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**21<sup>st</sup> Annual Macromarketing Seminar\***  
**August 3, 1996**  
**San Diego, California**

**Macromarketing, Marketing History and  
Public Policy Track\***  
**1996 AMA Educators' Conference**  
**August 3-6, 1996**  
**San Diego, California**

**Program Chairperson**  
**Robert A. Mittelstaedt**

\*The Call for Papers and the processing papers for the pre-AMA Macromarketing Conference and the AMA Conference were handled together by Professor Robert A. Mittelstaedt. Acceptable review papers were placed in the AMA track and invited thought pieces were placed in the Macromarketing Conference.

# List of Participants

## 21st Annual Macromarketing Seminar

### August 3, 1996

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James Carman  
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Lee Dahringer  
Butler University

Ruby Roy Dholakia  
University of Rhode Island

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Open University

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Nikholish Dholakia  
University of Rhode Island

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William Redmond  
Bowling Green State University

Clifford Schultz  
Arizona State University - West

Alladi Venkatesh  
University of California, Irvine

**21st Annual Macromarketing Seminar Program**  
**August 3, 1996**  
**San Diego, California**

- 7:00 - 7:45 Continental Breakfast
- 7:45 - 8:00 Welcome and housekeeping details
- 8:00 - 9:00 Cultures, Markets, and Public Policy: A Conceptual Framework with References to Canada  
*Thomas Klein, University of Toledo*
- Intellectual Property Protection and Indigenous People  
*John Mittelstaedt, University of Wyoming; Robert Mittelstaedt, University of Nebraska*
- 9:00 - 9:15 Break
- 9:15 - 10:45 Global Trade's Impact on Quality of Life  
*George Fisk, Emory University*
- On the Relationship of Economic, Technological and Political Dimensions to the Environment: Implications for Macromarketing and Consumption  
*William E. Kilbourne, Sam Houston State University; Pierre McDonagh, University of Stirling*
- From Citizen to Consumer: A Global Transformation  
*A. Fuat Firat, Arizona State University; Alladi Venkatesh, University of California, Irvine*
- 10:45 - 11:00 Break
- 11:00 - 12:00 Market-Shaping Infrastructures: An Economic Framework for Understanding Internet and Electronic Markets  
*Nikhilesh Dholakia and Ruby Roy Dholakia, University of Rhode Island*
- A Theory Based Model for Understanding the Restrictive Use of New Computer Technologies by Women  
*Patricia Kennedy, Cara Okleshen, and Sanford Grossbart, University of Nebraska*
- 12:00 - 1:00 Lunch in the Bayview Room.

# Macromarketing, Marketing History, and Public Policy Track

## 1996 AMA Summer Educators' Conference

***Session 4.7 Integrating Macro- and Micro-Marketing Theory***  
***Grande Ballroom A***  
***Sunday, August 4***  
***3:30-5:00 pm***

**Chair: Kenneth Anselmi, East Carolina University**

*Alderson's Austrian Antecedents: A Missed Opportunity for Macromarketing*  
*Donald F. Dixon, Open University of the Netherlands*

*Distinguishing between Markets and Economies, and the Consequences for Macromarketing*  
*John D. Mittelstaedt, University of Wyoming*

*Contemporary Social Theory and the Bass Diffusion Model*  
*William Redmond, Bowling Green State University*

***Session 5.7 Special Session on Interactive Marketing and Electronic Commerce***  
***Grande Ballroom A***  
***Monday, August 5***  
***8:00-10:00 am***

**Chair: Sanford Grossbart, University of Nebraska**

*The Character of Interactivity in Electronic Commerce and Its Macromarketing Implications*  
*Sanford Grossbart, Cara Okleshen, and Patricia Kennedy, University of Nebraska*

*Theories of the Marketplace in the Age of Electronic Commerce*  
*Ruby Roy Dholakia and Martin Laub, University of Rhode Island*

*Computer-Mediated Communication and Virtual Community: In Search of Gemeinschaft*  
*Cara Okleshen, Sanford Grossbart, and Patricia Kennedy, University of Nebraska*

*Electronic Commerce and the Next Stage of Globalization of Markets*  
*Nikhilesh Dholakia and Neset Hikmet, University of Rhode Island*

No papers  
for special  
session

**Session 8.7**

***Integrating Consumer Research and Public Policy Concerns***

***Grande Ballroom A***

***Monday, August 5***

***3:30-5:00pm***

**Chair: Bryce W. Griffin, Bradley University**

**Discussant: Barry Babin, University of Southern Mississippi**

**The Advertising of Nature's Substitutes: Societal Issues and Implications**

*Sharon Harris, University of Memphis*

**Should Children's Television Programming Be Regulated? Mothers' Perceptions and Preferences**

*Russel N. Laczniak, Iowa State University; Les Carlson, Clemson University; Ann Walsh, Lewis-Clark State College*

**Neglected Dimensions of the Surrogate Experience**

*Stanley C. Hollander, Michigan State University; Kathleen M. Rassuli, Indiana-Purdue University at Fort Wayne*

**Session 9.7 Social Marketing and Ethical Concerns**

***Grande Ballroom A***

***Tuesday, August 6***

***8:00-10:00am***

**Chair: Kenneth Coulson, Northeastern Illinois University**

**Discussant: Dan Wardlow, San Francisco State University**

**Moral Reflection: Thinking About Business Ethics**

*Robert J. Corey and Paula Fitzgerald Bone, University of West Virginia*

**Marketing Social Programs to Hispanics: A Segmentation Study**

*Natasha R. Kara, Youth Advocate Program of York Pennsylvania; Ali Kara, Pennsylvania State University at York*

**Environmentally-Based Marketing Programs: A Strategic Approach to Enhancing Marketing Performance**

*Ajay Menon and Jackie Jankovich, Colorado State University; Jhinuk Chowdhury, University of North Texas*

# **21<sup>st</sup> Annual Macromarketing Seminar**

**Papers delivered  
August 3, 1996**



# CULTURE, MARKETS, and PUBLIC POLICY: A CONCEPTUAL MAP\* with References to Canada

Thomas A. Klein  
*The University of Toledo*

**ABSTRACT:** *Cultural goods and services have significant social content as well as reflecting economic forces of supply and demand. Thus, communities of peoples have an interest in the production and, at least, the opportunity to consume cultural artifacts that may not correspond to conventional economic interests or conditions. In such a context, public policies may attempt to promote or protect the market for selected cultural goods and services. Conversely, economic interests - and institutional arrangements involved in disseminating cultural goods and services - may be at odds with those policies based on costs, potential demand, and, possibly, internal organizational factors that amount to yet a third force. The purpose of this paper is to provide a relevant taxonomy for analyzing the marketplace for cultural goods and services. Some general comments on how social, economic, and organizational forces may reinforce or conflict with one another will be offered. Special references to Canada, which has become something of a cultural battlefield, particularly in the wake of the North American Free Trade Agreement, will demonstrate the application of these concepts.*

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## Introduction

Assuming that the protection of a nation's cultural heritage is of value, what should be the interplay of markets and public policy in achieving this goal?

The conflict between market trends and forces driven by interests of individual consumers and producers and presumably larger social interests is familiar ground in macromarketing research. Environmental regulation, gun control, and sumptuary laws are typical manifestations of so-called "micro-macro conflicts" that excite proponents and opponents of free markets as well as many scholars. Another example is efforts by national governments to protect local arts and artists from incursions of popular culture from other lands.

## *Culture as a Marketing Variable*

The cultural dimension of marketing has received considerable recent attention in the macromarketing literature. The marketing paradigm itself, specific goods and services, pricing policies and strategies, distribution methods, and, of course, advertising may have significant cultural biases. Thus, a cultural perspective - perhaps based on religious beliefs or national heritage or, in some interpretations, sexual or ethnic politics - is a force to be reckoned with in understanding managerial or public policy in many, perhaps most, market settings.

Apart from informing theory and policy, much of this literature has an element of social criticism. Thus, feminists decry certain themes in cosmetic and alcoholic beverage advertising and those sympathetic to traditional cultures view the propagation of automobiles and mass media and merchandising with alarm.

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\* Prepared for presentation to the Macromarketing Seminar, San Diego, California, August 2, 1996

Concluding Comment

The primary thrust in this treatise is the policy problem of protecting indigenous cultural forms. One can observe some absurdities in the ways that nations sometimes go about the task of protecting indigenous arts and artists. But it is not the intent of this discussion to propose any particular vision or model for carrying out this protective function.

Rather the argument is that the topic of cultural diffusion and extinction is complex. Depending, for example, on the precise goal of policy in this area, whether the cultural form being supported is truly indigenous or a fusion of some previously imported form, whether the conditions that foster or prevent diffusion are economic or social, and the extent to which media are subject to control, different policy options carry with them different promises for effectiveness and cost.

The final allusion is to the Cold War Soviet Union and Nazi Germany. Hitler and Stalin Era efforts to suppress the importation and production of "liberal" literature, music, and art were ultimately unsuccessful and probably contributed to the demise of the regimes that authored those efforts. While there may have been some social merit in publicly upholding some archetypes that supposedly matched the philosophical agenda of those regimes, some "political" methods of trumping the market proved to be overmatched by the desire for freedom of expression and consumption.

**References**

Kasoff, Mark J., and Christine Drennan, eds., *Canadian Cultural Sovereignty*, Proceedings from the 9th annual Reddin Symposium. Bowling Green, OH: Bowling Green State University Canadian Studies Center, 1996.

Zemans, Joyce, "'And the Lion Shall Lie Down with the Lamb': U.S.-Canada Cultural Relations in a Free Trade Environment." *The American Review of Canadian Studies*, 24:4(Winter 1994):509-36.

## **Global Trade Impact on Quality of Life**

**George Fisk, Georgia Power Professor of Marketing,  
Emeritus  
Emory University, Atlanta, Ga**

Business and political leaders support globalization of trade. Business Week, for example, argues that the “great sucking sound” turned out to be Detroit autos, not jobs going south (Business Week,) Dec 26,1994, p 206). Politicians urge free trade as a means to develop new markets, gain access to advanced technology, reduce labor costs and acquire new sources of raw materials. To achieve these promised results firms in many countries have entered strategic partnerships and signed licensing and franchise agreements extending the market reach of even medium size firms to global dimensions. National governments are signing trade pacts such as the European Common Market Agreement, The General Agreement on Trade and Tariffs and the North American Free Trade Agreement.

What quality of life (QoL) impact is borderless trading having on billions of the world’s people? Pursuit of development and economic growth is adding visible but unanticipated costs as well as benefits. Many of these benefits and costs are counterintuitive: -unexpected -consequences of interest to macromarketing analysts and policy makers alike. This paper traces major impacts of global trade on “quality of life,” a concept definable in either physical and objective terms or by subjective well being criteria such as happiness or life satisfaction. While our

judgment must follow that of Chairman Mao, who is reported to have replied when asked what he thought about the French Revolution: "it is too soon to tell." The reasons for not rushing to judgment will become apparent later...

### **Societal Goal of Marketing**

Tables 1 and 2 define the societal functions served by marketing. The societal function of marketing is not to satisfy the wants of business or political leaders, but to raise the quality of life by delivering the standard of living that a society is capable of producing as shown in table 1. Additionally it is to provide consumers with access to the fruits of advances in knowledge that will further enhance their quality of life via technology transfer, partially identified in table 2 in education and literacy statistics...

#### **Table 1. Common Dimensions of Quality of Life Related to Consumer Marketing**

**Source:** M. Joseph Sirgy, 1996, "Strategic Market Planning Guided by the Quality of Life, (QoL) Concept," J. of Business Ethics, 15 p 244.

#### **Table 2. Comparison of Five Wealthiest and Five Poorest Nations in Purchasing Income**

**Source:** Ed Diener and Mark Suh, 1995, "International Differences in Subjective Well Being and Quality of Life," Paper delivered at Fifth Quality of Life Conference, Fort Magruder Inn, Williamsburg, Va., Nov 30-Dec 3.

A direct effect of marketing activity is to make life easier by making a wider assortment and larger quantities of goods and services available to consumers. Quality of life improvements stemming from gains in nutrition, health care delivery and other services contribute additional indirect "spillover" benefits. One spillover is to enlarge opportunities for new enterprises with their attendant

**TABLE I**  
**Examples of common dimensions of quality of life related to consumer marketing**

Subjective indicators	Objective indicators
<ul style="list-style-type: none"> <li>• Life satisfaction</li> <li>• Personal health satisfaction</li> <li>• Job satisfaction</li> <li>• Marital and family satisfaction</li> <li>• Satisfaction with neighborhood and community</li> <li>• Satisfaction with one's own housing conditions</li> <li>• Satisfaction with one's own means of transportation</li> <li>• Satisfaction with one's educational accomplishments</li> <li>• Satisfaction with educational opportunities that are available</li> </ul>	<ul style="list-style-type: none"> <li>• Standard of living measures</li> <li>• Global physical well-being measures</li> <li>• Absenteeism from work</li> <li>• Tenure at work</li> <li>• Tenure in marriage</li> <li>• Amount of leisure time spent together</li> <li>• Composite of measures tapping crime, educational facilities, leisure and cultural activities, transportation facilities, environmental pollution, etc.</li> <li>• Composite of measures tapping number of rooms per number in household, degree of furnishing, quality of furnishings, quality of utilities, etc.</li> <li>• Time spent in transport</li> <li>• Transportation expenses</li> <li>• Level of educational attainment</li> <li>• Number of quality educational programs available to a consumer segment</li> </ul>

**TABLE 2** Comparison of five wealthiest and five poorest nations in purchasing income

	<u>Mean of Five Poorest Nations<sup>1</sup></u>	<u>Mean of Five Richest<sup>2</sup> Nations</u>
Water (% with safe drinking water)	30	100
Longevity (life expectancy)	48	76
Infant mortality rate per 1,000	126	10
Persons per physician	49,876	668
Gov. spending on wel., housing, and SS (%)	4	35
Deforestation (as % of total forests per year)	.50	-.10
Fertility rate	6.7	2.3
Percent nationally protected land	4.3	8.1
Adult literacy rate	42	90
Percent attending secondary school	8	89
Percent attending colleges and universities	1	50

1. Ethiopia, Mali, Tanzania, Mozambique, & Chad

2. Sweden, United Arab Emirates, Canada, Switzerland, and U.S.A.

increases in employment and purchasing power. Another is to generate side effects of innovation in production and consumption.

Examination of quality of life impacts of global trade is in its infancy, but it is already possible to chart direct and external impacts of rising per capita consumption. While assessments will improve as the number and accuracy of statistical time series multiply, we can begin by looking at implications of rising per capita consumption and rising numbers of people whose consumption aspirations will have to accommodate to changing ecological and economic realities. What can technology provide for the generations of people yet to come? One widely supported societal goal is to achieve levels of per capita consumption consistent with healthy lives without exhausting resources available.

### **Measuring QoL Improvements**

As a basis for orienting discussion based first on objective indicators of physical quality of life, let us examine Figure 1 designed to measure progress in poorer countries. Physical quality of life is here based on life expectancy at age one, rates of literacy and infant mortality. Except for Africa improvements in quality of life physical quality of life indexes rose substantially between 1960 and 1990 as shown by the spread of the darker shaded areas on the bottom global map. Even SubSaharan Africa has improved, but not by as much as the rest of the world. How does this global change translate into other dimensions of quality of life?

**Figure 1. Physical Quality of Life Index 1960 Compared to 1990.**  
**Source:** Scientific American, July 1996, "News and Analysis", p28.

BY THE NUMBERS

# FIGURE 1 The Changing Quality of Life

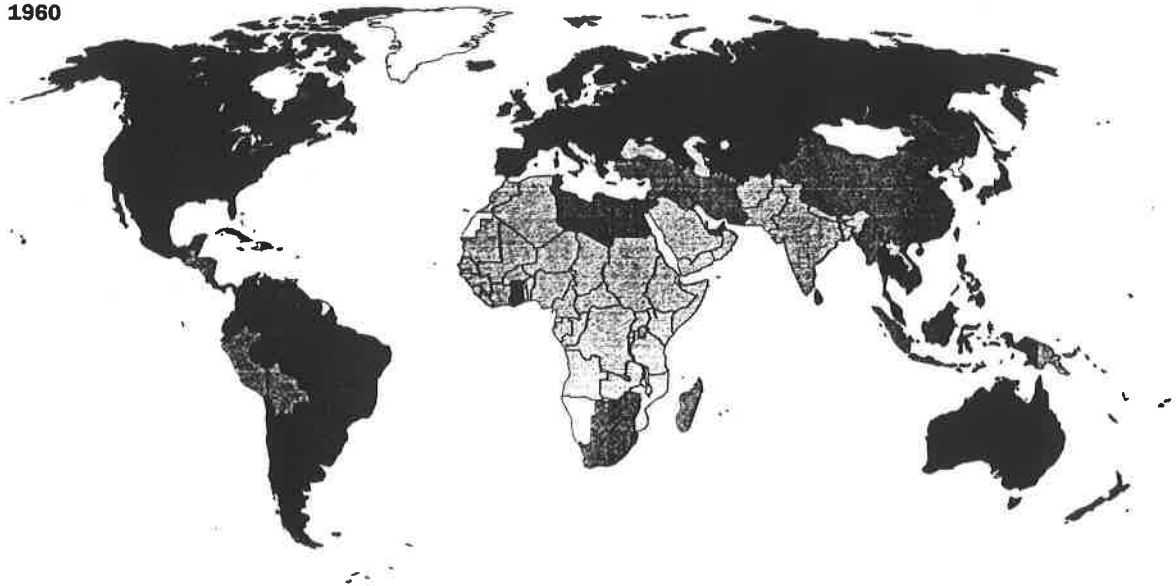
**T**hese maps show the Physical Quality of Life Index (PQLI), developed by Morris David Morris of Brown University to measure progress among the poorer countries. The PQLI is based on life expectancy at age one and rates of literacy and infant mortality. Values range from a low of 6.3 in the West African nation of the Gambia in 1960 to a high of 94 in Japan in 1990. Because the PQLI is based on end results, it has advantages over other methods. Per capita gross national product in Iran, for example, is less than one third that of Saudi Arabia, yet the 1990 PQLI scores of the two countries are identical, indicating that income and wealth are more evenly distributed in Iran.

