts. While funding of Commodity Boards in general seems adequate, Commodity Boards should accommodate activities increasingly to the wish of individual sector companies to manage business themselves and their desire to economise on funding Commodity Boards. Actually Table 1 suggests that marketing expenditure of Commodity Boards lags somewhat behind the economic activity of the sector they are responsible for.

Commodity Boards are based on public law. They can issue orders on the basis of legitimate, i.e. coercive, power. Nevertheless a Board, consisting of representatives of employers and employees, is apprehensive of issuing orders having weak support in the sector.

Non coercive power sources of the Commodity Board are weak. Reward is a weak power source of Commodity Boards, since the marketing performance of non trading Commodity Boards is not well traceable. Identification of sector companies with the Commodity Board is weak since the relationship of sector companies with Commodity Boards is based on Public Law and not on individual free choice of the sector members.

The 'Public Law' basis of Commodity Boards is not favourable to flexibility in decision making. Also the great many different types of companies and interests represented in a Commodity Board make innovative policies sometimes an arduous task. Nevertheless innovations have been carried out by Commodity Boards in marketing research, e.g. the development of Marketing Information systems, in product research, e.g. the development of new products and technologies, and in logistics, e.g. the development of planning systems.

6.2. *African Marketing Boards*

Some general characteristics of Grain Marketing Boards in West Africa.

Three types of marketing organizations coexist in Sahelian countries: a mainly governmental export crop structure and both a state and private structure for food grains (Berg 1977). The examples of this section refer to domestic food grain marketing in Burkina Faso, Mali and Senegal.

In the past decades, some changes in government policy towards grain marketing can be observed: a public versus private approach. The first examples of government intervention in grain marketing in West Africa date from the fifties (e.g. Sierra Leone, 1952). In the sixties and seventies private cereal marketing was, at least officially, partly replaced by public marketing, whereas in the eighties public marketing tasks have been reduced because of heavy losses which demanded policies of market liberalization as part of programs of structural adjustment of the country's economy (e.g. Van der Laan en Van Haaren 1990). The extent to which public marketing tasks will ultimately be reduced is not yet clear: marketing parastatals will probably continue to play a role in the liberalized economy in respect of commercial food imports, food aid, management of strategic stocks, and price stabilization (e.g. Kydd and Spooner 1990).

Background on GMB's in Senegal, Mali and Burkina Faso.

Senegal has, on average, been self sufficient in cereals for about 60%. Before 1975 ONCAD, (Office National de Coopération et d'Assistance pour le Développement) purchased millet and sorghum for resale to cooperatives in grain deficit areas. Since 1975 ONCAD had a legal monopoly for the collection and marketing of millet and sorghum. ONCAD also had the legal monopoly for the importation and sale of rice. ONCAD was succeeded in 1980 by the CPSP and the CSA.
The CPSP (Caisse de Péréquation et de Stabilisation des Prix), has been responsible for buying local (from the SAED) and foreign rice, and the CSA (Commissariat à la Sécurité Alimentaire) has been supporting farm gate prices of coarse grains (in 1985/86, about 2% of national production was purchased) and managing buffer stocks. The responsibilities of the CSA were reduced at the end of the eighties as part of a market liberalization program (Van Tilburg 1989, IOV 1990/91).

Mali has been almost self sufficient in cereals in years with sufficient rainfall. In 1980, a market liberalization program PRMC (Proposition d'avant-projet Restructuration de Marché Céréalier) reduced the tasks of OPAM (Office des Produits Agricoles du Mali) created in 1965, responsible for the distribution of cereals (Harts et al 1989, IOV 1990/91).

Burkina Faso has also been self sufficient to a large extent in years with sufficient rainfall. OFNACER (Office National des Céréales), was established in 1974 in order to supply grain to deficit areas, the urbanized regions, and to ensure price stabilization through buffer stock operations (Filippi-Wilhelm 1985). Between 1978 and 1984 OFNACER purchased, on average, about 10% of the domestic cereals offered (Yonli 1988).

Description of Grain Marketing Boards on the basis of systems characteristics

Objectives of grain marketing parastatals are both societal/non profit oriented and profit/cost oriented. They aim at food security, reasonable prices to consumers and at a minimum price to farmers (price stabilization). Profits from importing cereals have been used to compensate losses on local purchases.

The *task environment* of the GMB's consists of the producers and consumers to be served by the Boards. Since the government is directly or indirectly managing these Boards it is an actor of the marketing system and not an element of its environment. Private middlemen have also been trading in cereals, legally or illegally, and as such they have been suppliers, competitors or customers of Grain Marketing Boards. Politics of consumers and producers are an important element of the environment of Grain Marketing Boards. This underlines the societal objectives of these Boards.

In view of their marketing power Grain Marketing Boards dispose in principle of a substantial number *of marketing instruments*. Product development has been stimulated amongst others by promoting production of improved varieties by supporting, subsidizing and stabilizing producer prices (e.g. CPSP/SAED in Senegal). Prices have been controlled at farm or consumer level, or they have been fixed at each stage in the distribution channel. Price information systems have been established to increase market transparancy (e.g. CSA Senegal). Grain marketing boards have been participating in promotional programs which focus on using millet and sorghum in convenient form (e.g. CSA, Senegal). They are engaged in distribution activities, like transport and storage of buffer stocks (e.g. OFNACER in Burkina Faso, OPAM in Mali and both CSA and CPSP in Senegal) divided over several locations in the country.

Grain marketing boards *organize(d)* the purchase of domestically produced grains by licensing public buying agents such as Office du Niger and Opération Riz in Mali, and SAED in North Senegal.

Are necessary and sufficient conditions for sector marketing fulfilled?

Is sectormarketing profitable to the sector?

The degree of success of grain marketing boards has been varying widely. Reports are not optimistic in this respect. A World Bank report (1990) concluded that for large parastatals and national cooperative systems, the diseconomies from poor management tend to outweigh the potential economies of scale. The private sector provided services where the public marketing channels failed to perform satisfactorily (Table 2).

Table 2. Institutional marketing performance concerning 99 projects supported by the World Bank between 1974 and 1985 containing this type of information.

	No	Yes	No comment
Output marketing problems from the producers viewpoint?	53%	28%	19%
Performance of marketing system(s) and institution(s) as assumed at appraisal?	55%	26%	19%
Use of parallel markets?	50%	50%	

Source: World Bank (1990)

It has been argued that in the past grain price policies in the Sahel have tended to favour urban consumers (Berg, 1977). In some cases farmers had been favoured, e.g. rice selling farmers in the North of Senegal, incorporated in the institutional structures of SEAD, are subsidized at the expense of consumers or tax payers: the CPSP pays CFA 55 for a kilo of SAED rice above the wholesale Dakar price of CFA 120 for rice imported at fluctuating prices, e.g. CFA 46 in 1987 and CFA 90 (c.i.f.) in 1989.

The conclusion is that the profit - and societal objectives of GMB's have not been fully fulfilled. However, after the reforms in the eighties, GMB's may have become more efficient and effective. Therefore definitive answer on the condition of profitability and social performance cannot be given yet.

Grain Marketing Boards are marketing non differentiated homogeneous commodities, grown by a great many farmers, which implies the fulfilment of the other necessary conditions for sectormarketing.

A great many of the proposed sufficient conditions are fulfilled.
Many small-scale cereal farmers have limited marketing capacities, since their surplus is small, or since they wish to sell small quantities only to cover their needs for money. The value of the cereals sold represents to farmers a main part of their income.

Being price stabilization boards with trading power, marketing boards can use the complete arsenal of marketing functions. They are operating at the highest stage of the suggested hierarchy of marketing functions in sector marketing, namely Marketing Policy. Amongst others they are involved in the following activities:

- marketing research (what and why) in respect of domestic and foreign markets is done frequently. In Senegal and Mali Grain Marketing Boards participate in a price information system which monitors the market. They, or the Ministry of Agriculture, are involved in the set up of crop forecasting systems, in order to be informed about the quantities that will be harvested (early warning system) and to be able to maintain food security.

- marketing policies (what if) such as comparing alternative actions to guarantee food security by maintaining buffer stocks or by a higher dependency on commercial imports or food aid; policies to affect prices and logistical operations to supply the marketing channels in the country sufficiently with cereals; and periodic evaluation of the effectiveness and efficiency of the operations.

The performance of the functions is consistent with the suggested criteria on the performance of marketing functions in chapter 5: marketing activities comprise policy, advice, deliberation and research; they are in particular concerned with price, collection, and distribution and to a lesser extent with product properties.

Institutional characteristics of GMB's

Does the organisation of Grain Marketing Boards facilitate an optimal performance of *marketing functions?* In view of their public authority, their substantial marketing power and financial capacities Grain Marketing Boards can offer challenging jobs to qualified managers, and must be able therefore to attract qualified staff. In practice, the bureaucracy and politicking of Grain Marketing Boards might deter qualified people to apply for a job with a Grain Marketing Board (World Bank 1990). The liberalization of grain marketing in the respective West African countries in the eighties is expected to keep the losses of the Marketing Boards down.

The support of the sector for the sector marketing institutions depends largely on its performance. GMB's competitive position has been weak when farmers could not obtain services from the board (sacks, credit, quick payment, transport) comparable to those of traders.

Grain Marketing Boards are based on public law and for that reason have substantial coercive power vis á vis farmers. However, many regulations of GMB's were difficult to enforce. Both farmers and consumers used parallel markets or market channels to obtain what they needed in case they were not satisfied with the services of the Grain Marketing Boards.

7. Summary and conclusion

In this article we have tried to position sector marketing as a specific subdiscipline of marketing. First of all we have defined sectormarketing as the collective marketing of the generic product of a group of companies. It has been argued that sector marketing is not only important in agriculture but is also practised by sectors of the economy, whose companies have marketing problems at the generic level.

The specific features of sector marketing are worked out in detail. These features predominantly concern the relationship of the sectormarketing institution with the independent sector firms whose products have to marketed by the sectormarketing institution.

Having positioned sectormarketing as a subdiscipline of marketing theory, we have worked out a set of conditions which might be used as a check list/frame of reference in evaluating the feasibility of sectormarketing in practice. Also a number of organisational criteria with respect to sectormarketing have been proposed which might be helpful in evaluating the organisational set up of sector marketing. This framework has been applied to two different types of sectormarketing.

Hopefully we have been able to line out the specific features of sector marketing and to demonstrate the importance of sectormarketing as a subdiscipline of marketing. As such we may have contributed to an effective and efficient set up of sector marketing, not only in agri

culture, its classic domain, but also in other sectors of the economy.

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STATE INTERVENTION, PRIVATE TRADE AND CO-OPERATIVE SERVICES IN THE MARKETING OF EXPORT CROPS: The case of Sierra Leone.

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Abstract

In the 1980's, developments in Africa were determined to a high degree by the Structural Adjustment Programmes intended to rehabilitate the macro-economic performance of African countries. One of the measures then imposed was the privatization of state enterprises.
Using the situation of the marketing of agricultural export crops in Sierra Leone which at the moment is experiencing the transition of state controlled marketing towards the privatization of export trade, this paper will show that neither state intervention nor private trade are the ultimate solutions to the acquisition of an efficient marketing system. Co-operative marketing should be considered as one of the alternative options in the attempt to avoid an over-simplistic choice between either state intervention or private trade.
Recent developments in Sierra Leone show that co-operatives have begun to participate in the marketing of export crops in reaction to the fact that both state intervention and private trade inhibit the development of the rural economy. Although there are still some constraints in their development, the results achieved so far have been very promising and deserve the full support of policy makers.

STATE INTERVENTION, PRIVATE TRADE AND CO-OPERATIVE SERVICES IN THE MARKETING OF EXPORT CROPS: the case of Sierra Leone.

Introduction

Since the beginning of the 1980's, developments in Africa have been determined to a large extent by the renaissance of neo-classical economic thinking which has culminated in a strong preference for the liberalisation of trade in general and of marketing structures in particular.

Most African governments have been, and to a great extent still are, dependent on the credit facilities that financial institutions such as the International Monetary Fund (IMF) and the World Bank offer, precisely the institutions which seem to be the main advocates of neo-classical economic theory. Consequently, most African governments have been forced to agree to the conditions that both institutions have imposed on them, these conditions being neo-classical in nature.

One of the measures imposed on African economies has been the privatization of state enterprises. If we confine ourselves to the agricultural sector, the most obvious targets for such a withdrawal of the state are the marketing boards for agricultural products, whilst at the same time the privatization of the export trade is often propounded.

Taking the marketing of agricultural export crops as takes place in Sierra Leone which is at the moment experiencing the transition of state controlled marketing towards the privatization of export trade, this paper will attempt to show that neither state intervention nor private trade are the ultimate solutions for the acquiring an efficient marketing system. Instead, it will try to show that co-operative marketing should be seriously considered as yet another option in the over-simplified choice between either state intervention or private trade.

We will put forward our case by firstly briefly outlining the pros and cons of state intervention and private trade in marketing and secondly discussing the possible role and requirements for the success of co-operatives in the marketing of export crops.

In the following section the marketing system for export crops in Sierra Leone will be described and analyzed in part in order to provide the context for analyzing the functioning of a marketing co-operative in the eastern part of Sierra Leone.

The final section will attempt to assemble the evidence that advocates that marketing co-operatives should be given a new, fair chance to serve farmers when marketing their produce.

State intervention versus private trade.

The neo-classical economical approach of the World Bank, the IMF and others is characterized by concepts such as "free market forces", "stabilization" and "liberalization".
Free trade never can completely do without a certain degree of state intervention, otherwise a free trade marketing system is not likely to function effectively. On the other hand, most state-controlled marketing systems will have to allow private trade to take some part in the system either in a formal or an informal way.
Parastatal organizations for the marketing of agricultural products such as marketing boards, are a very direct form of government interference. Such boards have already been in operation for a relatively long period of time, especially in West Africa (Hesp and van der Laan 1985). Their performance has been heavily criticized, notably because of their inefficiency, relatively high costs and because they were the ideal means of taxing the producers of cash crops by paying low producer prices. But marketing boards are also seen as advantageous for the producers of export crops because they are a necessary condition for maintaining a system of (stable) producer prices and they enable their governments to control the export of cash crops and the inflow of foreign exchange (van der Laan 1989).
The question then arises as to which type of marketing system is best: a system in which the state plays an important role and usually involves marketing boards, or a system which is dominated by free market forces?
Abbott (1987) confronts the pros and cons of different possible marketing forms as follows:
- private traders can take advantage of unforeseen opportunities and follow up new ideas, start up and maintain themselves on little capital and operate at very low cost;
- parastatals can moderate supply and price fluctuations by creating buffer stocks or price stabilization funds. Moreover, such structures can obtain higher returns for producers because of better information on marketing, quality control, etc. Often they also handle a system of guaranteed minimum prices, protecting producers to a certain extent from exploitation by traders.

Abbott is right not to give any preferred solution because it is not possible to generalize about different countries and different contexts. Imperfections found in the implementation of one of these forms under specific circumstances does not mean that the form is without value in a different context.
Van der Laan (1989) divides the marketing process into different stages. For every stage he then evaluates different possible actors with the intention of selecting the most suitable one for each stage.
- In the final stages of the marketing process (i.e.

the buying of produce at the national level and selling and exporting it abroad), he is in favour of maintaining the marketing boards, continuity being the main reason for this. Producers are thus assured of a marketing channel which contrary to the profit-seeking private traders, will not be abandoned from one day to the next in difficult times. Moreover, the argument that marketing boards perform inefficiently need not be valid if they are kept from acting in the intermediate stage of marketing.

- The primary stage (the buying of produce from farmers) is considered to be the terrain of marketing co-operatives. This is because co-operatives can cheat farmers less easily than can traders and the profits from primary marketing can be distributed among the farmers in this way. These advantages will probably outweigh the fact that co-operatives can sometimes perform less efficiently than private traders.
- The private traders are likely to perform best at the intermediate stage, buying produce from the co-operatives or from local traders and selling it to the marketing board.

Again, these suggestions should be considered carefully. As we mentioned before, situations and contexts can differ considerably, a fact also acknowledged by van der Laan. The ideal actor does not exist, quality and performance being dependent on several factors. These factors are not only determined by the functions to be performed at a certain stage in the marketing process but also by more specific circumstances such as the state of the transport situation, the degree of competition between traders and the reliability of government services. In the light of this discussion we will analyze the role which one of these actors might play in the marketing of produce, i.e. marketing co-operatives.

Co-operatives: the best solution in spite of everything?

On independence many African governments enthusiastically stimulated and even introduced co-operatives. They did so not only because they saw them as a means of perpetuating the features of 'traditional' society with its supposedly communal ethos and classless elan and as instruments for replacing predatory non-African merchants, but also as agencies of modernization in facilitating the integration of peasants into the monetary economy and as a medium for promoting popular participation in development (Zeleza 1990). This enthusiasm has therefore given rise to a period of state-induced co-operative building.

However, the co-operative movement did not benefit its member farmers much but was used by governments and development planners merely as a means to 'capture the peasantry'. By the 1970's, most co-operatives had become state-controlled entities that did not represent the interests of peasants but of governments (Lele and Christiansen 1989).

Co-operatives often performed poorly. Signs of poor performance can be bad management, corruption, inefficiency, too high operation costs and a low priority being given to improving the level of education of co-operative members and management. This results in a lack of participation of members when it comes to the formulation of co-operative goals and of the means for working together.

Some critics such as Gyllström (1991) go as far as to advocate the complete abolition of co-operatives in a country like Kenya. But the view of most writers on co-operatives and a view we also hold is that the co-operative movement in Africa, in spite of its many defects, still deserves the full support of governments and development organizations (Braverman et al. 1991, Byombuka 1991, and Gentil 1986).

Scientists or national development planners and politicians, however, are not the sole or even the primary decision makers in this respect. Financial institutions such as the IMF and the World Bank in fact now set the framework from within which nations have to manoeuvre. It is therefore important to know that, for example the World Bank again acknowledges the value of this type of rural institution to stimulate growth and even sees such organizations (when they are genuinely representative) as a step toward empowering local people (Sub-Saharan 1989).

The next important question then becomes: What are the preconditions for rural co-operatives to be successful? Without pretending to give a complete list, some conditions to enable co-operatives to work will be given here.

Van der Laan (1989), Gyllström (1991) and the World Bank (Sub-Saharan 1989) - to mention only a few sources - see primary marketing functions as the most appropriate field of activity for co-operatives. However, they are generally unsuccessful when organized by government (see above) or when based on high-bulk, low-value commodities easily sold through private traders (Sub-Saharan 1989).

Co-operatives will be tempted to serve only or preferably the larger farmers, who, in turn, are the clients that private traders also are interested in. Smaller scale peasants and less productive areas tend to be neglected, not only by co-operatives but by private traders as well. Private traders will often claim these better parts of the market for themselves, leaving the co-operatives with a task which has virtually been forced upon them by the government, i.e. to serve the small-scale agricultural producers and marginal production areas (Braverman et al. 1991; Mayoux 1988).

In such cases one cannot but expect that the co-operatives will work less efficiently than private traders, and we should not be surprised if co-operatives cannot survive without subsidies. They may partly depend upon such subsidies, not only in their

first years of operation but also in the long term. In this case, some outside control will have to be accepted as long as it does not lead to too much control and to paralysing external supervision.
The question as to how far outside involvement (especially that of government) should go is difficult to answer. Even advocates of the least government involvement in economic affairs as possible see an enabling environment as a precondition for co-operative development. This can take the form of technical assistance such as advice on accounting, legal rights, technology, infrastructural support and legislation (Sub-Saharan 1989) or governments and donors may play more the role of a catalyst which can help the rural population to mobilize their own human, financial, and production resources.
It is nevertheless a notion commonly held that the major obstacle to co-operative progress in Africa is undue control and interference from governments in the day to day running of co-operatives. A de-officialization of co-operative organizations is therefore needed within the general policy of decentralization (Braverman et al. 1991; Holmén 1990).
Another precondition for rural co-operation to be successful is co-operation among co-operative societies, e.g. when common interests should be protected or when economies of scale can be obtained which the individual co-operative would be unable to enjoy. Primary marketing co-operatives, for example, will not be able to export their produce and have to co-operate in unions in order to become or to remain independent of state controlled marketing boards or private exporters and to get the full export price for their produce by selling directly on the world market. Unions or apex organizations, however, could lead to a bureaucracy gaining grip on the co-operative societies or it could be used to control these societies from above.
Farmers' involvement is an even more important precondition for co-operatives to succeed and a strong and well-functioning primary organization is a first requirement. Only gradually should these be allowed to grow into larger organizations. Growth is indeed necessary if farmers want to profit fully by co-operation but growth should never become a goal in itself (Byombuka 1991; Schaefer-Kehnert 1988).
The marketing problems that farmers face are very complex in nature. So, if they really want to solve these problems for their members and remove their causes as much as possible, co-operatives should preferably include all the areas that now limit the farmers' marketing opportunities. For example, farmers are very often tied to certain traders and depend upon them for the supply of inputs, credit, consumer goods, etc. A marketing co-operative that also wishes to serve these 'tied' farmers somehow has to supply these services itself.
Examples have shown, however, that co-operative management should not become too complex nor too ambitious so there are also strong arguments against a

of a society. A possible way to combine the advantages of single- and multipurpose co-operatives without putting too severe a strain on their management may be to keep separate organizations for different activities which are then encouraged to co-operate closely.

Co-operatives should be regarded as normal economic entities which serve the economic goals of people who have a degree of economic power at their disposal. They can perform well and with the real participation of their members only if the latter are allowed to find their own way, pursue their own needs and goals and develop their own resources for self-help and so on. Certain forms of co-operation have done more harm than good in the past. A certain amount of reluctance has to be expected, even if we now try to stimulate co-operative building according to the bottom-up and greenhouse approaches where local initiatives are given a chance to develop within an environment which does not prescribe but rather stimulates (Hydén 1988).

But even then farmers will not always be the first to develop ideas about co-operation. In practice, initiatives are usually taken by certain leaders be they guided by real ideals or only pursuing hidden goals based on self-interest (Byombuka 1991; also see Pradervand 1989). These are the vital catalysts of co-operative development but they should not be allowed to dominate the process too much, even if their goals are highly admirable. The basis on which co-operatives rest should be gradually expanded to give the farmers a fair chance of genuinely participating in their management. Therefore, the education of members is very important and should be looked at seriously.

Africa has a rich tradition of co-operation to build upon, particularly in the rural areas. This tradition can and should be used as a (new) starting point for the mobilization of development forces and the empowering of those who now see their valuable resources being exploited (Hydén 1988). The following example from Sierra Leone, where neither private trade nor the state-controlled marketing system have done much to improve the incomes of the producers of export crops, will show that co-operative marketing can be a viable alternative.

The changing marketing system for export crops in Sierra Leone

Sierra Leone in West Africa is one of those countries whose economic policy has recently came under the influence of the afore-mentioned neo-classical views. Although the country possesses a considerable agricultural potential and significant mineral deposits, the performance of its economy has been disappointing. From the first half of the 1970's onwards, Sierra Leone's economic crisis has become more and more visible. Whereas the 1970's brought stagnation, the 1980's witnessed a sharp downfall in economic performance with a distinct trend towards negative growth.

The causes for this huge economic decline can be differentiated into external and internal factors. The external factors include the first oil crisis of 1973-74, the deteriorating terms of trade and low world market prices for both mineral and agricultural export commodities, and the worsening access to international credit facilities and the drop in development assistance. In addition to these external factors there have been ineffective and even destructive governmental actions on public spending, exchange rate policy, debt management and pricing policies. These policies paved the way for flourishing parallel markets in foreign exchange and commodities. Moreover, the government's policy of keeping producer prices for cash crops extremely low, a policy which was carried out mainly through a state-controlled marketing system, encouraged smuggling to neighbouring countries like Liberia and Guinea.

Until 1987 the principal commodity marketing institution in Sierra Leone was the Sierra Leone Produce Marketing Board (SLPMB), a parastatal organization which had retained the export monopoly for cash crops since 1949. This board was also the sole purchaser of scheduled produce such as coffee, cocoa, palm kernels and ginger, by licensing certain private entrepreneurs to buy these commodities from the farmers on its behalf. These Licensed Buying Agents (LBAs) can be divided into private LBAs, most of them being Lebanese and African businessmen, and institutional LBAs. LBAs were the only traders allowed to buy produce from the producers at a price which should not be lower than the minimum producer prices set by the Government of Sierra Leone (GOSL) for that particular buying season. LBAs can purchase produce from farmers in two ways: directly from farmers at their buying stations, or indirectly, produce being bought in the villages by petty traders and/or subagents. Subagents are traders who are contracted by LBAs to work for them as itinerant buying agents at village level. Petty traders work independently from LBAs. They may, for example, be relatively large traders, who also sell a variety of goods such as rice and other consumer goods, they may issue loans, or they may be farmers who, once in a while if capital is available, buy some produce from their neighbours. Appendix 1 presents a schematic outline of the marketing system of cash crops before 1987.

This state-controlled marketing system was set up in order to stabilize producer prices for export crops and to reduce the role of middlemen who were taking advantage of the weak position of farmers within the marketing system. However, in practice, this marketing policy did not work out to the advantage of the producers. Since colonial times agriculture has been a major generator of funds through export taxes on

cash crops. Producer prices were set much too low when compared with export prices. Over the last decades the average producer prices for coffee and cocoa have not even exceeded 50% of f.o.b. prices. If we also take into account 'invisible taxes', caused by using official over-valued exchange rates instead of real exchange rates in the informal market when setting producer prices, farmers got hardly one-third of the f.o.b. prices (Bowbrick 1986). Furthermore, rises in producer prices in recent years have rapidly been eroded by inflation.
As a consequence, the volume of coffee and cocoa marketed declined. Although the potential production of coffee and cocoa per year is estimated at 20,000 tons and 25,000 tons respectively, due to poor husbandry and lack of incentives for farmers annual purchases have decreased from 10,000 tons in 1984/85 to 8,100 tons in 1988/89 for coffee, and from 10,900 tons to 4,050 tons for cocoa during the same period (Wambia 1990). Parallel market activities (i.e. smuggling) increased as a result of the sharp decline of producer prices in real terms compared to neighbouring countries and because farmers did not receive prompt payment for their produce due to liquidity problems in the banking system of Sierra Leone. Also the evacuation of produce to Freetown was erratic and expensive due to the poor conditions of the roads and to increasing fuel prices. Furthermore, this state-controlled marketing system failed to reduce the role of middlemen, both petty traders and subagents, in the purchase of cash crops at local level.
Surveys carried out in 1979, 1982, 1985, and 1986 in the main production areas of coffee and cocoa revealed that some 40% of all farmers still sold their coffee and cocoa to middlemen (Bolder et al. 1980; Klomberg and van Riessen 1983; Donhauser 1986; Debouillé and Wanders 1987). These surveys also showed that, on the local level, not every farmer received the officially guaranteed minimum prices for produce, not even when selling directly to private - and to a lesser extent - institutional LBAs.
The following factors contribute to these deficiencies in the marketing system on regional and local level and provide the opportunities for underpaying the producers:

1. There is hardly any control on the buying practices of middlemen and LBAs and there are ample opportunities for them to underpay;
2. Repayment of debts to a particular trader can also lead to underpayment. Some 40 % to 50 % of all farmers are tied to particular traders through credit relations, a fact which on average determines their 'choice' of a buyer in 9 out of 10 cases. Most farmers who borrow a certain quantity of rice in the hungry season have to repay it in the same quantity of cocoa, or sometimes coffee, only a few months later (Debouillé and Wanders 1987);

3. LBAs feel that the commissions, road freight allowances and other payments they receive from the SLPMB for the services they render are too low to cover their trading costs and to obtain a reasonable trading margin, so they take their 'share' at the expense of the producers;
4. There is an uneven spatial distribution of buying stations within the coffee and cocoa growing areas and lack a of adequate means of transport. Most LBAs located their buying stations in a relatively small number of larger towns. This, together with the high cost of public transport, limits the farmers' ability to reach a buying station and often restricts their choice of a trading partner to traders purchasing produce in their village;
5. Farmers who only have small quantities of coffee or cocoa for sale more often turn to a middleman and for that reason receive lower prices than do larger farmers. Farmers with larger quantities for sale can better bear the burden of transport costs in order to reach a buying station. Moreover, farmers with small amounts of produce may more often be tied by credit relations to particular traders;
6. Due to a lack of both education and information about the functioning of the marketing system most farmers are satisfied just to receive the money for their produce and are not aware whether or not they are receiving the correct amount or not, and
7. Social relations within farming communities can also restrict farmers in their choice of trader because of the social obligations towards a trader who belongs to the same family, and so on.

Yet, it is difficult to give a straight answer to the question as to whether private traders, both LBAs and middlemen, are abusing the weak bargaining power of the farmers or are only taking their share at the expense of the farmers to compensate for their own marketing costs. It seems to be clear, however, that the farmers are in a very weak bargaining position when selling their produce and that relatively few receive the already very low producer prices set by SLPMB for their coffee and cocoa.
From 1987 onwards some changes occurred in this state-controlled marketing system. Due to an almost bankrupt economy, in 1986 the GOSL negotiated a long term Structural Adjustment Programme with the IMF. However, because the GOSL failed even to repay the interest on external debt arrears and responded to the poor performance of the economy by restrictive regulations which discouraged private investors, the IMF stopped negotiating with the GOSL. However, in 1990, after the GOSL had introduced comprehensive economic reforms in 1987 negotiations with the IMF were on the agenda again.
Besides a reduction in the size of the bureaucracy

limiting the growth of government expenditure, abolition of subsidies on basic commodities and a devaluation of the national currency, the GOSL also privatized the import of rice (formerly a monopoly of the SLPMB) and completely stopped SLPMB's monopoly in purchasing coffee and cocoa on the domestic market. Under pressure from the IMF, the GOSL had to divest itself of a number of SLPMB's plantations and restructure and privatize several operations of the Board from 1990 onwards. According to the latest negotiations with the World Bank in order to ensure competitiveness with the private sector and to maximize returns to farmers the SLPMB should increase producer prices for coffee and cocoa to a level of no less than 60% of f.o.b. prices from September 1991 onwards (Wambia 1990).