The most important conclusion to be drawn from the maps is that despite a huge global increase in population, there was considerable improvement in the quality of life among developing nations, including those in sub-Saharan Africa,

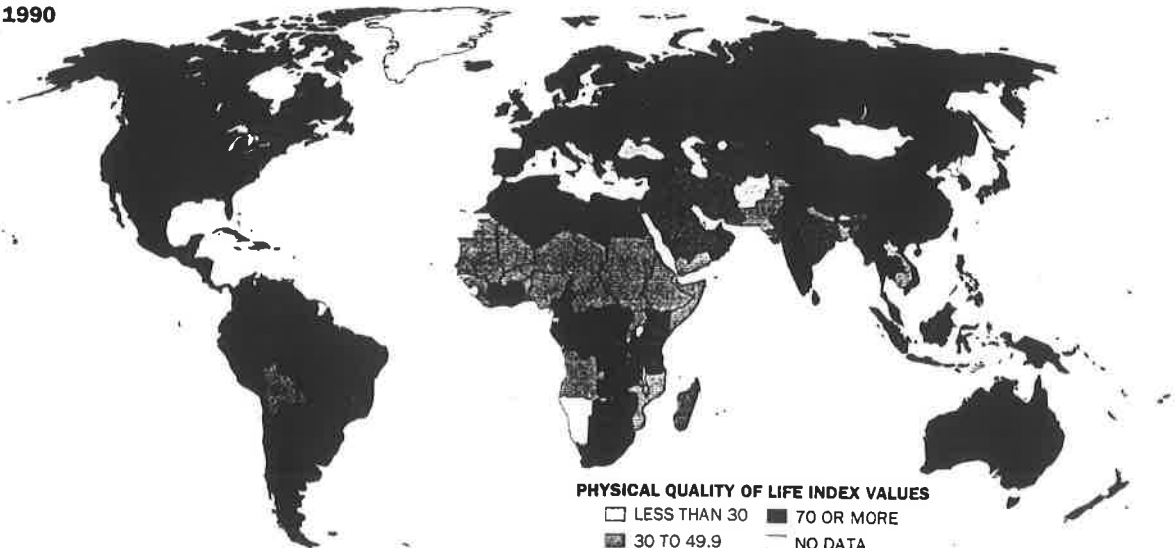
the poorest region on the earth. Preliminary data for 1993 show further progress in most areas, a major exception being 13 countries in sub-Saharan Africa that suffered drops in PQLI scores averaging three points, which came as a result of decreased life expectancy and increased infant mortality. Losses are caused, at least in part, by the spread of AIDS, which has affected this area more severely than any other.

But the long-term prospect is not necessarily bleak, for the AIDS epidemic may subside, perhaps as early as the next decade. Furthermore, the historical record has registered a more or less steady improvement in the PQLI. Other countries that once had scores as low as those in the sub-Saharan region have shown remarkable change: Sri Lanka had a score of only 19 in 1921, but by 1993 it had reached 85. And 100 years ago the U.S. had about the same PQLI score as the sub-Saharan countries do today. —Rodger Doyle

1960



1990



PHYSICAL QUALITY OF LIFE INDEX VALUES

- LESS THAN 30
- 70 OR MORE
- ▨ 30 TO 49.9
- NO DATA
- ▩ 50 TO 69.9

Macromarketing Proceedings 1996 use page number to the right for citing



Figure 2 shows how cities around the world compare on additional dimensions of quality of life : market growth potential and business infrastructure, indicating job opportunities, cultural acceptance of outsiders, personal risks and ability to recruit and retain employees from elsewhere than the city being rated. If you believe that people vote with their feet, San Francisco, Toronto, and New York rate as excellent in recruitment and retainment, but if growth potential is the criterion of interest, Asian cities lead the pack. However, quality of life is multidimensional, so Hong Kong and Singapore have excellent ratings in four of the five criteria and Brussels, Zurich , Geneva and Toronto are excellent on three criteria each. What QoL consequences from this set of trade related physical and economic criteria will propel sustainable global development?

### **Figure 2 How the Cities Stack Up**

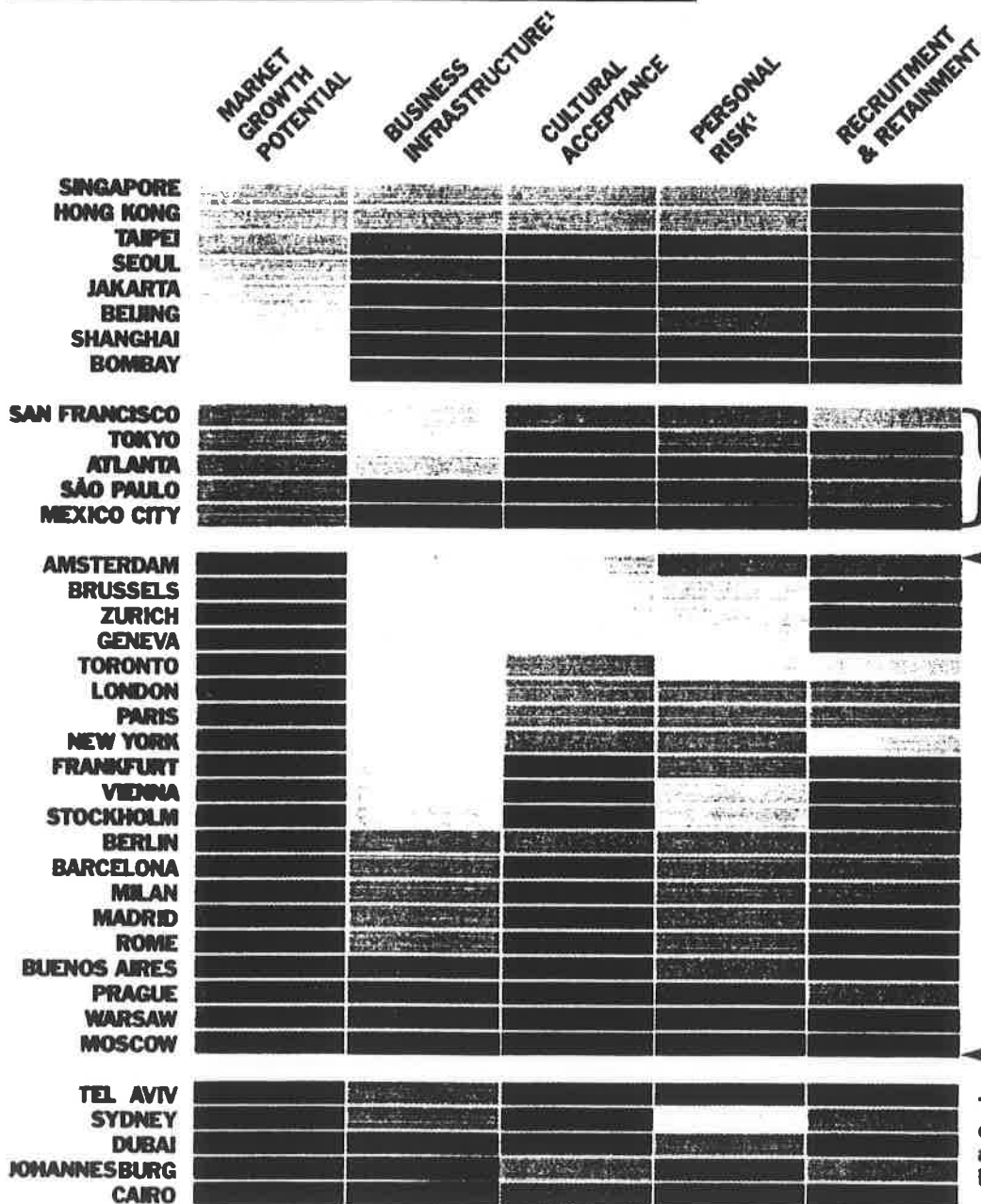
**Source:** Fortune, Nov 13,1995,p. 94.

Before tracing relationships between rising levels of living triggered by globalization and its impacts on physical quality of life it is appropriate to ask about subjective well being levels around the globe. Are people happier as incomes and consumption levels rise? Does an increase in trade raise the quality of life, like the tide that raises all boats? As Figures 3 and 4 illustrate, income can rise while well being in either physical or happiness terms declines. In Figure 3 , Ireland and Finland are at comparable levels of life satisfaction despite the fact that 1984 gross national product per capita in Finland was more than twice the per capita GNP in Ireland. Similarly in the USA , longitudinal measures of people who were very happy fluctuated between 30 and 40 per cent between 1960 and 1990 while

**RATINGS:**



# HOW THE CITIES STACK UP



**Why is Singapore sizzling? Where does Mexico City stand? Here's a visual comparison of the world's great cities plotted by market growth and other vital criteria.**

Is there any doubt why we are approaching the Pacific Century? The greatest market-growth potential is overwhelmingly Asian. The only major question: Will infrastructure keep up with growth?

Despite growth potential matching some top cities, Latin American cities are noticeably absent from Fortune's list. They could move into the elite—if their problems don't overtake them.

Most of Western Europe's major cities are struggling with modest growth as their social costs climb. Eastern Europe, despite low costs, still has enormous problems with crime and infrastructure.

The lack of internal peace defines three of the five bottom dwellers. Sydney is a breeze to live in but way down under; Dubai lives and dies with oil.

<sup>1</sup>Based on information from the Futures Group. FORTUNE GRAPHIC / SOURCE: ARTHUR ANDERSEN

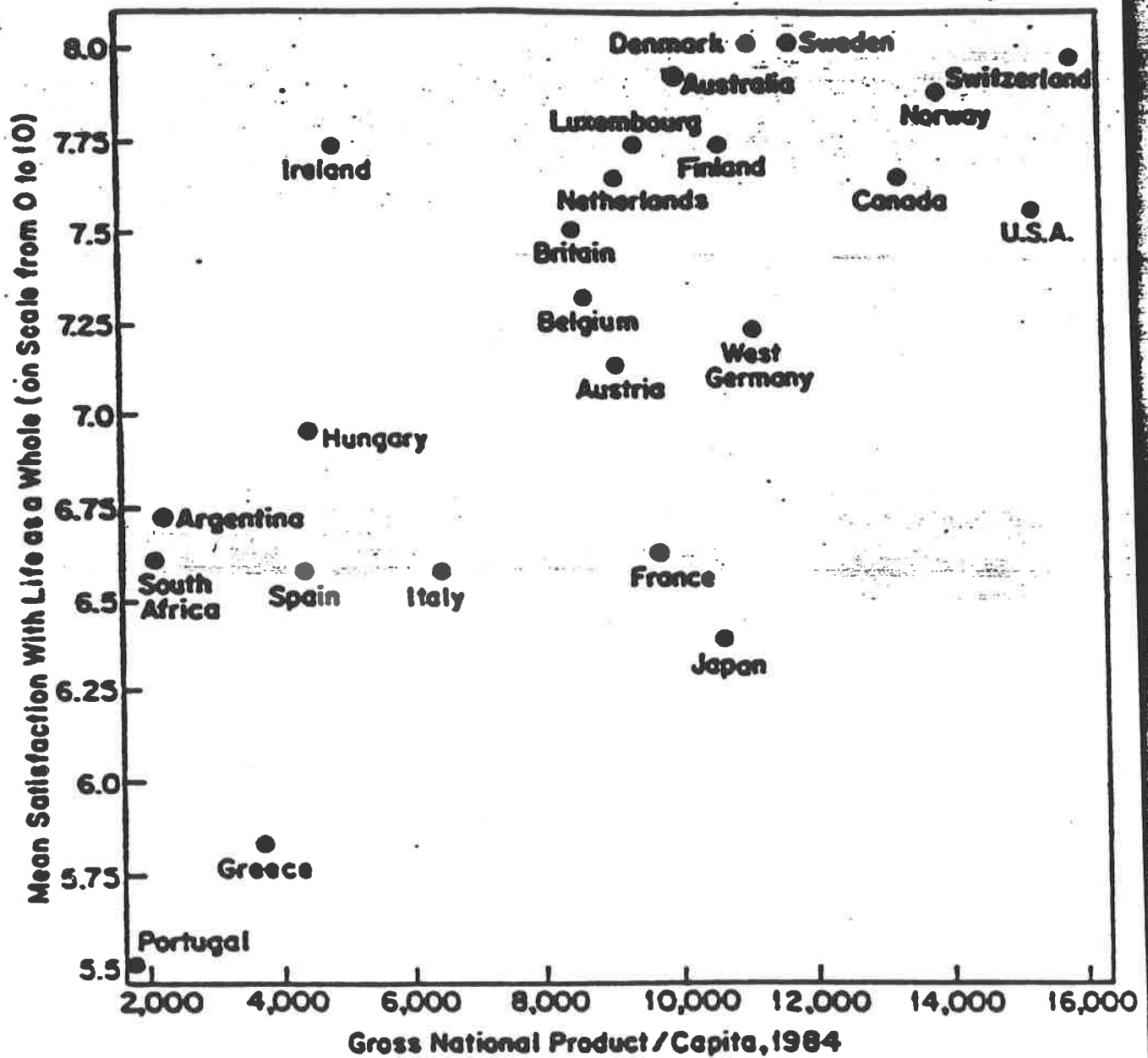


Fig. 3. National wealth and well-being in a 24-nation collaborative survey. Euro-Barometer and World Values Survey data reported by Inglehart (1990).

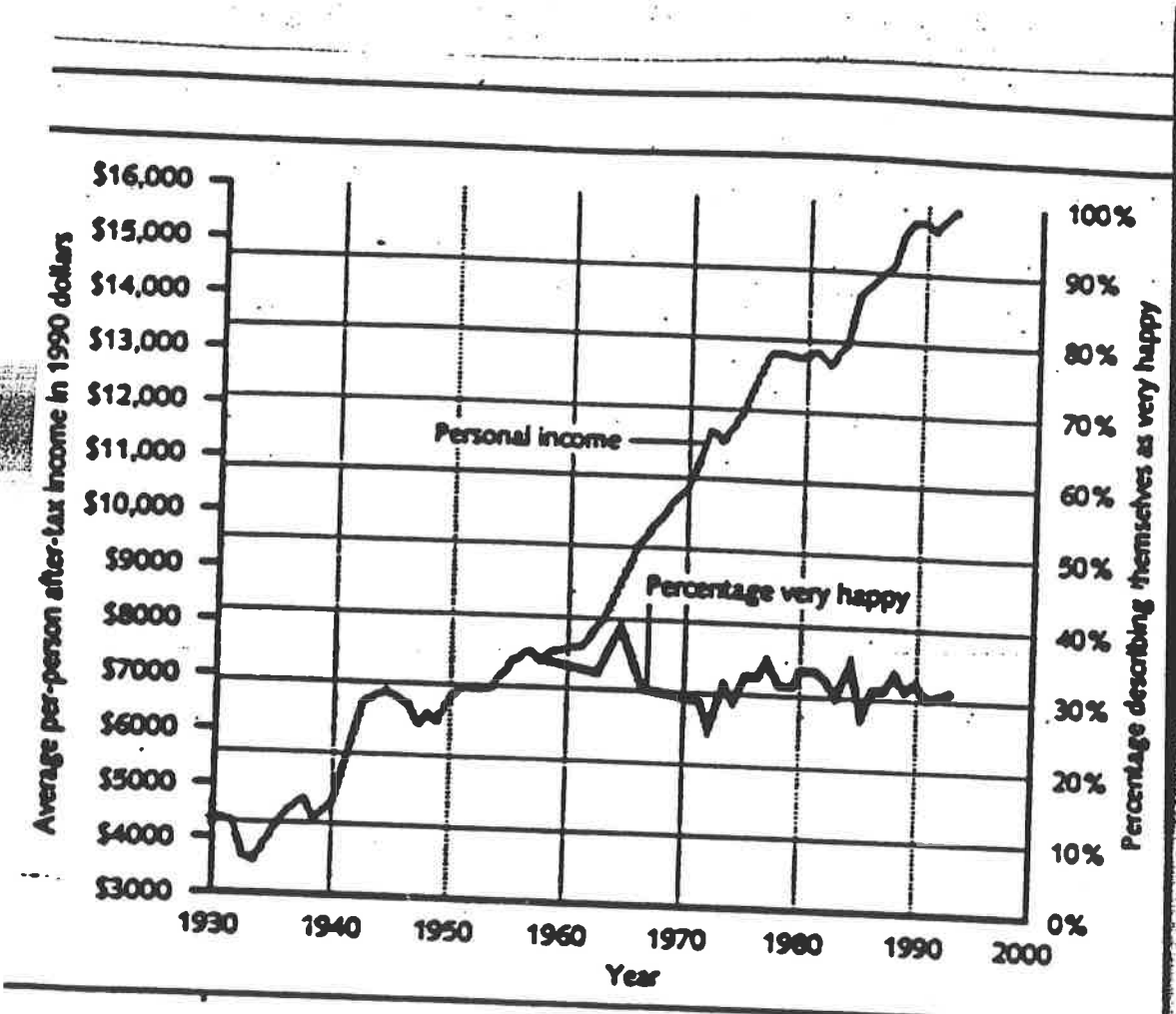


Fig. 4. Inflation-adjusted income and happiness in the United States. National Opinion Research Center happiness data from Niemi, Mueller, and Smith (1989) and T. Smith (personal communication, November 1993). Income data from Bureau of the Census (1975) and *Economic Indicators*.

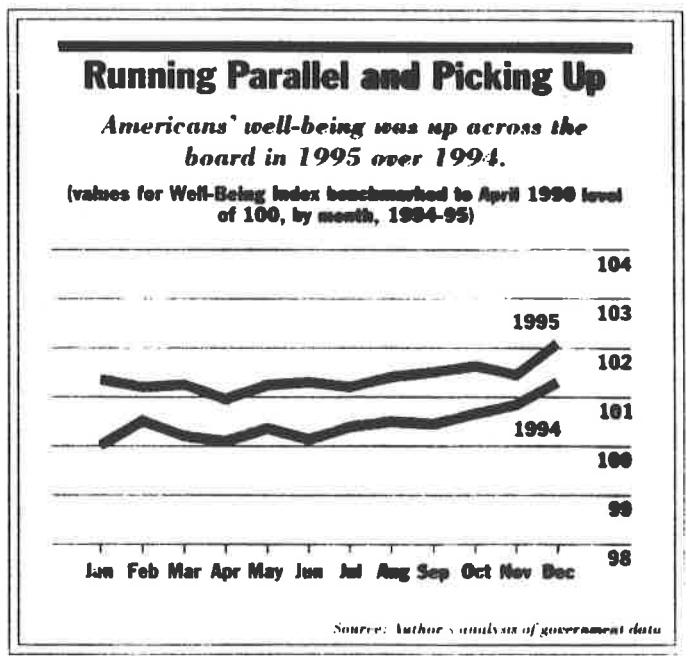
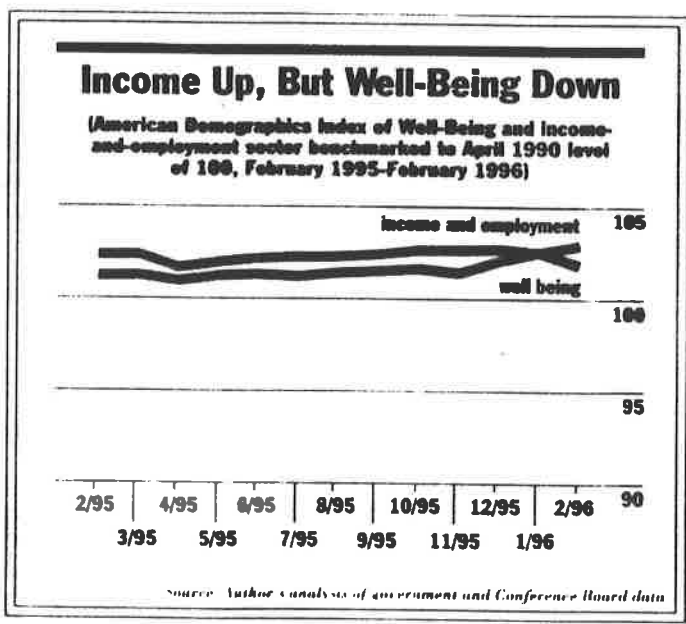
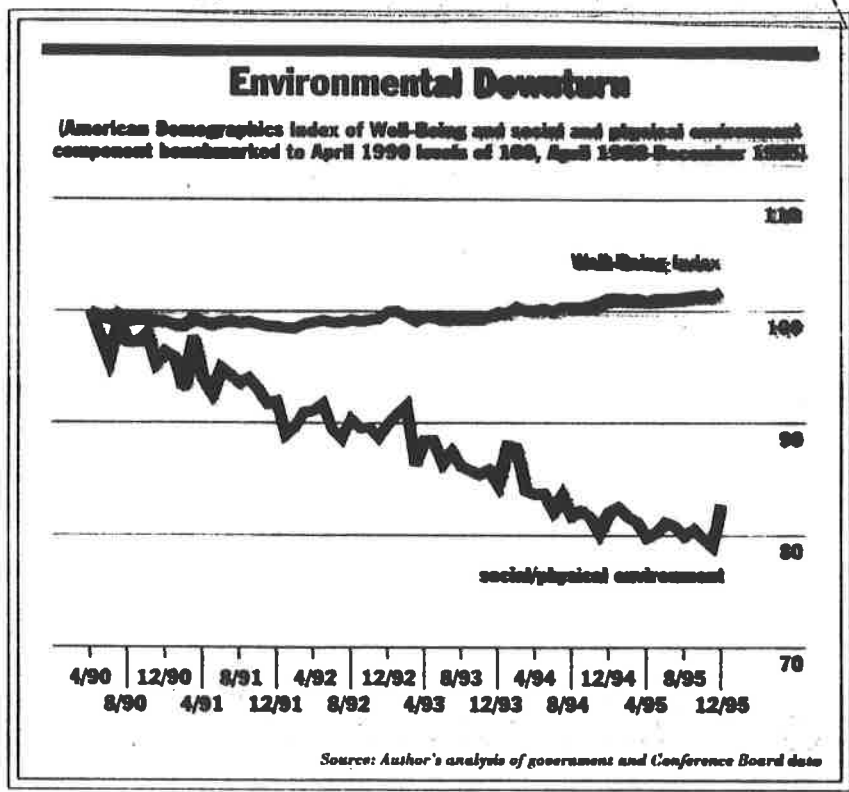


FIGURE 5. CHANGES IN WELL BEING RELATED TO CHANGES IN SOCIAL/PHYSICAL ENVIRONMENT AND CHANGES IN INCOME AND EMPLOYMENT.

average personal income in constant 1990 dollars climbed from about \$6,000 to \$16,000 during the same period. What accounts for the growing gap between feeling happy and being richer, or between feeling happy and healthier and better educated?

**Figure 3. National Wealth and Well Being  
in a 24 Nation Collaborative survey**

**Figure 4. Inflation Adjusted Income and Happiness in the U.S.**

**Source:** Figures 3 and 4 from David G. Myers and Ed Diener, 1995, Psychological Science, "Who is Happy?", 6, January, p 13.

Common sense alone suggests that "unwanted and often unexpected consequences" : social costs are multiplying more rapidly than social benefits..

President Clinton recently explained to Chinese officials that the thing that worried him most about China was that the Chinese people would develop consumption patterns like Americans as their economic well being improved. Can the world stand one billion automobiles? What will happen on that fateful morning when one billion Chinese start their family cars to get to their jobs or other destinations?

Figure 5 charts the environmental downturn relative to the well being index in the USA from April 1990 to December 1995. Figure 5 also shows that in physical as well as in psychological terms that income and employment can rise when well being turns down. Is this sustainable development? This finding has been replicated in several studies. It has important QoL implications.

**Figure 5. Changes in Well Being Related to Changes in  
Social/Physical Environment and Changes in  
Income and Employment**

**Source:** 5A1996, Points for Good Behavior, "American Demographics, May, p10.  
5B., 1996, Money Isn't Everything, American Demographics, July, p. 10.

## Quality of Life Effects of Global Trade

We are far from ready to prescribe continuing globalization of trade as the path to sustainable development, , but we can all identify some of the major quality of life effects of global trade that are essential if the global economy is to approach sustainable development. Economic, environmental and cultural QoL impacts will be reviewed briefly. Although modeling and estimating benefit/cost impacts within the global trade network would take resources far beyond those here available this needed step could contribute importantly to business and public formulation for directing global trade toward feasible improvements in quality of life..

### Policy and Research Implications

The impacts of global trade on future changes in quality of life are foreseeable in economic, environmental and cultural areas of concern. The Economist estimates that “quality of life for humans (in physical terms) has improved by 44% since 1980. fifteen countries, mostly in Asia have...made a great leap forward. On the purely economic front 70 countries have lower average incomes than in 1980 and an alarming 43 are poorer than they were in 1970. “(Economist, July 20, 1996, p 34.) Certainly the global spread of sweatshops, many supervised by brutal military dictatorships does not raise levels of living for their citizens. Nor does the use of developing nations as pollution havens contribute to a cleaner, greener environment. The clearing of tropical rain forests is of concern to all nations because of the climate and weather changes that accompany deforestation. The direct profitability of such externality cost

generating activities masks a fearful social cost that is presently observable although incalculable.

“Probably the single most important reform needed to place world trade on a more sustainable footing is widespread internalization of environmental costs through tax policy and other measures. ...to adequately confront the environmental challenges posed by world trade, costs must be internalized not only within nations, but between them as well.” (Costly Tradeoffs: Reconciling Trade and the Environment, 1993 Worldwatch Paper 113, Hilary F French, Washington, D.C.), pp58,59.

Although the World Bank is funding a large and growing number of environmental projects, (Mainstreaming the Environment, World Bank, Washington, D.C. 1995.) it cannot prevent overfishing, mining pollution and desertification, Nor does the deforestation of poorer countries reduce consumption in richer lands. The search for pollution havens is not mitigated by global treaties: if proscription of ozone depletion is unenforced by international policing efforts. However, “the Bank seeks to apply two principles: in addressing global environmental problems integration of ...global concerns into national policymaking and increased effectiveness of scarce grant resources through financial leverage and market-based approaches.” (Mainstreaming the Environment, p8). While progress in fishing treaties, multinational free trade agreements and other resource conserving and allocation methods is evident on a global scale, cost/benefit impact surveillance must await more experience before



results will be incontrovertably applicable in global trade/environmental tradeoff negotiations.

Environmental protection is also being attempted in rain forest preservation with aid from the World Bank, and other international bodies. Endangered species protection acts are slowing the loss of endangered species to black market smugglers, but natural habitats are still disappearing due to the demands of real estate buyers whose purchasing power exceeds that of rural land users and local governments. Again the balance of socially beneficial and harmful activities are not adequately monitored to inform us about which direction global trade is pushing QoL benefit cost ratios. One can take the word of Joel Cohen who asserts that human population is linked to its environment (Cohen, 1995, N.Y. How Many People Can the Earth Support?) or assert with equal fervor that the supply limits to growth are technological, subject to the laws of free market economics as Julian Simon and his colleagues maintain (Simon, ed. 1995, Cambridge, Ma, The State of Humanity.)

Clearly, the impact of global information transmission is loosening the grip of political power in the hands of national leaders around whom business firms weave their growing interdependence. With licensing, cross border alliances and partnership arrangements, global business firms are weaving a new supranational institution to advance global trading. Will businesspeople have the wisdom to recognize the value of supranational environmental protection and cultural resource institutions as well?

If environmental perils do not threaten a sustainable society, cultural loyalties may do so if unacknowledged by the international community.. On the one hand the international demonstration effect is leading to the global export of Euro-American life styles. On the other, the practice of bribery to win international contracts for passenger airplanes and power plants is forcing business firms to adapt to prevailing ethical standards to remain globally competitive. No one can foresee whether the clash between fundamentalist religious movements and secular business values will conclude in violent international confrontations or whether trade will serve the cause of peace . Because nobody shoots Santa Claus, quality of life can be enriched for all the world's people if cultural differences are recognized as sources of enrichment, but the ethnic and cultural rivalries now infecting some countries threatens wider disturbances if additional measures to promote intercultural exchanges are not undertaken.. Investment in broadening understanding of cultural difference is urgently needed.

On the trivial note that we need more research to develop the knowledge needed to guide political and business decision making concerning the impacts of global trade on our quality of life, we can readily identify a growing but not fully relevant body of global data bases available to scholars in every cognate discipline. Here are four readily available, periodically collected data bases from which data are available for hypothesis testing. Are we ready for this?

Church, Jenny, ed., Social Trends 25, 1995, London, Central Statistical Office

Dorgan, Charity A, ed, Gale Country and World Rankings Reporter, Detroit, Gale Research.

European Marketing Data and Statistics, 1996, London, Euromonitor PLC

Social Indicators of Development, 1995, Baltimore, Johns Hopkins Press

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**On the Relationship of Economic, Technological, and  
Political Dimensions to the Environment: Implications for  
Macro-Marketing and Consumption**

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educators, policy makers, and marketers to develop strategies which are able to acknowledge the polysemy of 'the environment.' (Macnaughten and Urry 1995; Murphy 1994) This should be researched as well as appreciating how people depict particular environments and their worth based on their understanding of the potential impacts of events within their local context.

In any attitudinal research then, it is vital to assess how people perceive the link between the socio-economic and the environmental especially when attitudes are toward complex ideas such as sustainability (see for example Macnaughten et al. 1995; Macnaughten and Jacobs 1996). In many ways, assessing current attitudes, in such a way, allows the researcher to assess the likelihood of any progress to a situation of a continuation of a dominant social paradigm, a shift to its environmental alternative, or some variation of the two as shown in Figure 1 below:

**Figure 1**

**[put figure 1 here]**

The dominant social paradigm typifies what has been described as anthropocentrism by Pauchant and Fortier (1990):

The anthropocentric doctrine proposes that humanity perceives itself to be the centre and ultimate goal of the universe, viewing the environment as a mere function existing for its sole convenience. (p.190)

science is "...the single most decisive non-anthropocentric intellectual force in the Western World." (quoted in Eckersley 1992, p. 51)

**Table 2: What Ecocentrism is and what it is not**

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Ecocentrists are against scientism, that is the conviction that empiric-analytic science is the only valid way of knowing, and technocentrism that is anthropocentric optimism

The inclusiveness of all beings means that it is far more protective of the Earth's life-support system than an anthropocentric perspective

The recognition that nature is not only more complex than we presently know but also more complex than we can know

Ecological tragedy is both human and nonhuman

We are all constituted by our relationships between other humans and our political, economic and cultural institutions.

Ecocentrists are not seeking to discard the central value of autonomy in Western political thought but to replace it with a revised ecological notion of self that incorporates the individual and social aspects in a more encompassing framework.

Ecocentrism aims to extend the notion of autonomy to encompass layered interrelationships that extend personal and societal relations to include relations with the rest of the biotic community.

*Common criticisms answered:*

1. We don't have to be other things to remind ourselves that other meanings exist, even if we are severely limited by them.
2. Rather than being anti-human the belief is against the ideology of human chauvinism.
3. The view condemns anthropocentric views embedded in humanist heritage not humanism in its entirety.
4. The view seeks to cultivate an orientation of non-favouritism but does not mean humans cannot eat or act to defend themselves
5. There is no a priori reason why legal rights cannot be ascribed to nonhuman entities
6. Ecocentrists do not need to depict nature as essentially benevolent or benign in order for humans to respect it and regard it as worthy.

Source (Adapted from Eckersley (1992))

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There are many different approaches which are consistent with an

neo-classical economics, the ethical and political aspects were cleaved from the discipline since they were not amenable to quantification and, thereby, were considered non-science.

(Mirowski 1988, 1989; Kassiola 1990) The basic result of this was the completion of the economic reductionism that began with Adam Smith. With atomistic individuals each pursuing their own self-interest in impersonal markets, it was argued that the greatest good would accrue to society through the operation of the invisible hand. Questions of morality and the distribution of wealth which had occupied the classicalists, were expunged from economic discourse. Further, the abstract concept of utility replaced production and consumption of material goods effectively separating economics from nature as well. The pursuit of economic growth became the *summum bonum* of progress and through it, all the needs of society could be met. The meaning of life was 'desacralized' and became the pursuit of material gain. How to effect this process became the province of marketing as we find it today. The over-arching goal of marketing remains, as suggested earlier, to maximize consumption suggesting that it still follows the direct track of the neo-classical paradigm.

*Macro dimension.* The primary macro aspects of the economic contribution to environmental degradation are derivatives of the micro dimension. It is generally assumed within economics that the maximum social good is achieved as the sum of individual goods, i.e., it is a product of the neo-classical assumptions.

which results consistently in the exploitation of the poor, can therefore, not be compatible with sustainability. This was recognized even by the classical economists more than a century ago when Mill (1985) devoted an entire chapter to the steady state economy which will inevitably arise out of capitalism. More recently, Schumpeter (1942) argues that, by its very nature, capitalism cannot be stationary and thus contains within it a self-destructive logic. Ironically, he argues that, within capitalism, it is not its failures, but its very success that undermine the institutions that make success possible. These two taken together prompt Heilbroner (1985) to argue that the nature and logic of capitalism compels continuous economic growth.

#### **The Technological Dimension**

Since the development of science as we know it today, its ultimate purpose has been, in Bacon's (1944), the elimination of the "inconveniences of man's estate," not science for its own sake which is a uniquely Aristotelian view. Whether science preceded technology as Heidegger (1977) suggests or technology preceded science as White (1967) suggests is moot at this point.

Since the 19th century, they have formed an indissoluble unity impressed into the service of industry becoming the means for economic's end of perpetual growth and increasing efficiency. While there have been many negatives that can be attributed to technological change, within the dsp the sum of the achievements have far overshadowed the problems. This might be largely attributed to one-eyed prophets of technology who are conditioned



matter-energy be transformed from low to high entropy when it enters the economic process. (Georgescu-Roegen 1971) All technological transformations are subject to this process, including recycling and green products. It is only through arrogance and lack of foresight that the vision of economic growth has not been transformed by the technological limitations imposed within the entropy laws. While it has been argued by Daly (1991) that a sustainable society can be envisioned which has zero economic growth, Georgescu-Roegen (1975) argues that even a non-growth economy with a stable population is not indefinitely sustainable. It is unquestionable, however, that the number of sustainable years is far greater for a non-growth than a high growth society.

The technological question is reduced to one of level. While no one argues for returning to pre-industrial, bucolic life as is often suggested by critics of technological critics, it is argued that technological somnambulism is no longer a viable strategy for technological change. The techno-fix is no longer a viable solution. We must examine each application for both its advantages and disadvantages in a more comprehensive and humane way than offered by the prevailing technological assessment methods which typically confirm that what one wants to do, is what one ought to do. (Winner 1986) This suggests that technology, particularly large scale technology, has an embedded political nature through which it leads toward certain decisions and away from others. Some technologies imbue democratic

an existence of material abundance which characterized the earlier historical periods during which the liberal tradition was established and prospered, the individualistic, laissez-faire assumptions were unchallenged. Under a regime of unlimited economic growth from ostensibly unlimited resources, such institutions work well in developing productive capabilities and material well-being.