The grip of private trade on the marketing system has therefore become stronger since 1987. A few private companies and large LBAs obtained licences not only to buy coffee and cocoa from farmers but also to export the produce themselves on the world market albeit via the SLPMB. The Board still handles the produce before shipping and acts as a mediator between the private export companies and the buyers overseas. Of the receipts in foreign exchange, 3% has to be handed over to the SLPMB to cover the Board's handling costs. Another 60% has to be converted into Leones at the official, overvalued rate. The private exporting companies are free to dispose of the remaining 37% of the agreed price in foreign currency (ILO/JASPA 1990).

Since the buying season 1987/88, the share of the private traders in the total volume of coffee and cocoa exports increased significantly to 49% (SLPMB 1990). Total produce purchased by the SLPMB on the national market decreased by approximately 53.3% in volume between 1987/88 and 1988/89. For coffee alone, the decrease in the same period amounted to 65%.

Although in 1991 9 private companies are registered as having an export licence, in practice only few of them actually purchase produce. A quite dangerous situation may arise when only a few private traders acquire a new monopoly-like position in buying up and exporting cash crops. In general, the import/export trade in Sierra Leone is already entirely in the hands of a small group of about 30 Lebanese, Afro-Lebanese and Sierra Leonean traders. Each large commercial operator has organised a network of smaller traders (suppliers/retailers) in a way that defies any law or method of free capitalistic enterprise (Hoogvelt 1989). Moreover, as a group, these commercial operators have achieved monopolistic positions in every sector of the economy. It is questionable as to whether any other traders will have the resources to compete with them in the future.

The above mentioned changes in the export channels for coffee and cocoa led to some major changes in the marketing system of cash crops on the local and regional level after 1987. Appendix 2 shows that more actors and more marketing channels can be discerned as compared to the situation before 1987. The monopoly position of SLPMB has been affected and private exporters and their agents should now be able to pay official producer prices or even more to the farmers. Although we do not yet have much data on the prices now being paid to the farmers at our disposal, we doubt if the above-mentioned changes in the marketing system have really stopped widespread underpayment at local level.

On regional level we see that private and institutional LBAs must now share the market with some private trading companies. In the buying season of 1987/88 only one private exporter, James International Ltd., was purchasing and exporting produce. In 1989/90, in spite of the fact that more companies received an export licence, James International still exported 80% of the total coffee and cocoa exported by private traders (Wambia 1990; SLPMB 1990).

On the local level farmers may now seem to have more options for selling their produce. However, in the buying season of 1990/91 about 40% of all farmers still sold their produce or a part of it to middlemen because of the existing credit relations, while about 42% sold (some) produce to LBAs, 25% to agents of private exporters and 6% to NAPCO, a subsidiary of SLPMB (unpublished and preliminary results of research carried out in 1991 by Sellies and Wanders).

Although there now seems to be slightly more competition between private exporters which has resulted in increased producer prices being paid by some of these exporters and in their offering their agents better services and higher commissions to purchase for them at village level, farmers still receive very low producer prices as compared with world market prices. Moreover, the increase in producer prices, as a result of the devaluation of the Leone does not keep pace with rising consumer prices for basic commodities such as rice. Moreover, the cost of food for farmers has become a serious problem since 1989 when the GOSL stopped subsidizing rice. The cost of rice, in real terms, has since increased threefold, while cash crop incomes for the farmers have only dropped in real terms. A substantial increase, not only of producer prices in accordance with the World Bank strategy but also in prices actually paid to the farmers will be necessary in order to stop this negative trend.

Although farmers have more opportunities to save transport costs and to sell their produce to different kinds of traders in their villages, many of the afore-mentioned conditions for underpaying farmers are still present. Also the private exporters, just like LBAs, have no control of the purchasing activities of their agents, whilst it is very likely that the exporters and LBAs themselves will also not hesitate to underpay the farmers whenever they get a

chance to do so.
So, an increase in the official producer prices together with trade liberalization which gives private buyers/exporters or their agents an opportunity to pay higher prices to the farmers, may have led to higher absolute prices being paid for coffee and cocoa. Farmers still have no control over the functioning of the marketing system. Therefore, to improve the farmers' marketing position and to diminish the chances of middlemen or buying agents underpaying farmers, more emphasis on the training and education of farmers and farmer group involvement in marketing is needed to provide some competition within the oligopolistic system still obtaining. Only this can improve the farmers' bargaining position and eliminate some of the imperfections of the present marketing system. One way of initiating this would seem to us to be the establishment of co-operatives by the farmers themselves.

The co-operative movement in Sierra Leone

The small farmers of Sierra Leone have always had to face the abuse of marketing power, not only by the various types of private traders but by state organizations such as SLPMB as well. One possible alternative would be the revival of the co-operative movement. However, because of their poor experience with co-operative experiments in the past, it is necessary that the producers of export crops are this time really convinced that a new attempt will benefit them.
The first registered co-operative societies in Sierra Leone were established in 1948. The colonial government introduced a co-operative legislation with the intention of controlling farmers from above. The 1950's saw a rapid increase in the number of registered co-operatives, but at the end of the 1960's most societies had already collapsed. This can be explained partly by the unfavourable economic situation at the time but more important was the fact that co-operation was introduced 'from above'. The co-operative movement was guided by governmental organisations which suffered from inadequately trained (sometimes even illiterate) staff, embezzlement of co-operative funds and bureaucracy (see, for example, GOSL 1970; Samura 1991a and b).
In spite of this negative development, the idea of co-operative organisation has again gained ground since 1980. In November 1980 the National Workshop on Co-operative Training and Financial Management concluded that the mistakes of the past were mainly due to the fact that the essential principles of the 'bottom-up' approach had been neglected. Consultation with the target population was now seen to be the basic precondition for the success of any co-operative initiative. During this seminar the basis was also laid for multi-purpose co-operative societies which were to be organised on chiefdom

level. This new type of co-operative was to replace the former single-purpose, village-based marketing co-operatives. Multi-purpose societies would have to provide a comprehensive package of services which would include the delivery of agricultural inputs, supplying their members with consumer goods (particularly rice), the issuing of credit and the facilitating of storage, processing and marketing services.

The societies would have to be organised on chiefdom level because experience in the past had shown that village-based co-operatives were too small to be viable. Many of these societies had been created by co-operative officials only with the purpose of obtaining government loans and of to achieving statistical success therefore increasing their own chances of promotion (Samura 1978). In addition to this, it was believed that an organisation at chiefdom level would also fit very well "in the existing cultural, economic and social customs and meets the needs of this basic unit of self government and self-help" (Aldworth and Wisniewski 1987).

A Multi-Purpose Co-operative Society: Nongowa Co-operative Growers and Marketing Association

In 1986 the first multi-purpose co-operative was instituted namely the Nongowa Co-operative Growers and Marketing Association ('Nongowa Growers'). The driving force behind the foundation of this co-operative were two men with considerable experience in co-operative thinking and practice. In order to convince potential members of the possible benefits of a co-operative, it was important that one of the two was the Paramount Chief, the traditionally elected leader of a chiefdom. Chiefdoms have served - and still serve - as the basic elements of political administration and they are one of the main units of social activities. This explains why the participation of the Paramount Chief in Nongowa Growers was so important: the rural population relies more on traditional leaders than on the state administration (see also Gerretsen and Sellies 1989).

The main goal of Nongowa Growers is to improve the socio-economic position of the farmers and to enhance co-operative ideas. The main objectives under this goal include:

1. through co-operative marketing to eliminate the middlemen and to obtain the highest possible price paid by the GOSL for coffee and cocoa;
2. to purchase agricultural inputs and basic consumer goods in bulk and make them available to members at reasonable cost;
3. to establish a credit system with short term loans for members as a way of reducing the farmers' dependency on petty traders and other money lenders for credit, and
4. to educate members and rural agricultural pro-

ducers in co-operative principles and ideas. (CRS/Nongowa Growers 1991).

To achieve these objectives the co-operative engages not only in marketing but in non-marketing activities as well. Nevertheless its main endeavour remains marketing, notably the buying of and transporting of produce.
The first marketing activity of Nongowa Growers is to purchase coffee and cocoa. The produce bought from its members is delivered to James International Ltd. In fact, the co-operative acts as an institutional LBA but now the produce is delivered to a private company instead of to the SLPMB. Nongowa Growers has selected James International specifically to handle the coffee and cocoa because this company was able to provide them with working capital, rice, vehicles, and so on.
For buying (and selling) produce, the co-operative established six marketing centers (i.e. buildings which were especially erected for that purpose) and four sub-centers (rented dwellings, used for marketing activities). The marketing centers were designed and assembled by the International Non-Governmental Organisation (NGO) CARE. In 1985/86, this NGO constructed two pilot marketing centers with the help of the villagers. During the buying season of 1986-1987 the buying of produce was started in these centers. CARE's basic idea was that to avoid the exploitation of farmers by traders and middlemen, buying stations should be created and run by the farmers themselves (Molitor and Ghandi 1987). Basically, they started with establishing a building in a village, which the farmers would eventually have to take over. This initiative ideally should have led to the creation of a marketing co-operative on village level but soon the first imperfections of the centers became apparent. In the first instance, CARE focused only on the physical and infrastructural side of the project, i.e. providing some essential building materials and supervising the villagers who, on the principle of self-help, provided the labour for the construction of the centers. Unfortunately, they neglected the social infrastructural, (i.e. educational) component of the project. The latter is quite important because one of the aims of the project was that the farmers themselves should run and manage the marketing centers. In order to do this properly a 'center committee' would have to be elected by the farmers to manage the day-to-day affairs of a center. Because practically no farmer had any experience in this field, training in organizational aspects should have formed a more important element of the project.
CARE and Nongowa Growers both commenced their marketing activities around the same time. It was therefore only natural that they attempted some form of collaboration. After all, Nongowa Growers was an association organised on chiefdom level but with members in the villages and one way or another the

co-operative had to link this chiefdom level to the village level. Also the participation of the co-operative's members would be better assured in this way. CARE's marketing centers were a perfect means to that end. Thus the members of Nongowa Growers would see a visible benefit from their co-operation, and the co-operative would be established at village level. Moreover, CARE would now have an indigenous organisation with which they could negotiate and plan and at the same time collaborate with in the field of education and training the farmers about the marketing of cash crops and the administration of the centers.

In October 1985, the co-operative had 285 members (CRS/Nongowa Growers 1991), but in the buying season of 1989/90 the membership had already risen to 1632 already (Heerschap and Koreman 1990) In October 1990 the total membership was 1865 (CRS/Nongowa Growers 1991), while in February 1991 the total had already reached 2010 (ILO 1991).

The co-operative encourages as many farmers as possible to become official members. A member farmer has to pay a small entrance fee and it is then possible to buy one or more shares in the co-operative. In principle, not only members but every farmer is allowed to sell produce to Nongowa Growers although theoretically only those living in the Nongowa Chiefdom would be allowed to do so. Thus Nongowa Growers makes no distinction between members and non-members with regard to the buying of produce. The benefits for members are the yearly distribution of dividends - based on the amount of coffee and/or cocoa a member has sold to the co-operative - the payment of interest on the shares they may have and the possibility of obtaining credit from the co-operative in the form of rice or cash (see below).

Each of the six marketing centers and the central store in Kenema are run by a store clerk. The task of the store clerk is to weigh the produce and to issue a receipt on which he has to write the quantity of produce and the price to be paid. The farmer receives a copy and copies of all receipts are also kept in a central archive. Furthermore, an internal auditor checks the buying practices of the store clerks monthly, as an extra guarantee that the farmers receive the official producer prices.

Nongowa Growers has also stimulated the use of platform scales. These scales are more accurate than the more widely used hanging scales (these have springs which relatively easily lose their buoyancy with or without the 'help' of a trader) and the 'threepence' pans. These pans are fairly simple to misshape and in addition to that there are several different pan sizes a fact from which the trader knows exactly how to benefit.

A second marketing activity of Nongowa Growers regards the transportation of produce. One of the main constraints for farmers to freely choose their trading partner is formed by the possibilities of transporting their produce to a buying station. The

CARE/Nongowa Growers initiative is, of course, an improvement for many farmers because of the decentralization of the buying points. In this way Nongowa Growers is already meeting the farmers' transport needs to some extent but, in addition, farmers can also get their produce picked-up by one of the co-operative's mini-trucks (which were obtained from James International), for which service a relatively small amount per bag is charged. However, this is only possible when a farmer or a village as a whole can be sure that there will be a full truck load. The trucks are of more importance for securing the transport of coffee and cocoa from marketing centers and sub-centers to the central store.

Nongowa Growers also perform non-marketing activities, such as the selling of rice and other consumer goods, the issuing of loans and they also attempt to educate and advise farmers, this in collaboration with CARE. These basically non-marketing activities are all related a greater or a lesser degree to the marketing constraints farmers face. The position of the farmers cannot solely be altered by improving the way they market their coffee or cocoa. Several studies have shown that, for example, the availability of credit is also of utmost importance for many farmers. So, when a local farmer's association is able to provide loans, at least one possible way of the exploitation of farmers by traders can be avoided (for the various types of credit arrangements see Peperkamp 1981; Debouillé and Wanders 1987; Gerretsen and Sellies 1989). The same is true of the co-operative's other non-marketing activities. The provision of rice at reasonable prices, for example, diminishes the urge for farmers to borrow either rice or cash in order to buy rice. So, the non-marketing activities reduce the farmers' dependency on the 'benevolence' of traders, and hence improve their living conditions.

Nongowa Growers' main concern at the moment is the fact that they have to earn profit in order to be self-sustaining. Because the co-operative always pays the official producer price to the farmers, they can only make money on the very low commissions they receive (see above). A second source of profit is the sale of consumer goods such as, for example, rice. Rice is bought in bulk from James International and sold to the farmers with a small profit. This buying in bulk enables the co-operative to sell the rice at a lower price than the local traders. Nevertheless, these profits will, in the long run, be insufficient to cover all expenses, salaries, future investments, and so on.

Other constraints facing the co-operative are, for instance, the need to expand its network of buying points in the chiefdom to a total number of 15. This is necessary in order to have a better coverage of its working area (CRS/Nongowa Growers 1991). The transport with the two mini-trucks will also pose a problem in the near future because the trucks now available are old and need to be replaced. Another problem is the current arrangement with James International. The two parties have collaborated since 1988. Except for the agreement on the two mini-trucks, all other arrangements have been obtained under an informal, verbal agreement only. For example, James International provides the working capital to Nongowa Growers for the buying of produce and also delivers the empty bags for packing. Until recently, this has worked well but in 1990 James International was slow in meeting its obligations and the co-operative had to issue I.O.U.'s to the farmers instead of cash. This meant that farmers either had to wait for their payments for quite some time or they had to turn to other traders from whom they received lower payments as a rule. It seems obvious that Nongowa will have to revaluate its arrangements with James International and that it should try to formalize them.

Another potential constraint concerns the co-operative's leadership. As mentioned before, one of the factors which made Nongowa Growers a success until now was the fact that two enthusiastic men with experience in co-operative ideas convinced many farmers that a co-operative could be a vehicle for their development. The potential danger exists, as in any co-operative, that if and when these leaders step back the co-operative will fall apart. In the case of Nongowa Growers, however, much emphasis has been placed on the training of the staff so it seems that the current leadership could be succeeded without too much difficulty. Problems could also arise in the future if the co-operative wanted to become too multi-purpose in the initial stages of its evolution. By trying to do too much in too many different fields, the co-operative could become too inflexible leaving aside the question of whether there is enough expertise to handle all the activities.

Except for the last two, the constraints mentioned above all result from financial constraints. Once the profits are there, those constraints will cease to exist. The co-operative therefore has to find ways of earning more profits.

One option to be considered is the co-operative establishing its own processing facilities for coffee or cocoa. This would ensure a higher value added and provide employment. The financial requirements for such a development would be substantial, however, so it should only be considered as a long term option.

Another, more realistic means of realising profits could be to establish a Co-operative Union composed of several multi-purpose co-operatives in some other chiefdoms in order to profit from economies of scale. The merging of, say, 8 chiefdom co-operatives into one Union would also assure a higher level of production supply and this again would make it more feasible for the Union to apply for an export licence. Once the produce was directly exported the received prices would increase considerably (see above) and this would lead to a much higher level of income for the farmers than is now the case. Even a doubling of the proceeds from these crops is not an unrealistic hope.

If an export licence could not be obtained immediately, the Union could still exercise considerable economic and political influence on the different actors in the marketing system for export crops. It could better represent the small farmers still in the negotiations with the GOSL regarding the level of producer prices and with export companies such as James International or SLPMB regarding commissions, for example. Although there is a potential danger that such a superstructure would exercise a bureaucratic grip on the chiefdom co-operatives and unduly control them from above, in this case some co-operation among future and existing chiefdom co-operatives would be needed because the common interest of achieving a larger share of world market prices has to be protected.

The main constraint for the foundation of an Eastern Farmers Union is the fact that only Nongowa Growers seems to be ready for it at the moment. Although five other multi-purpose co-operative societies have already been registered, they all started later and are still behind the level of development attained by Nongowa Growers. It would therefore be advisable to wait until they all have achieved a basic level of experience to ensure that the six co-operatives can act as equal partners.

The current Registrar of Co-operative Societies in Sierra Leone recognises not only the income improving potential as a main benefit of an Union but, in the end, would also like to see the Union take over all the marketing related responsibilities which are currently undertaken by parastatals. In his opinion, not only could the export activities of the SLPMB but also the agricultural credit provision to small farmers, extension services, the supply of production inputs, and so on, be performed on a co-operative basis. However, as stated earlier, co-operative management should not become too complicated or too ambitious. The first task ahead is to develop co-operatives as economically viable and genuinely grassroots organisations in several chiefdoms. Nongowa Growers has so far proved that the chance is there. The present difficulties due to rebel incursions from Liberia in Sierra Leone's Eastern Province which also disturb produce marketing and the functioning of the co-operatives provide the first challenges to be faced.

Conclusion

Like most countries in the Third World, the West-African country of Sierra Leone has also had to accept the conditions imposed upon many debtor countries by the World Bank and the IMF under a severe programme of economic structural adjustment. One of the measures to be taken was to limit the influence

marketing of export and other crops. Therefore, the monopoly of a marketing board for the export of cash crops completely controlled by the state disappeared in 1987 when private traders were allowed to take part not only in the purchasing but also in the exporting of cash crops, mainly coffee and cocoa.
However, in the past accusations about the malfunctioning of the marketing board and the abuse of their monopoly position by their taking too large a part of the revenues from the export of produce for the state at the expense of the farmers' incomes, were not the only substantiated accusations of abuse in the marketing of export crops. Private traders had always been allowed to play an essential role in this seemingly state-controlled marketing system of export crops. Many of these traders also abused the weak bargaining position of farmers who, to a very high degree, depended on traders not only for marketing their cash crops but also for the provision of food, consumer goods, inputs, and so on.
This means that we do not believe that a complete privatization of the marketing system will be of much benefit to the farmers. Therefore, a third alternative should be given a fair chance to serve the farmers when marketing their produce, i.e. marketing co-operatives. Co-operatives had a bad start in Africa in the past due to a great variety of unfortunate circumstances and errors. It is possible to avoid them, however, and in this case co-operatives can be a good means to improve the marketing system for export crops, especially in the first stage of collecting produce from the farmers.
Recently, in Sierra Leone co-operatives have started to participate in the marketing of coffee and cocoa again as a reaction to the fact that private trade inhibits the development of the rural economy. Although there are still some constraints in their development, the results achieved so far have been very promising and deserve the full support from policy makers inside and outside the country.

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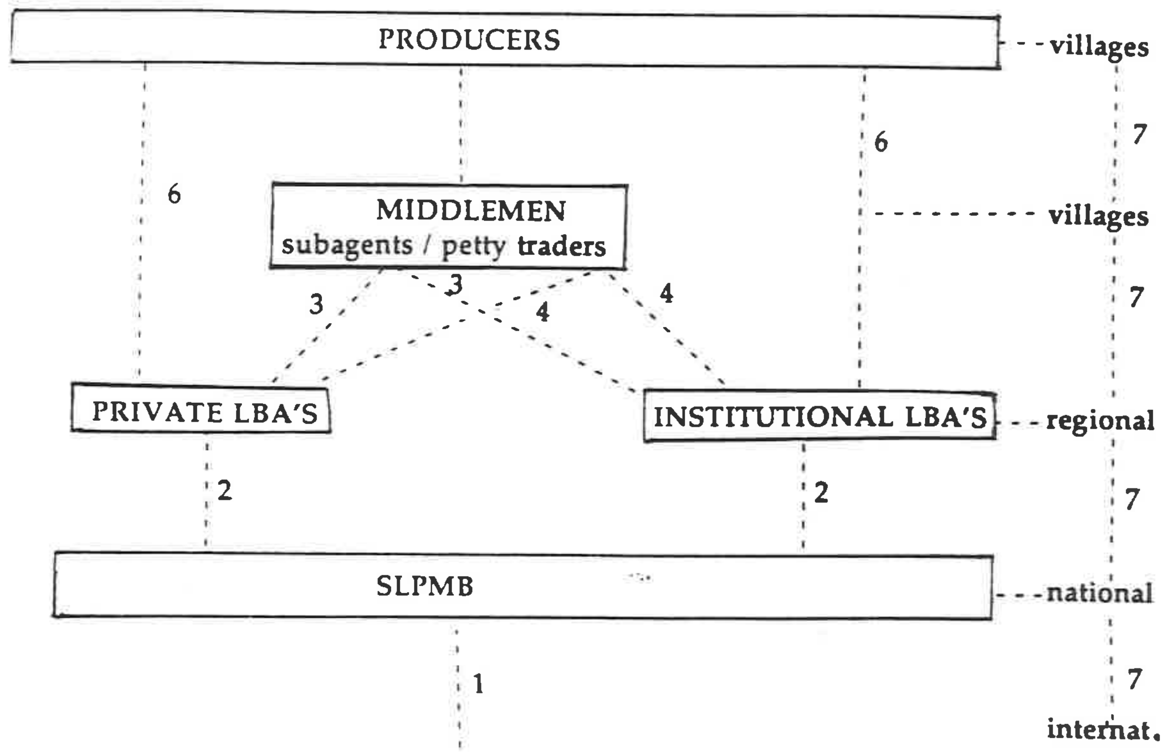
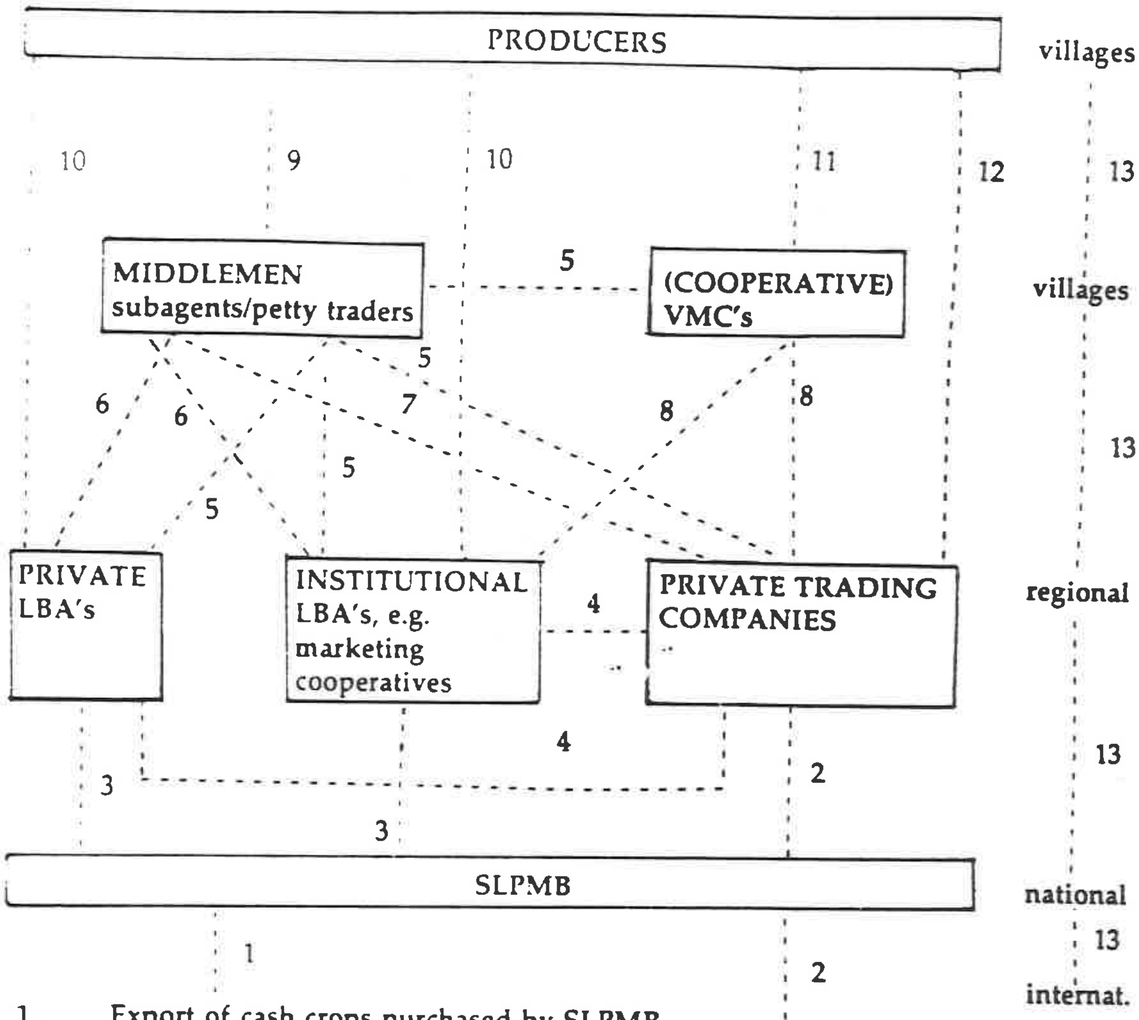
APPENDIX 1:

SCHEMATIC OUTLINE OF THE MARKETING SYSTEM OF EXPORT CROPS IN SIERRA LEONE BEFORE 1987.



1. Export of cash crops purchased by SLPMB.
2. SLPMB authorizes LBAs to purchase cash crops in return for commission and transport cost allowances.
3. LBAs provide subagents with money and/or rice to purchase on their behalf cash crops in the villages.
4. Petty traders sell cash crops, purchased with own financial means, to either private or institutional LBAs.
5. Producers of coffee and cocoa sell their cash crops to petty traders or subagents.
6. Producers of coffee and cocoa sell their cash crops directly to private or institutional LBAs.
7. Different spatial levels within the marketing system.

SCHEMATIC OUTLINE OF THE MARKETING SYSTEM OF EXPORT CROPS IN SIERRA LEONE AFTER 1987.



1. Export of cash crops purchased by SLPMB.
2. Export of cash crops via SLPMB but purchased by private trading companies.
3. SLPMB authorizes LBAs to purchase cash crops in return for commission and transport cost allowances.
4. LBAs deliver all the purchased cash crops or a part of it to private trading companies.
5. Petty traders purchase with own financial means cash crops from farmers in order to resell them to either private trading companies, LBAs or (cooperative) Village Marketing Centers.
6. LBAs provide subagents with money and/or rice to purchase on their behalf cash crops in the villages.
7. Private trading companies provide subagents with money, rice and transport means to purchase cash crops in the villages.
8. VMC's appoint subagents of private trading companies or institutional LBAs to organise the purchase of cash crops at the Village Marketing Center.
9. Producers sell their cash crops to petty traders or subagents.
10. Producers sell their cash crops directly to institutional or private LBAs.
11. Producers sell their cash crops to (cooperative) Village Marketing Centers.
12. Producers sell their cash crops directly to private trading companies.
13. Different spatial levels within the marketing system.

STRATEGIC ALLIANCE FORMATION:

A SOCIAL MARKETING PERSPECTIVE

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Abstract

The rate of strategic alliance formation is currently on the rise worldwide. In spite of this growth trend and the enormous economic potential cooperative arrangements offer firms, industries and society, the complex processes which result in their creation are not well understood.

This paper suggests the integration of social control theory and social marketing techniques as the basis for a new macro-level perspective on the formation of intra-industry strategic alliances. Development of high definition systems in the U.S. electronics industry is presented to illustrate a potential application of this perspective.

Several insights are gained from this initial inquiry. Social marketing concepts, strategies and tactics - conspicuously absent from current strategic alliance research - show significant promise in the accomplishment of shared goals which benefit both industries and society. As cooperative arrangements become more pervasive, the application of social marketing may also lead to more effective and viable alliances by transforming what is currently a reactive process into one which is decidedly more proactive.