The cornucopian assumptions under which laissez-faire economics, politics, and technology evolved are rapidly coming to an end. Locke's primary condition for the justification of unlimited accumulation, or accumulation at all, is that there be "enough and as good left for others." This was true for the population and resource base of his time. That time is past, and the assumption is no longer true. Yet, within the dsp, we refuse to accept this as even a possibility. Locke, Smith, Mill, Keynes, etc. all explicitly recognized that abundance would not last indefinitely and argued that, when that time came, the institutional structures must change. Individuals pursuing their self-interest must necessarily hurt others and it is completely implausible to suggest that the sum of individual wills bears any relationship to the general will. Repoliticization of society must ensue when abundance turns to scarcity since such economic constructs as Pareto optimality can no longer be passed off as a substitute for wealth redistribution; a political construct. (Kassiola 1990; Ophuls and Boyan 1992)

It is evident here that the political dimension is intimately

which all ideas are equally voiced and equally respected is required. This has been referred to as discursive democracy (Hayward 1994; Dryzek 1990; Habermas 1970) As presently established in the form of laissez-faire politics subservient to economics, the market process provides for communication only through exit and not voice. (Hirschman 1970) Why we choose or not, is considered of little or no importance within neo-classical economics. This is but another means by which the political process is subverted by economics.

What the foregoing suggests is that the approach to studying environmental problems in marketing is far too limited. A broader approach including the economic, technological, and political dimensions of the dsp is required. Simply ascertaining who expresses ecological concern and what their psychological profiles are, is inadequate to the task of understanding the consequences of marketing. From an ecological perspective, we must understand individuals' attitudes toward economic growth (consumption), technology (the means by which products are made and disposed of), and politics (the role consumption plays the prevailing political arena).

It is argued here that, most individuals, whether they know it or not, reside firmly within the dsp with attitudes toward the environment that little resemble ecocentrism as described above. While it is fully expected that most individuals will express a high level of concern for the environment, they will

with 45 Likert type items all on a one to seven scale, was used to measure respondents' attitudes toward the socio-economic dimensions, cosmological dimensions (not included in this study), and ecological concern. The socio-economic dimension consisted of technology (5 items), politics (5 items), and economics (5 items). The ecological concern scale consisted of 15 items. All scale items for ecological concern were variations of those used by Milbrath (1984) and Cotgrove (1982).

The second section of the questionnaire consisted of 15 semantic differential type (seven point) items used to measure attitudes toward issues relating to ecological concern and were of a more global nature than the first 45 questions. The two of primary concern were designed to assess the respondents' perceptions of the condition of the environment and their concern for the environment. Other items measured perceptions of such factors as the role of government, technology, economics, social conditions, etc. in environmental problems. These were the dependent variables in the study.

To confirm whether the socio-economic questions measured what was intended, a factor analysis was performed on the scales. The results of that analysis indicated that for the technological and political scales, the original five items could be reduced to three, and for the economic scale, four items sufficed for the measurement. Consequently, the reduced scales were used the analyses. All analyses used the average of the items in the reduced scales as the quantitative score for that variable.

socio-economic variables and environmental concern, multiple regression was used with the socio-economic variables as the independent variables and environmental concern as the dependent variable. For hypothesis 2 regarding perception of the condition of the environment, a second multiple regression was performed in a similar fashion.

Two more multiple regressions were carried out using the socio-economic variables as independent and resource shortages and environmental damage as dependent variables. This was done to test hypotheses 3 and 4 to determine if there was a relationship between perception of resource shortages or specific aspects of environmental concern and the socio-economic dimensions.

### **Results**

The results of the regressions are summarized in Table 4 below. For the dependent variable, **environmental concern**, the overall mean for the sample was 2.68 (1-7 scale) suggesting a fair degree of concern as has been demonstrated in previous research. Overall, respondents in most studies say they are concerned about the environment, and in some cases, 90% or more express concern. This result was, as suggested in the review, expected. The pertinent question, however, is in the relationship between the **degree of concern** and the socio-economic variables.

**Table 4**  
**P-Values for Regression Results**

Dependent Variables

was partially confirmed. While the technological and political variables were not rejected, the economic was. This confirms that as one's confidence in the prevailing economic institutions increases, their perception is that there are no imminent resource shortages. A similar result ensued for the perception of specific types of environmental damage. The political and technological dimensions showed no relationship while the economic dimension was significant. This suggests again that if one has confidence in prevailing economic institutions, then the perception is that there are no areas of considerable damage in the environment. Technology and politics are not related to this perception.

#### **Discussion**

The purpose of this paper was to determine if other factors than one's expressed for the environment are important in the development of environmental attitudes. If this is the case, then simply asking respondent's whether or not they are concerned will provide potential erroneous policy implication. Without taking the additional step we have taken, the implication of previous research is that the appropriate policy procedure would be to embark on an informational campaign making people aware of environmental conditions. By implication, once they are aware, they will be motivated to do something.

As this study indicates, however, people are already concerned. Yet the environment about which they express concern deteriorates on an almost daily basis. This suggests a gap in previous

contradict their expression of concern. The prevailing wisdom within the environmental literature is that the problem stems from the prevalence of the dsp in industrial societies (Merchant, 1992; Seager, 1993). This suggests that individuals believe that technology will provide the solutions to environmental problems (the "use a bigger hammer" solution ), prevailing political processes provide sufficient latitude for effecting these solutions (the "same game, new faces" solution), and that if prevailing economic institutions can be maintained, internalizing externalities and continuous growth will remediate the problems (the "where there's muck, there's money" solution).

It has been argued consistently within the environmental literature that it is the dsp that is the problem and continuing to offer it as the solution is problematic at best. There has not been an empirical substantiation of this position, however.

The results of this paper represent the first steps in developing that substantiation. If the environmentalist perspective is correct, then the current approach to remedying environmental degradation is not only problematic, it is potentially dangerous. If we mobilize individual action by increasing environmental concern and then channel that action in the wrong direction, we will make the problem progressively worse. If our technological, political, and economic institutions are the cause of degradation, as suggested by critics of the dsp, then redoubling our efforts in promoting these same institutions, is, to paraphrase Sen (1987), like

marketing to shout that the institutional emperor has no ecological clothes to wear!? With a firm footing in the realities of a finite system, the growth ideology of the dsp will be exposed for what it has become; wishful thinking.

Through our marketing research one of the real issue/problems that has been discerned is that marketing's role may be to convince others of the merits of its work! It would appear that, in times of ecological crisis, the activities of what Beck (1992) calls new social movements (see for example Friends of the Earth or the Institute for Progressive Communications) take on higher credibility than existing institutions. These new social movements are marketing alternative solutions to the problems. This might well be why these organizations are actively sought out by citizens seeking reliable information as to what is really happening with risk situations in the risk society.

### **Implications for Marketing**

Issues have historically been addressed by marketing academics in various ways. There is arguably a growing revisionist element of marketing research in challenging the dominant social paradigm. Some work takes a macro perspective, others take a micro viewpoint, and some a mixture of the two. Areas covered and issues raised are wide ranging including:- responsible consumption, Fisk (1973) marketing and ecological crisis Fisk (1974), viewing goods from a systems perspective Stanley and Tschirhart (1993), green marketing (Peattie 1994;



institutions and systems which need to embrace change:

the key to combating destruction of the environment is not found in the environment itself, nor in a different individual morality or in different research or business ethics; by nature it lies in the regulatory systems of the institutions that are becoming historically questionable. Ecological conflict logic is not played out by different agents or different institutions in different arenas but, rather by the same industrial society agents (supplemented by social movements and citizen's groups). The ecological crisis is a liberating process within and against bureaucracy. (pp. 141-43)

**Table 5 Making the ecological issue culturally significant and ensuring more environmental protection**

1. Private insurance for everyone, all industries and all research
2. Establish correlation standards as the foundation for legal recognition of environmental damage, instead of strict causal proof
3. Change the burden of proof, so that the agents in industry and the sciences become obligated to justify themselves in public
4. Respond to claims of technical safety with liability for damages
5. Reformulate the polluter -pays principle by creating regional accountabilities for benefitted and harmed business sectors (e.g. Coastal regions, with their hotel and restaurant structure, and the chemical and industrial regions which create the pollutant muck that drives away guests)
6. Suggesting and negotiating agreements on the recognition of damage and on compensation payments between a region's industrial plants and its population (as happens in Japan)

Source: Adapted from Beck (1995: 130)

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Beck concludes that, beneath the surface of conformity, ecological criticism has entered all areas of activity with its characteristic interrelatedness surpassing nationalities, destabilizing routines, splitting industrial sectors and leaving parents to deal with their children's penetrating questions. From the academic viewpoint there is one breath of fresh air so to speak as Beck notes:

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**Market-Shaping Infrastructures:  
An Economic Framework for Understanding  
Internet and Electronic Markets**

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or early use of such terms, see Anderson 1995, Gibson 1984, Kirkpatrick 1994, Rayport and Sviokla 1994), a definitive label for this new and evolving infrastructure is likely to emerge only after key parameters are settled over time through public and private policies that are attempting to bring some order to the wild growth of this new electronic frontier (for public policy perspectives, see Hart, Reed and Bar 1992, Miller 1996). In this paper, we will focus on that part of the new information infrastructure that has already achieved a fair degree of global standardization: the Internet.

The key question addressed in this paper is this: How has the Internet shaped (and will continue to shape) markets and marketing? We will attempt to answer the question by analyzing the market-shaping characteristics of the Internet from an economic perspective. Using this perspective, we will examine how the Internet is (or will) shape markets, marketing institutions, and marketing practices.

The discussion in this paper is organized into three major sections. The first section provides a brief review of the growth of Internet and its emerging impact on marketing. The second section discusses the economic impact of the Internet on markets, marketing institutions, and marketing practices from three perspectives: agency costs, transaction costs, and network externality. The third and final section offers concluding comments and discusses the emerging research needs from a macromarketing perspective.

### THE INTERNET AND ITS MARKET POTENTIAL

The Internet grew out of the defense (ARPAnet), scientific (NSFnet), and academic (Bitnet) computer-based communications networks that were sponsored and supported by the United States government (Hart, Reed and Bar, 1992). Selected members of the academic

and will become more so as sound, animation, and video capabilities become more widely available. Second, graphic displays free the user to a great extent from the tyranny of the keyboard ; finding and manipulating information becomes a point-and-click experience. Third, new websites and competition among existing websites are providing fresh and exciting content every day. In the world of television, this would be like having new shows and movies added to the schedule every day.

### Doing Business on the Internet

The Internet is an ideal marketing communication medium. When it is used as both a communication and a distribution medium, it confers a dual advantage. This is why publishers, software companies, music houses, movie companies, graphic designers, photographic services, banks, insurance companies, reservation systems, and education and training providers are very interested in gaining early benefits of the Internet.

The business potential of the Internet beckons many firms. By the end of 1995, it is estimated that about half the Fortune 500 companies will have significant websites on line. The other half are undoubtedly working at a furious pace to build their sites. By January 1995, about 100 new websites were appearing every day and the number of daily entrants has probably jumped several fold by late 1995. At this early stage of Internet development, size of a firm does not seem to confer any specific advantages in terms of a WWW presence. Sites that get talked up in the media, or get listed as "cool sites" or "hot sites" by various services such as Yahoo, are as likely to be from small firms as large firms.

Not only are marketing firms rushing to be connected to Internet, millions of users are in a similar rush. Estimates range around 2 million new connections every thirty days. Many of

## ECONOMIC IMPACTS

In economic terms, electronic infrastructures such as the Internet affect the market system by influencing the economic benefits and costs experienced by institutions. We will treat the overall macromarketing system as consisting of sectors of institutions such as households, firms, and governments agencies (Pandya and Dholakia 1992). Thus, the overall macromarketing system in the United States comprises of all households, firms, and government agencies in the country and the relationships among these. When a new infrastructure, such as the Internet, becomes significant in terms of size (i.e., number of institutions and nodes connected), it could affect economic benefits and costs within an institution as well as across institutions. Three important types of impacts have been identified in the literature dealing with the economics of electronic infrastructure: agency costs, transaction costs, and network externalities. We will review these three types of impacts briefly, followed by an integrative view of economic impacts of the Internet.

### Agency Costs

In any institution where the owner, manager, or leader (in other words, the overseer of the institution) has to delegate activities and operations to others (the operatives or agents), a divergence between the interests of the owner/manager/leader and those who carry out the delegated tasks is likely to arise. This gives rise to a category of costs that economists call agency costs (Fama 1980, Jensen and Meckling 1973, Ross 1973). These include costs of coordination and monitoring of operations, as well as opportunity costs when operatives make decisions that are not in the interests of the overseer. While the agency cost literature has focused mostly on the behavior of managers and workers in a firm, in principle a broadened



household sector. The agents located outside a firm may be intermediaries or customers. The following typify some of the early patterns of such interinstitutional and intersectoral transfers of agencies:

Through its World Wide Web (WWW) site, FedEx allows customers to track the progress of their packages using the airbill number.

For a period, DEC allowed interested parties to "log on" to and "test drive" one of its new computer models through its WWW site.

Because the Internet cuts across all institutional sectors firms, government agencies, nonprofits, households it enables the maximization of economic benefits possible through an extremely wide extension of agency for selected tasks. Not just tasks such as selling, promoting, ordering, and shipping can be delegated, but also (eventually) tasks such as inventory management, product design, product testing, and even production scheduling are likely to be delegated. Along with garnering the anticipated competitive benefits, firms undertaking such extensions may also expose themselves to potential opportunity costs and risks stemming from such "universal agencies". From a marketing systems perspective, we are likely to see the emergence and growth of institutions and methods to control and manage the potential risks and opportunity costs of wide-ranging agencies. To deal with such risks and costs, new forms of insurance, regulations, payment systems, and security arrangements are already being experimented with and more are surely on the way .

### Transactions Costs

It is now well accepted that transactions across institutions are not costless, and that contractual or hierarchical structures emerge to control and minimize transaction costs

(Benjamin and Wigand 1995). Of course, Internet-based commerce may spawn interorganizational arrangements of a different kind. New and looser forms of organizational arrangements may emerge to deal with the fluidities of markets in cyberspace (Sarkar, Butler, and Steinfield 1995).

### Network Externalities

Many infrastructural technologies are network technologies ; they create networks of people and institutions by linking them together. The economic benefit of the network derived by each linked node increases as the size of the network expands. Thus, the telephone network was of little value when just a few people had phones, but its value increased enormously when universal service was established. Economists have labeled this effect "network externality" (Katz and Shapiro 1985). Network externalities of earlier networks, such as the telegraph and telephone networks, have had a substantial impact on the American marketing system (Fischer 1987; Mueller 1993).

In terms of network externality, the impact of Internet is likely to be far greater than prior networked technologies such as the telegraph and the telephone. This is because the rate of growth of the Internet is unprecedented in the history of electric and electronic networks, and its reach is global. If the mid-1990s growth rate are sustained, for example, the entire population of our planet would be connected to the Internet by 2003 (Negroponte 1995). While this is unlikely to happen, it does give an indication of the order of magnitude by which Internet growth exceeds the growth rates that characterized other networked electric and electronic technologies.

In most types of networks, the potential value of a network increases in proportion to the size of a network. Thus, in a television network, the larger the reach of a program or channel, the more valuable it is to advertisers. The television network, however, is a one-to-many network

marketing? If the growth rates are sustained at high levels and as commercial applications of the Internet multiply, there will be an intense race to capture the economic benefits arising from the possibly lower agency costs, lower transaction costs, and exponentially rising positive network externalities of Internet. In this race, the institutions that come out ahead may not be the ones that dominated markets in the industrial age. Just as shopping malls and discount merchandisers captured the external benefits of population shifts to suburbia and exurbia, so too new "marketspace" institutions are likely to capture most of the economic benefits of Internet's network externality. The emergent successful players will be characterized by their abilities to understand: (1) computer-mediated (rather than televisual) communications, (2) asynchronous, many-to-many (rather than synchronous, one-to-many) communications, (3) interactive (rather than passive) consumer behavior, (4) spontaneous, loose (rather than administered, tight) channels, and (5) real-time (rather than delayed) market feedback mechanisms.

#### Focusing on Consumers and Marketing Institutions

It should be noted that, after the early euphoria over Internet-based commerce has settled, the pace of changes in marketing systems and methods will be dictated not by the pace of technological change but by the rate and nature of changes in consumer behavior. While in retrospect many changes in the market-oriented lifestyles and behaviors of consumers may appear dramatic, such changes are fairly slow compared to the rate of technological change. For example, after over a century of experience with the telephone and over four decades with the television, consumers' use of these media for shopping is limited and supplementary compared to in-store retail commerce. Similarly, consumers' participation in Internet-based commerce will remain supplementary to established forms of commerce for decades to come. From a marketing

appeared in the middle decades of this century, major studies of how Internet-based and other forms of electronic commerce will shape our markets are needed in the closing decade of the century.

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**Table 1: An Evolutionary Perspective on Market Transactions**

Historical phase	Premodern	Modern	Postmodern
Overall characterization of market transactions	One-to-One	One-to-Many	Many-to-Many
Nature of relationship	Personal relationship	Mediated relationship	Electronically mediated, simulated "one-to-one" relationship
Market Response	Immediate and Direct	Delayed and Indirect	Immediate and Direct
Volume of Transactions	Limited	Many	Many
Market Reach	Local	National	Global
Information Sources for Buyers	Personal Sources of Information	Media-dependent	Net-based impersonal and "personal" sources
Connection among Buyers	Limited, personal	Limited	Extensive, Impersonal

**PRIVATIZATION PROGRESS IN CENTRAL AND EASTERN EUROPE:  
IMPLICATIONS FOR MACROMARKETING**

by

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For presentation before the  
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The author acknowledges the contribution of some ideas developed with Professor András Bauer of the Budapest University of Economic Sciences with whom the author has been collaborating for some years.