Strategic Alliance Formation: A Social Marketing Perspective

Introduction - A Growing Trend Toward Cooperation

In July of 1991, IBM and Apple Computer announced the formation of a joint venture to cooperatively develop an operating system for the next generation of PCs. One industry analyst called it the "deal of the decade" (Powell and Stone 1991) echoing the view of many experts that strategic alliances such as this are fundamentally altering the definition of healthy business competition.

While no one is sure whether this belief is correct, one thing is certain - over the last decade U.S. firms in industries as diverse as high technology and health care have increasingly chosen to enter into cooperative arrangements (Hull, Slowinski and Collins 1988; Roice, Beguin and Porter 1989; Borys and Jemison 1989). These relationships between and among previous rivals range from highly structured mergers, acquisitions and joint ventures such as the one between IBM and Apple; to more casual research and development partnerships, cross-licensing agreements and joint bidding activities.

This trend is being closely monitored by both academicians and business practitioners. Researchers, particularly those in the management disciplines, have already begun to seek answers to important questions that will hopefully lead to a clearer understanding of these non-traditional business relationships. To date, these inquiries have focused primarily on micro-level issues such as the environmental conditions encouraging strategic alliances; real and perceived benefits motivating individual firms to form cooperative relationships; the types of organizational entities resulting from these arrangements and identification of effective management strategies (Schermerhorn 1975; Van de Ven 1976; Whetten 1981; Van de Ven and Walker 1984; Harrigan 1985; 1986 Kanter 1989; Oliver 1990).

Top-level executives, middle managers and others involved in the negotiation, implementation and maintenance of strategic alliances also seek greater insight. The benefits gained through cooperative activities - such as cost sharing, access to markets and capital, and the creation of synergies - can be significant to individual firms, the industries they comprise and the societies in which they function. Yet, risks are inherent as well. While some strategic alliances formed decades ago are still intact, experts have estimated the long-term failure rate of some types of alliances to be as high as 70 percent. To date, the large body of micro-level literature has shed little light on the root causes of these failures.

The purpose of this article is to bring a new macro-level theoretical perspective to the study of strategic alliances grounded directly in the principles of marketing. Specifically, this analysis explores how the integration of social marketing techniques and social control of industries theory may lead to the forging of more effective and viable cooperative arrangements among firms within an industry.

First, the social control of industries framework is presented (Zald 1978). This sociological theory advances the notion that some industries have the potential to generate broad social benefits (e.g. safeguarding national security interests) in addition to any economic gain accruing to individual member firms. The ultimate level of social benefit produced can be directly influenced by the willingness and/or ability of these firms to engage in specific behaviors (e.g. formation of strategic alliances). Once identified, if the appropriate behaviors can be successfully encouraged through the use of social control mechanisms, then the likelihood of reaching the desired level of social benefit can be increased.

Second, the social marketing perspective (Kotler and Zaltman 1971; Fox and Kotler 1980) is presented. This section offers a description of how traditional definitions of marketing research and the four elements of the marketing mix - product, price, promotion and place - can be modified and appropriately applied to accomplish planned social change. Integration of the social marketing perspective and the social control of industries framework is presented in the next section. This discussion suggests that social marketing techniques can function as social control mechanisms and be used to influence the acceptability of social ideas - in this case, cooperative activities - among member firms within an industry.

The next section illustrates how the social marketing perspective might have the potential to facilitate strategic alliance formation in an actual industry context. The American electronics industry - currently in a life-and-death struggle with Japan and the European Economic Community to maintain global superiority - serves as the case. Specific emphasis is placed on the development of high definition (HD) systems technology.

The final section summarizes the ideas presented in this paper. It concludes that, to date, strategic alliance formation has been essentially a reactive process. To be more efficient and to increase the likelihood of long-term success, it is suggested that cooperative business arrangements should evolve from pro-active analysis, planning and implementation firmly grounded in social marketing principles and techniques.

The Social Control of Industries

Social control has been defined in the sociological literature as the process by which norms emerge among some members of a social system and are then shared with other members in an attempt to encourage their adoption. The ultimate goal is to build consensus concerning behaviors which will benefit not only individuals, but the larger social system as well (Pitts 1968; Meier 1982). The development of a new perspective on strategic alliance formation begins with the specific application of this definition of social control in the industrial context.

In 1978, Meyer Zald broadened the concept of social control by developing the social control of industries framework. According to this framework, industries can be viewed as social systems comprised of individual firms all of which function within the larger societal context. Industry norms emerge through a collective process primarily through the interaction of what are termed control agents and target elements.

Control agents are those who attempt to change or maintain the performance level or behavior patterns of individual firms within an industry and whose ultimate goal is to bring industry norms into line with society's normative preferences. Any member firms not currently complying with desired behavior are target elements. Control agents may represent external sources of control such as government agencies, courts of law, the media, licensing boards and labor unions. Internal sources of control such as boards of directors, executive elites and umbrella organizations - for example, trade associations - consisting of representatives of the target elements may also serve as control agents.

Of the tools available to control agents to accomplish their goals sanctions are the most powerful. Applied when there is deviance from the desired behavior on the part of target elements, sanctions can be either negative in nature - for example physical coercion and the withholding of economic resources - or positive inducements such as attempts to persuade or give advice, the bestowing of respect or acclaim and the provision of resources to facilitate target element performance of desired behaviors.

Two factors may limit the effectiveness of sanctions: first, the resources available to control agents to carry out sanctioning and; second, utility of the sanctions to the target elements. For example, control agents such as federal regulatory agencies have a high level of resources available to them to impose sanctions on firms which sell a significant percentage of their products to the federal government. In contrast, professional associations usually have only the resources to impose symbolic sanctions -- for example certification. These later sanctions are generally viewed by target elements as relatively weak incentives.

Firms have varying degrees of ability and/or willingness to comply with emerging norms being encouraged by control agents. Zald (1978) refers to this phenomenon as compliance readiness. This variation among target elements shape what he calls the industry's performance curve.

This state of readiness can be influenced by three components. The first is ideological readiness which refers to the level of agreement of target elements with the norms and purposes of control agents. It is assumed that the stronger the agreement, the greater the likelihood that target elements will comply with emerging standards of behavior.

The second component of compliance readiness is organizational capacity. This relates to the extent of financial, human, and other resources available to target elements to conform to emerging norms. Here it is assumed that the larger the pool of resources made available to target elements, the higher the probability that compliance will occur.

Finally, compliance readiness may also depend on power to resist -- that is, the power of target elements to resist control agents through specific efforts either to redefine standards of behavior within an industry or to oppose their imposition. Zald (1978) postulates that it is unlikely that target elements possessing a high degree of power to resist will readily yield to control agent sanctions either positive or negative.

Since its conception, the social control of industries framework has been applied in a variety of industrial contexts including investigations of college accrediting agencies, the role of accounting and investment rules in shaping organizations and the adoption of innovations in hospitals (Wiley and Zald 1968; Zucker 1987; Zald 1986; Zald and Hair 1972). These studies have focused mainly on the industry and societal conditions motivating norm change, identification of internal and external control agents, post-hoc descriptions of control agent/target element interaction, and impacts on industry performance curves.

In none was significant emphasis placed on delineating the actual sanctioning process employed by control agents in an attempt to persuade target elements to adopt emerging norms. This is not surprising given that the social control of industries framework, as originally presented, is not specific in this regard. While the types of sanctions available are clearly described, suggestions concerning strategies for both their choice and implementation are lacking.

Given their recent growth, strategic alliances may be some U.S. industries' reaction to an emerging societal norm of greater cooperation in the business area. The social control of industries framework appears to hold promise for helping both researchers and practitioners understand the steps leading to more effective and viable alliances. However, if the framework is to be truly useful, the specific interaction among control agents and target object firms must be made more explicit. The next section describes social marketing techniques and suggests how their integration with the social control of industries framework may assist in achieving this goal.

The Social Marketing Approach

In 1972, Kotler and Zaltman wrote a seminal article suggesting that traditional marketing concepts - specifically the coordination of marketing research and the 4 P's representing product, price, promotion and place - could be applied to accomplish planned social change. They call this application social marketing and advocate for its use to influence the acceptability of social ideas and to promote social goals.

Kotler and Zaltman clearly spell out how each of the traditional business marketing concepts mentioned above needs to be reframed for this new application. Fox and Kotler (1980) provide even sharper clarification in their assessment of the status of social marketing written ten years later. A traditional view of marketing research, for example, involves the monitoring of pertinent environmental opportunities and threats. However, in social marketing emphasis is placed on their influences on social rather than business policies and objectives.

The marketing research process also involves collection of information leading to the definition and selection of viable market segments and close attention to feedback from chosen targets as a basis for reformulation of the marketing mix. While similar in many aspects to customary business practices, data collection on attitudes, desires and behaviors within the social marketing framework focuses on identification of those segments most likely to accept desired social ideas not those most likely to purchase a product or service.

The social marketing perspective also casts a different light on each element of the marketing mix. Product development is viewed as a two step process. First, a core product is defined based on identification and articulation of the social change sought - generally a change in attitudes, beliefs, values or some combination. Taking into consideration the segments identified during the research process, the second step is to design a social product. The purpose of this social product is to provide a tangible or "buyable" (Kotler and Zaltman 1971, p.7) entity which represents the core product and increases the likelihood of its acceptance within the target markets.

Price in traditional business marketing terms is associated with the exchange value of a product in the marketplace - that is, an assessment of the costs incurred to obtain the product compared to anticipated benefits. The social marketing view of price is similar in that its calculation involves a cost-benefit analysis. However, the key is determining how incentives can be used either to increase the rewards for "buying" the social product relative to the monetary, opportunity, energy and/or psychic costs or to reduce these costs relative to the rewards.

Social marketers also need to develop promotion strategies and tactics that will increase the familiarity, acceptability, and desirability of the social product within the target markets. Both articles caution against too much emphasis on social advertising and call instead for the development and use of personal selling, public relations and sales promotion techniques as well to achieve social goals.

The final element of the social marketing mix is place or channels of distribution. Unlike traditional business channels where the product or service moves from point-to-point on its way to the ultimate consumer, this perspective regards channels as opportunities for the "translation of motivation into action" (Kotler and Zaltman, p.9). Latent motivations to acquire the social product have a higher probability of becoming manifest when those who hold them are made aware of alternative outlets for their expression.

In their retrospective, Fox and Kotler (1980) discuss a number of applications of the social marketing perspective including family planning, heart disease prevention and a variety of health improvement programs. They express frustration that social marketing as originally conceived has been misinterpreted, and thus, misapplied by a number of researchers. Specifically, they point to its confusion with both societal marketing - consideration of marketing's impact on and responsibility to society - and non-profit organization marketing.

In keeping with Kotler and Zaltman's original definition of social marketing which centers on the utilization of marketing principles in the implementation of planned social change, this article suggests a new and unique application of social marketing techniques - that is, to facilitate planned social change within an industry context. In the previous section, the need to operationalize interaction among control agents and target object firms presented conceptually by Zald (1978) was identified. The notion is advanced here that social marketing techniques can serve as a suitable set of tools to accomplish this task. The next section describes in detail how social marketing techniques can be successfully integrated with the social control of industries framework - the end result being both the strengthening of the framework and the broadening of appropriate uses of social marketing.

The Integration of Social Marketing Techniques and the Social Control of Industries Framework

At least one sociological definition of social change is compatible with Kotler's and Zaltman's social marketing perspective. According to Warren's definition of purposive social change (1971), for change to be social in nature it must result in the significant alteration of either the structure or properties of a social system. To be purposive, social change must be deliberate or planned and can be accomplished only through a process undertaken to achieve a specific objective.

Traditionally, purposive social change has been viewed as taking place primarily at one of three social system levels - organizational, community or societal. This is in spite of the fact that Warren (1971) clearly establishes a much wider range of possibilities... "from a dyad all the way to a national or even international society." (p.11).

For social marketing to be properly integrated with the social control of industries framework, it must be shown that the framework involves purposive social change. Zald (1978) asserts that an industry is a social system and thus meets the first requirement as an appropriate setting in which purposive social change may occur. He bases this assertion on classical industrial organization theory which defines industries as groups of firms selling closely related products to a common group of buyers (Bain 1959; Scherer 1980). An industry's member firms are likely to have overlapping interests, expectations and norms of performance and, thus, tend to act in a somewhat coordinated fashion.

The second requirement for purposive social change - that it be deliberate and objective based - was covered earlier in this paper when Zald's (1978) notion of social control was discussed. Internal and/or external control agents consciously attempt to maximize shared values among target object firms within their industry. The explicit objective is to improve the industry performance curve with the ultimate result being a greater level of social benefit at both the industry and societal levels.

Having made a case that the social control of industries framework does involve purposive social change, the next task is to demonstrate the usefulness of integrating social marketing techniques as a way of operationalizing certain concepts contained within the framework - specifically, how control agents might actually go about encouraging target object firms to accept emerging industry norms.

As discussed earlier, social marketing tools consist of adaptations of market research and marketing mix elements including product, price, promotion and place. Each of these tools corresponds with specific concepts presented by Zald (1978) and serves to indicate how each concept might function in a real situation.

Social Marketing Technique #1: Market Research

Market research can be closely tied with the social control of industries concept of compliance readiness. Zald (1978) contends that target firms within a given industry will have varying degrees of readiness to accept emerging norms. Although three dimensions of this concept are discussed, he gives few clues as to how potential target firms might be evaluated on each dimension to determine their actual level of compliance readiness nor does he give any insight into the usefulness of this information could it be generated.

Social marketing research techniques could be brought to bear. Data collected for target firms along each of the three compliance readiness dimensions could be used to cluster firms based on their similarities. In essence, each of these clusters could be viewed as a market segment. Some or all of these segments could be evaluated as potential target segments. For those actually chosen as target clusters, unique combinations of marketing mix elements could then be determined. The goal is to pick combinations which maximize the likelihood that firms within a given cluster will adopt emerging norms.

Social Marketing Technique #2 - Product

Within the social control of industries framework, the product being marketed to target object firms is synonymous with emerging industry norms. As with the compliance readiness concept, Zald (1978) presents three categories of norms. While he recognizes that the specific norm type present within a given industry may influence control agent/target object interaction and its ultimate impact on performance, few hints are given concerning how that interaction might be optimized.

The social marketing perspective on product can be enlightening. Because of their inherent intangibility, emerging norms can be thought of as core products. The task facing the control agents in a particular industry context is to categorize the pertinent norms and then to develop corresponding tangible products. It is these more concrete products which will actually be marketed to the target object firms. The exact nature of each tangible product and the appropriate marketing mix developed for it will be heavily dependent on the compliance readiness segments defined and targeted during the previous market research phase.

Social Marketing Technique #3 - Promotion

To be effective in their interactions with target firms, control agents must devise a communication/persuasion plan. Zald (1978) provides absolutely no guidance in this crucial element of control agent/target object interaction. Again, social marketing techniques can be applied. Specifically, the clusters identified during the segmentation process can be instrumental.

Each cluster demands a unique promotion strategy rooted in its specific compliance readiness characteristics. Based on each strategy, the correct combination of promotion tactics - including advertising, personal selling, publicity and/or sales promotion elements - can be determined to most effectively communicate the availability and desirability of the tangible products to each segment.

For example, firms which are found to be compliant ready - that is, already strongly predisposed to accept the emerging norm - may respond well to a promotion strategy which is basically informational in nature using advertising and publicity to alert them to the availability of the tangible product. On the other hand, firms which are determined to be resistant to acceptance may require a more aggressive strategy employing personal selling and sales promotion tactics.

Social Marketing Technique #4: Price

The social marketing concept of price can be most closely associated with the social control of industries framework concept of sanctions. Zald (1978) views sanctions as "technologies" (p.90) utilized by control agents to influence target object acceptance of emerging norms. These can be either negative sanctions (e.g. coercion or other threats) or positive sanctions (e.g. acclaim or other rewards).

In essence, Zald (1978) sees sanctions playing a key role in the cost-benefit analysis undertaken by firms as they contemplate norm acceptance. He assumes that the best way to gain compliance from resistent firms is to significantly raise the costs of non-compliance through the threat of negative sanctions. In the case of target object firms which are already on the verge of compliance, Zald (1978) suggests that offering positive sanctions tips the balance in favor of acceptance by increasing the benefits to be gained.

Clearly, Zald (1978) recognizes that the acceptance of emerging norms is rooted in a cost-benefit analysis by individual target object firms. However, beyond the unsupported assumptions noted above, he provides no direction concerning how control agents can better discern the inner-workings of this analysis and then utilize the information gained to increase acceptance of changing norms within an industry.

The concept of sanctions can be rendered more functional through integration of the social marketing view of price which emphasizes buyer perceptions. This perspective, as discussed earlier, sees price calculation as a process of first understanding and then attempting to influence the buyer's analysis of costs and benefits. The understanding phase of the process can be accomplished through additional market research focusing on each of the previously identified compliance readiness clusters. This inquiry would center on identifying current perceptions of the costs and benefits involved with norm acceptance within each cluster and quantifying them wherever possible. Based on this data, strategies involving other marketing mix elements could be developed for each cluster which attempt to make the tangible product more appealing either by increasing perceived benefits relative to perceived costs or by decreasing perceived costs relative to perceived benefits.

Social Marketing Technique #5: Place/Channels of Distribution

The social control of industries framework implies that the interaction between control agents and target object firms is necessarily quite rigid. As norms begin to emerge, control agents take on the task of encouraging firms within an industry to change their behavior relative to these new standards. From the target object perspective, the choice is one between compliance or non-compliance.

Through the final marketing mix element of place, social marketing offers a more flexible approach. The effectiveness of this tool is based on the belief that potential buyers who are motivated - even slightly - to buy the tangible product are more likely to transform that motivation into action when they are made aware of a range of action outlets.

Therefore, control agents first need to recognize that motivation to comply will vary among firms and, thus, respond accordingly. This variation can and should be measured during the market research phase which results in the identification of compliance readiness clusters. Once the range of motivation has been determined, then a corresponding range of opportunities to act on those motivations can be developed. The final step is to communicate the availability of these response channels to the target object firms.

Using the social marketing place technique allows compliance with emerging norms to be more than simply a black-or-white choice. Instead, motivation to change behavior to conform to new standards is seen as a continuum. Some firms may be enthusiastically willing to change all behaviors demanded by the changing standards. For them the availability of only one outlet is probably sufficient. However, other firms may be ready to change some but not all behaviors and will do so only if given opportunities appropriate to the adjustments they are inclined to make.

From the above discussion, it seems clear that the integration of social marketing techniques and the social control of industries framework is both feasible and desirable. The result of this integration will likely be movement of the interaction between control agents and target objects from a purely conceptual to a more practical plane. Freeing the Zald (1978) framework of this former weakness improves its potential to generate a clearer understanding of how to fashion more effective and viable strategic alliances.

This potential is explored in greater depth in the next section. Focus is placed on the U.S. electronics industry - specifically those firms involved in development of high definition (HD) systems technology. The social control of industries framework serves as the basis for a discussion of how and why cooperation - a nontraditional behavior - is an emerging norm among many of these firms. Social marketing techniques are integrated to illustrate how firms in this industry - in their role as internal control agents - might be rendered more effective as they attempt to encourage strategic alliances.

Social Control and Social Marketing: How the Paradigm Might Function to Aid Strategic Alliance Formation in the U.S. Electronics Industry

The U.S. electronics industry is currently struggling to maintain its superiority in the international marketplace (McLoughlin 1990). Among the technologies it is striving to control is a group of related systems know as high definition (HD) displays (Alster 1988). These systems obtain a superior picture resolution when compared to conventional video technologies by using twice the number of scanning lines. Although the original focus was placed on utilization in commercial television, research and development efforts are shifting to applications in areas as diverse as military control and command, medical imaging and computer workstations.

This section describes a general trend toward intra-industry strategic alliances among firms involved in development of HD systems. First, the societal processes which are encouraging this non-traditional behavior are discussed. Next, internal control agents and their current goals and tactics are described. Finally, specific suggestions are made concerning how social marketing techniques could potentially be used by control agents to increase the effectiveness of their interactions with target object firms.

Industry Background

A number of environmental factors - or what Zald (1978) terms societal processes - have contributed to the emergence of cooperation as a norm in the HD systems industry. All of these factors are related to the sheer magnitude of both the economic and political importance of these systems. A recent report prepared by the White House Office of Science and Technology Policy identified HD systems as one of twenty-two technologies considered critical to economic prosperity and national security (Davis 1991a).

Many experts and industry analysts believe that HD systems represent the "last big wave" in electronics (Haavind 1990). They contend that if Japan and Europe - both of which appear to be far ahead in both development and commercialization - end up on top, the U.S. may have lost one of its last opportunities to revitalize an already severely weakened electronics industry (American Electronics Association 1989).

The immediate impacts could be devastating. One study estimates that failure to move aggressively into HD systems development could result in the loss of two million jobs and contribute to a $225 billion trade deficit in electronic goods by 2010 (Agres 1989). Long-term economic rippling effects could also be felt in the closely related microprocessor and semiconductor industries (Hack 1991).

Federal government reaction to a growing sense of urgency concerning HD systems has also contributed to the perception of a need for strategic alliances within the electronics industry. While the Bush administration has identified HD systems as a critical technology, no money has been allocated in fiscal year 1992 to bolster research and development activities (Davis 1991b). Most federal support for HD system development has come in the form of relaxed antitrust laws and the passage of bills - such as the National Cooperative Research and Production Act of 1989 - which enable firms to more easily engage in joint projects.

As a consequence of the societal processes described above, at least one group of internal control agents have appeared within the U.S. electronics industry. This group - the HD Systems Task Force - currently consists of approximately 35 companies including AT&T, IBM, Xerox and a number of small entrepreneurial firms. Formed in 1988 under the auspices of the American Electronics Association, an industry trade association, its original goal was to lobby Congress for monetary support for HD systems research and development. In response to entrenched resistance, emphasis has now shifted to encouraging strategic alliances and other initiatives from within the industry.

This situation is clearly one in which a core of firms within an industry - the HD Systems Task Force - are acting in the role of internal control agents. Their leaders believe that by forming strategic alliances individual firms, the industry as a whole and, ultimately, the U.S. economy will benefit. Cooperative activities represent an emerging set of norms or standards of behavior within this particular industry context. The challenging task facing these control agents is to encourage other firms to comply.

Application of Social Marketing Techniques

Social marketing techniques could be utilized in the following ways to meet this challenge more effectively. As suggested by Kotler and Zaltman (1971), the starting point for the social marketing plan should be research conducted to collect data which can serve as the basis for segmentation and targeting. A logical first step is for the Task Force to compile a comprehensive list of all firms currently involved in HD systems research and development. These firms constitute the population of target objects.

Using primary and secondary sources, data can then be collected for each target object across the three compliance readiness dimensions - ideological readiness, organizational capacity and power to resist. For example, annual reports or other publicly available documents containing detailed financial information could provide key information concerning organizational capacity. Basic demographic and psychographic information - including knowledge of organizational structure and culture - should also be collected and compiled in a permanent database.

Once this data is in hand, statistical techniques such as discriminant analysis can be used to group target objects based on their current levels of compliance readiness. Each group represents a market segment and a potential target market. Which segments are actually targeted will depend largely on the immediate goals of the Task Force. The most compliant ready segment may be approached if prompt cooperative action is needed. Less compliant ready segments may be targeted to gain cooperation for accomplishing more long-range aims.

Each targeted segment will require the choice and implementation of a different combination of marketing mix elements. These elements, as in any traditional business marketing mix, will necessarily overlap. The first of these elements is product which, as stated earlier, the social marketing perspective defines as a combination of core and tangible components.

The Task Force likely defines the core product as being intra-industry cooperation - a rather broad concept. To increase the likelihood that target objects will first understand and then ultimately "buy" the core product, a set of more tangible products needs to be presented for their consideration. These might include specific strategic alliance options ranging from full-equity ownership formats such as joint ventures and mergers to more loosely structured research and development consortia and joint bidding activities.

The tangible products are closely tied to a second marketing mix element - place. As a result of the segmentation research described above, the control agents should have a number of indicators of the level of motivation to comply within each targeted cluster. These indicators can be used as the basis for matching core product offerings to each group of firms to create opportunities which will maximize the chance that motivation - at any level of intensity - will be transformed into action.

For example, firms found to be highly motivated to engage in cooperative activities may be willing and/or able to participate in any of the range of strategic alliance types. The process could consist of simply informing these firms about the available options and then letting each make a choice. Firms found to be less motivated will require more diligence on the part of control agents. For instance, standard options within the range may have to be creatively modified to meet the special needs of individual firms and then presented in an appealing and persuasive manner.

It is obvious that a third marketing mix element - promotion - will be key in any social marketing plan for this industry. At least two of the four possible promotion mix components are applicable. The first - advertising - can play a major role in informing the target objects about both the core and tangible products. Videos, brochures, direct mail and a variety of other promotional materials sponsored by the Task Force can be used to create awareness of the need for intra-industry cooperation. These same vehicles can also serve to present the various strategic alliance alternatives. The creative format of the advertisements - copy, layout, etc. - should be tailored to each of the targeted clusters based on information collected during the segmentation research.

Personal selling can also be a critical component in the promotion strategy, particularly when the Task Force is targeting less motivated clusters. As noted above, firms within these groups may have unique needs which require customized tangible products. Acquiring the information necessary to design appropriate alternative strategic alliance options is probably accomplished most effectively through face-to-face interaction and negotiation. The most likely participants are CEOs or other top executives representing both the Task Force and target object firms.

Personal selling can also be instrumental in persuading these less motivated firms to engage in customized cooperative activities once they have been constructed. Managers have available to them a wide variety of recognized influence tactics including reason, assertiveness, and higher authority (Kipnis, et.al. 1984). Demographic and psychographic characteristics - such as size structure, corporate culture and previous strategic alliance participation - collected during the initial segmentation research database can be combined with fresh insights gained during the design phase to aid the Task Force in determining which of these tactics is most likely to be successful.

The final marketing mix element available to the Task Force is price. Members must find ways to influence target object perceptions of the costs and benefits of participating in strategic alliances so that benefits are seen as outweighing costs. This process begins at the research phase of the social marketing plan. Basic psychographic data collected from each firm should include indicators of perceived costs and benefits of cooperation. These might include costs such as loss of autonomy and control, strategic inflexibility and capital outlays; and benefits such as superior information exchange, access to better customers and creation of synergies (Harrigan 1986).

Once the compliance readiness clusters have been formed, it will be possible to use this data to determine the prevailing perceptions of relative costs and benefits within each cluster. As a cluster is targeted, this information can help the Task Force decide whether to focus their efforts on decreasing the cost side of the equation or increasing the benefit side. For example, firms in a particular cluster may articulate a number of costs associated with forming strategic alliances, but identify few, if any, benefits. Under these circumstances, it is unlikely that these target objects will engage in cooperative activities. The goal of the Task Force is to specify and communicate to these firms - using the promotional techniques discussed above - as many benefits as possible in hopes of bringing the cost-benefit equation more into balance.

Within another cluster firms may clearly see significant benefits from working cooperatively but believe the costs to be too significant. Here, the Task Force needs to find ways to either reduce the costs literally or to change perceptions concerning them. For example, if firms fear loss of autonomy through participation in a highly-structured strategic alliance option such as a joint venture, the Task Force can make it clear that other, less formal formats - alternate "places" to acquire desired benefits - are available. Promotional techniques can also be utilized to help firms such as these develop a proper time perspective. Short-term costs can often be justified if long-term benefits are made explicit.

At this point in time, the discussion presented above is speculative. However, it appears that social marketing techniques may have the potential to play an important strategic role as the HD Systems Task Force attempts to encourage the adoption of cooperative action within the U.S. electronics industry. Precise determination of the usefulness of these techniques will, of course, require actual empirical study at a future date.

In the next, and final, section the ideas presented in this paper are summarized. In addition, the general conclusions reached are presented and their implications for marketing, practitioners, academic researchers, government and the public are discussed.

Summary and Conclusions

Many U.S. industries - like the electronics industry featured here - currently face stiff competition in the global marketplace. This situation exists at a time when federal government funding and other external resources available to bolster their efforts toward gaining or maintaining strong positions have been steadily dwindling. It appears that industry leaders will be increasingly dependent on strategies - such as strategic alliances - developed and implemented using internal resources and creativity.

A number of conclusions can be drawn from this analysis that can be potentially useful to these leaders. First, what is currently known about strategic alliance formation among firms within U.S. industries seems to indicate that the process is overwhelmingly reactive. Alliances, like the recent one between IBM and Apple, tend to be formed in direct response to prevailing market conditions.

From a strategic perspective, the planning horizon for many of the alliances formed to date has been relatively short. This may be one of the key reasons why their failure rate has been so high. It is reasonable to assume that a more proactive approach - one characterized by a broader information base as well as a comprehensive long-range planning approach - could lead to more viable alliances.

Presented here is an integration of sociological, management and marketing perspectives which provides fresh macro-level insight into how the strategic alliance formation process can, in fact, be rendered more proactive. The coupling of social marketing techniques with the social control of industries framework clearly highlights the advantages of conducting ongoing market research concerning the readiness of relevant firms to engage in cooperative arrangements. Armed with this data, industry leaders would be better equipped to encourage appropriate alliances not merely in reaction to, but in anticipation of changing market conditions.