Now one of the ways that we macromarketers talk about this is in term of preconditions. Here is a slide that I and others in this group have used. We don't need to review them in detail. We have always taken it as accepted truth.

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Figure 3 goes here.

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I do want to focus on the first two for a moment -- those dealing with a social imperative for law and order. An oversimplification of the institutional structure required for these preconditions is shown in this next figure. The U.S. model for these two preconditions is that the people, through a democratic system, insist on honest and effective government that has an effective police force to minimize the number of criminals in the society and to enforce honest in markets.

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Figure 4 goes here.

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Now what can happen in these transition societies is that the people are very poor. Taxes are kept low; the criminal element increases because of desperation; there is no money for police; the criminal element enlarges even more. Markets aren't regulated because public safety isn't enforced. Government officials become corrupt, and soon the criminals figure out that the government officials differ in only one respect, i.e., they have taxing authority. So, the criminals take over the government. As we know from places like Somalia, Haiti, and Liberia this situation can rather easily implode into anarchy. But even where true anarchy isn't present we have situations like Nigeria, Kenya, Ethiopia, and Bangladesh where the circular process depicted in the figure has broken down.

Kenya and Nigeria are particularly noteworthy here because they are former colonies of western powers. Notice that the British in India (and hopefully Hong Kong) were successful in building such a strong civil service with democratic institutions during the colonial period that democracy has worked. Yet we see in Kenya that it doesn't work all the time. Clearly, the U.S. model of instant democracy without institutions or traditions has not worked and is not likely to work.

And that takes me back to China and totalitarian governments. China, while maintaining a totalitarian government is meeting the requirements of preconditions 1 and 2. Criminals in China, whether they commit crimes against persons or property are dealt with severely. This has permitted market reform to continue at quite a satisfactory pace. Also, tight control over monetary policy has meant that inflation and living standards have been kept within satisfactory limits. In short there has been a social imperative for improvement in the physical environment and living standards.

I put "graft" in this figure explicitly because one should not underestimate the transaction inefficiencies of totalitarian governments. This can take the form of bribes to individuals, but also it can stem from government agencies competing against one another. This is competition for power that does not reflect market needs and leads to a wasteful use of resources. For example, Vietnam recognized that it needed to develop some domestic automobile production and assembly. The Ministry of Industry issued two joint venture assembly licenses in 1991 and then in 1994 issues a third. Not to be outdone, the ministries



sold by street vendors. Both products require extensive size breadth. While all sizes may not be available, there is an assortment. Almost surely the manufacturer has not paid value added tax on these products. Were they manufactured locally or brought into the country illegally? Are they stolen or simply over-runs that some production manager can sell out the backdoor and not have to account for?

The question that I believe is a reasonable one for macromarketers is the public policy question of how much public effort should be brought to bear to close down these channels of distribution? They hurt legitimate merchants and they reduce tax revenues. Reduced tax revenues reduce public services. Reduced public services reduce living standards. Viewed in this way, shadow traders are free riders that have serious effects on the society.

On the other hand, what would happen to the people who sell them? It is important to understand that, particularly with the double digit inflation rates in these countries, there is a serious social safety net problem. Such private initiative is better than the alternatives available to these people. Perhaps the best thing is to police sources of supply and border smuggling, but then let the street vendors alone. Perhaps governments should think about a cost-benefit analysis on these activities that could identify some date at which enforcement should be strengthened. Clearly, this is a form of flaunting government. We have enough experience in developed European countries with citizens that pride themselves in cheating government, that we don't want to encourage the development of this as a value in the transition economies.

This, it seems to me, is the way macromarketers should ask this question.

### III. DIFFERENCES IN PERFORMANCE TO DATE

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Figure 5 goes here.

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At this point, it is appropriate to share some statistics on just how well the various transition economies in CEE are doing. These are shown in the next figure.

In making these comparisons, it is difficult to separate the effects of resource endowment from transition effectiveness. Note for example, the impact of size. In the Baltic Republics and Slovenia we see that sometimes the smaller countries have done better than the larger ones. In the Baltic Republics this appears to be the case in each of the statistics.

In doing so it is useful to employ the three group measurement system for transition progress as proposed by the European Bank of Restructuring Development, from whom the data in the figure came. They suggest that performance be measured by: growth; market liberalization; institutional change. Our interest in this paper is on the last of these, which deal with the process and results of the privatization process.

I have grouped the countries so that those farthest along (except for Bulgaria) are in the first group, and the Baltic Republics are in the second group. This first group of countries are closest to getting back to their 1989 GDP and also have the greatest per capital GDP. At the bottom of the table I have placed the basket-cases, Romania and Albania. Population size doesn't make any difference here. These are the countries in which incomes are dramatically lower than in the other countries. These are the countries where I believe democratization needs to take a back seat to getting the economies in shape. Indeed, the

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Figure 6 goes here

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I included China here as it represents an end-point with Poland at the other end of the spectrum. The problem is that as one gets over to the right end of the spectrum, it turns out that privatization policies among countries are different enough that a unidimensional representation does not really serve to analyze how and why the results may differ.

The Polish "shock therapy" or "cold turkey" approach began in early 1990 and had to be softened a couple of times over the next years right up through the recent election. This approach was to almost simultaneously free retail prices, abolish subsidies, terminate state monopolies, devalue the currency, cut tariffs, and end foreign exchange rationing. This is exactly what U.S. "experts" a few years ago told them to do. As I said, the result was the people suffered greatly and a left-wing government was brought back to power. Even before that, the Poles learned you can't do all these things at quite the same time. The people and the former state-owned enterprises suffered the most.

Poland was not able to rehabilitate many of their economic enterprises because they did not give the enterprises a chance to adjust. This was because the distribution sector in Poland was nonfunctional. The assumption was that there was nothing in these enterprises worth salvaging. Consequently, they focused on the transfer of *real estate* and ignored other assets or the value of smaller enterprises as going businesses. You might think of this as following a belief that "structure follows function" in that they let the structure of industry be decided largely by the survivors. It may be that each country privatized in the manner that was best for it, or at least politically best for the government in power. This point will become clear when I discuss Hungary.

The chief Chinese difference, of course, is that they made no attempt at *democratic* reform while they implemented *market* reform. They focused on the needs and behaviors of rural consumers and worked backward through the marketing system to make sure all supplier firms were being brought along. Note that this emphasis on final, and particularly rural, consumers is quite the reverse in the West where politicians are far more interested in pleasing the urban powerful. The Chinese spent considerable time and energy training younger managers, both on courses and on the job, to operate in a market economy. In the process of working back up the channel of distribution (or value-added chain if you wish) they have prepared enterprises to meet a market test at a pace that the enterprises could somewhat better deal with. Where the national government has had trouble is in keeping in line local government bureaucrats who have tried to protect their local industries from the rigors of the price system. These local behaviors usually led to provinces trying to set up barriers to trade or setting off mini price wars. Note the parallel here to regional and ethnic nationalism in CEE. In China, the national government, thus far, has had the power to keep regional uprising at bay. Frankly, while the defenders of human rights have a valid case to make, I believe the Chinese experience tells us that political and economic reform need *not* occur at exactly the same time.

While it doesn't appear in the figure, the Russia approach would fit in here too. Property in all three countries (Poland, China, Russia) was held by local councils who (in Poland and Russia) were encouraged to sell real estate as quickly as possible. Through

auctions. Ukraine lags Russia in this effort. The system is that individual citizens are given vouchers that they can convert to shares in firms. Obviously, there is some secondary market for accumulating these vouchers. Neither the secondary markets nor the auctions are working very well. The firms simply don't look viable to prospective buyers. The same is true in Romania where a citizen must pay \$US 1.16 transfer fee to convert their vouchers into shares that can be bought at public auctions. By midyear, fewer than 10 % of the holders of vouchers were willing to even pay the transfer fee.

The Hungarians differ from the Poles, the Czechs and the voucher approach in that they began market experiments several years before the reforms of 1989. They had seen a need to let manufacturers, bankers, and foreign traders get a taste of competition. As a consequence they felt obligation and political pressure from these management sector groups to give them a chance to be successful in a market environment and try to find export market niches. Similarly, they were not eager to sell state enterprises at bargain prices. Consequently, they started privatization with the retail sector and small businesses. The larger enterprises were first restructured to make them look viable; new and retrained managers were told to trim down and shape up. Foreign and domestic buyers were sought for firms, but they were not sold until the State Property Agency found what they thought was a reasonable deal. Privatization continued until 1995. While Hungarian banks, too, have had two restructurings and have problems that are ongoing, the manufacturing and distribution sectors have been privatized with relatively few casualties. Put another way, in terms of *number of firms* 1991-92 were the big privatization years, in terms of value, 1993-1994 were the big years. A typical Hungarian privatization of a state firm would see as much as 50 percent of the shares going to the ESOP, 15 percent going to the local government council where the enterprise had its operations, and the remaining 35 to 50 percent being split among a foreign investor, the management team, and a Hungarian bank. The split would depend on how much the foreign investor was willing to invest and whether he insisted on effective control. The operative word here is *effective*. With the large ESOP ownership, a foreign investors who had confidence in the local management team were very comfortable in minimizing their investment and having less than absolute control.

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Figure 7 goes here.

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Now, a key question in this approach is, what will the ESOP, local councils, and banks do with their shares. The idea is that the value of these shares will go up (and indeed the Budapest stock exchange has experienced big increases in prices), and that the local councils would sell their shares in order to pay for infrastructure rehabilitation. The ESOP would diversify their portfolios as appropriate over the years. The banks were originally not supposed to have equity positions, but in the bank restructuring that has had to go on, they ended up with equity rather than bad loans.

In addition to a structure problem associated with this event, that I will discuss next, there is also a moral hazard problem that the banks will expect the government to continue to bail them out. Other CEE have been able to limit the bail-out of banks to loans associated with loans granted under the central planning regime.

To sum up, one might say that in Poland, the Czech Republic, and Hungary, democratization was introduced in tandem with marketization. Of this group, it was only in

## VI. IMPLICATIONS OF TRANSITION POLICY FOR ENTREPRENEURSHIP AND MANAGEMENT TRAINING

Now there is another difference in Hungary that has resulted from a privatization strategy that was slower and placed shares in the ESOP and local councils. Particularly because of its voucher and investment fund process, the largest Czech firms ended up in foreign ownership with little local participation. Because of its emphasis in ESOP, community, and local participation, the Hungarian firms ended up with more surviving local firms and more local-foreign joint ventures. So, we assert that these differences in privatization policies have led to different types of institutional change.

A corollary difference between these two countries has to do with size of firm. In manufacturing, and particularly in distribution, Czech firms were larger than Hungarian ones. With regard to retail space for example, we can speak of the density of retail outlets. Portugal, which is a high retail density country, has 192 retail outlets per 10,000 inhabitants; the Netherlands, a low density country, has only 80 (less than half that of Portugal). Now while perhaps related to stage of maturity, these density differences are related to other factors as well. Among CEE and even though all started out in 1989 as low density countries, significant differences have emerged. Poland, Hungary (and Russia) have become high density countries as a result of privatization policies that have favored entrepreneurial merchants. The Czech Republic, Slovak Republic, Romania (and Ukraine) have stayed low density countries because the state monopoly retailers remain or were sold in an "as is" condition. For example, the Czech chain, Prior (Maj as.), was sold to the US firm K-Mart (and then in 1996 to Tesco)..

We believe that this difference in retail firm size is more pervasive. That is, we believe there has been more opportunity for entrepreneurship in Hungary. The result has been more *internal entry* into markets and more successful *incumbent firm* transition in Hungary than in the Czech Republic. While this has resulted in the difference in industrial structure discussed above, it has also resulted in greater development of entrepreneurs in Hungary. I can not prove this assertion with data at this time. It remains a hypothesis.

A link can be made between entrepreneurship and my first topic on totalitarian governments. An accepted requirement for democracies to work is a viable, educated middle class. The absence of a middle class with middle class incomes is certainly part of the problem in Haiti, Liberia, Nigeria, and some of Latin America. Professional classes clearly exist in CEE albeit with rather low incomes. Thus, a study of the distribution of incomes, for example, a comparison of gini coefficients, would be a useful index of transition progress. The development of a sizable entrepreneurial class might be included in a list of conditions necessary for democracy to work in these countries. Thus, the development of an entrepreneurial class is another causal link between the development of the marketing system and overall development.

The clustering of business leaders into three groups appears more distinct today. First, are the entrepreneurs who have made successes of Hungarian firms with little western equity. Just one measure of their success is the impressive increase in prices on the Budapest Stock Exchange. Second, are the young, aged 25 to 35, university-trained professional managers. These managers are personally advancing and advancing their employers' firms in a manner that is just about identical to their counterparts in the west. Third, is the older group of Hungarian managers who are still having trouble accepting the

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## **SOME NECESSARY PRECONDITIONS FOR SUCCESS TRANSFORMATION**

- 1. A legal system and commercial code for honoring and protecting the rights of contracts and property.**
- 2. A social imperative with its supporting political system that provides the monetary and criminal legal systems that prevent anarchy in the marketplace, safety, honesty in labeling and trade practices and improvement in the physical environment and living standards.**
- 3. An information system that permits contracting parties to have some knowledge of present conditions of the market.**
- 4. A banking system that encourages the inflow of risk capital.**
- 5. Laws governing the establishment of legal persons in the form of private partnerships, limited liability companies, joint stock companies, co-operatives.**
- 6. Freedom to enter and exit the market, i.e., there is no government protection of the old, established state-owned firms.**
- 7. A physical infrastructure for transportation, telecommunication, storage, bulk breaking, security, inventory management, and related functions and facilitating institutions such as insurance, public accounting and advertising media and agencies.**

**FIGURE 5. PERFORMANCE OF TRANSITION ECONOMIES**

<u>County</u>	<u>Populat. MM,1995</u>		<u>Econ Growth %</u>		<u>Inflat. %</u>	<u>Index of 1995 GDP 1989=100</u>		<u>Pvt. Sector % of GDP 1995</u>	<u>GDP/Cap. 1993 US\$</u>	<u>Forgn. Direct Investment US\$B 1989-95</u>
	1994	1995	1995	1996	% 1995	1989=100	1995	1995	US\$	US\$B 1989-95
Poland	38.8	5	6	5	20.7	97	60	60	5,000	6.1
Czech R.	10.4	3	4	5	8.7	85	70	70	7,550	5.2
Hungary	10.3	2	3	3	28.3	86	60	60	6,050	9.7
Slovak R.	5.4	5	5	4	6.7	84	60	60	6,290	0.6
Slovenia	2.0	6	6	5	8.5	94	45	45	10,585	1.1
Bulgaria	8.8	1	3	3	28.6	75	45	45	4,100	0.5
Lithuania	3.9	2	5	5	35.7	42	55	55	3,110	0.3
Latvia	2.8	2	1	5	23.1	54	60	60	5,010	0.5
Estonia	1.6	6	6	6	29.4	74	65	65	6,320	0.5
Romania	23.2	3	4	4	27.4	81	40	40	2,800	1.4
Albania	3.4	7	6	6	N/A	75	60	60	999	N/A

Source: Estimates by the European Bank for Reconstruction and Development, Transition Report, 1995; Business Central Europe, April 1996.