Construction and maintenance of an extensive body of information concerning firms - both within and outside an industry - which have a strategic interest in the research and development, production and/or marketing of a specific technology is a key element in the social marketing approach presented here. This database gives control agents who wish to encourage alliance formation as a mechanism to accomplish intra-industry strategic objectives ready access to the kind of information that can facilitate their efforts.

Clustering can be done not only using compliance readiness, but any one or a combination of other variables contained within the database. Control agents, drawing on this resource, could build a range of strategic alliance scenarios by generating a number of alternative clustering schemes and spelling out the appropriate social marketing mixes. These alternatives could be evaluated and those most likely to succeed identified before any steps toward implementation are actually taken.

The perspective presented here also points to the need for more creative thinking in the strategic alliance formation process. To date, the vast majority of scholarly literature pertaining to this timely and crucially important topic has appeared in management publications. Traditionally, marketing - as well as the other business functions - has not been viewed as fertile intellectual ground for producing sharper insight into the creation of more viable alliances. However, as this discussion clearly illustrates, social marketing concepts and techniques may have the potential to play an important role in strategic planning long before the product reaches commercialization.

Finally, the approach to strategic alliance formation suggested here offers a middle ground in what has become an increasingly polarized range of opinions concerning intra-industry cooperation in the global marketplace. While most business analysts recognize the need to at least explore cooperation as one strategy to compete with Japan and the new Europe in high technology areas, there is little agreement on how this strategy should be carried out.

On one end of the continuum are those who believe that the only viable alliances are those sponsored by or otherwise overseen by the federal government. They point to Sematech, a long-standing industry/government high technology consortium as an example of how these arrangements can work successfully.

Experts on the other end of the continuum see Sematech as an exception rather than an ideal prototype to be replicated. While there is no denying that the consortium has remained viable for a number of years, many contend that neither the economic resources nor the political will exist today as a foundation for similar partnerships. Given this assumption, alliances initiated by and consisting solely of private sector businesses seem most realistic.

One of the most controversial approaches to emerge from those experts who ascribe to the private sector perspective is that of U.S. keiretsu. Patterned after "business societies" found in both the banking and supply sectors of the Japanese economy, this type of strategic alliance is characterized by interlocking directorates and shared holdings among participating companies (Ferguson, 1990).

Members of Japan's keiretsu are among that country's most stable in both profits and growth. Ferguson believes that if U.S. firms do not adopt this strategic alliance model - at least in the computer industry - the ultimate outcome will be domination by the Japanese. Critics of this viewpoint contend that moving in this direction would, in fact, be a mistake resulting in a decidedly anti-competitive environment for those businesses - particularly small start-up firms - who may find themselves on the outside.

The social marketing perspective presented here has the potential to bridge the gap between these two very different - and seemingly conflicting - viewpoints on strategic alliance formation. On the one hand, it allows for recognition that a federal government burdened with the savings and loan bailout, a negative trade balance and an overwhelming national debt may not be in a position to serve as a viable partner with business and industry. At the same time, this macro-level perspective offers a set of techniques to assist businesses - both large and small - in creating more viable intra-industry strategic alliances in a flexible and open environment.

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VIII

Marketing Structure and Organization, Political Economy, and Public Policy (B)

BACK TO THE POLITICAL ECONOMY PARADIGM IN THE STUDY OF MARKETING IN ECONOMIC DEVELOPMENT: A CASE ANALYSIS OF SOUTH KOREA

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ABSTRACT

Macromarketers studying the economic development efforts of LDC's have frames their viewpoints within one of the following paradigms: modernization, institutional, and radical. Recent literature has focused on advantages of radical approaches. A systematic examination of the advantages and disadvantages of each paradigm suggests that institutional paradigms, and, in particular, the political economy approach has some key advantages. The case of South Korean economic development is used to illustrate the depth of analysis that can be attained via the political economy approach.

INTRODUCTION

Economic development has received much attention in the macromarketing literature. Drucker (1958) is often credited with increasing interest in the area, and since then, many studies on the role of marketing in economic development have appeared (e.g. Mentzer and Samli 1981; Cundiff 1982; Darian 1985; Farmer 1987; Kaynak and Hudanah 1987; Nicholls, et. al. 1989; Nicouland 1989; Sherry 1989).

A focal area of particular interest is the role of marketing in less developed countries (LDCs). A comprehensive literature review by Hosely and Wee (1988) reveals several different paradigms are used to analyzing marketing's role in economic development in LDCs. A particularly significant area involves the nature of a possible cause-and-effect relationship between marketing and economic development. There are two major viewpoints in this area. On one side are the determinists, who view marketing as being a consequence of development. Prominent determinists include Moyer (1968), Arndt (1972), Bartels (1978), and Kinsey (1982). On the other side of the controversy are activists, who assert that marketing is a stimulating force in economic development. Those holding this viewpoint (e.g. Drucker (1958), Mintz (1968), Slater (1968), Etgar (1983), Dholakia and Dholakia (1984), and Kindra (1984)) tend to focus on how marketing institutions contribute to an infrastructure required for development.

Regardless of the differences between the viewpoints, scholars on both sides have framed their viewpoints within one of the following paradigms: modernization, institutional, and radical. The most widely cited form of the modernization paradigm assumes that countries pass through identifiable stages of growth. A country can be classified on a continuum ranging from "underdeveloped" to "developed", with the developed state typically assumed to be more desirable. Economic policy decisions can be suggested by using the experiences of other countries that have successfully evolved through the stage of growth in which the target country is currently.

The institutional paradigm focuses on the societal institutions that shape rules of transactions. Arndt (1981) offers the most promising contribution within the institutional paradigm. He embraces the political economy paradigm and stresses stakeholders in transactions. The level of power present in various institutions is then considered in conjunction with the three economic control mechanisms (politics, markets, and hierarchies) which, in turn, have an impact on the rules governing transactions.

Radical paradigms emphasize the use of a world systems perspective in analyzing marketing and economic development. Thus, it is assumed that after decolonialization, many less developed countries (LDC's) became dependent on the developed or "core" countries in the world system. Thus, the LDC's combine to form the "periphery" in world systems. Radical paradigms have generally examined a variety of social issues from the perspective of the LDC being analyzed.

Joy and Ross (1989) critically examined the three paradigms and their assumptions, concluding that a revised radical paradigm that contains "thick descriptions" of "logico-integrative schemes", along with an analysis of the countries status in a worldwide system is the preferred paradigm. They dismiss institutional paradigms as a preferred direction for future research primarily because "...they do not adequately question some of the assumptions involved in what constitutes 'social' and 'political'." It is the central thesis of this paper that this characterization, as well as other criticisms of the institutional paradigm, underestimates its potential, and that the political economy paradigm is especially well suited for the analysis of marketing in economic development.

This paper begins by identifying the characteristics which are desirable in an analytical framework for economic development. While several writers have commented on what such a framework should or should not do, the variety of factors that have been put forward have not been synthesized. After the key characteristics of a good analytical framework are identified, the three paradigms will be evaluated. The paradigm that most closely fits the criteria will be determined. A specific model from that best paradigm will be presented and applied to the case of development in the Republic of Korea (South Korea). Finally, conclusions regarding the application of the specific paradigm will be drawn and the lessons that can be learned from the South Korean case will be discussed.

EVALUATIVE CRITERIA

The literature is replete with commentary and criticisms of the variety of paradigms taken to study economic development. These papers were reviewed and the characteristics of the paradigms that the authors used as criteria were extracted. These characteristics and other factors typically associated with the systematic observation of any phenomena were compiled and narrowed to seven. They are shown in Exhibit 1.

The first characteristic identified here is the need to describe the behavioral elements of development. El-Sherbini (1983) noted that behavioral issues related to marketing and economic development, including income redistribution and process innovation, have long been ignored by the literature. The government's behavior with respect to development is an especially important component to include in analyzing economic development. Wood and Vitell (1986) explicitly call for more research in this area. Cook (1989), in a survey of Third World development argues that governments play a vital role in economic development, based on the types of behavior they encourage and/or discourage. This has never been more apparent than today, with the economic success of interventionist government driven Asian countries such as Singapore, Taiwan, and Hong Kong, and the establishment of the European Community.

The need to take an historical perspective is the second requirement. In order to thoroughly understand development, the dynamic nature of economies cannot be ignored (Hosely and Wee 1989, Etemand 1982). A static view of a country's economic development status without focusing on historical factors and forces cannot lead to a temporally valid understanding of development. Joy and Ross

EXHIBIT 1

Desirable Characteristics of an Analytic Technique for Examining Economic Development

1) Describe behavioral elements of development, including the role of the government.
2) Provide a historical perspective on development and in so doing allow for dynamism.
3) Provides consideration of social and political factors as well as economic factors in identifying key factors associated with a country's development (or lack of it). Also, it should strive to describe the interrelationships between the various factors.
4) No inherent political bias.
5) Should not be univeralistic or deterministic.
6) Examines both internal and external elements of development.

EXHIBIT 2

Evaluation of Various Paradigms on Key Dimensions

	Modernization	Radical	Political Economy
1) Behavioral aspects	A/S	A	S
2) Historical perspective	W	A	A/S
3) Non-economic factors	W	S	S
4) Political bias	W	W	S
5) Universalism/ Determinism	W	W/A	A/S
6) Internal/ External Elements	A	W	S

W - Weak A - Average S - Strong

(1989) point out that to employ such a paradigm can provide only a static, abstract view of a country. An additional advantage of a historical perspective is that it allows for a better chance to predict what future obstacles a country may face on its path to economic development. This is especially the case with regard to the culture-related aspects of development.

A third criterion deals with the breadth of factors considered. Economic development is a function of not only economic factors but also political, psychological, and social factors. Such factors must be considered in conjunction with historical analysis in order to properly evaluate current economic situations and solutions in their proper context. (Dholakia and Sherry 1987, Wallerstein 1984). Analysis of such factors allows an evaluation of overall societal welfare (including for example, life expectancy, income distribution, etc.) beyond commonly cited economic statistics.

The fifth criterion demands the absence of a political bias. Any scientific inquiry is expected not to be tainted with the idiosyncracies of the researcher's own situation. The researcher should not assume that what has facilitated development in his/her home country (or others like it) will occur in others which are culturally dissimilar. As Dholakia (1981) and Kinsey (1982) point out, it should never be assumed that there is only one possible, or even one preferred road to development. Generally, researchers should not allow their own value systems or personal ideologies interfere with the objectivity of the analysis. A culture's development should be analyzed within its own context.

The sixth criterion is a corollary to the fifth. It requires that studies of marketing and economic development should not assume that it is possible to produce findings that are applicable to all other development contexts. In other words, the analytical framework implied by the paradigm should not be universalistic or deterministic. What has worked in one development context will not necessarily work in another. A deep understanding of local historic and ethnographic conditions is needed (Marcus and Fisher 1986, Sherry 1987).

The final criterion is the explicit recognition of both internal and external factors in development. The fact that each country is part of a world system should not be ignored (Joy and Ross 1989). However, internal factors associated with development must also be considered, since those within a country play a central role in its development.

EVALUATION OF ALTERNATIVE PARADIGMS

This evaluation will not provide a broad, generic evaluation of each of the three major paradigms to the study of economic development. In order to achieve a high degree of evaluative precision and concreteness, a specific model within the modernization and institutional paradigms will be the target of evaluation. Since there are no complete models within the radical paradigm, the entire category is evaluated generally. The evaluation of the specific models will in all cases be directly applicable to the approach to which it is associated.

The evaluations focus primarily on assumptions inherent in the paradigms rather than on misapplications of the paradigms in the past. Misapplications that seem to be associated with assumptions are included in the evaluation. Exhibit 2 summarizes the results of the evaluations.

Modernization Approach

Models in the modernization paradigm have an inherent appeal to Westerners because of their familiarity of Western development patterns and apparently easy transference of this knowledge to those deemed to be less fortunate. Most often, such paradigms have taken an evolutionary perspective, arguing that there are stages that an LDC must pass through in order to mature into a developed country. The modernization model for economic development that has probably received the most attention over the years is the stages of growth model initially devised by Rostow (1960). This theory suggests that countries pass through a series of defined growth stages over time. Rostow's five stages of growth are summarized in Exhibit 3 (Rostow 1971; Kaynak 1986). An important premise of the paradigm is that the socioeconomic well-being of the populace at large is derived through the "trickling down" of wealth at the final stage.

The Rostow model has attracted many followers in the marketing community (e.g. Mentzer and Samli 1981; Slater 1968; Douglas 1971; Moyer 1964; Arndt 1972). The model is also incorporated into other models representing the modernization paradigm. Consequently, it will be used here as a target for evaluation.

The strongest characteristic of the Rostow model is its consideration of the behavioral aspects of development. Although it favors a Western perspective, behavioral factors such as the type of innovation (product vs. process), the role of entrepreneurs, and the presence of outside contacts that are appropriate or necessary at given stages of development are considered. Additionally, some aspects of governmental involvement in encouraging certain behaviors are considered. A thorough understanding of government's behavioral role is not a likely consequence of applying this model, however, since the focus is primarily on aggregates and aggregate behavior, such as economic sectors.

The Rostow model is widely criticized for its ahistorical nature, therefore it does not conform to the second criterion Rostow's model and others within the modernization paradigm are criticized for their linear nature. It is assumed that a country can be categorized into one stage of development at a given point in time. Hosely and Wee (1988) assert that this ignores the dynamic nature of economies. They object to the characterization of the economy of an LDC as a static entity awaiting a push into the modern era. Etemand (1982) argues further that it is not valid to choose some starting stage that a given economy is in and assume it parallels that of other countries. By doing so, the history of a nation is ignored and a static, abstract view of society is derived (Joy and Ross 1989).

The stages of growth model weakly considers the non-economic aspects of development. It is noted by some (Dholakia and Dholakia 1984; Duhaime, MacTavish and Ross 1985) that Rostow assumed that economic development will leave a society well off through a "trickle down" effect. In doing so, it is alleged that key societal problems including dualism, the overall welfare of the populous, political structure, and psychological well-being in the context of the home culture are ignored. Dholakia and Dholakia (1984) contend that such issues can, and have been confronted at much earlier stages of development than Rostow suggests, as evidenced by the "redistribution before growth" policies followed in several countries. They maintain that growth alone does not solve such problems as poor resource mobilization, global disparities, and internal inequities. They conclude that social problems should be considered early on, since inequality is a direct consequence of laissez faire growth. The definition of development must go well beyond the economic focus of Rostow's view. While the Rostow model clearly identifies a set of economic factors hypothesized to account for growth, it assumes all the factors are economic. Important noneconomic factors needed in macromarketing analyses are neglected.

The stages of growth paradigm has also been attacked on the grounds that it contains a Western bias. Barish and Verhulst (1965) were among the first to argue that Rostow's classification of the stages of economic growth may be an excellent model for showing how

EXHIBIT 3

Major Features of Rostow's Model

1) <u>traditional society</u> - economic structure is based on pre-Newtonian view of the world; economic change and improvements not sufficient to sustain any growth in per-capita output, which is low; agriculture dominant in production and resource allocation; little economic exchange in organized markets.

2) <u>transitional society</u> - society begins to form contacts with outside cultures, partially removing the effect of custom on social structures, the political system, and production methods; risk-takers come forward in society, either privately or with government backing; increased productivity in agriculture; modern manufacturing begins to appear on a limited basis; low productivity remains the norm.

3) <u>take-off</u> - growth becomes the norm; improvements in productive processes lead to the emergence of leading sectors which help to create external economies for other sectors; ability to invest profits from leading sectors in other areas arise; enormous increase in capital stock; income for the masses begins to rise; the new class of entrepreneurs expands.

4) <u>technological maturity</u> - effective application of modern technology to the full range of a society's economic activity; new leading sectors emerge; economy demonstrates the technological and entrepreneurial skill to produce anything it chooses to.

5) <u>high mass consumption</u> - leading sectors shift toward durable consumer goods; large rise in per capita income; increased allocation to social welfare programs; masses attain purchasing power beyond just food, clothing and shelter.

developed countries of the West have grown, but that care must be taken in applying it elsewhere. Others (e.g. Nugent and Yotopolous 1979; Goldman 1974) argue over the assumption that countries will develop if they attempt to follow the normative Western pattern. Citing LDC's in which development has not occurred, this assumption is viewed to be invalid. Another portion of this argument is that Western opinions of what is desirable may be in conflict with the values held in the developing countries (Kindra 1984). Thus, some non-Western countries may not even desire to enter the latest (perceived by Rostow to be the most desirable) stages of the model.

It has also been argued that even if some LDC's did desire a later development stage, there are several non-Western paths they could follow to get there. In other words, the stages of development sequence is not the only possible route to high mass consumption (Dholakia 1981; Kinsey 1982). These criticisms focus on the deterministic nature of Rostow's approach. Kaynak (1986) adds that the longitudinal nature of the stages of growth model assumes that what has happened in the past will necessarily dictate the pattern to be followed in the future across all countries, indicating the model's universalistic nature. Based on these criticisms, it is fails to meet the fifth criterion.

Rostow's model seems to address the final criterion, although not ideally. While the focus tends to be primarily on aggregates, there is an acknowledgement that a country has some impact on its own destiny. Albeit by following a prescribed pattern based on Western values, it is assumed that countries can help themselves.

The above criticisms are representative of the modernization paradigm in general, and indicate that the paradigm is not accepted by many scholars. In fact, it is viewed by some economists as a "dead horse" that has outlived its usefulness. Yet, it has been frequently cited in macromarketing discussions of economic development as well as in many discussions of the development of individual countries. The paradigm is limited in terms of its depth of analysis with regard to many societal issues. This does not mean it is wholly without value, since prior experience and normative patterns could be useful if development in a Western style is perceived to be compatible with the goals of a society and its cultural values and norms. While it has some clear limitations, it is possible that some insight can be gleaned through its use.

Radical Paradigm

Use of the radical paradigm in the study of marketing's role emphasizes the position of the state in world systems. In this view, the fate of a country is generally regarded as a product of the degree of "coreness" of its society from a world perspective (Hopkins and Wallerstrom 1977, Joy and Ross 1989). Dualism is assumed because of a heritage of exploitation suffered by LDC's in their colonial days. Subsequent structural problems of LDC's are often attributed to the peripheral position of their economies in world systems (Flacks and Turkel 1978; Nash 1981; Veltmeyer 1980). The logic is that such economies are so dependent on foreign capital, technology, and often even resources, that they are not given a chance to grow. Too much is extracted from the host country.

Radical approaches sometimes address the behavioral aspects of development. Within a world systems perspective, behaviors of the core nations toward the periphery and vice versa are sometimes analyzed. A few studies (e.g., Sherry 1987) suggest behaviors that governments should engage in to encourage development facilitating social programs. Generally, however, conditions related to underdevelopment and the mechanisms of exploitation on the part of the core are not thoroughly analyzed (Joy and Ross 1989). Thus, some behaviors which account for the current state of development are overlooked.

A difficulty associated with the radical paradigm is the emphasis given to dependency as the primary factor associated with underdevelopment. The radical paradigm does not provide a good historical perspective for this reason. While the paradigm adequately and effectively considers the history of world systems, the heavy reliance on dependency theory tends to overlook elements of the history of a specific country (Joy and Ross 1989).

The major strength of the radical paradigm is its consideration of non-economic factors. World systems perspectives clearly consider political factors and focus strongly on social factors. The latter point is related to the assumption of dualism and the heavy emphasis placed on the welfare of society as a whole, rather than on just certain segments.

Radical approaches are weak on the political bias dimension because of the assumption that capitalism in the world system exploits peripheral countries. As Veltmeyer (1980) notes, the paradigm assumes that exploitation is based on capital accumulation, but fails to recognize that capitalism does not exploit all countries equally, and sometimes not at all. Joy and Ross (1989) also point out that adherence to world systems and dependency theories has not been limited to Marxists. In fact, fascist governments (e.g. Brazil, Turkey, Spain) have often used this assumption to garner support. Nevertheless, most supporters seem unwilling to admit that capitalism has benefitted some to a greater extent than has been achieved through socialist approaches (Veltmeyer 1980). It is suggested here that both the positive and negative aspects of capitalism should be acknowledged and recognize the potential it offers for development in at least some cases.
Radical approaches are somewhat universalistic and deterministic. The emphasis placed on dependency as the primary factor associated with underdevelopment often leads to generalizations being made about all peripheral countries, a scenario which departs from the objective of analyzing societies from their own perspectives.

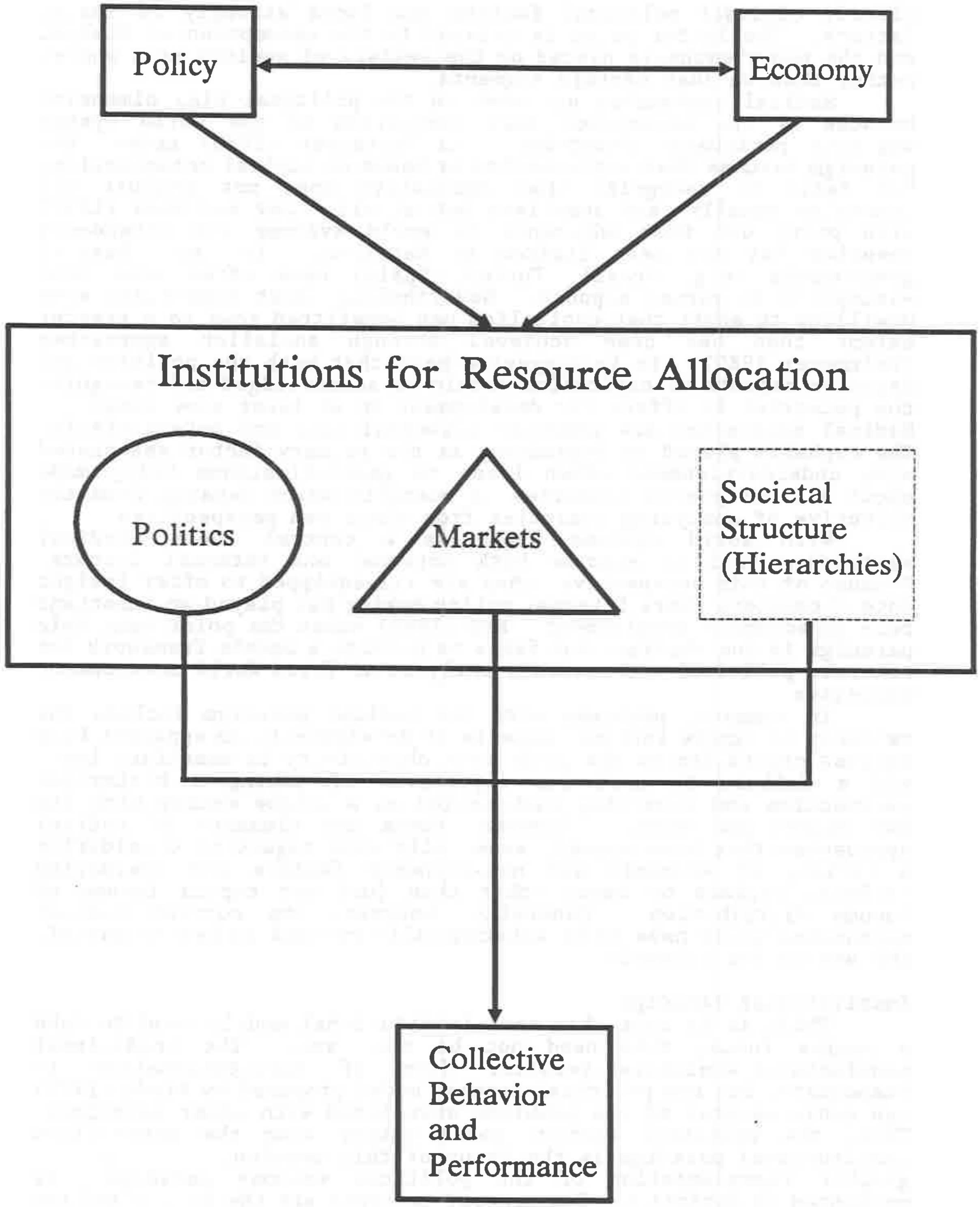
With world systems alone as a central focus, radical approaches fail to examine both internal and external factors. Because of this perspective, they are ill-equipped to offer insight into situations where internal policy making has played an important role in economic development. Koo (1986) makes the point that this paradigm is too abstract and fails to provide a usable framework for concrete political and economic analyses of Third World development processes.

In summary, problems with the radical paradigm include the tendency to ignore internal aspects of development, an apparent bias against capitalism to the point that objectivity is sometimes lost, and a failure to meet its objectives of taking a historical perspective and examining each nation as a unique entity with its own values and norms. However, there are elements of radical approaches that have appeal, especially with regard to considering a variety of economic and non-economic factors and evaluating societal welfare on bases other than just per capita income or income distribution. Generally, however, the current radical approaches would have to be substantially revised to better satisfy the evaluative criteria.

Institutional Paradigm

While it is true that some institutional models tend to take a narrow focus, this need not be the case. The traditional manufacturer-wholesaler-retailer form of institutionalism is inadequate, but the political economy model proposed by Arndt (1981) can avoid several of the problems associated with other paradigms. Thus, the political economy model rather than the generalized institutional paradigm is the focus of this section. A graphic representation of the political economy paradigm is presented in Exhibit 4. Two central concepts are the polity and the

EXHIBIT 4


Policy
Economy
Institutions for Resource Allocation
Politics
Markets
Societal
Structure
(Hierarchies)
Collective
Behavior
and
Performance

economy. The polity refers to the power and control system in a society, or those who consistently influence decision making. The economy is defined as the productive exchange system through which inputs are transformed into outputs. Arndt asserts that the polity and economy must be analyzed simultaneously. Consequently, economic, political, and social relations are all considered. Arndt (1981) defines institutions as, "...sets of conditions and rules for transactions and other interactions." As such, institutions serve to provide a rationality context within societies, since goals and the meanings of actions are dictated by such rules.

The interplay between what Arndt defines as the three institutions for resource allocation -- politics, markets, and hierarchies -- is of central importance to his model. Since each mechanism has different structural and process characteristics, they are examined both individually and in regard to their interrelationships. An important feature of the mechanisms is that each can be examined within the country and also relative to the country's position in global affairs. As shown by Exhibit 4, it is the interplay between these mechanisms that drives the collective behavior and performance of an organization or society (Stern and Reve 1980). Arndt suggests that this is also the case at the societal level. For the purpose of this analysis, Arndt's hierarchies is interpreted at a societal level and is assumed to include all cultural elements of a society's social structure.

The political economy paradigm includes the behavioral system in its specification of the stakeholders in a society being one of the driving forces shaping the form of institutions. Sheth, Gardner and Garrett (1988) contend that the ability to merge behavioral and economic elements within the same analysis is the most intriguing potential benefit of the paradigm. Generally, conflicting goals of the parties involved are assumed, and the need for negotiation, bargaining and administrative routines is considered. The political economy paradigm is especially well suited to analyzing government involvement in economic development, since the government is viewed as a stakeholder which must interact with a variety of other forces.

Arndt's model allows an historical perspective. Arndt (1981) notes that the thought implied in an institutional paradigm in general is modeled after evolutionary thinking that assumes constant disequilibrium, and reflects dynamic processes. This focus on interactive, dynamic relationships between different institutions and between institutions and the environment in which they operate is an advantage of the model. Some argue, however, that the institutional paradigm has "ignored the historical conditions that led to various forms of development in third world countries" (Joy and Ross 1989). This is regarded here as an overly broad condemnation of the paradigm, since institutions have histories that can be analyzed based on the political economy paradigm. However, critics are justified in demanding a more explicit consideration of the role of world systems. A modification is offered and discussed later in conjunction with the inclusion of internal and external factors.

The political economy paradigm explicitly addressed economic and non-economic factors in development. Since the paradigm views a social system as being composed of interactive economic and sociopolitical forces which affect collective behavior (Stern and Reve 1980), it is clear that non-economic factors are a vital part of the analysis. The focus on social elements also makes it possible to consider factors such as income distribution and societal welfare from within the society's own set of values.

The political economy paradigm precludes political bias. This conclusion is contrary the Joy and Ross (1989) view of the "fatal flaw" of institutional paradigms that they "do not adequately question some of the assumptions involved in what constitutes 'social' and 'political'." It is strongly argued here that the political economy paradigm does not dictate that societal and political factors be evaluated from a Western perspective. For example, it is assumed in the analysis of a society's institutions that the preservation of indigenous culture is one of the goals of a society. No component of Arndt's model recommends any specific political perspective. The development of any country can be evaluated within its own value systems.

The institutional paradigm has been criticized by Bauer and Cohen (1983) for being universalistic and deterministic. This criticism is not predetermined. Important insight can be gained by analyzing the system of one country at a time within its cultural values and norms. This precludes the application of a Western bias. It is not a characteristic of the paradigm itself to extend findings beyond its scope. This is a possible misuse of the paradigm by the analyst. The past tendency of some institutional models to be deterministic despite the assumption of dynamism calls for caution to be taken when applying the political economy model. T h e ability to examine both internal and external factors related to development is a major advantage of the political economy paradigm when compared to others. Arndt (1981) recommends analysis of the three institutions for resource allocation and their interactions on both an internal and external basis. In this way, a country can be observed to play a critical role in its own development pattern, and it can also be acknowledged that development takes place in a larger context that is often heavily influenced by external factors.