## OWNERSHIP OF A TYPICAL HUNGARIAN PRIVATIZED FIRM

<b>50 %</b>	<b>ESOP</b>
<b>15 %</b>	<b>LOCAL GOVERNMENT COUNCIL</b>
<b>35 %</b>	<b>FOREIGN INVESTOR; HUNGARIAN BANK; MANAGEMENT TEAM</b>
<b>-----</b>	
<b>100 %</b>	



**A Re-evaluation of Strategic Alliances & Relationship Marketing  
From a Macro Perspective**

*A Presentation  
at the 1996 Macromarketing Seminar*

By

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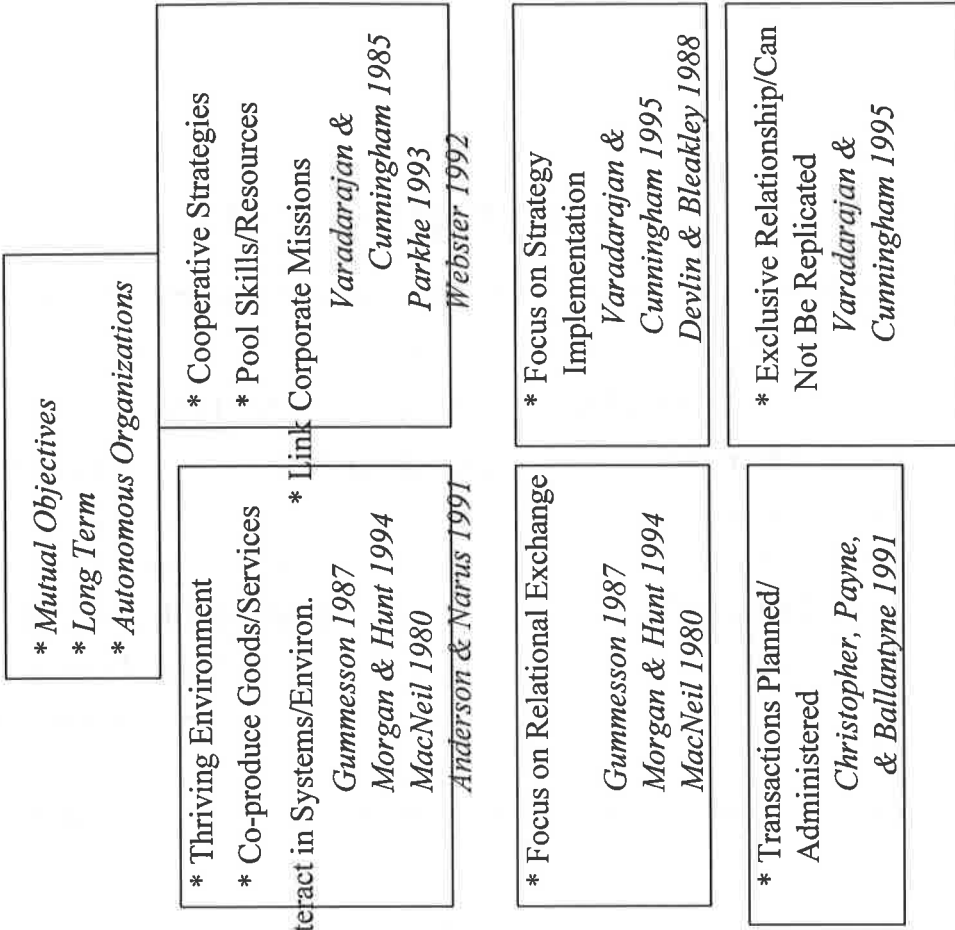
- TO SUGGEST POSSIBLE LONG TERM NEGATIVE CONSEQUENCES FROM COLLABORATIVE STRATEGIES
- TO DISCUSS POSSIBLE POLICY, STRATEGY, OR INSTITUTIONAL REMEDIES

# DISCUSSION FRAMEWORK<sup>1</sup>

DISCRETE REPEATED LONG TERM RELATIONSHIP STRATEGIC  
 TRANSACTIONS → TRANSACTIONS → RELATIONS → MARKETING → ALLIANCES →

Components of Definition

Components of Definition



JOINT VERTICALLY  
 → VENTURES → INTEGRATED

## MOTIVES FOR COLLABORATIVE ARRANGEMENTS

Varadarajan and Cunningham (1995) summarize the motives given in the literature for forming strategic alliances.

1. Organizations seek to circumvent entry barriers and gain access to targeted markets.
2. Organizations seek to create barriers to protect their existing market position.
3. Organizations seek to gain managerial skills, technological competence, broadened product lines, or extended resources that enhance their operating efficiency or value creation capabilities.
4. Organizations seek to hedge against possible future competitive or environmental threats.

Organizational motives for engaging in relationship marketing general fall in one of three areas (Oliver 1988, Jarillo 1988, Gronroos 1994).

1. Organizations seek to gain efficiencies from specialization and reduce transaction costs.
2. Organizations co-produce or co-consume goods or services, co-inhabit distribution channels or market environments, or have other interdependencies among factors that underlie their success.
3. Organizations seek to minimize market risks by minimizing switching possibilities.

## **WAYS COLLABORATE ARRANGEMENTS MIGHT NEGATIVELY IMPACT GROWTH & DEVELOPMENT**

- ① **Slow Innovation**
- ② **Contract Market/Productivity**
- ③ **Increase Social Inequity/Change  
Social Psyche**

## **IMPACTS ON INNOVATION RATE**

- ➔ Reduce R&D Efforts/Trials
- ➔ Lessen Extent Learning Leads To Innovation
- ➔ Reduce Breadth of Information Flow

## **IMPACTS ON SOCIAL WELFARE**

- ➔ **Limits Choice/Lessens Power of Demand**
  
- ➔ **Limits Access To Certain Economic and Status Levels From Disenfranchised**
  
- ➔ **Impacts Economic Organization and Psyche**

## **When is a Market a Market? An Essay**

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The Open University of the Netherlands

The concept "market" receives very little attention in the marketing literature. Standard textbooks either fail to define the term or offer definitions that are so limited, e.g., "The potential buyers for a company's product," or so broad, e.g., "situations in which there is a transfer of goods and services," as to be analytically useless. This essay is rooted in the presumption that since marketing has to do with markets, the meaning of the concept "market" must be explored because it has substantial implications for macromarketing.

Given that "Consumption is the sole end and purpose of all production," the discussion begins by placing market activity within the context of the operation of the household, viewed as the relevant consuming unit. The process of consumption requires inputs and some of these inputs in turn require goods and services to be acquired by the household. Since many means of acquisition involve exchange behavior, the household also must acquire resources to exchange for the goods and services that are transformed into consumption inputs. Some means of exchange involve markets. The price-making market model of economics is a special type of market. This essay questions the usefulness of the price-making market model for macromarketing and suggests some research problems.

### **The Household: A Factory for the Production of Satisfaction.**

The household is a social system whose components engage in activities intended to achieve a specified output, the fulfillment of expectations or requirements that determine satisfaction or well-being. This well-being may include a pleasant home, presentable clothing, healthy, well-behaved children, and social approval and support. By activity is meant specific conscious human action that results in some change in material objects, knowledge, or contractual obligations. Human action involves an expenditure of bodily and mental energy in combination with other inputs acquired from household environments. Some of these inputs are material, others consist of human action, contributed by other persons. Information is an additional input that can provide direction for the use of material inputs as well as directly affect a person's subjective well-being. A final input concerns command over property, the right to utilize or dispose of other inputs that may be owned. The household is conceived in terms of four interwoven productive processes (Figure 1).

### **Consumption – The Production of Satisfaction**

Consumption is a production process whose output is satisfaction; for example, "a pleasant meal with friends" produces satisfaction by combining human action, such as conversation, and commodity characteristics such as those embodied in an appropriate amount of beer that has been properly chilled. The commodity characteristics acted upon in the process of consumption are the essential features or qualities that have meaning to the consumer in relation to the consumer's requirements. These characteristics refer to subjective evaluations -- ideas, thoughts, and feelings within a person's mind. The assortment of characteristics associated with a particular consumption situation combine to form a general sensation of satisfaction that is valued to the extent to which it matches a person's assortment of requirements.

### **Production of Commodity Characteristics**

The assortment of commodity characteristics utilized in the consumption process is produced by the production and maintenance function by combining product attributes with human action and information. The "quality" of a set of commodity characteristics is in part related to the product attributes employed in the production of those characteristics. Product attributes are withdrawn from the household inventory, although it is a set of goods and services that enter this inventory. This distinction is caused, in part, by the fact that goods and services, not product attributes, are available from the household environments. For example, eggs may be obtained from the environment, but an omelet requires different attributes than a meringue.



These product attributes differ from commodity characteristics in two ways. First, they are attributes of physical things -- matter or forces. Second, the quality or character ascribed to these forces or objects refers to the qualities that they have with respect to the production of commodity characteristics, not consumption activity. That is, product attributes refer to objective measures commonly ascribed to items - size, shape, color, technical performance capabilities; commodity characteristics are determined by the subjective judgments of consumers.

The resources available within the household are represented in Figure 1 by four triangles. In addition to these resource "stocks," represented as enclosed spaces, there are flows of productive services, represented as arrows. Information is common to all of the production processes within the household, although different information is utilized in each production function. Data are derived from household environments, but these data must be transformed into information by human action. This new information is added to the stock of information by means of the learning process.

### **Acquisition of Household Inputs**

In Figure 1, the large circle marks the boundary that distinguishes the household from its environments. Two of the four smaller circles, household production and consumption, are conceived as internal to the household. In contrast, the two sets of household acquisition activities extend beyond the household boundary because these activities involve interaction with household environments. This section of the essay addresses the acquisition of goods and services and the acquisition of exchange resources in turn. A household may acquire goods and services from its environments several ways: directly from the material environment, the unilateral provision of benefits from others, by a communal arrangement, social exchange and market exchange.

#### **Obtaining Benefits Directly from the Material Environment,**

**Hunting and Gathering** In the U. S. 72 million people engaged in non-commercial hunting and fishing activities in 1991. People also engage in gathering; epicures gather mushrooms, horticulturists gather seeds and plants, tourists gather seashells and driftwood.

**Gardening.** Thirty-one percent of U. S. households had vegetable gardens, fifteen percent had fruit trees, and six percent grew berries in 1992.

#### **Unilateral Provision of Benefits by Others**

A great deal of one's satisfaction is gained from the actions of others. There are several types of such action; some involve unilateral provision of benefits, others involve reciprocal benefits. The unilateral provision of benefits is considered first:

**Theft** involves two parties; one party extracts a benefit from another, and confers none. During 1993 theft in the U. S. amounted to nearly \$150 billion; motor vehicles accounted for half of this figure.

**Altruism** also involves two parties. Because a person has an unselfish concern for the well-being of others, one party receives a benefit but confers none. The anonymous giver receives no return from the recipient; the sole benefit is the satisfaction gained from "doing good."

**Transfers** to a household may take the form of entitlements to qualified individuals and groups or private bequests; in neither case is a reciprocal benefit provided by the recipient. In 1995 the Federal Government spent \$366 billion providing education, health (including Medicare), and veterans benefits. Additional amounts were spent by State and Local Governments and private organizations. Bequests, which reflect affection or duty to one's family or group, often include possessions that have a different

**Resources Utilized For Social Exchange.** Information, goods, services or social support provided to others in the past or expected in the future represent resources for social exchange. Examples vary from simple courtesy to specialist service helping to repair equipment or computer instruction. But the important thing is the social relationship. Gifts have significance as tokens of friendship; furnishing benefits to others in return for unspecified future benefits requires trust that in turn leads to social bonds. These social bonds become household resources in turn.

### **Market Exchange**

A market is a method of contact between buyers and sellers. Although analogous to balanced reciprocal social exchange, the nature of the market relationship differs from that of social exchange. Buyers acquire ownership from sellers in return for money and sellers convey ownership to buyers in return for money. Money exchange is assumed to replace personal interaction so that cultural meanings are displaced by materialistic concerns. Since the social and political status of participants is not important, social and political interactions are economized.

Market models are characterized by the self-interested exchange of goods and services among independent individuals who work for their own separate materialistic interests. The assumption of solely materialistic interests means that market participants are "individuals" isolated from the rest of society rather than the "persons" participating in social exchange who occupy social positions and whose interests are complex. And market goods differ from the items of social exchange because they generally carry no personal identities, being alienated from the relationship between the exchange partners.

**The Price-Making Market.** In economic analysis the market is a price-making mechanism; market exchange occurs at prices that are determined by supply and demand forces. Sellers establish prices and buyers are free to accept or reject a seller's offering. In contrast to social exchange, in a price-making market one party can refuse to engage in a transaction without affecting the relationship because the market relationship provides for such refusals. That is, social exchange establishes social relationships; market exchange occurs within an established social relationship. The traditional model of a price-making market requires the following assumptions:

A group of sellers offers goods and services that potential buyers consider to be close substitutes.

There is a group of potential buyers of the goods and services offered in the market.

The market is continuous so that buyers and sellers remain in close contact.

Transactions take the form of contracts enforceable by contract law.

Information about sellers, buyers, goods and services and prices is readily available.

General purpose money circulates, free from subjective and other restrictions. Thus market activity is rational and impersonal.

Market participants make rational choices based on prices established by supply and demand forces.

**Other Types of Markets.** Obviously many market exchanges do not occur in price-making markets.

**Barter** does not require money to establish equivalencies; the goods and services exchanged are direct inputs into the production functions of the acquiring parties, measured in terms of each other. There may or may not be market continuity, or groups of buyers and sellers may not participate..

Even when exchanges require money, some of the assumptions of the price-making market are violated. Some other types of markets are considered below:

rency also may be important; gifts of currency often take the form of carefully chosen new bills. In brief, money is not free from subjective and other restrictions as assumed in the theory of price-making markets. Indeed, some monetary receipts, such as tips to restaurant staff or mail delivery persons, serve to identify and maintain social relationships.

Moreover, "special purpose" or "restricted use" money can be distinguished from the general purpose money assumed by the price-making market model. If it is suspected that the serial numbers of currency from a bank holdup are recorded, the use of that money is severely restricted. More mundane examples include bus or subway tokens, gift certificates, lunch vouchers issued to school children, food stamps, store and manufacturer coupons, and travelers checks.

### **Concluding Remarks**

In the absence of theoretical contributions in the marketing literature, market exchange has been confined to the domain of economic theory where money is assumed to have obliterated all subjective connections between people and goods and services. The price-making market model represents a very strange place where the satisfaction seeking household meets the profit seeking firm. The seller attempts to maximize exchange value. Since economic rationality requires systematic calculation of the optimal means to an end, where the optimum is determined by comparing benefits to costs for all alternative means, the household attempts to maximize a utility function that represents all needs

Thus the price-making market model reduces all forms of satisfaction to a single metric, to permit the comparison of the costs and benefits of all human action so that choices can be made on the basis of the greatest net value. For example, contemporary economic analysis assumes that market acquisitions can be freely substituted for household activities. Specifically, it is held that a home-maker's personalized round-the-clock care and nurturing of family members can be replaced by market-produced goods and services. However, empirical data suggest that when the home-maker enters the labor market few market goods, other than child care, are substituted for household production and acquisition activities. The main substitution is between the home-maker's leisure and labor market time. This result obtains because a home-maker's personalized activities are not comparable to impersonal goods and services available in the market. Since a person plays many roles, and the goals of different actions are not identical, the motivations of any single action are complex, and may be inconsistent or even incompatible. Moreover, different human actions, such as drinking a cold beer, attending a concert or purchasing a good at the lowest possible price, are incommensurable.

A large part of human satisfaction is obtained from social interaction. Social interaction is characteristic of household production functions, exchange resource acquisition, non-market goods and services acquisition, and many types of markets. The impersonal price-making model is deficient because the value and reward structures of the market are different from those of the household. Although assumed away by the model, mutual courtesy and recognition of social status often accompany market transactions. That is, social rationality, bound up in relationships and in the interests of others, is carried into the "impersonal" market model where economic rationality rooted in self-interest alone, is assumed to prevail.

### **Some Research Questions for Macromarketing**

The conclusion that the concept "market" is complex and that the price-making market model of economics is inappropriate for at least some aspects of macromarketing, suggests several topics that might be investigated:

1. A model of market behavior that recognizes the "invisible hand" of social life as well as the invisible hand of economic analysis.
2. An analysis of market behavior that encompasses the various types of markets that co-exist in a society.

**EARTH TO EARTH:  
THE MACROMARKETING IMPLICATIONS  
OF COMBINING MARKETING AND SUPPLY CHAIN MANAGEMENT**

by  
Robert W. Nason  
Michigan State University

## INTRODUCTION

The purpose of this paper is to explore the rationale and macromarketing implications of creating the Department of Marketing and Supply Chain Management at Michigan State University. The paper will first provide some background on the development of this department; second, describe what it encompasses; third, suggest why this is sound academic and organizational strategy; fourth, define the goals of the department; and finally, review the macromarketing implications of the new configuration.

## BACKGROUND

The Department of Marketing and Supply Chain Management became operational on July 1, 1996. It was the result of the merger of the operations management and procurement faculties, located in the Department of Management and the Department of Marketing and Logistics. Since 1980, these two departments had cooperated in a cross-functional program called the Materials and Logistics Management Program which was designed integrate procurement, manufacturing, logistics into a leading intellectual and managerial thrust focused on the physical value adding processes of business. Over the intervening years, this objective has been achieved with a dominant national reputation and strong demand for the products of the program - knowledge, employees, and executive training.

However, after 16 years of cooperation, it was felt by the faculty in both departments that to reach the next plateau of excellence and contribution to research and business, a new kind of partnership was needed. The focus on value creation was limited by the department silos on the one hand, and by the lack of really integrated marketing processes on the other. Thus, in early May, 1996 the Materials and Logistics Management faculty from both departments voted to recommend the merger and two weeks later, the Department of Marketing and Logistics faculty overwhelmingly accepted the proposition. The Dean supported the proposed changes and operationally re-configured the departmental structure of the college and its assets. The remaining Department of Management now includes the organizational behavior, human resource management, and business strategy components. The University Board of Trustees is expected to approve the new departmental arrangements fall 1996. It is not the purpose of this paper to go into the internal dynamics of this rapid change, but the reader can well imagine the interpersonal and political turmoil that this proposal and change caused, both within the two effected departments and among the other departments who saw the emphasis of the College change as a result of the emergence of a new more powerful paradigm. The bottom line is that the strategic positioning of the College will change.

## EARTH TO EARTH

The notion of earth to earth represents the complex process of creating value by accessing and creating resources; transforming, moving, assorting, and combining them; and disposing or consuming them all in accordance with the needs and wants of consumers and within societal requirements. Societal requirements may include impact on the physical environment, or societal environments as defined by various stakeholders. Hence raw materials to final disposition. Note the inclusion of macromarketing in the conception of the process of creating value.

4. Toward process, learning, integrative, capability centered organizations and away from brand management.

All of these points support the reconfiguration of the capabilities of the college of business to focus on the needs for knowledge creation and dissemination in a very different competitive and operational world than existed when the current departmental structure was put in place. Frederick Webster (1996) noted that "marketing will disappear as a discipline as we know it." He further stated that "customers not products will define business" that is, firms will be defined by the customers that are allegiant to them and not by their products, services, industries, etc. Finally, Jerry Wind (1996) believes that the keys to high value academic research in the future are as follows:

1. Grounded in the real world.
2. Intedisciplinatory.
3. Global.
4. Sensitive to the issues of timing.

Schonberger and Knod (1988 & 1991) recognize the necessary infusion of marketing in their texts on operations management by subtitling them "Serving the Customer" and "Improving Customer Service" respectively. Further Schonberger (1990) notes "Marketing's weapons for bringing in business greatly expand and change when the rest of the firm becomes customer-minded."