In summary, some of the key advantages of using the political economy framework in an economic development context are that an historical perspective can be obtained, both factors within and outside the country can be considered and analyzed, and that Western values are not automatically imposed. Societal welfare can be explicitly analyzed, depending on the researcher's definition of the country's political goals. In this way, criticisms focusing on the need to define modernization in terms of social and psychological bases (Kinsey 1983) as well as economic ones can be answered. Thus, the Arndt model within the institutional paradigm is able to avoid some of the difficulties of the modernization and radical paradigms.

Table 2 shows the predictions that each model would have made with respect to South Korean development before it occurred. The following case analysis will demonstrate that the political economy paradigm describes Korea's development pattern more accurately and in richer detail than the modernization or radical approaches would be able to.

ECONOMIC DEVELOPMENT IN SOUTH KOREA

The political economy paradigm will be applied to the case example of South Korea to demonstrate the efficacy of the paradigm as a framework for analysis. Prior to analysis, a brief overview of provided of economic development in the Republic of Korea. It is presented as a base of knowledge that will aid the reader in the ensuing application of Arndt's institutional paradigm.

South Korea is a particularly rigorous test case to use since it is an Eastern culture with a unique history and system of values that do not parallel that of any Western country. Additionally, substantial economic gains have been made, a result of the interaction of many internal and external factors. These gains have made the ROK an increasingly competitive nation in the world economy. The interpretation of its economic success through the political economy paradigm will be of particular interest to policy makers.

The "Economic Miracle"

The term "economic miracle" has been commonly applied to the

TABLE 1

South Korean Development Pattern

PERIOD	PRIMARY INDUSTRIES	Comments
1945-1953	Agriculture dominant. Mostly at subsistence level.	Country left in ruins after Japanese withdraw capital and human resources. No economic growth. Many move in from north. Population grows, makes matters worse.
1954-1961	Small scale plants; Textile and other light industries; Processing plants producing consumer goods.	US/UN aid plays a key role in allowing the productive base to build up after war. Some rise in agricultural productivity. Important contacts with future trading partners formed.
1962-1971	Movement into electronics, plastics, chemical industry; cement and ceramic sectors reinvigorated.	Accelerated growth rate. Electronics, plastics become important leading sectors, profits from them used to finance some supplementary sectors. High GNP growth.
1972-1981	Steel production, shipbuilding and motor vehicle production become important new sectors.	New leading sectors replace those from prior stage, whose capital was used to finance them. Effective application of modern technology becomes commonplace. Per-capita income rises.
1982-present	Emphasis on further development of high technology areas, such as electronics/ telecommunications and on expanding steel/ refining/ motor vehicle sectors.	Rise in per-capita income ($87 US 1962 vs. $2850 by 1987 provides average consumer with purchasing power beyond basic necessities of food, clothing, and shelter. Some surplus income invested in social welfare programs.

TABLE 2

Predictions For South Korean Economic Development

a) Modernization (Rostow)

- Development will occur when environmental conditions similar to those present in Western nations at the time of development are present in South Korea.
- Behavioral factors (e.g. government policy) will play a central role in the country's development. Non-economic factors are not crucial.
- Development will follow a distinct series of stages. Once the mass consumption stage is reached, wealth will "trickle down" to the masses.

b) Radical

- As an LDC, Korea's ability to develop will be limited by its position as part of the periphery in the world system. Development will occur only to the extent that it suits the needs of "patrons" who are in the core of the world system. Pattern of economic development will be similar to that of other members of the periphery.
- Internal forces will not play a major role in Korea's development. However, both economic and non-economic factors (in the context of the world system) will play a role.
- Wealth will not trickle down to the Korean masses, who will remain poor.

c) Institutional (Political Economy)

- Development will be a dynamic process involving both internal and external forces and influenced by both economic and behavioral factors. Koreans play a central role in their own development. Relationships with other countries are also important.
- Development can occur within the context of Korean culture and values. The country does not have to "fully Westernize" (or renounce its history) before it can develop.
- Interactive relationships between powerholders and institutions represent a dynamic process which influences development. Relationships between the institutions and their environments are also dynamic. For these reasons, the path to development may not be linear, and is unlikely to closely resemble that of Western nations.

growth pattern followed by the Republic of Korea over the past several decades. Park (1987) describes it as, "among the most rapid and sustained in the contemporary world." Per capita GNP has risen from US$87 in 1962 to US$2850 by 1987 (Hoare and Pares 1989). From 1962 to 1984, Park (1987) notes, the South Korean economy grew at an annual rate of 8.5%. Over the same time period, the share of GNP from manufacturing rose from 14.3% to 30.9%, while the share of the agricultural sector fell from 36.6% to 15.6%.

The ROK's greater competitiveness is likely to play an increasingly important role in the world economy. By the year 2000, South Korea is forecast to sustain growth and reach a GNP level of 250-275 billion dollars, making it one of the 15 largest economies in the world (Whang 1987). Additionally, it is expected to become one of the world's ten largest exporters by the end of the century. The promising situation in the Pacific Basin in general, with NIC's such as Taiwan and Singapore growing faster than the rest of the world and prospects for growth in China looking good, many are predicting a shift in the vortex of the world's economy from the North Atlantic region to the Pacific region (Park 1987). The ROK and its large companies are expected to play an important role in the region's development given its availability of large scale potential business partners, expertise in planning and implementing large scale projects, and well organized international business networks.

Despite the impressive figures, the Korean path to economic development has always been an easy one. The Republic of Korea was born in 1945, after a long period of Japanese colonialism (1910-1945). After World War II, the Japanese exodus from the country left South Korea with few resources, little capital, and very little technical know how. The division between North and South also led to a chaotic situation between 1945 and 1953. Political disputes and the outbreak of the Korean War in 1950 made this early period in Korean history one of mass destruction in which survival superseded economic development as a national goal (Soon 1982). The cease fire in July, 1953, set the stage for an attempt at economic development. Massive reconstruction was necessary before large strides toward development could be made. To this day, there is some controversy regarding the path the ROK has taken. Specific elements of the controversy will be discussed later.

The general pattern of development in the Republic of Korea is shown in Table 1. The entire Korean peninsula was left in ruins following the Japanese withdrawal in 1945, and many plants had to shut down when Japanese entrepreneurs and technicians departed. An additional concern was that the majority of the few remaining industrial plants were concentrated in the north, primarily due to the lack of other use for the land there. As population increased, in part as a result of migration of more conservative people from the north, U.S. aid in the form of agricultural products became very important. Subsistence agriculture characterized the land. Ahn (1986) notes that before the Rhee government was able to make an attempt at rebuilding, the Korean War began, and had a devastating effect on the country's existing industrial base.
This diminished the prospects of growth during the period and an inability to implement post-Newtonian scientific techniques for purposes other than defense. One very positive and important development that did occur during this time period was the government's recognition of the need for an educated populace as a foundation for development.

In 1954, US/UN aid began to allow a base from which the economy could develop. During the late 1950's, foreign aid accounted for about 13% of GNP (Ahn 1986). Small scale plants that produced consumer goods began to arise as capital become available. The economy experienced some growth during this period as the ROK developed some important economic contacts with future trading partners, especially the United States and Western Europe. However, Synghman Rhee tended to devote more attention to political matters than economic development because of the northern threat and controversy regarding his own far from democratic ruling style. The limited government guidance in economic matters led to some import substitution (Soon 1982).

Economic Planning

Large-scale changes took place beginning in 1962, with the establishment of the country's first 5 Year Economic Plan. The new leader, Park Chung Hee set economic development as the nation's number one priority. Key industries including electronics, plastics, and chemicals were designated and supported by the government (Hoare and Pares 1989). At this point, the government made no pretense of the fact that it was going to be centrally involved in the ROK's economic development. Entrepreneurship was encouraged, but cooperation with the government was a must for any new company, since the government carefully controlled access to underpriced credit (Koo 1986). The government also set export oriented growth as a goal, retreating to some extent from the import substitution policies of the Rhee years, which many observers felt were unsuccessful (Cook 1989). This more open policy allowed for the resumption of economic relations with Japan and made possible the importation of technology from sources other than the US, which the ROK had been almost wholly dependent on previously (Soon 1985; Park 1986). Growth skyrocketed between 1962 and 1971. During the First Five Year Plan, growth rose to an average of 7.8% per year. This figure increased to 9.1% under the Second Five Year Plan, which basically continued a shift toward heavy industry, an outward looking economy, and a government which played a central role in economic development. During the 1972-1981 period, the Third and Fourth Five Year Plans saw a shift in focus to new leading sectors whose growth had been financed by the previous leading sectors. At this point the effective application of modern technology became commonplace in the South Korean economy. The new leading sectors included steel production, shipbuilding, and motor vehicle production. Growth remained high, although the impact of the two worldwide oil shocks was felt (Soon 1985) In Ahn's (1986) opinion, the ROK government continued to effectively coordinate its now skilled labor force, export orientation, and importation of foreign capital. Additionally, the government began offering incentives for research and development and the training of skilled workers to foster more internal development. By the end of the period, per-capita income rose significantly, although it was still relatively modest by western standards.

Since 1983, growth has been sustained, and average per capita income has continued to rise. Korean consumers now can afford some items beyond basic necessities. In spite of these benefits, several concerns have risen. First, the close relationship between government and industry has served to foster the development of several large and dominant conglomerates, known as "chaebols". They have been the beneficiaries of government subsidies, monopolistic and oligopolistic access to raw materials, tax advantages and access to export markets (Woronoff 1983; Jacobs 1985). While the size of the chaebols undeniably benefitted Korean development in Korean industries, there is a growing concern that there is insufficient opportunity for small and medium sized firms (Lewis 1988). This concern has been compounded by the realization that high technology provides the most promising route to future growth in Korea, a country with few natural resources (Park 1986; Choo 1987). There is also some doubt as to whether the ROK's "cheap, quality labor" will be sustainable since labor is beginning to demand increased compensation.

Despite the aforementioned concerns, ROK economic development has been truly remarkable. The outstanding features are the government's central role and the peoples' commitment to the program.

APPLICATION OF THE POLITICAL ECONOMY PARADIGM TO SOUTH KOREA

The institutional paradigm will be used to analyze South Korean development. Both the internal and external elements of the three economic control mechanisms will be examined via the paradigm. The importance of historical events and possible considerations for the future will be considered in each case.

Politics-Internal

Politics within the Republic of Korea and cultural values related to political systems were very important forces impacting the pattern of development within the country. Several authors (e.g. Steinberg 1988, Park 1987, Ahn 1986, Kim 1988, Cook 1989, Weade 1988) stress that the role of internal factors must not be ignored. Steinberg (1988) notes that most Koreans openly believe and acknowledge that political and social stability are important prerequisites to the economic development of the country. Dating back to the days of Rhee's rule (1948-1960), however, there have been periods of dissatisfaction with the political system. Indeed, Rhee himself did not have universal support.

A central factor in Korean development has been internal attitudes toward North Korea. Whang (1987) points out that even today, the unification of the North and South is the most important item on the long term political agenda for almost all of the Korean people, and especially its intellectuals. The relatively homogeneous people have shared the peninsula for over 2000 years. The division is considered contrary to the natural order by both sides. This clearly affected Syngman Rhee's policies in the 1950's. Since he always felt that he would someday become the ruler of a united Korea, he felt no necessity to implement an economic plan, since it might duplicate the North Korean industrial base and result in unnecessary waste. However, a feeling arose that economic development must occur in order to achieve eventual peaceful reunification. Choo (1987) notes that further development of the ROK economy may set the stage for reunification. Thus, attitudes toward the North from an internal perspective can be viewed as an important motivational factor in South Korea's economic development.

Though Rhee was elected peacefully in 1948, his rule began a new Korean tradition of autocratic rule that has persisted at least until very recently. As will be explored in more depth in the hierarchies section, many attribute the tolerance for autocratic rule by the Korean people to the persistence of traditional Confucian values, despite their exposure to and in many cases espousal of democratic ideas and principles (Kim, T.G. 1968; Kim, K.D. 1984; Yum 1987).

Abegglen (1967), Preston (1967), and others have pointed out, close cooperation between the government and business can lead to important economic gains in many instances. Confucian values probably helped the government to get the support for its economic programs that it needed. Yum (1987) notes the central role that Confucianist values have played in guiding man's political and social interactions in Korean society. Concepts of rigid hierarchical structures and filial piety (in which a son's primary duty is to respect his elder father) have led to a tradition in which deference to authority is regarded as not only normal, but also desirable. Perhaps even more importantly, the Confucian concept of meritocracy has left a legacy in which the government is viewed as having a monopoly on morality and a sense of legitimacy that does not allow for a "loyal opposition". The reason that tolerance of the Korean people for autocratic rule in recent history is important is that government has been centrally involved in its economic development and has done so in a very visible fashion. Without such values, it is possible that South Korea's would not occupy its position as one of the free world's most interventionist governments (Koo 1987; Cook 1989) and that a different developmental path may have been followed.

The tumultuous nature of Korean politics did not cease after Rhee's desire to eliminate elections altogether forced him to resign his office in March 1960. Rhee's opposition took over briefly, but was soon overthrown by a military coup headed by Park Chung Hee. Park is often credited as the leader of Korean economic development, but some suggest he may have been an unwilling architect. Steinberg (1988) observes that the economic policy changes following the Park coup may have been the result of "perceived political needs as much as of objective economic considerations." While economic development may have been Park's only means of establishing legitimacy, it was shown to be effective. Mentzer and Samli (1981) might argue this is a positive factor, since they argued it is vital that the government play a role in determining the infrastructure of a country and redirect its workforce into activities designed to develop its economy.

Park's assassination in 1978, often attributed to his growing desire and willingness to rule autocratically was followed by another military coup, in which Chun Doo Hwan took over. Chun probably faced an even more profound legitimacy problem, but did not hesitate to use force to suppress demonstrations and uprisings (Hoare and Pares, 1988). Chun was under pressure to maintain economic growth during his regime (Park 1987). For both Park and Chun, the government's involvement in economic development was tied to its legitimacy.

Korea's ability to sustain rapid growth in the near future seems tied to its ability to have a stable political and social environment. The peaceful transfer of power to Roh Tae Woo in 1988 and the recent shift toward a Japanese style system offer hope for stability, although there will continue to be some threats, as are discussed in subsequent sections.

The link between internal politics and economic control points out some important elements of the conditions allowing for Korean development. First, attitudes toward the unification of Korea have played an important role. Second, acceptance of autocratic rule rooted in Confucianist values has been important in allowing the government to play a central role in development. Finally, the highly autocratic Park and Chun regimes probably had to emphasize economic development in order to establish their internal political legitimacy.

Politics - External

There is no question that external political factors have played an important role in shaping Korean economic development and will continue to do so in the future. Steinberg (1988) notes that major powers have surrounded Korea since the second century B.C. and have since affected internal policy decisions irrespective of Korea's own wishes. Relations with North Korea, the U.S., and more recently Japan, have been particularly important.

The North Korean threat has forced the ROK to spend over 6% of its GNP on defense, directly affecting its ability to build an economic infrastructure. This threat has probably also contributed to the aforementioned tolerance of authoritarian rule. The impact of North Korean relations must be examined in light of global implications. Soviet, Chinese, and American interests all have played a central role in Korean politics since World War II. For the South, the alliance with the United States has been of central importance. As Soon (1982) observes, the US/Korean economic relationship has changed over time. Early on, the ROK was the recipient of unilateral aid from the U.S., but more recently the countries have become important trade partners. Further, Korea is at partially dependent on the U.S. market and U.S. technology. While there has been some level of dependence on the U.S. in economic affairs ever since 1948, it seems to be on a downward trend. It should be stressed that the U.S. has never dictated economic policy to the ROK. Steinberg (1988) refers to the degree of leverage exerted by the U.S. and other foreign powers on South Korean economic policy as "remarkably limited". Primarily because of close military and recent important economic ties, the U.S./ROK relationship has been highly important to South Korea's economic development. While this influence seems likely to decline due to the cooling of East/West tensions as well as the increasing importance of Japan and other Asian countries in the world economy, the impact of the U.S. relationship has been a central feature of Korean development and is unlikely to disappear anytime soon.

One additional Western influence that should be mentioned is the influence of Christianity. Over 8 million followers of Christian faiths in the ROK have had their influence. This may become increasingly important as Koreans attempt to reconcile capitalistic philosophies with their native Buddhist and Confucianist traditions. Kim (1988) notes that the Korean public has not fully accepted the ethical and legal foundations of capitalism and recommends education in this area for Koreans. One reason for the lack of acceptance is that the Christian concept of the individual has long been foreign to many Koreans. Indeed, many Koreans have long accepted the "Western instrument" but not the "Western spirit". Several writers, notably Kang (1988), have suggested that it is time for Koreans to try to understand both Eastern and Western philosophy in order to combine the best of the two so that further development can occur.

Korea's relationship with Japan has played an increasingly important role in its development in the last few decades. Many bitter feelings persist due to the colonial period in which the Japanese suppressed Korean culture. Nevertheless, ROK development has become increasingly reliant on Japanese technology. Y.S Kim (1988) notes that in the period from 1962 to 1986, 56.4% of technology transfer came from Japan, as compared to 23.4% from the U.S. Japan has also become an important investor in Korea. While future relations with Japan are a promising opportunity due to the similarity of cultures and the ability to import technology, tensions related to the colonial legacy are likely to persist. Even today, Japan rates as the second least liked country in Korean public opinion polls (Kim, C. 1988).

Whang (1987) suggests the increased economic prominence of the Pacific Basin region demands that Korea must become a well established nation-state in the region by the year 2000 if it is to obtain self-reliance on a global level. Thus, relationships with other Asian countries are likely to grow in importance.

In summary, South Korea's foreign political relations have been an important force in shaping its development and will continue to so. The U.S. has been an important ally both in terms of security and economics. The exposure to Christianity through U.S. missionaries and others will likely lead to further changes. More recently, relations with Japan have been important to development.

Markets - Internal

Under Syngman Rhee, South Korea adopted an inward looking strategy to development. Foreign aid from US/UN relief funds was accepted, but the focus was on achieving self-sufficiency. Rhee recognized very early on that in order to achieve this goal, Korea would need to have a literate, educated workforce. In the 1945-48 period alone, the number of elementary school students rose 82% and the number of secondary school pupils rose 183% (Ahn 1986). In part due to the high value placed on education in traditional Confucianism, the attempts to educate the populous were an unqualified success. By the early 1960's, an 80% literacy rate was achieved, representing the highest level in any country at a similar level of development.

In spite of the success of educational programs, economic prosperity did not come about under Rhee. Import substitution policies designed to increase self-sufficiency were largely unsuccessful. Manufacturing did not become a dominant sector at this time. By the time Park took power in 1962, it was clear to him that a more outward looking strategy would have to be adopted if substantial gains were to be made.

Korean society has been widely praised for the relative evenness of its income distribution during development. Despite this, there has been some uneven regional and sectoral development, and demands have arisen to rectify to situation. Steinberg (1988) notes that regional disparities based on factors more than 1500 years old still exist. This can be attributed in part to the long Korean tradition of class structures, but recent deficiencies in the Cholla and Kyongsang regions were in part due to the lack of political support received by Park and Chun. Adding to this skewness is that prior to the 1980's, the manufacturing sector was clearly favored in development programs, sometimes at the expense of agricultural concerns. This was especially true of policies that favored the chaebols. Such a strategy, however, is consistent with the suggestion of Drucker (1958) in that the presence of organized markets and marketing helped make possible economic integration and full utilization of the ROK's productive capacity by harnessing the nation's entrepreneurial spirit. Such intervention may have been necessary to overcome the distrust of middlemen present in many countries. Regardless, the strategy initially contributed to regional inequality and pressure to improve the situation even further is likely to persist despite some recent decline in regional and sectoral inequality.

In summary, Korea's internal market was initially on a vector of self-sufficiency. When it became clear that import substitution policies and other internal strategies were not working, a more outward looking strategy was used. The increased standard of living achieved by the average Korean has led to some degree of satisfaction with the internal economic situation, but some internal pressures will persist. Foreign powers are also pushing to open the Korean market further to foreign investment and products. An additional concern in internal markets has been the issue of regional development.

Markets - External

The outward looking development strategy followed by the ROK has been widely praised (Park 1987). An initial key to development along this path was Park's ability to ignore the vested interests of the Rhee period and set up the chaebols (large conglomerates). The government monopoly on (often low priced) institutional credit as well as the ability to provide tax credits and other incentives allowed it to work closely with those entrepreneurs who started up the chaebols. Both Park and Chun were reliant on the chaebols to expand into new industries, especially export industries. Steinberg (1988) notes, "...corporations were more clearly in the government's iron glove than in the economy's invisible hand."

The close relationship between government and the chaebols helped to allow the ROK to exploit its comparative advantage on a worldwide level. As D.K. Kim (1985) notes, manpower, for all practical purposes is Korea's primary resource. The economies of scale allowed by the existence of huge conglomerates allowed the ROK government and its people to take advantage of this relatively cheap, high quality labor comparative advantage in worldwide markets. During the period from 1961-1981, exports grew 30% per year. The standard of living of the average South Korean rose dramatically.

Another aspect of Korean governmental control in foreign trade praised by some is its willingness to let the price system operate without much distortion under Park and Chun. Cook (1989) views this as being one of the key factors in economic development. It may also be partially responsible for the regional and sectoral discrepancies discussed in the previous section.

In spite of the success of Korea's outward looking strategies, some major concerns have persisted. It is now felt by many that chaebol dominance has not only hurt small business, but also stunted innovation necessary to achieve sustained growth. Some reforms, including a law passed in 1980 which restricted government control of credit and its ability to offer some other advantages have went into effect. Yet, advantages from being firmly entrenched will probably make continued chaebol dominance a key feature of the ROK economy for some time to come. Their monopolistic or oligipolistic control of many markets and ability to erect trade barriers are of concern to many. Some (e.g., Cho 1985) believe the lack of Schumpeterian innovation spawned by chaebols in the 60's and 70's may fade and hurt the ability of the Korean economy to sustain growth. Others stress the need for entrepreneurial innovation as a route to increasing the level of economic development (Cundiff 1982). While efforts to emphasize R&D have swelled, reliance on foreign technology persists. On the positive side, however, when foreign technology has been imported, it has been very effectively utilized (Park 1987).

Since much of the success of ROK development has been due to access to foreign resources, there are several concerns. First, it is clear that Korea is dependent on the U.S. and to an even greater extent Japan for technology transfer. Second, foreign debt incurred in building the infrastructure of the Korean economy remains. Third, dependence on foreign capital persists. As Bucklin (1975) warns to analysts, capital shortages should always be a source of concern. Finally, Korea has become very dependent on the openness of foreign markets. This is seen in its food self-sufficiency rate dropping to under 50 percent in the 80's from 91% in 1960 (Park 1987). All this suggests that Korea will have to work with its trade partners to keep tensions involving trade imbalances and barriers at a minimum.

In summary, Korean growth has been largely reliant on the openness of foreign markets and the close relationship of government with large conglomerates. While this has worked well in exploiting Korea's differential advantage, it is acknowledged that a shift toward innovation is necessary for sustained or increased growth rates and that a favorable world environment for free trade is in the interests of Korea.

Hierarchies - Internal

Hierarchies have played an important role in Korean economic development. As expressed earlier, Korean leaders and the well-trained government bureaucracies have drawn on Confucian hierarchical traditions in order to exert the strict control over economic policy (Koo 1986). Some writers have noted that given Korea's long class tradition, its attempt at egalitarian income distribution during development has been remarkable. K.D Kim (1985) characterizes it as being at a level which economists felt would be impossible for a non-communist country. Koo (1986) even goes as far as to cite Korea as rejection of the underdevelopment thesis of economic dependency theory, "that economic dependence leads to economic stagnation and the worsening of income distribution." He also notes, however that dependency advocates have shifted their criticisms to fronts other than income distribution, including the repressiveness of the state, labor exploitation and the underdevelopment of social institutions. All of these have been of concern to South Koreans in recent years, and while it is clear that substantial gains have been made on all three fronts, there is still a long way to go.

The question of equity in South Korean society is an interesting and important one. It points at the larger question of the welfare of a society as a whole as a result of economic development. Clearly, the vast increase in life expectancy and purchasing power of the average Korean have been positive features (Cook 1989). Many Koreans also believe that class inequity has declined due to the influence of colonialization and post-liberalization (Steinberg 1988). Here, it is very important to remember that equity must be defined in terms of the society's own conception of it. Since most Koreans currently consider themselves to be middle class, even though foreigners may see distinctions that seem to echo traditional hierarchical structures, some credit must be given to the ROK's economic development for not creating inequality, even if there was no purposeful intent to avoid inequality. As has been mentioned, problems regarding labor, political participation, and welfare programs are present, but it appears that steady, albeit slow progress is being made from the perspective of many Koreans.

To summarize, hierarchies have played an important role in Korean economic development. The people's willingness to accept strong, authoritarian rule is probably tied to Korean acceptance of hierarchies. Since collectively, the people have been willing to make personal sacrifices for the development of the country, equity should not be viewed from a western perspectives. Most Koreans have been satisfied with the overall equity of development to date, although some key concerns do exist. The value placed on collectivism in Korean culture would seem to provide hope for the success of future social welfare programs.

Hierarchies - External

There is little question that Koreans are concerned with their worldwide image. It was widely hoped that the Seoul Olympics of 1988 would have an effect on worldwide opinion similar to what hosting the Olympics had done for Japan. It would appear that the games had an overall positive effect on the ROK's image. Nevertheless, due largely to security factors, it remains so closely linked to the U.S., that some its own identity may be lost on many world observers. This could change as East-West tensions continue to ease and/or unification with the North occurs. In the short term, the U.S. will remain a political and economic.

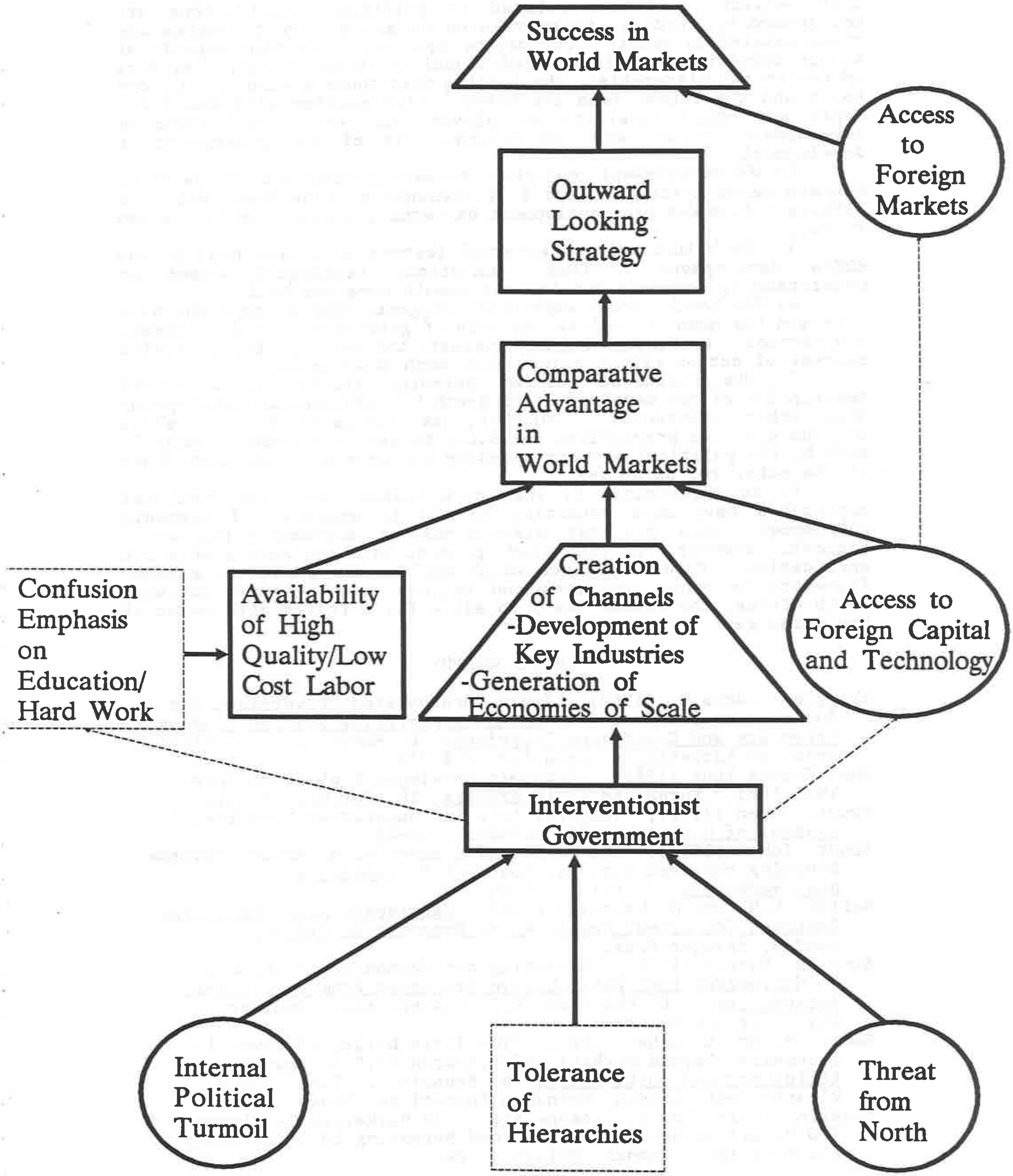
Korea's position in the Pacific Basin offers an opportunity for it to rise to full status as a world economic power. Whang (1987) sees economic dominance shifting from 'Pax Americana' to 'Pax Pacificana' by the year 2000 and suggests that Korea's close proximity to Japan, China, Hong Kong, Singapore, and Taiwan presents an important opportunity. Hence, its relations with these countries is critical to its future economic growth.

CONCLUSION

An institutional paradigm to analyzing economic development has been applied to the case of South Korea. The paradigm avoids the problems of being ahistorical, imposing western values on the analysis, or being universalistic in nature. The following conclusions are drawn:

1) Korean development is the result of the historical

EXHIBIT 5


Success in World Markets
Access to Foreign Markets
Outward Looking Strategy
Comparative Advantage in World Markets
Confusion Emphasis on Education/ Hard Work
Availability of High Quality/Low Cost Labor
Creation of Channels
-Development of Key Industries
-Generation of Economies of Scale
Access to Foreign Capital and Technology
Interventionist Government
Internal Political Turmoil
Tolerance of Hierarchies
Threat from North

interaction of a variety of economic political, and social forces. Exhibit 5 gives a general, though somewhat simplified version of this pattern. Factors related to political institutions are designated by circles, those related to markets by triangles and those related to social structure by squares. Important aspects of Korean development included traditional Confucian values regarding education and hierarchies, the feeling that there should be only one Korea and the threat from the North, relationships with the U.S., Japan and other international players and an outward economic development policy, and the central role of the government in development.

2) ROK development took place primarily under the influence of Eastern value systems. Thus it represents an experience which is different from Western development patterns and is unique in its own rights.

3) Both internal and external factors were important in the ROK's development. Thus, analytical techniques aimed at understanding economic development should consider both.

4) The South Korean experience suggests that writers who have stressed the need to analyze the role of governments in development are correct. Insights which may suggest, but not dictate, potential courses of action can be gained from such observation.

5) The political economy paradigm allows for a richer description of the development of South Korean economic development than other approaches. Further, as indicated by the above conclusions, the predictions for South Korean development (Table 2) made by the political economy paradigm are more accurate than those of the other two paradigms.

6) As illustrated by the South Korean case, institutional approaches have more potential to aid in analyses of economic development than previous discussions in macromarketing would suggest. However, the case study present here represents only one application. Future research which applies the political economy framework to other countries and regions (e.g. African nations, South Africa, the Middle East) to allow for a fuller assessment of the paradigm.

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Extending the Political Economy Framework to the Macro Environment and International Marketing Channels

Joseph I. Scully and Michael R. Mullen

The theoretical domain of the political economy framework is extended from the primary and secondary environments to the macro environment. The macro environment is defined both in terms of social, political, technical and economic forces and individuals. These individuals are seen as unaggregated relative to the focal dyad. We suggest that these forces interact directly with the focal dyad and the task environments in the political economy framework. Additionally, we propose that the macro environment interacts indirectly with the secondary task environment through aggregation and disaggregation of individuals. This extended framework is applied in demonstrating how import and export activity would affect the macro environment, causing the aggregation of previously unaggregated individuals as well as direct affects on stakeholders. We conclude by discussing implications for the firm and public policy.

INTRODUCTION

The political economy paradigm provides a comprehensive and useful framework for the study of marketing phenomena. According to Stern and Reve's (1980) classic article, the political economy approach views a social system as comprising sets of major economic and sociopolitical forces which affect collective behavior and performance (p. 53). Achrol, Stern and Reve (1983) add environmental factors to the political economy framework and distinguish between a primary task environment, a secondary task environment, and a macro environment. However, they left the problem of integrating the macro environment into the political economy framework for future research. Other writers (Arndt 1983; Hutt, Mokwa, and Shapiro 1986) elaborate on aspects of the political economy framework and suggest further study from a societal perspective. However, such a conceptual extension has not been forthcoming.

This article seeks to extend the theoretical domain of the political economy framework to the macro environment. In contrast with Achrol, Reve, and Stern (1983), we suggest that social, political, technical and economic forces interact directly with the focal dyad, the primary task environment, and the secondary task environment in the political economy framework. Additionally, we propose that the macro environment interacts indirectly with the secondary task environment through the aggregation and disaggregation of individuals into and out of the secondary task environment. This reconceptualization has important theoretical, managerial, and public policy implications that will be explored.

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THE POLITICAL ECONOMY FRAMEWORK

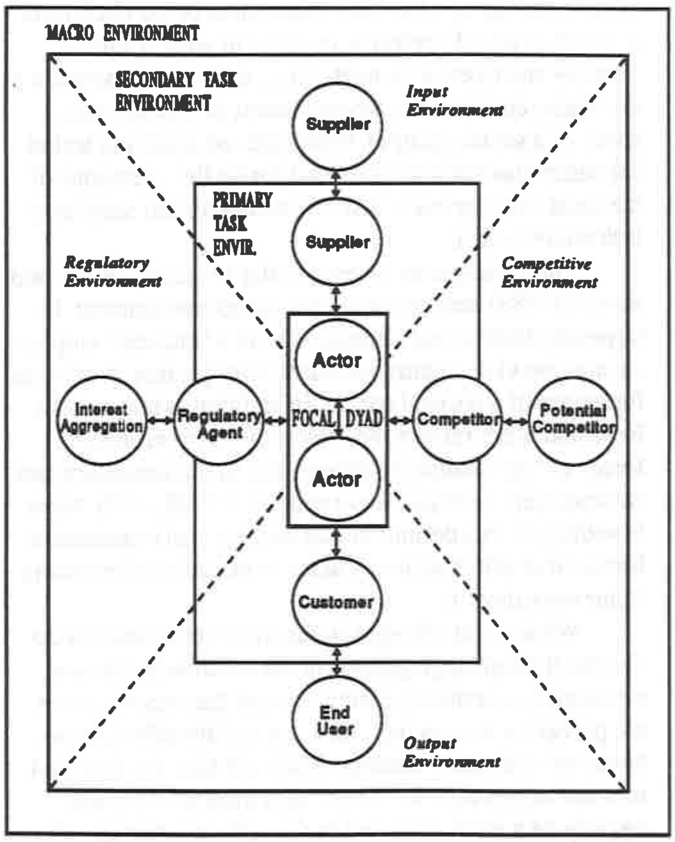
Early work linking marketing and political science was done by several writers in the 1960's and 1970's (cf. Thorelli 1964, Zald 1970, Williamson 1975). This work drew on concepts in political science such as Dill's (1958) work on task environments and Thompson's (1967) classic text, which divided the task environment into four parts: customers, suppliers, competition, and regulatory groups. Stern and Reve (1980) extend the work of Thompson and others in their classic introduction of political economy to the marketing literature. They propose that distribution channels be considered as political economies from a micro perspective. In the political economy framework, a marketing channel dyad is discussed in terms of two major systems, an internal and external political economy, each consisting of interacting economy and polity components (Stern and Reve 1980). Their focus is principally upon the internal political economy. Stern and Reve call for the study of the interaction of the economy and polity, at both the internal and external levels, with the channel actors and their effect on performance.

Achrol, Reve and Stern (1983) develop and enrich the political framework in marketing by identifying the variables, processes and interactions external to the marketing channel, and addressing how these external factors could influence the structure and processes of the marketing channel. While each "exogenous force" affecting a dyad can be considered separately, Achrol, Reve and Stern consider it reasonable to group forces by the nature of their affect of the focal dyad. Thus, they distinguish between:

- A Primary Task Environment of "immediate suppliers and customers of the dyad";
- A Secondary Task Environment of suppliers of suppliers, customers of customers, regulators and interest aggregations, and direct and potential competitors; and,
- A Macro Environment, "comprised of general social, economic, political, and technological forces which impinge on the activities in the primary and secondary task environment." (Achrol, Reve and Stern 1983, p. 57).

Figure 1

POLITICAL ECONOMY FRAMEWORK
Achrol, Reve, & Stern (1983: p. 58)



Achrol, Reve and Stern's extension of the political economy framework allows for the creation of empirical hypotheses regarding phenomena external to the dyad that share common constructs, clearing the way for higher level generalizations and theory making. However, while Achrol, Reve, and Stern add the macro environment with its social and economic forces to their paradigm, they provide little guidance for integrating it into the political economy framework leaving that task for future research. They do state that from a firm perspective, a researcher would "view the effects of the macro environmental forces (e.g., economic or social forces) as manifesting themselves through elements in the secondary task environment" (Achrol, Reve and Stern 1983:p.61).

Arndt (1981, 1983) and Pandya (1987) take an institutional perspective towards political economy and frame markets, politics and hierarchies as economic control systems. Arndt (1981) advocates extending the political economy approach to the study of macromarketing and public policy issues:

> At the macro level, the core of the political economy is the structure and functioning of the social and economic control system, the political and economic organization of society (p.40).

He recommends the use of Achrol, Reve, and Stern's (1983) framework to evaluate the performance of marketing systems from a societal perspective although he gave little guidance as to how to interpret their framework or on how to operationalize such studies from a macromarketing perspective.

The political economy framework was further developed for public policy analysis in several studies in recent years. Hutt, Mokwa, and Shapiro (1986) elaborate on what they term the parallel political marketplace. According to them, the political and economic nature of the market system is best studied using the political economy framework. This framework suggests a broadened perspective of interorganizational exchange which reflects the strategic political role assumed by marketers. Marketers can make a strategic contribution to their firms by determining the political dimensions of marketing decisions and predicting the responses of external stakeholders (e.g., the response of interest groups) to those decisions.

Hutt, Mokwa, and Shapiro (1986) highlight the role consumer groups and trade associations play in trying to influence the rules governing market exchange:

> The primary actors in the parallel political network include regulatory agencies, consumer advocacy organizations, trade associations, and consumer/citizens (including their work roles) (p.42).

By helping their firms to be better aware of a market's political dimensions and the response of external stakeholders, marketers can predict emerging public policy responses and contribute input to the ensuing public policy discussion.

THE MACRO ENVIRONMENT IN THE POLITICAL ECONOMY PARADIGM

We know that the political economy paradigm requires us to look at the interaction of the socio-political and economic forces and their relationship to dyadic behavior and performance. In order to fully accomplish that, macro environmental forces must be accounted for.

Macro Environmental Actors: Definition and Elaboration

In order to precisely define the macro environment, it may be helpful to define what it is not. The micro environment consists of the channel dyad itself, the primary task environment, and the secondary task environment. There are two characteristics of this micro environment notable from a definitional standpoint. First, each component of the micro environment is recognized relative to the focal dyad under study. As the focal dyad changes, the actors in the primary and secondary task environments change. Second, each component in the micro environment is an organized behavior system. Both economically and politically, each actor is "seeking the support and legitimate representation of the interests of consumer/citizens in general and specific organizations in particular" (Hutt, Mokwa and Shapiro 1986, p.43).

The macro environment may arguably be described in terms of what elements of society are missing from the micro environment. An initial component of the macro environment may therefore be defined as those consumer/citizens who at any particular time have not aggregated their interests relative to the behavior of a dyad or system of dyads. These individuals are not participating in either the economic or parallel political marketplaces (Hutt, Mokwa and Shapiro 1986) relative to this particular channel and its products.

Disaggregation is due to several factors. The first, of course, is that most exchange transactions affect only a limited number of people. Even where an industry's influence is relatively pervasive, such as is the case with the automobile industry in the United States, many individuals are affected only marginally by even significant changes in the industry as a whole. Individuals will only aggregate regarding issues of consequence to them.

A second factor in lack of aggregation are the transaction costs of aggregating. Even writing a letter to a political representative represents an investment of time, money, thought, and energy. In societies where opposing the status quo can carry cultural, political, and/or economic risks, the effect of transaction costs is even more pronounced.

Third, even when channel actions are of consequence to a disaggregated individual, the individual may not be aware of the need/desire to intervene. Since transaction costs are involved in acquiring information as well, ignorance may be due to deliberate lack of consumer research. Alternately, consumer ignorance may be the result of the high quantity of information coming from a complex society, poor communications technology or organization, or political structures that control information. Separately, an additional form of disaggregation due to lack of information consists of individuals not becoming involved simply because they do not know "how to." It is rational to hypothesize that there is a learning curve involved in aggregating.

Within a framework of political economy, aggregation and returning to a disaggregated state may take several forms, but all would be expressible as manifestations in the secondary task environment. Consumers may operate in the regulatory environment by seeking to influence their political leadership, either through direct communication or indirectly, by joining or supporting an interest aggregation. Alternately, consumers may form competitor or supplier aggregations, or choose to purchase (or not purchase) the channel's output. As social, economic, political, and technical forces operate, individuals may also leave aggregations or become less solidary relative to them.

Macro Environmental Forces: Definition and Elaboration

Relative to a focal dyad, all individuals within a society have now been classified as belonging to either the dyad itself, the primary task environment, the secondary task environment, or the macro environment. There remains the task of classifying forces operant on any organized behavior system. This component of the macro environment is also describable in terms of what is missing from the micro environment. Thus, the force component of the macro environment would consist of broader influences of a social, cultural, economic, political and technical nature that are not accounted for by the operations of the focal dyad, primary task environment, and secondary task environment.

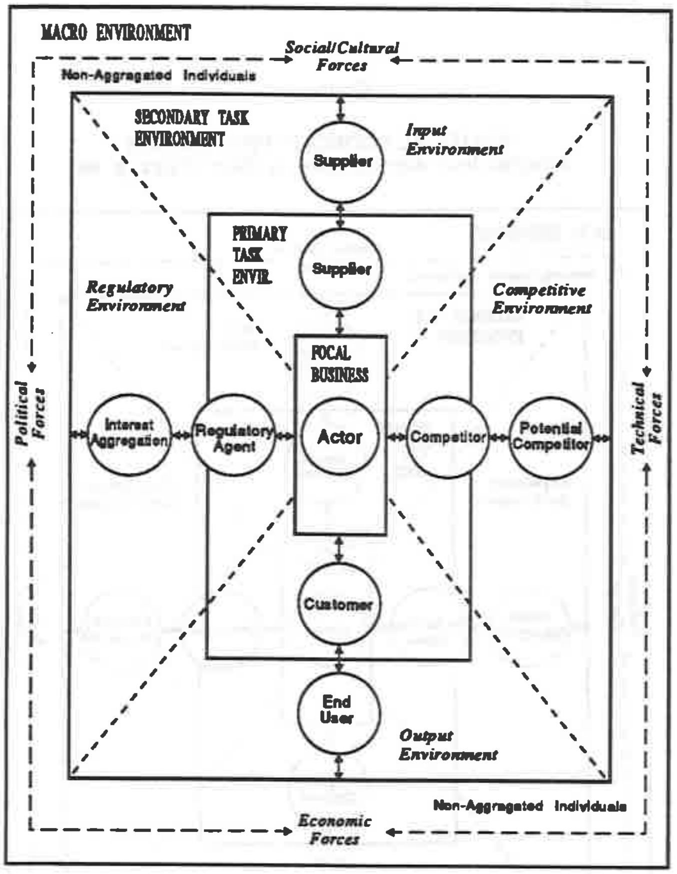
This description is very similar to Achrol, Reve, and Stern's (1983) description of the macro environment. Interpreting their social dimension with a "cultural" emphasis may provide slightly increased clarity, since all of these forces are of a societal nature. In addition, while Achrol, Reve and Stern restrict the effects of macro economic forces to "the qualitative dimensions of the secondary task environment" (Achrol, Reve and Stern 1983, p.62), there is nothing in this definition that restricts macro economic forces from affecting every actor in the political economy framework directly.

While many changes in the macro environment do operate through aggregations in the secondary task environment, it is certainly correct to note that macro factors are pervasive in a society; they can and do affect the behavior of individual channel dyads and primary task environment actors directly. Since each dyad may simultaneously be a focal dyad and in the task environment of many other focal dyads, macro environmental changes ultimately affect focal dyads at several levels. This conceptualization also allows for the macro environment to cause change in the secondary task environment via the primary task environment and/or focal dyad, which is also a potential outcome of environmental change.

Macro environmental forces may also affect individuals currently unaggregated relative to a particular dyad. Of particular interest to political economy studies is the case where macro environmental forces cause individuals to join or leave aggregations in the secondary task environment. This function permits the completion of a comprehensive political economy framework. Macro environmental forces affect each actor directly, and affect the secondary task environment indirectly through the mediating factor of aggregated individuals.

Figure 2

POLITICAL ECONOMY FRAMEWORK
Adapted from Achrol, Reve, & Stern (1983: p. 58)



This description is also consistent with the understanding that organized behavior systems are the result of the coalescing of economic and political forces (Hutt, Mokwa and Shapiro 1986). The nature of these macro political and economic forces in society as a whole is very broad. One element is the current dominant ideology or sociocultural agenda of the existing social system, including values regarding the role of the state relative to society, the environment, the market, and private ownership of business (Gilpin 1987). This dominant ideology will change over time (as recently evidenced in Eastern Europe, where Russian ideology and products are no longer in demand). Other elements are macroeconomic measures of economic and competitive strength (Frazer 1983), technological and demographic states of society, and cultural orientations towards business activity, environmental conservation, import/export activity, and social welfare programs.

Macro Economy and Polity

Consistent with the political economy framework, the macro political economy may be described as consisting of a macro economic system and a macro political system, each interacting with each other and incorporating all of society. Following Stern and Reve (1980) and Achrol, Reve and Stern (1983), both polity and economy can be divided into structures and processes. It is in this interaction between macro polity and macro economy that the great ideological debates regarding economic liberalism, nationalism and determinism take place.

Since the macro polity and economies are a product of individual dyadic interactions, they can not only influence the micro environment but be influenced by it as well. Thus, marketing scholars may examine the performance or effects of the channel structures and processes on elements of the macro environment. In addition, effects on the macro environment would be expected to cause reverberating effects on the micro environment, as previously unaggregated individuals aggregate and existing aggregations are affected. The different stakeholder groups effected by a marketing system should be expected to have partly common and partly conflicting goals (Arndt 1983).

Aggregation and manifestation of these responses may occur in any sector at any level of the micro environment, but it may very well prove easier for responses to occur in the regulatory sector of the secondary task environment, since it is there where existing political structures and processes exist. On the other hand, principal areas of response may differ depending on the underlying economic and political structure in a society. These interested groups would endeavor to influence regulatory or other agents in the primary task environment in order to ameliorate negative effects or enhance positive effects (Figure 2). The original framework of Achrol and colleagues includes suppliers in the input environment and customers and end users in the output environment (see Figures 1 & 2).

Analyzing Macro Economic and Political Effects

Research on the micro environment has demonstrated the usefulness of analyzing economic and sociopolitical aspects of channel influences separately (cf. Gaski 1984, Hutt et al 1986). However, several recent articles on the macro environment use synthetic environmental dimensions as the independent variables (cf. Achrol and Stern 1988, Klein, Frazier and Roth 1990). In this approach, underlying environmental diversity, dynamism, concentration, etc. are the economic and sociopolitical structures and processes producing these dimensions. The political economy framework suggests that the interaction of economy and polity is a fundamental determinant in such measures. Also, such analysis assumes a static environment and provides no tools for discovering how the macro environment is affected by actions of the focal dyad and how the macro environment responds to actions taken by a firm.

One advantage of analyzing the macro environment in a political economy framework is that the same set of relationships can be used both at a local and global level. The effect of a city council on firm operations is conceptually the same as that of a foreign government on a particular industry operating within their borders. This isomorphism is useful in demonstrating that the process of decision making is not qualitatively different as the size of dyadic interactions increases. However, differences between local and global interactions obviously exist; city councils regulate firms within their jurisdiction, not industries operating in a global environment.

THE MACRO ENVIRONMENT OF INTERNATIONAL MARKETING

Public Policy dimensions have become an important area of concern and study in the international marketing domain. This is partly true because political, legal, social and ethical issues are complicated in the international arena by differing stages of economic development, differing political systems, and the ethnocentric perspectives of home country politicians, business people and labor unions. In seeking to operationalize macro economic and political effects, a logical place to begin is the macro environment of international marketing. The activity of international marketing may create significant macro environmental effects on economic, social/cultural, technological, and political forces within home and host countries. In addition, macro environmental effects are easier to identify and measure within countries and compare across countries.

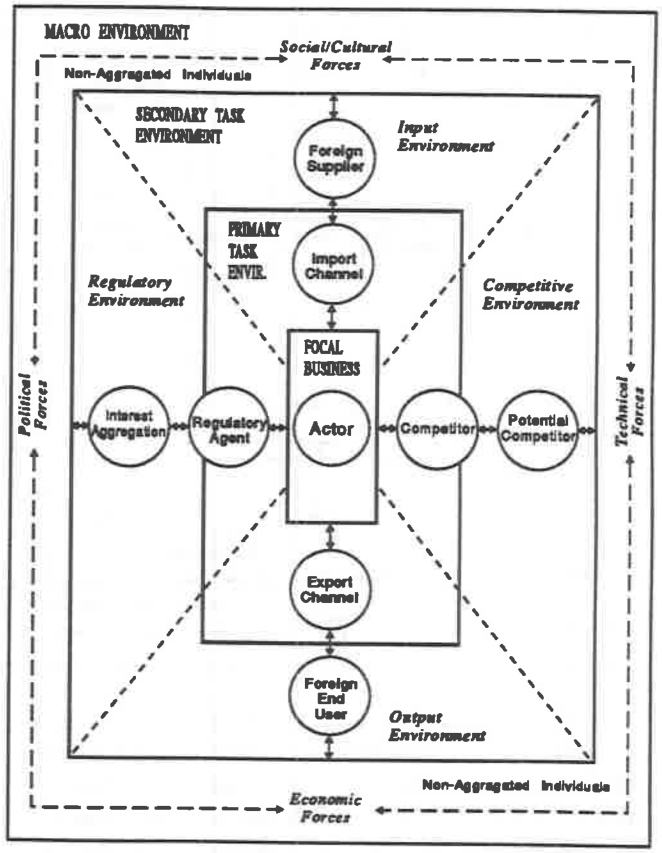
The Political Economy Framework and International Marketing

Political economy has become the most frequently used theory base in international marketing channels research in the 1980s (Mullen 1990a). It has been used in articles by Bello and Williamson (1985b), Rossen and Ford (1982), Haugland and Reve (1989), and Ytreberg and Reve (1992), among others. These papers provide examples of the political economy framework as a tool to examine the connection between socio-political variables and indicants of performance in channels of distribution at the firm level. A review of the article is available elsewhere (Mullen 1990a) for the interested reader.

In a comprehensive political economy framework, the study of the interaction between micro and macro environment may be pursued in either direction. In the case of international channels, the interest would be the effect (i.e., performance from a macro perspective) on the macro environment of marketing through export channels in the output environment or sourcing through import intermediaries in the input environment. Effects experienced in the macro environment would be expected to manifest themselves through aggregation of previously unaggregated individuals as well as direct effects on aggregated stakeholders in the secondary task environment. These interest groups would endeavor to act in the secondary task environment to influence regulatory agents in the primary task environment in order to ameliorate negative effects or enhance positive effects. The original framework of Achrol and colleagues includes suppliers in the input environment and customers and end users in the output environment (see Figures 1 & 2). For international channels, the input environment would include foreign suppliers and import intermediaries and the output environment would include export intermediaries and foreign end users (see Figure 3).

Figure 3

POLITICAL ECONOMY FRAMEWORK
Adapted from Achrol, Reve, & Stern (1983: p. 58)



This extended political economy framework now may be used in the development and testing of propositions regarding the effects of exporting and importing on the macro environment. The results of several studies indicate that importing has a negative direct effect on economic growth (e.g., Mullen 1990b). In this interpretation of the political economy framework, the negative effects of importing on economic forces in the macro environment would be expected to be manifested in various ways throughout society.

It can be hypothesized that individuals previously unaggregated relative to an importing industry will aggregate into interest groups affecting them as stakeholders. This may cause these individuals to leave other aggregations that are less relevant to their changing needs. If individuals already are involved in the secondary task environment in regards to this industry, they may become more involved in activities (such as lobbying) that aid their interests. In this parallel political marketplace, groups would be expected to lobby regulatory agents in the primary task environment. A familiar example of interest groups acting in response to the negative direct effect of importing would be the protective relief sought by the automobile industry stakeholders, such as the managers of Chrysler and Ford and the UAW (White and Mitchell 1991). Another would be farmers in Europe aggregating to prevent GATT negotiations from affecting their subsidies and tariff protection, while less subsidized farmers in other countries (e.g. Canada) seek GATT changes that would "level the playing field."

Aggregation need not occur in the regulatory environment. Changes in technical forces in the macro environment (for example, telecommunications advances) can operate on the competitive environment to increase the number of potential and actual competitors for the focal business. On the other hand, individuals previously aggregated as potential competitors in the importing industry may fail to enter the industry, which constitutes a form of disaggregation in the economic marketplace. Again, organizations in the primary task environment and focal dyad may also be affected directly by macro environmental factors, as well as indirectly through the activities of these other actors.

Importing and Exporting: Considerations for the Firm

Robinson (1961) addressed this parallel political marketplace in the international marketing domain. His descriptive findings, written without the benefit of a theoretical framework, demonstrate the utility of the political economy approach, i.e. studying the socio-political and economic forces and their interrelatedness to performance. Thirty years ago he explored the challenges of the Asian, African, and Latin American national markets by studying 172 U.S. firms with respect to their foreign interests. His findings indicate that without careful consideration of the benefits of the product and its impact on the host country, "Western managements may anticipate increasingly tight import restrictions for their products, blocked earnings, higher taxes, and eventual loss of foreign markets and assets," (Robinson 1961, p. 19).

Robinson's work indicates that three levels of management sensitivity are necessary to do business in developing countries. First, firms must have a willingness to adapt products or services to the local market. Second, the management must be aware of the need to evaluate the impact their product will have on the long run interests of the non-Western markets. The third area of sensitivity is awareness of the political vulnerability of their products. He advises marketers and managers to make a careful, impartial study of a potential products impact on the economies and societies in which they are to be sold before making large financial commitments to foreign sales projects. In line with the thinking of Hutt, Mokwa, and Shapiro (1986) and the political economy framework, Robinson (1961) predicts:

> Political vulnerability may lead to labor agitation, public regulation (price fixing, allocation quotas, etc.); nationalization (in the sense of restricting ownership to local nationals); or socialization (public ownership) on the one hand - or on the other hand to favoritism and protection. Which way the pendulum swings depends largely on the sensitivity and foresight of management in responding to political pressures before they become irresistible (p. 25).

Robinson's study corroborates the appropriateness of the political economy framework.

Importing and Exporting: Considerations for Public Policy

In a theory development article involving international marketing, Klein (1986) posits that international distribution channels, especially backward vertical integration, provide an important tool for public policy makers to foster economic development. He uses the political economy approach and transaction cost analysis (Williamson 1975) to develop eight propositions on the structure of international marketing channels for evaluation. These propositions extol the benefits of backward vertical integration in import channels for developing countries. He argues that public policy makers should encourage backward vertical integration in import channels and import substitution as a tools for economic development. Klein (1986) states that:

> While more efficient distribution structures throughout the economy could lead to welfare gains, the benefits of import channel changes are far reaching. Such channels should therefore be given top priority (p. 26).

From the perspective of the expanded political framework developed here (Figure 3), Klein appears to argue that the effect of improvements in the international input channels (in the upper quadrant of Figure 3) will have positive effects on society (i.e. the macro environment) and therefore these input channels deserve to be the top priority of public policy makers in the primary task environment of the regulatory sector. Mullen (1990b) also attempts to further integrate the macromarketing ideas of Arndt (1981, 1983) and the public policy/parallel political marketplace of Hutt, Mokwa, and Shapiro (1986) with the framework of Achrol, Reve, and Stern (1983) for international channels.

LIMITATIONS

Recent approaches to operationalizing the macro environment (Dwyer and Welsh 1985, Achrol and Stern 1988) present empirical evidence of macro environmental effects on channel dyads. The macro environment is "inductively dimensionalized", not by actual characteristics, but by how organizations perceive it (Dwyer and Welsh 1985, Achrol and Stern 1988). In this approach, the focus is not on effects on the macro environment, but effects on the decision making process. Since the environment becomes a perceptual "enacted phenomenon", such research is not strictly within the political economy framework. This article is explicitly based on the existence of an objective, measurable macro environment.

DIRECTIONS FOR FURTHER RESEARCH

The expanded political economy framework allows for a rich variety of research on how macro environmental factors effects the decision making processes of both firms and policy makers. It would be useful to examine existing empirical models in international marketing to see if their generalizations can be refined and if the concepts of pervasive macro environmental effects and aggregation of previously unaggregated individuals can be sustained.

For example, Klein, Frazier and Roth (1990) discuss transaction costs of channel integration decisions relative to external uncertainty. Their research in an international marketing context indicates that external uncertainty has "multiple dimensions, each with a differential impact on organization structure and channel choice." (Klein, Frazier and Roth 1990, p. 199). They present two dimensions of external uncertainty, environmental volatility and diversity, while noting the need for "unbundling of the external uncertainty construct" (p. 205). One avenue of potential research would be examining the relationship between levels of aggregation and external uncertainty. In addition, one can study how much external uncertainty is manifested through each task environment. A proper conceptualization of the macro environment may provide insight into additional distinctions in external uncertainty and other macro effects on channel dyads.

CONCLUSION

Studying the effects of channels on society and the economy within the context of a broadened political economy framework, marketers and managers should be able to predict and explain the reaction of interest groups in the secondary task environment with respect to the regulatory environment. Also, this information should assist regulatory agents and government in the making of public policy in the primary task environment. By causing us to look at the whole system, the political economy approach is useful as a framework to help the interested parties understand the importance and interrelatedness of the socio-political and economic issues and their effects on the respective performance of the firm and society as a whole.