#### WHY MICHIGAN STATE UNIVERSITY

Michigan State University has a unique competitive opportunity. This is due in large part to the independent development of core competencies which allow the integrated department described above to emerge. All of the key elements of the department have strong national reputations and capabilities.

Procurement: A focus at MSU for 25 years and now is recognized as in the top five in the country.

Operations Management: A long time strength of MSU, ranked By the *Journal of Operations Management* as #1 in productivity and #2 in quality of the best 100 OM departments.

Logistics: Initiated in the 1950s, it is now ranked #2 in the nation by *U.S. News and World Report*.

New Product Development: was given priority for development in 1987 and is near the top of the field.

Global Marketing: Was also given priority in 1987 and has developed the top Center for International Education and Research in the country as judged and funded by the U.S. Department of Education.

Macromarketing: The department edits the *Journal of Macromarketing*, and leads the marketing history group.

These are not all the core competencies that are needed. The Department needs to increase its level of research on assessing market requirements, segmentation, targeting, positioning, marketing response measurement, and modeling. However, few universities have any where near the dominance in most of the competencies needed if they have them at all and this gives MSU a monopolistic advantage in the critical resources (Barney 1991, Hymer 1976, Porter 1991) and first mover advantages. The combination of core competencies is simply to attain sustainable superior performance in the creation of value in our research and human products relative to competition from other organizations, whether they be academic, government, or business in nature (Hofer & Schendel 1978, Hamel & Prahalad 1994). Finally, the new

provisioning technology." If the provisioning technologies of society are enhanced in the service of market need then a larger societal payoff is possible than if the technologies are guided by institutional goals alone. The Department is committed to enhancing the provisioning technologies through out the supply chain leveraged by the guidance of marketing.

#### Competitiveness

In global competitive environments, better value creation technologies better tuned to the market are likely to result in superior competitiveness of the economic entities involved. This competitiveness is likely to result in higher incomes, greater wealth creation, more investment and saving, and greater levels of employment nationally and in the world. Competitive success drives a response across all competitors of either innovation and seeking of ways of serving target markets or of exit of the weak and unsuccessful competitors. Both usually strengthen the system in the interest of society.

#### Economic Development

This competitive process engenders the global search for sources and markets which in fact aids the economic success of both developing and developed economies. Resources are therefore used more efficiently globally. The critical integrating technologies of information and distribution systems amplifies this process of efficient allocation of resources and maximization of well-being.

#### Focus on the Physical Environment

The physical environment has significant impact on societal well-being as well as on the sustain ability of the economic and social systems that support well-being. The "earth-to-earth" focus of the new department inherently recognizes these direct and indirect impacts in that resource availability and depletion are at one end of the process and final disposal of products and byproducts of manufacturing, transportation and final usage permeate the value creation chain through to its end. The issue of significance is how to determine appropriate environmental requirements and then how to insert them as design requirements in the total supply chain process. Up front consideration of environmental requirements rather than after the fact compliance strategies have significant implications for the design of the value creation system.

#### The Meaning of Value

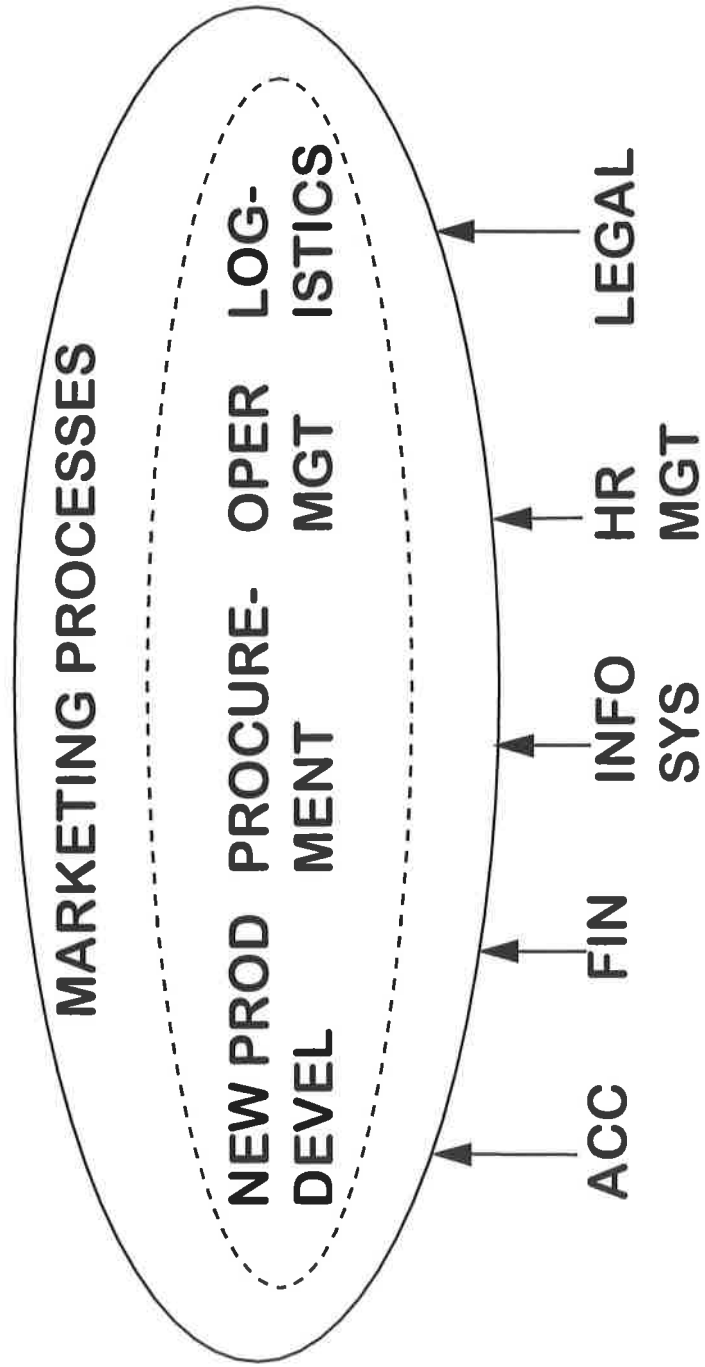
Finally, the infusion of marketing processes into the value creating process in the supply chain helps define value not only in terms of product features and functionality, but in terms of psychological, social, assortment, time, place, and ownership/access values as well. It is the total value which is the objective function as defined by the market of consumers.

#### CONCLUSION

It is the goal of the Department of Marketing and Supply Chain Management to combine key core competencies at Michigan State University such that the knowledge and practice of value creation can be enhanced through the institutions of society. It is expected that the byproduct of this service will be the enhanced international reputation of the University, College, and Department. The role of the business academic institution in an ideal sense is to advance the ability of our economic engine of societal well-being to serve society's needs. In the analogy suggested by Shelby Hunt (198?), a medical school should be dedicated to enhancing the prevention and healing of disease not the enrichment of doctors, hospitals and other medical institutions and practitioners. So it is with colleges of business, micro analysis is the vehicle to societal macromarketing ends.

# COLLEGE OF BUSINESS

## ORGANIZATION



**PRIMARY  
ACTIVITIES**

**SUPPORT  
ACTIVITIES**

# **1996 AMA Summer Educators' Conference**

## **Session 4.7**

### **Integrating Macro- and Micro-Marketing Theory**



# ALDERSON'S AUSTRIAN ANTECEDENTS: A MISSED OPPORTUNITY FOR MACROMARKETING

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## ABSTRACT

In the late nineteenth century economists of the Austrian school anticipated many of the ideas commonly attributed to Wroe Alderson. The Austrians also developed a means of extending micromarketing concepts and forming theoretical linkages to macromarketing. The result is a framework for a general theory of marketing. Examples of these anticipations include (1) each consumer's complex of needs is unique, (2) the value of an assortment is determined by consumer need satisfaction, (3) marginal analysis provides the basis for the consumer's decision rule, (4) information is an important resource because consumer choices concern the future, and (5) entrepreneurial activity is an important factor of production.

Although Alderson's micromarketing theory closely follows the Austrian analysis of individual behavior, he does not explore the two-way interaction between the organization and its environment. His attention is focused upon the firm's adaptation to the larger systems of which it is a part, taking into account social, economic, and ecological constraints. The paradigm guiding Alderson's work differs from that of the Austrians on several dimensions.

The purpose of analysis differs. The Austrians are not concerned with practical rules for economic activity. In contrast, Alderson's purpose is microanalytic; it is to help market analysts and marketing executives solve problems. Consequently, Alderson's analysis centers upon the efficiency of the firm in achieving stated goals. Since external factors are of analytical interest only because they have an impact upon the efficiency of the organization, they are treated solely as behavioral constraints.

Alderson's purpose limits his understanding of the systems paradigm itself; he defines a system's components as people. This conception negates the underlying principle of the systems paradigm, that there exists a hierarchy of systems in which higher levels are made up of lower level systems, and that higher level systems may include both living and non-living components. Whereas the conventional hierarchy consists of organisms, groups, organizations, societies, and supranational systems, Alderson's system levels consist of different aggregates of people: consuming or supplying groups, transactional groups, local trading centers, and national markets.

Since his systems all have the same components, and thus represent only different numbers of people, Alderson considers neither culture nor society as systems. This means that analytical connections between an organization and its environments cannot be developed. Environments simply exist. It is not known how they have emerged, or what mechanism transmits influences to and from these environments. Consequently the interactions between systems and environments are described by means of anecdotes rather than analytically. This is a surprising omission since the Austrian School develops a macroanalytic framework that suggests a means of dealing with these issues.

Methodological differences also exist. Because Alderson is concerned with "practical rules," he is interested in other disciplines only to the extent that they provide concepts that can contribute to a body of theory useful to managers. In contrast, the Austrians intend to make a contribution to the entire body of knowledge. Bohm-Bawerk, the member of the Austrian School cited by Alderson, recognizes that no single discipline can provide a full explanation of any phenomenon. Neither Alderson nor the Austrians had a "general theory" available to serve as a foundation for their analysis. In more modern terminology, a suitable paradigm was lacking in both cases. Alderson chose to solve his problem by means of an ecological metaphor, which provided numerous insights for micromarketing, but failed to provide a means of linking micro and macromarketing. The Austrians took a different approach because to them, "theory" meant "cause and effect" explanations. Consequently, as the Austrian analysis proceeded, and the explanation of one factor was found to depend on another, the scope of the theory continued to broaden. As initial focus upon individual behavior shifted to higher level systems a macro perspective was adopted as a logical result of the search for cause and effect.

Nineteenth century Austrian economics suggest that a transition from a micro to a macro perspective follows from (1) an interest in knowledge as an "organic whole," (2) a "cause and effect" methodology, and (3) a point of departure which leads the chain of cause and effect reasoning in a fruitful direction. When these elements are missing, the scope of marketing theory is severely limited.

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# DISTINGUISHING BETWEEN MARKETS AND ECONOMIES, AND THE CONSEQUENCES FOR MARKETING

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## ABSTRACT

The assumptions that underlie most of what we think of as Marketing are: (1) that the rules of the marketplace are inherently economic; and (2) that the marketplace is the location where economic activity occurs. Are these assumptions axiomatic? Polanyi (1944) argues that the marketplace and economics are not equivalent. While markets and economies have existed as parts of every organized society, it has only been since the Industrial Revolution that market systems have served as the dominant venue through which societies have conducted their economic activities. Markets are one social institution for determining the allocation of resources, but they need not be the only format for such activities. Similarly, one activity of a market can be to determine the appropriate price for goods or services (an economic function), but there are other, non-economic functions of markets, as well.

If, in fact, markets are not equivalent to economies, the question for marketers is, "whence marketing?" Is the study of marketing restricted to the domain where economic activity and market activity are equivalent, or should the discipline of marketing extend to cases where economies and markets are not synonymous? The purpose of this paper is to identify non-competitive functions of economies, and non-price arbitration functions of markets, and ask whether the study of these phenomena fall within the jurisdiction of the study of marketing. The conclusion of this paper is that, while market economics is the central focus of micro-marketing theory, macromarketing can, and should, address the consequences of a non-competitive economies, and non-arbitration markets.

While it is common for us to assume that this arbitration of resources occurs in a market, this is in no way implied by the definition of economics. Economic objectives can be achieved through market *competition*, but they may also be achieved through *reciprocity*, *redistribution*, or *householding*. Societies can organize economic activities around the principle of *reciprocity*, where individuals or households give freely to others, and where giving and receiving among households balance in the long run. Alternatively, a society may organize its economic activities around a principle of *redistribution*, where resources are distributed according to the objectives of central authority. Third, economies can be organized around the principle of *householding*. This implies that the production of goods

is guided by the sustainability of households. Goods or services are produced first for the needs of the household, and second for exchange with other households, through barter. Each of these represent alternative economies to one based on the notion of *competition*, the form of economics with which we are most familiar. In each case, the mechanism through which economic activity is administered differs.

*Markets* refer to the people or places in which goods and services are exchanged. Market economics assumes that the function of markets is to serve as the arbiter of price, balancing the needs of buyers and sellers in a competitive environment. However, markets serve non-economic roles, as well. Figure Two proposes three alternative functions of markets: *distribution of goods*, *socializing of individuals*, and *sustaining social structure*.

Economies can be organized around non-competitive objectives, and administered through non-market venues, while markets can serve roles external to the function of efficient determination of price. Theories of marketing based on market economics assume conditions of an economy based on competition and a marketplace whose function is the arbitration of price. But what role does the study of marketing play when these conditions do not apply? This paper proposes that traditional micro-marketing theory deals with marketing activities when the assumptions of marketing economics apply, while many of the issues dealt with in macromarketing deal with relaxing either the economic competition—, or market price arbitration—, assumption.

For example, macromarketing research on the role of marketing in ecological sustainability (Kale 1995) is an example of householding economics; research on the role played by marketing in the economic development of Eastern Europe relies on an understanding of the role of marketing in a redistributive economy (Nason 1995); gift giving behavior (Belk 1979; Rucker, et al. 1991) is the study of reciprocal economics.

Similarly, macromarketing deals with the non-competitive role of markets: histories of Blue Laws (Ingene 1986) deal with how social structures external to markets affect market structures; consumer socialization research (Wittmayer, Schultz, and Mittelstaedt 1994) asks the question, what role does the marketplace in individual socialization?

Is marketing confined to investigating and understanding the circumstances where markets serve a price arbitration function and economics is solely a theory of competition? The function of macromarketing is, and

should be, to investigate the nature and role of marketing when these assumptions of market economics do not apply.

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# CONTEMPORARY SOCIAL THEORY AND THE BASS DIFFUSION MODEL

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## ABSTRACT

Diffusion in marketing continues to be heavily influenced by the Bass model and by the communications assumptions implicit therein. These assumptions are central to interpreting the model, but reflect an understanding of diffusion theory at a particular point in time. Alternatives employing more recent social theory are discussed in this paper.

## INTRODUCTION

Nearly all research concerning diffusion process and theory in the marketing literature stems from a common source, the Bass (1969) diffusion model. (Please refer to the Appendix for an overview of the model.) While the Bass model has been the subject of numerous tests, refinements and modifications, its basic structure and interpretation have remained largely intact over the past twenty-five years. In the meanwhile, research from a variety of disciplines has resulted in a continuously developing and deepening appreciation of social aspects of the diffusion process. The present paper outlines a perspective on diffusion that is reflective of current social theory, as applied to marketing.

The meanings of the Bass model are multiple. This paper deals with interpretive meanings, specifically those related to interpersonal relations and social structure. From a communication standpoint, the marketing-to-society relation implicit in the model is straight forward: marketers "activate" innovative consumers through advertising who, in turn, activate less innovative consumers through direct interpersonal contact. The second part of this dual-stage flow entails a unidirectional, dyadic information transfer, which is known as the binary assumption because individuals are converted from nonadopters to adopters without a hierarchical cognitive process. The social structure in which this dual-stage communication occurs is characterized by freedom of interpersonal contact in which all potential adopters have an equal probability of being influenced by any previous adopter. This is known as the mixing assumption.

Together, these two assumptions portray a rigid microstructure of communications which is superimposed on a highly fluid macrostructure of social relationships. The purpose of this paper is to propose an alternative interpretation to the binary and mixing assumptions

of the Bass model. The paper offers an interpretation based on current social theory, especially in terms of social structure and communications process.

Bass (1969) claimed to be structuring his model around behavioral assumptions contained in the diffusion literature, and he did so in admirable fashion and with great impact. The behavioral assumptions themselves, however, have become somewhat dated by the standards of contemporary diffusion research and by the standards of current consumer marketing (Gatignon and Robertson 1985). The diffusion of new consumer products appears to be a complex social process in which considerations other than functional or technological advantages may play a significant role.

## THEORY AND THE BASS MODEL

The Bass model is known to be highly robust, yielding accurate results under conditions of underspecification with respect to marketing variables (Bass, Krishnan, and Jain 1994). Accordingly, we do not argue for a respecification of the basic form, but for a reinterpretation of the process represented by the model and a reevaluation of certain assumptions. The point is to better understand marketplace realities which conflict with traditional interpretations. For example, diffusion theory has been employed to suggest that successive generations of an innovation have similar coefficients of innovations ( $p$ ) and imitation ( $q$ ) (Norton and Bass 1987). Color television, however had a  $q$ -parameter more than twice that of black and white.

There is broad agreement that the Bass diffusion model represents a communication process, especially as concerns the differential effects of advertising and word-of-mouth communications channels (Gatignon and Robertson 1985; Mahajan, Mueller, and Bass 1990). The universal convention of equating imitation with word-of-mouth communication and innovation with commercial communication is based on the relationship of the Bass model to the literature on diffusion at that time. Specifically, Bass (1969) cites the first edition of Rogers' influential *Diffusion of Innovations* as comprising the "literary theory" upon which the model is based. Hence the specific features of the first edition (Rogers 1962) are of interest in understanding the basis for the model, while substantial changes in the diffusion literature since that time may be seen by comparison with the fourth edition (Rogers 1995).