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THE JAPANESE DISTRIBUTION SYSTEM: A MACROMARKETING FRAMEWORK

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ABSTRACT

The seemingly impenetrable Japanese distribution system continues to perplex and confuse western strategists and policy makers. A macromarketing perspective is needed because the distribution system is tied to Japan's socio-cultural systems, and must be understood in such a context. Using the General Systems Paradigm and Social Exchange Theory, a distribution system is viewed in terms of market exchange networks that are linked to higher level social systems. The role of the much-maligned *keiretsu* in this systems hierarchy is assessed, with implications for how U.S. industry can make inroads to the Japanese distribution system. The possibility of parallel evolutionary patterns in U.S. and Japanese distribution structures is discussed.

THE JAPANESE DISTRIBUTION SYSTEM: A MACROMARKETING FRAMEWORK

The Japanese distribution system for consumer goods is notorious for its "inefficient" retailing sector.

> [It is] dominated by a national honeycomb of small mom-and-pop stores located in residential neighborhoods, often in the home of the proprietor. Large retail chains, offering a broad selection of goods at discount prices, also can be found in the big metropolitan districts, but they are relatively few in number. Small shop owners have virtual veto power over proposals to establish large discount outlets in their neighborhoods. (Okimoto 1988, p. 224)

Activities in the retailing sector are linked to broader structural arrangements in a Japanese distribution system that U.S. marketers find difficult, if not impossible, to penetrate. One writer neatly summarizes the most commonly held observations of this system:

> ... distributors may not jump to buy foreign goods just because they are cheaper. They place a premium on long-term relationships with suppliers, doing business with those who have faithfully performed their obligations in the past. (Kristof 1985)

However, bonds of trust and loyalty only begin to explain these "informal" barriers to trade (Elliott and Yoo 1980). Cooperation is elicited based on members' abilities to influence other members. For example, the manufacturer commonly is a powerful agent in the distribution channel, relegating the terms of cooperation among members.

> Wholesalers and retailers are not independent competitive units. A majority of shops retailing durable consumer goods are, in fact, comparable to the regular subcontractors of Japanese manufacturers. They are provided by the manufacturers with capital and, if necessary, technical know-how. (Van Wolferen 1989, 393)

Typically, foreigners attempting to affiliate with Japanese channels find that distributors charge prohibitive mark-ups on their products. These mark-ups deter competition against domestic products made or distributed by the channel leader (Van Wolferen 1989), which puzzles foreigners offering the distributors more favorable terms than are domestic suppliers. Channels are much more cohesive than outsiders anticipate.

The cohesiveness of Japanese channel relationships depends on a delicate balance between two elements: (1) trust and (2) power and dependence. Much of the research in marketing channels suggests an important interaction between the two (see Stern and Heskett 1969; Schul, Pride and Little 1983; Anderson and Narus 1990). Generally, it is held that power relationships that are based on cooperative, trusting relationships tend to be beneficial for both parties involved, as opposed to those that are coercive. Furthermore, power relationships with trust elements tend to last longer than those with coercive elements.

This delicate balance between trust on the one hand, and power and dependence on the other, is a reflection of "the way Japan organizes its society, arranges its economy and views the world" (Kristof 1985), and therefore can only be understood in a macromarketing context. From a macromarketing perspective, where market exchange is viewed as a subsystem of social behavior (Dixon 1984), the channel structure is inextricably linked to higher-level social systems that interact with the market exchange structure. A failure to understand the linkages among these systems and the Japanese distribution system is a strategic liability at all levels of U.S. policy-making, from the level of strategic marketing to that of formulating viable trade policies.

This paper provides a preliminary framework for understanding the Japanese distribution system from a macromarketing perspective. The paper consists of five parts. In the first part, the term "distribution system" is defined in terms of activities that link the distributive trades with the other sectors of a national economy. The role of the distribution system in the context of economic structure is also briefly discussed. Because market exchange is the basis for distribution's link to other sectors, the second part of the paper incorporates Social Exchange Theory (Blau 1964; Polanyi 1957; Pryor 1977) to provide a socio-cultural context for viewing market exchange at the micro level. In turn, the third part draws on the General Systems Paradigm (Miller 1978; Berrien 1968) as a basis for linking market behavior at various conceptual levels to higher order systems. This provides a rationale for applying SET to the distribution system itself. In the fourth part of this paper, the framework is applied to both the Japanese and U.S. distribution systems. The final part contains concluding remarks suggesting how U.S. policy makers should approach the Japanese distribution system.

THE DISTRIBUTION SYSTEM AND ECONOMIC STRUCTURE

The term "distribution system" is typically used to explain marketing activities involving the distribution sector: wholesaling and retailing. Trade flow research (Cox, Goodman and Fichandler 1965; Layton 1981a, 1981b, 1989, 1991) views the distribution sector as a component of a national economy. The economy, in turn, is viewed as a set of interdependent industries, or sectors, linked by market exchanges (Dixon 1991). The sectors take resources, or "primary inputs" from the system's environment and transform them into outputs demanded by final users -- private (households) and public (government). The transformation process involves intermediate input-output interactions among sectors. The "input-output structure" of the economy refers to the pattern of market exchanges that enable an economy to process primary inputs into output satisfying final demand.

The distribution *system* represents the subset of the economy's input-output interactions that involve the distribution *sector*. This system is the means by which the distributive trades interact with the rest of the economy, and also the means by which they interact among themselves (for example, wholesale sales to other wholesalers or retailers). Since the distributive trades specialize in marketing activities, the distribution system plays an integral role in the economy's input-output structure.

Not surprisingly, it has been argued that to understand the structure of a national distribution system, one must relate it to that of the economic system (Sybrandy, Pirog and Tuninga 1991) -- that is, how a nation "arranges its economy." Market exchange is the basis for this linkage. However, if we are to also understand how distribution relates to how a nation "organizes its society," market exchange must be linked to higher order social systems, so that other environments of marketing besides the economic system can be accomodated. In the following two parts, Social Exchange Theory and the General Systems Paradigm provide the theoretical base for relating marketing to other systems of behavior.

MARKETING AND SOCIAL EXCHANGE

The General Systems Paradigm (GSP) combined with Social Exchange Theory (SET) together provide a useful framework for linking marketing to higher order systems. GSP provides the ground rules for identifying the appropriate elements to be analyzed. SET provides a categorization scheme for understanding how marketing interacts with other forms of social exchange. In turn, GSP allows us to broaden the scope of behavioral interaction to systems of marketing and social exchange: such systems include channel and national marketing systems.

To tie together "the way Japan organizes its society" and "arranges its economy," a common element between the two is needed. In his *Politics*, Aristotle adopted a systems framework to establish the appropriate element of study. Viewing society in terms of a political entity, the "polis," his analysis begins with the observation that:

> every polis ... is a species of association, and ... all associations are instituted for the purpose of attaining some good -- for all men do all their acts with a view to achieving something which is, in their view, a good. (Barker 1946, p. 1)

Two important points are raised here. First, society consists of the "associations" or interactions among people. Second, "association" in general, and the societal system specifically, can each be seen as a means to an end. Aristotle reasoned that the best way to uncover the guiding principles of society is to reduce it to its fundamental elements.

> Just as ... a compound should be analyzed until we reach its simple and uncompounded elements ... so we must also consider analytically the elements of which a polis is composed. We shall then gain a better insight into the difference from one another of the persons and associations just mentioned; and we shall also be in a position to discover whether it is possible to attain systematic view of the general issues involved. (Barker 1946, p. 2)

Since society is a "species of association," the fundamental element of society must consist of some type of association between individuals. Blau (1964) suggests how this element can translate into higher level "species":

> People's associations proliferate through social space and time. Social relations unite not only individuals in groups but also groups in communities and societies. The associations between individuals tend to become organized into complex social structures, and they often become institutionalized to perpetuate the form of organization far beyond the life span of human beings. (pp. 12-13)

SET provides the conceptual basis for understanding these association forms. Pryor (1977) specifies two fundamental and very different types of social associations that have emerged and become "instituted" in society: **transfers** and **exchange**. Transfers involve interactions in which one person receives favors (such as goods and services) from another, but does not reciprocate. However, the interaction is "balanced" by a common association with some social group. For example, Commons (1924) identifies a "managerial" relationship in which a subordinate extends favors to peers and is rewarded by a recognized superior in some "going concern" or organization; more generally, people can be said to do work for others in a social organization, but are rewarded by the organization as a whole. Another example is the political relationship (Polanyi 1957), in which group members subordinate themselves to a formal authoritative power outside of the group in return for certain privileges and other benefits.

For our purposes, the more interesting type of association is social exchange, or **exchange**, which involves a reciprocal interchange of rewards; the balance arises from within the association itself, not outside it. Blau writes that social exchange involves "the voluntary actions of individuals that are motivated by the returns they are expected to bring" from others (Blau 1964, p. 91), so, in accordance with Aristotle's conception, the rewards associated with social exchange are largely extrinsic in nature. Expectations are important because they must somehow be weighed against the costs one incurs by associating with another person, such as time, opportunities foregone, material costs, etc.

Using a GSP framework, social exchange can be viewed as a system that transforms matter-energy and information in ways that meet the needs of the two parties involved (Dixon and Wilkinson 1986). Matter-energy inputs include the human energy (labor), raw materials and cultural artifacts at one's disposal.

Informational inputs are cultural in nature; they involve the "meaning" that surrounds (or more accurately is imposed upon) behavior and its environments. Such information can take the form of "standards", "rules," a "going rate", the concept of "fair play," familiarity with others' actions, and expectations about their future actions.

Like inputs, the output of the social exchange process also takes the form of matter-energy and information. A "network" of social exchange results when many different social exchanges are repeated and patterned according to previous output of the ongoing work. Informational output provides the cultural input for present network activity; matter-energy output results in changes in the network's material existence. The network is "self-sufficient" if it depends only on maintaining these environmental relationships in order to meet human requirements, that is, if it can meet "all human requirements from within its own resources" (Dixon 1984, p. 8).

In this vein, society can be viewed as a self-sufficient network of social interaction that transforms matter energy and information resources to meet the requirements of its members. The societal system draws matter-energy from its Material environment, and informational inputs from its Cultural environment. This network will continue to interact with these environments as long as it can adequately meet these requirements according to culturally defined standards. In the next section, two forms of social exchange mechanisms that facilitate the societal network's interactions with its environments are specified: "pure" social exchange, and market exchange.

Social Exchange Mechanisms

Our focus here is on a subset of social interaction: social exchange. Because the process is not intrinsically but extrinsically rewarding, social exchange has costs and, according to Blau's description, a decision to exchange with another is motivated by expectations of costs and rewards. Social exchange mechanisms can therefore be distinguished along the lines of how these expectations arise in the exchange process; pursuant to Polanyi (1957), we can distinguish "market exchange" from "reciprocal exchange." The latter will be referred to as "'pure' social exchange," the term coined by Blau (1964).

"Pure" Social Exchange

In the case of "pure" social exchange the "going rate" is socially fixed and the parties involved do not negotiate the terms of the exchange. Trust is crucial because there is no overt "meeting of the minds" in which one articulates his share of costs or what he expects to receive for his effort. This relationship creates a mutual obligation between the parties to carry out future exchanges with one another, resulting in increased bonds of trust and development of more accurate expectations of one another.

Power enters the pure social exchange when one party to the relationship cannot reciprocate in full, such as in the case of a wealthy uncle who bestows an expensive gift upon his nephew. In this case, the exchange seems "unbalanced," because the recipient cannot provide an adequate counterflow. However, Blau points out that the exchange must be balanced somehow, lest the relationship destabilize and terminate. The means for balancing the exchange is to relegate a higher status to the bestower, to which the recipient must offer his esteem. From this emerges a power relationship, in which the individual with status has a greater ability to influence the other's behavior. However, the individual with lower status continues to benefit, because for the relationship to be sustained, the high status individual must accept this individual's offerings, no matter how small.

In the aggregate, "pure" social exchange provides pattern stability within the societal network. Stability arises from fixed going rates of exchange, bonds of trust and power, and the obligation to renew exchange relationships over time.

However, "pure" social exchange operates outside the realm of what is normally considered as "economic" exchange behavior. As Robbins noted, "[t]he essential prerequisite to trading, original or otherwise, is the development of the ability to valuate things in terms of other things ...." (Robbins 1947, p. 236). In the case of "pure" social exchange "the significance of the social 'commodities' exchanged is never perfectly independent of the interpersonal relation between the two partners" (Blau 1964, p. 89). Complex economic systems, therefore, must arise from a different exchange mechanism.

Market Exchange

Market exchange uses money and is planned by the market contract, which specifies the buyer's and seller's obligations and rights at the early stages of the exchange relationship. The market contract or "transaction" replaces trust as a coordinating mechanism. Furthermore, no social obligations exist after the exchange is completed. Unrestricted by such obligations, market activity is closely tied to a flexible "price mechanism" which responds to supply and demand forces in the marketplace.

The institution of the market transaction redefines the very nature of the exchanges it coordinates in two ways. First, the resulting price mechanism makes it possible to accurately gauge rewards and costs of the exchange. This is difficult in the case of "pure" social exchange because costs and rewards are not articulated, and the nature of some of the costs/rewards make them difficult to assess, as in the case of social esteem. Second, costs associated with different market alternatives can be more easily compared. "Alternatives" can mean not only market goods to supply or purchase, but also types of behavior in which to specialize. For example, people have benefitted from specializing in the types of market exchanges they perform, e.g. retailers, wholesalers, facilitators, households, and so forth.

To summarize, market exchange is a form of social exchange using the market contract to plan what is done. This narrow definition precludes bonds of trust or power relationships, because there are no social obligations extending beyond the legal contract. This definition may seem unrealistic because market-based relationships typically involve elements of trust, and also exhibit elements of power and coercion (see Stern and Heskett 1969). Dixon and Wilkinson's (1986) explanation for this is that the market exchange represents a subsystem of a more encompassing relationship: social exchange, which can have both "pure" social and marketing elements. An interaction between these elements is clear: the efficiencies of the price mechanism make for a more expedient and tractable process, while the obligations of reciprocity provides certainty to help substitute for negotiating and contract-policing efforts.

Defining marketing as a subsystem of social exchange is only a first step toward comparing the U.S. and Japanese distribution systems. To see how a distribution system interacts with its socio-cultural environments, we must specify higher-order systems of market exchange that interact with social exchange systems in a manner similar to the foregoing discussion. In the next part, GSP is used to identify higher-order marketing structures.

A HIERARCHY OF MARKETING SYSTEMS

Marketing systems result from marketing's coupling with other forms of social exchange. In this section, market exchange is analyzed as a subsystem of higher order marketing systems that arise through marketing's linkage with "pure" social exchange. Using Miller's (1978) hierarchical approach to GSP as a framework, marketing systems at one level represent elements of a system at the next highest level. For example, the market exchange can be seen as an element of a marketing flow, which consists of a sequence of interdependent market exchanges.

Figure 1 demonstrates an appropriate hierarchical scheme. Each system type is shown as a level in the hierarchy. For each system level, both the element type that performs on its behalf and the mechanism for coordinating how the work is performed is shown. A system at one level represents an element at the next; market exchanges interact to form marketing flows, which can be linked to form a national marketing system.

The first system level in the hierarchy is the market exchange. The exchange has a dyadic structure, meaning that the work is performed by two autonomous elements: a selling and a buying concern. As detailed in the preceding part of this paper, the market exchange is coordinated or planned by virtue of the legally-enforceable market transaction, rather than feelings of trust or social obligation.

Figure 1
A Hierarchy of Marketing Systems

System	Elements	Structural Form	Planning Mechanism
Marketing System	Marketing Flows	Channel Networks	Market Institution
Marketing Flow	Market Exchanges	Channel Structure	Channel Culture
Market Exchange	Buyer and Seller	Dyad	Market Transaction

Marketing Flows

Market exchanges are linked in exchange sequences that give rise to the next level in the hierarchy: the marketing "flow" (Dixon and Wilkinson 1982), also referred to as a "transvection," meaning to "flow through" (Alderson and Miles 1956), and most commonly called the "channel." For clarity, the term "flow" is used here to specify the system, and "channel" is used to convey the structural dimension of the system. Although many types of structures can be specified, the vertical marketing structure, representing full sequence of market exchanges linking a producer with consumer (Stern and El-Ansary 1982) is emphasized here.

Vertical marketing flows trace out processes of progressive differentiation, whereby each exchange in the sequence uses inputs from the exchange that preceded it; each exchange, in turn, generates output that is used in the next exchange. The output of each successive exchange more closely resembles the channel's final output: a service rendered to a final buyer. Intermediaries (wholesalers and/or retailers) and facilitators (financiers, warehousers, etc.) are often involved, but need not be; their inclusion depends partly on whether they can offer external economies to other participants in the exchange sequence (Coase 1937; Dixon and Wilkinson 1986; Wilkinson 1990).

Marketing flows become "structured" when flows are repeatedly carried out by the same buyers and sellers. Channel structure underlies the roles for all channel participants, and thereby helps to coordinate the activity in the channel. The structure obtains when a channel culture emerges, specifying proper conduct (Dixon and Wilkinson 1986), and helping to reduce the costs associated with uncertainty and mistrust that would otherwise need to be resolved by careful negotiating and policing of market transactions (Williamson 1975).

McGarry (1951) referred to this phenomenon as the "contactual" function of marketing, noting that "the possibility of continuous trade ... is the ultimate objective of all contacts" (p. 97). The channel's link to "pure" social exchange is evident, because relationships can be continued only when an "attitude of mutual interdependence between buyers and sellers throughout the chain of contacts" exists (p. 102). This "requires that someone assume the leadership in the co-operative effort" (p. 102). Therefore, a role set emerges (Merton 1957), in which one member has higher status, and power, over the other members.

Importantly, leadership status does not emerge from the market exchange mechanism itself, but from the social exchange context in which it operates. Therefore, channel structure hinges on social obligations arising from trust, loyalty, and power -- rooted in the "pure" social exchange aspect of the relationship. The guidelines for appropriate expectations and behavior are stipulated by the channel culture. In this vein, Stern and Heskett (1969) suggest that power should be used in a way deemed appropriate by the channel members, lest it be considered coercive. Recent research (Frazier and Summers 1984; Anderson and Narus 1990; Frazier and Rody, 1991) supports the notion that power/influence strategies that build on cooperative relationships work better than those that go against the grain of the channel culture.

When clear leadership, rules and guidelines fail to emerge, attempts to influence another firm's behavior can result in conflict. The vast amount of research done on channel conflict (see Gaski 1984) suggests that this is a significant problem in U.S. channel structures.

The Marketing System

The marketing system consists of the entire structural network of marketing flows, guiding the national economy's transformation processes so that they match available resources with demands for goods and services. The behavior is "planned" by virtue of the market institution (Dixon 1984), a cultural blueprint for appropriate buying and selling conduct throughout the system. The bounds of marketing's structural interaction with other social forms, such as pure social behavior, are contained in this "blueprint," which can only be inferred from generalizations of a society's market behavior.

The marketing system is the highest-order system of market exchange. However, it clearly functions as a **subsystem** of the economy; therefore marketing conduct is linked to the state of the economic suprasystem. For example, we would expect a "resource-rich" economy to have a different marketing system from one that is "resource-poor," because the **elements** of the two economies--industries, or sectors -- will perform different input-output transformations. The economies' marketing subsystems will therefore perform different tasks.

The Distribution System

Since the distribution sector plays an integral role in the economy, the distribution system represents an important **element** of the marketing system; it represents the aggregate of marketing exchange systems (exchanges or flows) that link the distribution sector to the other elements of the economy.

A direct link between the marketing system and the economy is apparent: changes in the distribution sector and/or the sectors with which it interacts will affect the structure of the distribution system. For example, changes in the economy's resource base may change the way that its component sectors interact, particularly in the way that market relationships are established and sustained over time. Kriesberg's (1955) seminal account of steel distribution systems during wartime provides an excellent example of how sectoral activity affects distribution structure.

We have now come "full circle." The first part of the paper defined a distribution system in terms of marketing interactions involving the distribution sector. The subsequent analysis specified how systems of marketing interactions, such as marketing flows, arise due to linkages with higher order social systems. Finally, the distribution system was defined as a subset of the marketing flows that make up the marketing system. Thus, the distribution system is linked to the hierarchy of marketing systems, and to the higher order social exchange systems that provide the power/trust context for marketing behavior. Since we have come full circle, the next part begins by assessin the interactions between the economic and distibution systems in the U.S. and Japan.

APPLICATION: THE JAPANESE AND U.S. DISTRIBUTION SYSTEMS

We begin analyzing the Japanese and U.S. distribution systems in the context of the economies in which they function. The Japanese and U.S. economic structures affect their distribution systems in profoundly different ways; differences can be noted by analyzing the resource (primary input) environments of the economies, and the market demands for goods and services (final output) that the interaction between the marketing and economic systems provides.

U.S. Economy and Economic Policy

The U.S. material environment has traditionally provided its economy with an abundance of raw materials, energy, and other resources, so that much of the economy's development occurred in relative isolation from the rest of the world. Economic philosophy and public policy for marketing was largely concerned with preserving the ability of the price mechanism to allocate resources to their best ends. Antitrust legislation, though often counter-productive in practice, in principle reflects an integral philosophy of U.S. economic policy: remove power from the hands of industry, and let the price mechanism work freely. Such a philosophy extends to regulations on vertical price maintenance agreements between suppliers and distributors. Of course it would be naive to refer to the U.S. economy as a "pure" market economy, guided exclusively by the marketing system; it is commonly called a mixed market economy, to accommodate the political-economy elements that coincide with the market elements.

On the output side, U.S. industrial and consumer markets have historically tended to prefer products with high perceived value, taking price into consideration. The product's national origin has played a small role in market preferences, except in cases where product quality (or lack thereof) is inferred from this information. This demand-side emphasis on value closely mirrors the supply-side philosophy emphasizing the role of the price mechanism in the market economy.

Japanese Economy and Economic Policy

In contrast, Japan's economy developed from a poor material resource base. It compensated for this through a cultural philosophy emphasizing attention toward human resources, sustained through a confucian tradition of development (Dore 1987). Out of this has arisen a political economy rooted in both the price mechanism and "relational contracting" between agents. "Relational contracting" is defined as

> a way of trading off the short-term loss involved in sacrificing a price advantage for the insurance that, one day, you can call in the same type of help from your trading partner if you are in trouble yourself. It is a calculation that perhaps comes naturally to a population that, until recently, was predominantly living in tightly nucleated hamlet communities in a land ravished by earthquakes and typhoons. Traditionally, you pitched in to help your neighbor rebuild his house after a fire, even though it might be two or three generations before yours was burnt down and your grandson needed the help the returned. (Dore, in Okimoto and Rohlen 1988, p. 90)

Thus the political framework underlying the economic system inherently fosters the incurring of debts and obligations between generations. Meticulous records of such relationships are kept in Japan by all families. Furthermore, "One can spend an entire lifetime in Japan just maintaining relationships -- of school, family, and work." (Morgan and Morgan 1991, p. 21) Due to the time commitment required, relationships are made carefully, and preference is given to those who share interest in it with the same gravity. Japanese business rituals prolong the process of establishing new relationships, so that the parties can demonstrate proper conduct (*reigi*) and demonstrate their respect of the social ties surrounding the business relation (Holden and Woolly 1989). These ties can only be gradually altered by non-personal market forces over a long period of time.

This traditional source of business cohesion took on powerful implications following the Second World War, when industrial policy established by the Ministry of International Trade and Industry (MITI) channeled national resources toward certain manufacturing circles, in order to make Japan a leading industrial power. From this combination of tradition and policy emerged a new institution: the *keiretsu*, Japan's system of exclusive, cooperative business relationships, cemented by mutual share holdings among members. As Sakai (1990) points out, membership in a *keiretsu* group is predicated on the notion of a power hierarchy:

> "The parent company in a manufacturing group thinks of itself as a daimyo, the supreme power, the apex of a pyramid in which production flows from the bottom upward and rewards from the top downward. The manufacturing daimyo's "family" of dozens of related companies includes some that are large and powerful in their own right... Beneath the parent company's direct family are the trusted retainers-primarily subcontractors- beneath which lies yet another layer of sub-contractors. And beneath the sub-contractors are layer upon layer of "commoner" companies, which have just a handful of employees whose only function is to produce a small quantity of goods... for the company just above them." (p. 42)

Importantly, the *keiretsu* hierarchy applies only to the manufacturing sector. However, it is important to Japan's distribution system because it presents an external source of resources (finances, capital, access to a scope of suppliers or buyers) for members of the distribution system. External resources were desparately needed, since MITI policy essentially ignored the distribution sector. Yoshino (1971) notes that distributors "were left to their own devices to struggle through their post-war chaos.... It is indeed remarkable that the commercial sector was able to recover from wartime damages on its own in a relatively short period of time." (p. 9)

Perhaps more remarkable is the early failure of the MITI to recognize a need for policy aimed at fortifying the distribution sector. Since the distribution sector is an integral component of the national economy, the success of this sector was critical to the entire economy. Clearly, the distribution sector faced an unfavorable input environment.

The economy's output environment must also be considered. Japanese consumers have historically demanded Japanese products. Part of this is tied in to the conception of relational contracting, which is a trade barrier. Dore observes an industrial example:

> "Brazil and Korea can now land some kinds of steel in Japan more cheaply than Japanese producers can supply it. But very little is sold. Japan can remain as pure as the driven snow in GATT terms, no trigger prices, minimal tariffs, no quotas---and still have a kind of natural immunity to steel imports ... None of the major trading companies would touch Brazilian or Korean steel, especially now that things are going so badly for their customers, the Japanese steel companies. Small importers are willing to handle modest lots. But they will insist on their being landed at backwater warehouses away from where any domestic steel is going out, so that the incoming steel is not seen by a steel company employee. If that

happens, the lorries taking the steel out might be followed to their destination. And the purchaser, if he turned out to be a disloyal customer, would be marked down for less than friendly treatment next time a boom brings a seller's market." (Dore 1987, p. 184)

Thus, Japanese industrial markets are relatively insensitive to price when a product is not "Japanese". A similar case holds for consumer markets, which have generally placed a premium on domestic origin, preferring Japanese products to like imports. This phenomenon can be partly explained by the more recently-developed perceptions of quality of Japanese goods versus imports, but this argument misses a more central point: Japanese nationalism guides consumer spending.

Because the environments with which the Japanese economy interacts (policy, resources, final demand) are so unique, it is inevitable that the Japanese distribution system would develop much differently from that of the U.S. The next section examines how different distribution systems emerged within the U.S. and Japanese economies.

Implications for the U.S. and Japanese Distribution Systems

The different forces working at the higher levels of the systems hierarchy etch out profound differences in U.S. and Japanese distribution systems. This section assesses those differences by offering two models of distribution, based on SET: a U.S. model and a Japanese model. They are somewhat stylized in that they are broad simplifications; the two economies are so vast and complex that elements of one model may be easily found in either country. However, each system is predominantly characterized by one or the other model of distribution.

United States Distribution System

From its mixed-market economy roots, the U.S. distribution system is based on the "conventional channel" (Mc Ammon 1970) model: a predominantly market-exchange driven model in which "pure" social exchange elements are minimized. The conventional channel arrangement precludes bonds of trust, loyalty and power. In such a framework, channel leadership and role sets cannot be fostered, as the price mechanism guides organizations' decisions to do business with each other, and ultimately the "invisible hand" of the marketing system guides channel interactions.

This model is in fact an extreme ideal, rarely obtained in practice (Mc Ammon 1980). As discussed in the first part of the paper, "pure" social exchange elements are pervasive in channel networks because they provide certainty and leadership, helping to coordinate trade flow activity more efficiently. To allow for this phenomenon, the model is typically relaxed, giving rise to what are called "vertical marketing system" models.

The most pervasive in actual marketing practice is the "administrative" channel form, in which a "channel captain" plays the leadership role, and power and bonds of trust are extant. Nevertheless, this relaxed form the conventional model remains essentially market-driven. Channel participation is largely determined by the price mechanism; certainty, trust, influence and other inputs from the surrounding channel culture are non-price characteristics of the exchange that can be discarded in favor of establishing other channel relationships.

Other well-known modifications of the conventional model -- the "contractual" and the "corporate" vertical marketing systems -- have arisen in order to make the channel network more cohesive than the administrative vertical arrangement. Such systems can be viewed as technological advancements designed to insulate the channel from market forces, for the relationship between manufacturer and distributor is more akin to that of an employer and employee than it is a market relationship. The relationship between distributors is similar to the arrangement in manufacturing described by Sakai as,

> "In the West... Subcontractors are free agents... Not so in Japan. From the day a subcontractor accepts the first contract - probably from a small subsidiary of one of the giant companies - it has given up its freedom. It is told what to make, when to put it on line, and how much it will get for it on delivery. If the company that place the order feels a profit squeeze, it can easily order the sub-contractor to reduce its final price. If hard times continue, the larger company can demand yet another cut. If it gets to the point that the subcontractor is losing money on each unit it's producing and has cut expenses and streamlined production to the utmost, the "parent" company should demand that it buy some new peiece of equipment to increase productivity. And even if the subcontractor neither needs nor wants the equipment, it has no choice: if it refused, the flow of orders from the parent would dry up overnight - and its business will be gone." (Sakai, 1990,40)

The implications of this form of arrangement is the absence of "free agent" contract that is assumed to be the ideal in Anglo-American systems. Power and trust do not arise from elements of the "pure" market exchange -- they are rooted in legally-binding contracts that preserve the state of the vertical market structures. Such structures avoid regulatory intervention against price-maintenance policies, because they are essentially non-marketing systems.

Japanese Distribution System

Post-World War II Japanese distributors found themselves severely undercapitalized. Meanwhile, the manufacturing sector faced a much more munificent environment, including the capital resources and policy-based priveleges from which the powerful *keiretsu* institution emerged. As a natural result, distributors sought relations with the "daimyo" manufacturers, accepting a subservient status in return for the economic security the relationship provided. From this inter-sectoral interaction emerged the *ryutsu-keiretsuka*, a political hierarchy in which units are arrayed in hierarchial layers, and power resides at the "commanding heights" of large *keiretsus*. Shimaguchi (1977) writes

> Participation is voluntary, but great cooperation is acheived under the aegis of a dominant parent manufacturer. The system is often characterized by traditional human relationships between a parent manufacturer ... and channel system member. (p.6)

Typically, no firm in the group can trade outside of the group without permission. So cohesive is this system that the prospect of sacrificing existing business relationships for new ones is a shocking concept to many Japanese (Webber 1992, p. 97). While the degree of competition between groups is intense, the degree of competition within groups is mediated by ties of loyalty. It is a world where business and economic institutions merge, agreements are extended from one generation to another, and gains and losses are shared within the member groups.

Distributors at "lower" layers in the vertical structure are tied to the *keiretsu* system by bonds of loyalty, mutual obligation, trust and power that extend throughout existing distribution structures (Pye 1985). While this arrangement guarantees members some degree of security, it also deprives them of economic freedom. Thus, distributors are not allowed to deal with other firms outside of the established groups unless they wish to sever their ties with the existing group. This institutional arrangement forces the lower-status distributors obey the wishes of those with a higher status. They are told what to sell, at what price and how much to stock (Sakai 1990).

However, as SET specifies, low-status brings with it some privileges in this social structure. While distributors lack freedom to transact with whomever they wish, they are also relieved of many obligations of being independent; for example, they need not shoulder the risk of carrying inventories of products that will not sell, and can depend on reliable delivery and financial help where necessary. The higher-status distributor, in return, is obliged to provide these services (Shimaguchi 1977).

The emergence of channel relationships characterizing the Japanese distribution system has been explained as the result of distribution's interaction with higher-level systems. However, input from higher order systems have also been responsible for sustaining these structural arrangements. For example, the complex power structure is reinforced by institutional protection against competition, via legal retail price maintenance arrangements and controls on competition by large, discount stores (Okimoto and Rohlen 1988). Rigid laws and customs governing how and where retail stores may be set up insulates the small retailers from the competitive pressures that may degrade the channel arrangement. One result is that maverick retailers that challenge the "order" draw the wrath of established retailers. For example, in the wake of Toys "R" Us' infiltration of the retail industry, retailers with larger than average stores, late store hours, or low prices have been picketed by owners of neighboring stores (Sanger 1990).

Another factor at this level is the lack of an Anglo-American system of contract laws in Japan and the difficulties in using the courts to uphold the law. While a stable system of generally accepted contractual principles exist in Anglo-American systems, a equivalent system in Japan does not exist. The existence of a legal framework that make "arms length" contracts between parties enforcable tends to facilitate independence in units. On the one hand, the difficulties of enforcing legal contracts in Japan, typified by the absence of discovery, prohibiting class action suits, contingency fees, and limited damage awards (BW 1992), tend to make "arms length" deals risky. On the other hand, this mechanism facilitates transactions between related units bound by trust and long term relationships.

While there are no **legal** obligations to treat related units better, there is a generally accepted notion that related units have to be "insured" by their business associates further up the chain. Thus, if a fault occurs further up the chain, the unit will be morally obliged to "make good" to their clients lower down the chain. This is done even at considerable expense. For example,

> "When disputes arise between [Japanese] companies... Salesmen and front-line managers are the chief problem-solvers. In part, that's to avoid spoiling a long-term relationship. "We may lose $1 million," says NEC Corp. legal chief Satoshi Nakaichi, "but the idea is to coexist and win that money back on future deals." (BW 1992, 64-65)

The inverse of this pattern is the method of dealing with "outsiders". Because outsiders can be given no consideration and there are few legal restraints on "unfairness" in contracting, the competitive environment tends to be brutal. One illustration of this is the use of gangsters to "enforce" contracts and settle disputes. This practice has, in fact, become formally institutionalized in the form of laws that

> "allow district governments to designate shady characters who hang out together as official *boryoku-dan* (violent groups). To qualify, gangs will have to demonstrate threatening behavior, have members with criminal records, and belong to an organization made up of various ranks... Once designated, the gangsters can go about their business unmolested provided they do not break the law. Being a *yakuza* (gangster) is a legitimate profession in Japan. The gangs have headquarters with their names on polished brass plates. Like other enterprises, they advertise for recruits and go about their business openly." (Economist 1992b)

Gangsters are used as an alternative to enforce contracts and maintain order in markets. The existence of these extra-legal means for people who are not protected by a group bolsters the existence of relational contractual arrangements, which serve as both a means to avoid resorting to such means as well as a defense should such means be used against an individual belonging to a group.

Finally, the system is supported by final demand sector through consumers' family and ancestral ties to channel groups. The purchase of products from a rival keiretsu is regarded as a sign of disloyalty. Worse, the purchase of foreign products can in some cases be viewed as treasonous because the products was not produced by any members of the Japanese "group". Sakai observes,

> "The group image can be so pervasive that it colors even the most ordinary business transaction. For example, one of my companies in a northern prefecture decided to throw a get-acquainted party in a hotel and invited representatives from dozens of local businesses. It was clear that the party wass given to promote better relations with neighboring sub-contractors. We had a fine turnout, and everyone was cheerful - until one of the guest noticed bottles of Ashai beer, and only Ashai beer, on the tables... even the beer compaines are members of giant *keiretsu*. So the large urban hotels are always careful to serve all four beers at such gatherings to prevent any hint of favoritism... The sight of all those bottles of Ashai on the tables sent shivers through some of our guests. The general reaction was, "Why didn't you tell us this was a Sumitomo affair?" The whole mood of the gathering suddenly changed. My people tried to assure our guests that the company had no connection with Sumitomo, but the damage had been done - by the label on a beer bottle." (Sakai 1990, 44)

The practice of keeping business within related groups means that the entire channel system is a relational contracting system that resists change. Only stubborn outsiders can infiltrate the system, by dislodging the existing arrangements; the process is slow, however. This dilemma is repeatedly illustrated by American companies. For example, Toys "R" Us met obstacles to its price-cutting strategy because it needed to shift the balance of power from manufacturer to retailer. The chain has failed to sign deals with many Japanese toy manufacturers who feared upsetting their existing distribution arrangements by dealing with Toys "R" Us directly. (Economist 1992a)

CONCLUSION

The U.S. and Japanese distribution systems differ because the systems in which they function are different. The distribution system functions as an element of the marketing system, linking the distributive trades to other sectors of the economy. Linkages take the form of market exchange networks, which gain structure through their linkages to higher-order socio-political systems. This linkage is the means by which power/dependence relationships characterize distribution activity at the sectoral level.

The Japanese distribution system is not impenetrable to foreign imports; it is only impenetrable to foreigners who expect the Japanese to play by the same set of rules they follow themselves. These rules are established in the context of the *ruyutsu-keiretsuku* system, which is rooted in the *keiretsu* institution.

Three ways to penetrate the Japanese distribution system can be identified, each associated with a particular level in the systems hierarchy shown in Figure 1. The highest level implies government economic policy, which directly interacts with the marketing system (and its component distribution system); the lower levels imply industry and firm-based strategy.

A **Top-Down** approach targets activity at the marketing system level, and involves the use of governmental negotiation, and perhaps coercion, in establishing more favorable trade agreements with Japan. Over a decade ago, Clifford and Yoo (1980) suggested that effective change is not likely to occur through formal trade negotiations. In the current framework, policy at this level of analysis cannot be effective unless it can influence the underlying structural issues that make the *keiretsu* so exclusive.

A **Central** route involves contracting with an existing *ruyutsu-keiretsuku* network. However, this will typically conflict with the existing intra-group trade arrangements. Consequently, the distributor will have every interest to inflate prices of foreign goods, while encouraging fellow members to come up with a rival product, and learning the "trade secrets" from gullible foreigners. This fate is shared by many foreign firms attempting to penetrate Japanese markets.

Finally, a **Bottom-Up** approach works at the exchange level. This approach involves securing the support of a small distributor, with a low status position in an existing hierarchy. This distributor's ties are relatively weaker and more readily severable, permitting a resilient alliance with the foreign firm. Power here is based on local networks of relationships and built upwards from motivations of subordinates, rather than obligation and loyalty. This approach ultimately can help to break down the network groups, and the barrier to foreign products (Pye 1985). It is likely that foreign competition can best creep into the *keiretsu*-based distribution system only through a bottom-up approach. The bottom-up approach is, paradoxically, the only one that adequately addresses the obstacles imposed by Japan's complex macromarketing structures.

Future research should address how emerging trends in both countries influence developments in the distribution systems. For example, the Japanese final demand sector appears to be fueling important changes in the distribution system. Younger consumers, increasingly more price- and value-conscious and less likely than their parents to be tied to the traditional bonds that drive the *ryutsu-keiretsuku*, frequently shop at discount retail stores. Discounters cut out levels in marketing channels, pay in cash rather than depend on manufacturer credit, autonomously determine their merchandise assortments, and dictate many of the transaction terms with manufacturers (Eisenstodt, 1992). Should this trend continue, the Japanese model may mirror more closely the the U.S. administered channel, where a retailer like Wal-Mart or Home Depot acts as channel captain.

However, comparisons can be deceiving: the Japanese distribution system interacts with environments that are different from those facing the U.S. system. If a Japanese retailing revolution is in the works, it must supplant the structural arrangements dictated by the *ryutsu-keiretsu*, and this in turn requires dissolution of the *keiretsu* institution that renders the manufacturing sector its *daiymo* position. If this indeed happens, the resulting economic and marketing structures cannot be certain.

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THE HIERARCHICAL STRUCTURE OF INDUSTRIAL MARKETING CHANNELS: ANALYZING INTERMEDIATE MARKETS UTILIZING TRADE FLOW TABLES

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ABSTRACT

The analysis of business to business markets is important for marketing managers and public policy makers alike. After all, market exchanges among intermediate sectors are generally around 67% of all market exchanges. However, almost no tools have been developed to systematically analyze the business to business markets.

The conversion of Input Output Tables into Trade Flow Tables is an important step in the analysis of marketing system structures. Triangulation is an extension of this type of analysis and provides a tool to examine the sequence of suppliers and customers in business to business markets. In this context, triangulation and the development of related indices are an important step in the development of Industrial Marketing Channel Theory since they provide a standardized tool to compare intermediate market structures in a longitudinal and cross-sectional manner.

In this article triangulation is applied to the Dutch Trade Flow Table in order to provide an example of this useful tool and to analyze the sequence of market exchanges in the Dutch intermediate markets. This allows for the determination of the industrial market channel structure.

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THE HIERARCHICAL STRUCTURE OF INDUSTRIAL MARKETING CHANNELS: ANALYZING INTERMEDIATE MARKETS UTILIZING TRADE FLOW TABLES

The analysis of business to business markets is important for marketing managers and public policy makers alike. After all, market exchanges among intermediate sectors are generally around 67% of all market exchanges. However, almost no tools have been developed to systematically analyze the business to business markets. The conversion of Input Output Tables into Trade Flow Tables is an important step in the analysis of marketing system structures. Triangulation is an extension of this type of analysis and provides a tool to examine the sequence of suppliers and customers in business to business markets. In this context, triangulation and the development of related indices are an important step in the development of Industrial Marketing Channel Theory since they provide a standardized tool to compare intermediate market structures in a longitudinal and cross-sectional manner. The methodology of triangulation is applied to the Dutch Trade Flow Table in order to provide an example of this useful tool and to analyze the sequence of market exchanges in the Dutch intermediate markets. This allows for the determination of the industrial market channel structure.

INTRODUCTION

The analysis of marketing system flows is not new. Cox, Fichandler and Goodman (1965) identify the marketing flows among various sectors of the U.S. economy by utilizing data from the U.S. Input Output Table for 1947. More recently Layton (1981a, 1981b, 1986) utilized Input Output Tables to study the market systems of Australia and the Cilicap region of Indonesia.

For the analysis of marketing system flows it is necessary to convert Input Output Tables into Trade Flow Tables. The technical detail of the transformation of Input-Output Tables into Trade Flow Tables has been described by Cox et. al. (1965), Layton (1981), Tuninga (1987) and Sybrandy (1990), Sybrandy et al. (1991a) and Sybrandy and Tuninga (1991b).

The analysis of marketing system structures is important for the development of macromarketing theory, in particular, comparative marketing theory, as well as public policy issues as they pertain to marketing, and marketing and economic development. One aspect of national marketing system structures is their intermediate markets (also known as industrial or business to business markets). The purpose of this paper is to describe how by utilizing trade flow tables the hierarchical structure of industrial marketing channels can be examined. The suggested methodology will be applied to the Trade Flow Table of the Netherlands.

HIERARCHICAL STRUCTURE OF INTERMEDIATE MARKETS: METHODOLOGY

In the traditional marketing literature marketing channel structure is often defined in terms of the agencies that comprise the channel. For example, Bucklin (1972, p. 1) states "by structure we refer to the organization of tradesmen into different institutional forms". Stern and El-Ansary define channel structure as "the set of institutions, agencies and establishments through which the product must move to get to the customers" (1982, p. 3). In addition, the American Marketing Association defines the marketing channel as the "structure of intracompany organization units and extracompany agents and dealers, wholesale and retail, through which a commodity, product, or service is marketed" (1960, p. 10).

It is for this reason that most measures of marketing system structure represent little more than a compilation of data regarding marketing agencies in a national economy. In the study of marketing flows, however, the focus is on the work performed by the agencies rather than the agencies themselves. It is in this context that market exchanges are the focus of attention since they represent the work of the marketing system. The patterns of these market exchanges therefore define the marketing system structure. The study of intermediate or industrial markets should thus include the analysis of the market exchanges among the intermediate sectors of the economy. Trade Flow Tables represent these market exchanges of final and intermediate markets.

Since Trade Flow Tables are organized according to the same principles as Input Output Tables the market exchanges among the intermediate sectors of a national economy can be found in the upper left quadrants of Trade Flow Tables. This quadrant will hereafter be labeled as the first quadrant. It is this quadrant which will be the focus of the analysis of the hierarchical structure of the business to business marketing channels in a national economic system.

It is not just the market exchanges in intermediate markets which are the primary object of study. As the words marketing flows and trade flow table indicate it is also important to understand the movement represented by marketing flows i.e. the sequence of the market exchanges. It is the sequence of market exchanges which defines marketing channels in intermediate markets and, thus, the hierarchical structure of these markets.

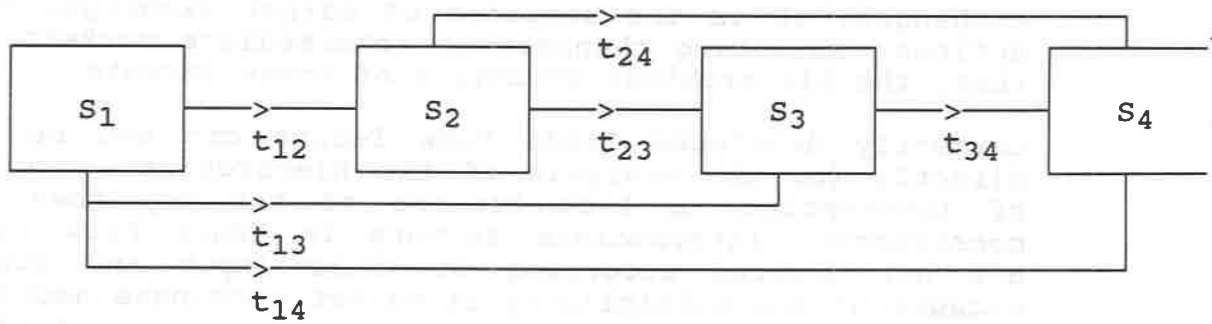
Currently developed Trade Flow Tables can not be used directly for the analysis of the hierarchical structure of intermediate markets because of the way they were constructed. Intermediate sectors in Trade Flow Tables are not ordered according to their input and outputs because of the multiplicity of market exchanges among the various intermediate sectors. This problem in existing Trade Flow Tables can be overcome by means of triangulation.

As Helmstadter (1969, p. 231) stated: "Triangulation itself means to arrange the sectors in such a way that the sum of all transactions on one side of the diagonal of the transaction matrix is maximized and the sum of the transactions on the other side is minimized." Even more clearly Korte and Oberhofer (1970, p. 501) state that the primary aim of triangulation is "to classify the producing sectors with regard to their distance to final demand. For each sector the subsequent sectors are its main customers, whereas the preceding sectors are the main suppliers." Triangulation can be done for multiple purposes, some of which are: to show the structural properties of the intermediate markets and to be able to make sectorial and country comparisons among and within Trade Flow Tables.

The method of triangulation is based on the fact that the sequence of market exchanges is unidirectional, i.e. most marketing flows in intermediate markets are not circular in nature. Figure 1 shows an extreme case where there are no reciprocal exchanges and revenue flows that would normally occur among intermediate sectors. The concept of "pure" one directional marketing flows is represented in Figure 1.

In Figure 1 S_i represents the intermediate sector where i identifies the individual sector and t_{ij} represents the market exchanges between sectors S_i and S_j.

Figure 1: Sequential Market Exchanges in Intermediate Markets



If market exchanges are strictly one directional in nature then constructing a triangulated matrix based on the Trade Flow Table would not be difficult. In mathematical terms this would mean that all of the market exchanges could be summed on one side of the diagonal of the first quadrant of the Trade Flow Table and that the sum on the other side would be zero. For the triangulated matrix of Figure 1 this would mean:

$$T\ \text{triangulated} = \begin{bmatrix} t_{11} & t_{12} & t_{13} & t_{14} \\ 0 & t_{22} & t_{23} & t_{24} \\ 0 & 0 & t_{33} & t_{34} \\ 0 & 0 & 0 & t_{44} \end{bmatrix}$$

The difficulty in triangulating Trade Flow Tables is compounded by the fact that marketing flows are not always one directional. It is therefore difficult to determine the hierarchical structure of the intermediate markets in a given national economy.

In general terms the first quadrant of the Trade Flow Table represents the market exchanges in intermediate markets and t_{ij} indicates market exchanges between sectors i and j. I is the sector that produces the output and is also indicative of the row number. J is the receiving intermediate sector and also indicates the column number. In matrix terms:

$$T = \begin{bmatrix} t_{11} & t_{12} & \cdots & t_{1n} \\ \vdots & & & \vdots \\ t_{n1} & t_{n2} & \cdots & t_{nn} \end{bmatrix}$$

If we utilize Aujac's (1960) criterion of "better customer" then sector 1 is a better customer than sector 2 if the following condition holds:

$$\frac{t12}{t1} < \frac{t21}{t2}$$

where t1 and t2 represent the respective sectors' total output. Triangulation in this context means that one has to maximize the following expression:

$$\text{MAX:} \quad \sum_{j=i+1}^{j=n} \sum_{i=1}^{i=n-1} t_{ij}$$

Once a Trade Flow Table is triangulated according to these rules the hierarchical structure of intermediate markets can be examined. In the triangulated trade flow table i=1 and j=1 (the upper left element in the triangulated matrix) represent the sector that is first in the sequence of flows of goods and services and where i=n or j=n the sector considered last in the sequence.

Several indices can be developed to help analyze the triangulated first quadrant of the trade flow table. One such index is L which is an indicator of the unidirectionality of the flow of goods and services in intermediate markets of a national economy. L can be depicted as follows:

$$L = \frac{\sum_{j=i+1}^{j=n} \sum_{i=1}^{i=n-1} t_{ij}}{\sum_{j=1}^{j=n} \sum_{i=1}^{i=n} t_{ij}}$$

i.e. the sum of the above diagonal intersector market exchanges divided by all intersector market exchanges, where

$$.5 \leq L \leq 1$$

If L=1 then all flows of goods and services are perfectly sequenced i.e. no circularity exists.

A similar indicator can be calculated for each individual sector k, where:

$$L_k = \frac{\sum_{i=1}^{i=k-1} t_{ik} + \sum_{j=k+1}^{j=n} t_{kj}}{\sum_{i=1}^{i=n} t_{ik} + \sum_{j=1}^{j=n} t_{kj}} \quad \text{for } i \neq j \neq k$$

Another index that can be calculated compares intersector with intrasector trade. This index can be depicted as follows:

$$IS = \frac{\sum_{j=1}^{j=n} \sum_{i=1}^{i=n} t_{ij} \quad \text{for } j = i}{\sum_{j=1}^{j=n} \sum_{i=1}^{i=n} t_{ij}}$$

This index is useful in determining whether or not most business to business market exchanges are among businesses in the same intermediate sector or among different intermediate sectors. It is likely that this coefficient will increase with increased levels of aggregation. If this coefficient is low at high levels of aggregation then it is a clear indicator of the importance of business to business market exchanges among different sectors in a given national economy. It is also of interest to examine the differences in patterns of market exchanges among different intermediate sectors. IS_k is an index that allows for the comparison of intrasector market exchanges with the intersector market exchanges for a given intermediate sector, k.

$$IS_k = \frac{t_{kk}}{\sum_{i=1}^{i=n} t_{ik} + \sum_{j=1}^{j=n} t_{kj} - t_{kk}} \quad \text{for } i=j=k$$

All of the above coefficients can be calculated for market systems regardless of their level of economic development and size. These indices thus provide measures to compare intermediate markets and the flow of goods and services across countries and over time. In the next section these measures will be calculated and interpreted for the marketing system of the Netherlands.

DUTCH INTERMEDIATE MARKETS: AN APPLICATION

Sybrandy and Tuninga (1991) developed the Dutch Trade Flow Table which has been derived from the Dutch Input Output Table and clearly demonstrates the marketing flows at both the intermediate and final demand levels. The input part of Table 1, which is derived from the Trade Flow Table for the Netherlands, shows that nearly 60% of all of the marketing flows in the Netherlands are flows among intermediate sectors, i.e. at the aggregate level producers, wholesalers and retailers. This gives further credence to the study of business to business markets at both a macro and micro level. In this paper the emphasis is on the macro analysis of these intermediate markets.

From Table 1 it can be seen that 12.2% of all marketing flows and 20.6% of all intermediate marketing flows are directly from producers to producers. The importance of the distributive sectors, i.e. wholesaling and retailing in intermediate markets is significant given that 79.4% of the intermediate marketing flows involves flows between wholesalers and wholesalers, wholesalers and retailers, wholesalers and producers and producers and retailers.

Table 2 shows the matrix for the Netherlands based on applying the method of triangulation as described above. This triangulated matrix will be used as the basis for deriving the indices regarding the sequence of the flows of goods and services and type of marketing exchanges in the business to business markets in the Netherlands.

The triangulated trade flow matrix shows that the primary direction of the flows of goods and services in the Dutch intermediate markets begins with the public and ends with the retail sector. Given that the trade flow table for the Netherlands is highly aggregated, i.e. only seven separate intermediate sectors are distinguished, retailing is the seventh stage in the sequence of the flow of goods and services among the sectors. This result is not unexpected since the retail sector is defined to deliver only to final demand sectors and purchases from all intermediate sectors directly and indirectly. In light of Aujac's principle of best customer the retail sector is a better customer from intermediate sectors than a supplier to these sectors.

In Table 2 one can also examine the flows between pairs of sectors. These flows can be denoted with t_{ij} and t_{ji} where i and j are fixed for each pair and where i is not equal to j. In the bottom half of Table 3 an X represents $t_{ij} > t_{ji}$. As can be seen in 18 out of 21 pairs the above diagonal marketing flow is larger than the below diagonal marketing flow indicating that the triangulation of the trade flow matrix resulted in a sequence of intermediate markets which in most cases adhered to Aujac's principle.

Table 1: Trade Flows: Summarized Inputs and Outputs - The Netherlands - 1963

Input Structure: Flows	Mn Hfl	% of Total Marketing
Producer -> Producer	19249	12.2
Producer -> Wholesaler	28669	18.2
Producer -> Retailer	5967	3.8
Subtotal	53885	34.3
Input (Emphasis on throughput): Flows	**Mn Hfl**	**% of Total Marketing**
Wholesaler -> Producer	23078	14.7
Wholesaler -> Wholesaler	4342	2.8
Wholesaler -> Retailer	12355	7.9
Subtotal	39775	25.3
Total Intermediate Flows	93660	59.6
Output Structure: Flows	**Mn Hfl**	**% of Total Marketing**
Producer ——> Final Demand	34123	21.7
Wholesaler -> Final Demand	7336	4.7
Retailer ——> Final Demand	22109	14.1
Total Final Demand Flows	63568	40.4
Total Marketing Flows	157228	100.0

Source: Sybrandy and Tuninga (1991), A Comparative Study of Distributive System Structure: Australia, The Netherlands and West Germany, Journal of Macromarketing, Fall, Vol. 11(2), pp. 42-55.

Table 2: Triangulated Matrix for the Netherlands

	Intermediate Sector						
	5	4	3	2	1	6	7
5. Public	76	108	37	530	16	14	66
4. Services	56	1086	189	1703	176	218	212
3. Buildings	22	99	955	368	84	34	43
2. Mining	325	877	0	10401	721	21556	5646
1. Agriculture	0	0	0	459	961	6847	0
6. Wholesale	0	916	3852	16132	2178	4342	12355
7. Retail	0	0	0	0	0	0	0
Total	479	3086	5033	29593	4136	33011	18322

	Intermediate Sector						
	5	4	3	2	1	6	7
5. Public		X	X	X	X	X	X
4. Services	O		X	X	X	O	X
3. Buildings	O	O		X	X	O	X
2. Mining	O	O	O		X	X	X
1. Agriculture	O	O	O	O		X	
6. Wholesale	O	X	X	O	O		X
7. Retail	O	O	O	O		O	

Source: Sybrandy and Tuninga (1991), A Comparative Study of Distributive System Structure: Australia, The Netherlands and West Germany, Journal of Macromarketing, Fall, Vol. 11(2), pp. 42-55.

Table 3: Unidirectional and Intrasector Trade Coefficients for the Netherlands

Overall	L	**0.67**	IS	**0.19**
Public	L1	0.66	IS1	0.06
Services	L2	0.57	IS2	0.19
Buildings	L3	0.16	IS3	0.17
Mining	L4	0.63	IS4	0.18
Agriculture	L5	0.75	IS5	0.08
Wholesale	L6	0.64	IS6	0.06
Retail	L7	1.00	IS7	0.00

Table 3 shows that the overall sequence of the flow of goods and services is to a large extent unidirectional, i.e. L= .67. However these intermediate flows are not perfectly unidirectional, some circular flows exist. Korte and Oberhofer (1970) point out that the degree of linearity is smaller for developed nations than that of LDCs because of the increased complexity of trading patterns in more developed national economies.

In examining the individual sectors and their intersector trade patterns the buildings sector provides the only exception to Korte and Oberhofer's statement that preceding sectors are its main suppliers and subsequent sectors are its main customers. This can be seen by the low L3 value. When L is smaller than 0.5 it indicates a reversal of the order that is expected in a triangulated trade flow matrix. The buildings sector shows this unexpected pattern largely because of its market exchanges with one sector, i.e. large input from the wholesale sector.

Furthermore, it is found that in the business to business markets almost 20% of all market exchanges is among businesses within the same industry, i.e. IS = .19. Major differences can be observed when examining individual sectors. Intrasector trade ranges from zero to nineteen percent. For example, the retail sector shows no intrasector trade. This can be explained in that such activities would be classified as wholesale market exchanges since retail market exchanges can only be with final users (private, government, and export). The largest intrasector trade can be found in the services sector. However, for all sectors the intersector trade is dominant.

CONCLUSIONS

Even though the data are relatively old the application of the methodology as is discussed in this paper to the case of the Netherlands is an important first step in the development of measures that can be utilized in the analysis of intermediate markets. The method of triangulation to examine the hierarchical structure of the physical distribution portion of industrial marketing channels within a national economy provides marketers with a useful standardized tool.

Triangulation and the development of related indices will help in comparisons of intermediate market structures in both a longitudinal and cross-sectional manner. To date the limited number of Trade Flow Tables for different countries at different moments in time is a limitation for the application of triangulation as a tool in macromarketing. This stresses the need to develop more such trade flow tables since they provide the basic data inputs for this and other types of analysis of marketing system structures.

Furthermore, once the hierarchical structure is determined using the method of triangulation then the next step is to develop an explanation as to why this particular hierarchy exists. The explanation should be found in the linkage of the marketing system structure with its environment. Both are necessary steps in the development of comparative and macromarketing theory.

The potential of triangulation is that intermediate markets can be compared regardless of level of economic development and size. The comparison of hierarchical structures of intermediate markets at different levels of economic development may reveal important information for the development of comparative marketing theory. In addition, the application of this methodology to marketing systems provides public policy makers with important information regarding issues of marketing and economic development.

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