Many aspects of Rogers (1962) remain the same over three-plus decades: the familiar adopter categories and the characteristics of innovations are intact. Understandably, the volume of diffusion literature surveyed was considerably smaller in 1962 and, significantly for the present paper, includes no examples characterized as marketing-related. In the first edition, observations are derived mainly from studies in anthropology, rural sociology, education and medical sociology. Key aspects of interpersonal communications in Rogers (1962) are generalized from interactions typical of farmers and doctors dealing with economically/professionally salient innovations. By contrast, the fourth edition draws from diffusion studies in a much wider array of fields, including communications and marketing. Indeed Rogers (1995) notes that diffusion research in marketing has "exploded" in recent years and links this explosion directly to the influence of the Bass model.

The first edition accorded a special position to the two-step communication model in its chapter on opinion leadership. This emphasis reflected the influence of Lazarsfeld, et al. (1944), which was considered state-of-the-art communications theory by Rogers in 1962. In the fourth edition, however, Rogers notes that the two-step model, while valid in some instances, is overly constraining in many ways. "The two-step flow model as it was originally postulated did not tell us enough. The flow of communication in a mass audience is far more complicated than just two steps," (Rogers 1995, p. 286). Indeed, the material which was entitled "Opinion Leaders and the Flow of Ideas" in 1962 has been reworked and modified to the extent that it is retitled "Diffusion Networks" in 1995; the significance of communications networks is discussed below.

Rogers (1962) gave considerable emphasis to a process which he termed the interaction effect (renamed the diffusion effect in later editions) which was said to account for the characteristic "contagion," "chain-reaction," or "snowball" nature of diffusion (pp. 215-217). Not coincidentally, the Bass model is a contagion-type model. Subsequent editions of Rogers' book, however, give decreasing emphasis to the analogy between innovation diffusion and contagion. In the fourth edition, discussions of contagion have been largely replaced by discussions of homophilious vs. heterophilious communication in interpersonal networks.

The contagion analogy is directly linked to the two assumptions noted earlier: binary and mixing. Key evidence for these assumptions was based in large measure on observations of farmers and medical doctors in the first half of the century who had comparatively limited access to reliable product information by today's standards and a great deal to lose by unwise adoption. In the following, we argue for a reinterpretation of diffusion effects based on behavioral assumptions more compat-

ible with current social theory and contemporary consumer situations.

## SOCIAL STRUCTURE AND INFLUENCE

In the Bass diffusion model, adoption is depicted as a strictly mechanical process for imitators, essentially a stimulus-response mode in which exposure to previous adopters is the stimulant and adoption is the response. The terms contagion, chain-reaction and snowball clearly illustrate the limited nature of human agency implicit in the model. In this sense the model is one example of a numerous class of behavioral models which have been characterized as undersocialized (Granovetter 1985). In this context, undersocialized means a simplistic depiction of how humans interact with each other, especially as evidenced by a lack of variability in responses to a given stimulus. A more socialized approach would treat an individual's social setting and social relationships as relevant to the process of adoption, instead of regarding all actors as perfectly interchangeable units.

From a sociological viewpoint, the mixing assumption implies a state of social anarchy. Rogers (1995) observes: "A complete lack of communication structure in a system would be represented by a situation in which each individual talked with equal probability to each other member of the system." Even where physical proximity enables the possibility of comprehensive pairwise communications, social differentiation inhibits the actuality. It is in this light we argue that diffusion is fundamentally different from contagion, in which transfer takes place regardless of the identity of the individuals involved.

Current social theory is useful for providing a more realistic concept of social structure for diffusion studies and two concepts are of particular interest. First is the concept of social embeddedness (Granovetter 1985). This notion emphasizes that human behavior and social institutions are sufficiently constrained by social relationships that individual actors cannot usefully be viewed as independent agents. Embeddedness is, among other things, an explanation for the relatively high level of orderliness in social relations, but not so tightly constraining that change is precluded altogether or instantaneous when it does occur. Instead, specific social relations in particular social structures determine both the extent and the pace of change.

The second concept is networks. Burt (1982) summarizes the pivotal role of networks as follows. "Actors find themselves in a social structure. That social structure defines their social similarities, which in turn patterns their perceptions of the advantages to be had by taking each of several alternative actions. At the same time, social structure differentially constrains actors in their ability to take actions. Actions eventually taken are

## SOCIAL ACTION

therefore a joint function of actors pursuing their interests . . . where both interest and ability are patterned by social structure" (p. 9). Here, primary social structure is a network of peers, near-peers or familial relations: that set of individuals whose influence on the actor is substantially greater than that exercised by other individuals in the social system. In terms of diffusion, the network is salient in favoring or inhibiting adoption through a formulation and clarification of each actor's interests vis-a-vis the innovation.

Networks are, in some sense, islands of dense communication and influence which serve as a primary social unit for individuals. These networks are not, however, isolated from one another. Granovetter (1973) highlights the importance of the "weak" interpersonal ties which supplement "strong" network ties. These weak ties connect an individual in one network with an individual in another network. In this way, one network is linked to another. Because different individuals in a network may have weak ties to different outside networks, ideas may flow from one network to or through many others. It is the weak ties which transform the micro-level decision process into the macro-level diffusion process in society.

In applying network concepts specifically to the diffusion of innovations, Burt (1987) delineates two types of mechanisms which may be at work. The first is a cohesion model in which individuals are likely to copy the adoption decisions of similar individuals, that is, individuals who are socially proximate. This mode of diffusion clearly differs from a random contact model, but is an otherwise familiar notion in the spread of innovations. Communication between individuals with similar status and interests, i.e., homophilious communication, is particularly effective in the diffusion of innovations.

The second type is a structural equivalence model in which individuals are motivated by competition with other individuals occupying similar social positions. Here, a potential adopter weighs the costs and benefits of adoption strictly in light of his or her role position and, in doing so, seeks to know the shared social meaning attached to the innovation by others in similar roles. The adoption decision thus revolves around the advantages and disadvantages for particular statuses, with the result that certain networks may hold a norm favoring early adoption while other groups may favor later adoption. Interest is focused not on whether others have adopted, but rather on who has adopted. Hence an individual, ". . . can enjoy the luxury of paying little attention to information about the innovation until diffusion reaches his status," (Burt 1987). Once this point is reached, however, adoption is expected to be quite rapid in order to avoid an embarrassing loss of prestige.

The interpretation of diffusion model coefficients as communication channel effects rests on the assumption that access to product-related information is the key regulating factor in speed of diffusion. In other words, the binary assumption means that transfer of information is sufficient to motivate adoption. Clearly, information transfer is an important aspect of adoption, but the question remains as to whether it is the crucial factor which regulates the timing of adoption in consumer innovations. There is reason to suspect not, particularly in developed economies with numerous communication channels available. That is, lack of awareness and absence of understanding does not seem to be a systematic constraint in the diffusion of most consumer innovations.

Rogers (1962) observes that it is interpersonal contact between informed adopter and uninformed potential adopter which justifies the dyad as the appropriate unit of analysis in diffusion. In particular, an asymmetry of information sets up the dual-stage communication flow; this is the basic trigger of social action captured in the Bass diffusion model. That information is in short supply in less developed economic settings is not in doubt. As Geertz (1992) notes, information in a rudimentary economy is ". . . poor, scarce, maldistributed, inefficiently communicated and intensely valued." This sense of information is present in a number of the studies cited in Rogers (1962) and serves to justify a picture of the diffusion process in which knowledge of relative product advantage plays a central role in timing. Considering the context of the research studies which informed Rogers' first edition, one may question whether product information is an equally critical contingency in modern consumer markets. If not, it may also be questioned whether dyadic information transfer indeed regulates the timing of adoption, as is explicit in Rogers (1962) and implicit in Bass (1969).

In the fourth edition, Rogers (1995) supplements the discussion of the economic aspects in relative product advantage with a discussion of the social status aspects in relative advantage. Here, Rogers notes that status aspects have been understudied in diffusion research and that adoptions motivated in this fashion may be not only common but sometimes dysfunctional, that is, overadoption in pursuit of prestige. The salience of this for diffusion is that information acquisition may take on an entirely different meaning when the objective of adoption is status instead of function.

If information lag is not the mechanism that regulates timing of adoption, what is? A final concept from current social theory employed here is rational choice theory, the chief exponent of which in sociology is Coleman (e.g., 1990). For the present discussion, ratio-

nal action may be viewed as purposive, a generally efficient linking of means to ends. Rational choice theory links micro to macro phenomena through social norms. Coleman (1990) describes norms as macrosocial outcomes which result from microlevel individual behavior in an organized way. In this sense, norms constitute a transfer of control over actions from the individual to the social system for the joint benefit of those observing the norm. A norm is thus a form of social capital, this is, a durable attribute of the social structure in which an individual is embedded.

Obviously, norms may relate to the appropriateness or inappropriateness of possessing specific material objects. Two aspects of this micro-macro relation between individuals and social structure are pertinent for diffusion. First, Coleman notes that the micro-to-macro transitions which result in systemic behavior must involve some form of social comparison. Since new objects have social salience, potential adopters must reflect on the salience of the object for their particular social position. Second, Coleman notes that opinion leadership, like norms, is connected with influence over individual actions and, consequently, operates as a form of social capital. The exercise of leadership is a claim to control, just as the practice of followership is a transfer of control, in the direction of conformity and position maintenance.

As noted above, diffusion can be viewed as a process of social change. One aspect of diffusion as social change is that norms concerning adoption change from negative to positive over time for most individuals. Threshold models of change illustrate the mechanics of this process. When the perceived costs and benefits of adoption differ across individuals and when individual decisions depend on the adoption choices of others, a threshold situation may drive changing adoption norms (Granovetter 1978). In this model, some individuals perceive adoption to be favorable if one or two others have adopted while others perceive the situation as favorable only if many others have adopted. Hence the characteristic time lag in adoption is regulated by social comparison, in which the perceived cost/benefit of an innovation changes in the positive direction as more people adopt. Granovetter (1978) also notes that a person's social comparisons are more strongly influenced by friends than by strangers. In other words, the adoption decisions of a few network members creates a much stronger sense of acceptability than that of numerous others.

The act of adoption itself conveys relevant social information concerning the adopters, a fact about which potential adopters are well aware. Coleman (1990) also discusses adoption in the context of fads and fashions in which the decision to adopt or not is a function of social position and the timing of adoption is related to reduction of social risk. In short, possession of an innovation

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says something about the possessor, and an early adoption is not necessarily compatible with every social position. The various times at which one acquires, say, a cellular telephone might position the adopter as an electronics junkie, a very important professional, a forward-looking consumer, a fairly conservative person or a technophobe. Most consumers are not propelled into adoption by simply being made aware of product advantages, but are themselves conscious of the relation between time of adoption and social position. In other words, timing does not happen to most consumers as a by-product of random encounters. Timing happens because of consciousness of social position and is an important factor in adoption decisions.

## IMPLICATIONS AND CONCLUSION

A reinterpretation of the Bass model which addresses the concerns raised here involves three elements. First, the appropriate level of analysis should reflect a realistic social structure as the basis for action. In the conventional interpretation a two-person dyad yields a discrete trigger to individual adoption decisions, in which an adoption event is precipitated by a single contact with any previous adopter. Hence the communication in question must be assumed to be both completely and immediately effective. The direct and immediate influence of the network on individual decisions suggests that it is the network which is the appropriate unit of analysis for diffusion. Only within the confines of the network does the mixing assumption approach plausibility. Individuals outside the network have a much lower probability of influencing any adoption decisions inside the network. In this light it may be seen that the critical problem with the mixing assumption is not so much its logistical impossibility but the unreality of an individual's decision being influenced by a random encounter with a socially distant person.

Second, the essence of communications within the network is not product-specific information, because this is not regarded as being in scarce supply or highly motivating. What is regarded as motivating is information connecting adoption with social status at a given point in time. Adoption within the network is inhibited until such time as the innovation is viewed as compatible with current or desired social position, at which time adoption by the network is rapid and relatively complete. The notion of adoption thresholds (Granovetter 1978) and the notion of competition by structurally equivalent individuals (Burt 1987) opens the likelihood that nonverbal or indirect communications may be highly influential in adoption decisions. Specifically, the phenomenon of social learning is thought to be operative (Rogers 1985). Here, social learning may be accomplished through direct observation, indirect observation or hearsay, all without traditional word-of-mouth. Gatignon and Robertson (1985) speculate that visual influence may be as important as w-o-m, especially for



public goods. Similarly, innovative consumers need not depend on advertising as their only stimulus to adoption. In many instances, innovators are responding to motives of a social nature, that is, a desire to be first-on-the-block, or perhaps the requirement of sustaining a position. Either kind of social differentiation can produce strong motives to innovate, independently of advertising.

Third, as a consequence of the first two, model parameters  $q$  (imitation),  $p$  (innovation) and  $m$  (number of adopters) should be reinterpreted. The conventional interpretation of  $q$  is, as noted above, related to the effectiveness of word-of-mouth communications. A reinterpretation relates  $q$  to the social salience of an innovation. Specifically,  $q$  is a metric of the strength of weak ties among networks, that is, an indicator of the speed at which the process of social comparison converts network norms from negative to positive. Once a network member has adopted, adoption by all members is assumed to be immediate. The  $p$  parameter would, as before, reflect the proportion of innovators. However, in the reinterpretation it would refer to the proportion of networks with one or more innovators, rather than the proportion of individuals in the population who are innovators. An innovator is defined as an individual whose adoption threshold is zero persons while an imitator is defined as an individual whose adoption threshold is one or more persons. Finally, individuals outside the pool of potential adopters (i.e., beyond  $m$ ) have a threshold of adoption which is larger than  $m$ .

### CONCLUSION

The role of marketers in the diffusion process takes on a somewhat different aspect in the reinterpretation.

Many extensions of the Bass model have focused on refinements related to marketing mix variables. However, Gatignon and Robertson (1985) note that marketing variables are not a part of diffusion theory, but rather have been added by modelers in an attempt to incorporate effects of interest to marketing management. The conventional interpretation indicates that the role of marketers is to simply get the ball rolling by communicating with innovators, who are presumed to do the rest. As Burt (1987) notes, newer perspectives on the diffusion process, such as the structural equivalence model, shift the analytical focus from dyads to social systems. When communications to imitators are not restricted to dyadic word-of-mouth, the potential for marketing influence throughout the diffusion process becomes more apparent. That is, marketers contribute to a changing social understanding of the innovation (McCracken 1986).

The reinterpretation suggests that marketing variables may play a role in assigning social meaning of innovations and in modifying the status implications of innovation over time. Similarly, marketers may facilitate the social comparisons which flow along weak ties and reinforce the social capital of network leaders in this process. The success of marketing variables in many diffusion models examined by Sultan, Farley, and Lehmann (1990) indicates a considerably wider role of marketing in the ongoing process of changing adoption norms as an innovation reaches successive social statuses. To the extent that some consumers may "overadopt" in pursuit of social prestige (Rogers 1995), the reinterpretation opens a possibility of negative externalities which was absent in traditional diffusion theory in marketing.

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#### APPENDIX Bass Diffusion Model

The Bass (1969) model is

$$S_t = (m - Y_t) P_t$$

where:  $P_t = p + [q/m] [Y_t]$

and:

$S_t$  is sales in period  $t$ ;

$m$  is the eventual total of adopters;

$Y_t$  is the cumulative number of adopters to period  $t$ ;

$P_t$  is the probability of an initial purchase in period  $t$ ;

$p$  is the innovation parameter; and

$q$  is the imitation parameter.

This is a communication model in the sense that  $p$  represents the effects of external communication (such as advertising) and  $q$  represents the effects of internal communication (word-of-mouth). Hence initial adoption is the result of commercial communications, whereas subsequent buying is mainly driven by interpersonal communication. As the number of adopters ( $Y_t$ ) increases over time, the probability of first purchase by non-adopters ( $P_t$ ) rises simultaneously.

# **1996 AMA Summer Educators' Conference**

## **Session 6.7**

### **Macromarketing and Ethical Views of Relationship Marketing**

# BUSINESS NETWORKS AND ASSORTMENT MATCHING

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## ABSTRACT

Although business network structures provide value for many of their participants, the relative ability of network systems to perform effectively in the matching process is unclear. First, this paper critiques some theoretical foundations in the network approach. Then, it assesses the function performed by network structures within several published case studies. In some instances, alleged "network" structures exhibit low network density and closely resemble (largely vertical) conventional supply systems. Perhaps, such vertical "networks" perform effectively in the matching process when supply and demand are heterogeneous and volatile. Horizontal "networks" (when they exist) appear to facilitate product format standardization and thus may have a positive effect on the diversity of supply.

Networks of organizations involved in the production and marketing of goods and services yield a variety of economies for their participants. These include technological collaboration (Hakansson 1990), information sharing (Teece 1994), the opportunity to invest in and capitalize on strategic "positions" (Mattsson 1985; Johanson and Mattsson 1985) and, in general, the opportunity to collectively allocate tasks to specialist firms and divide labor within and between industries and with regard to various activities comprising stages in the so-called value chain. Nevertheless, the following macro performance questions about assortments and choice have yet to be clearly addressed in the literature: (1) Do highly collaborative yet potentially collusive business networks contribute positive social outcomes in the areas of product variety and choice? (2) Or, are marketing systems consisting of less cooperative and more competitive participants more capable of offering superior product selections that better match final demand requirements? (3) Or, are there no general answers to such questions other than those that cite systemic tradeoffs and environmental contingencies?

In spite of the institutional and functional traditions in marketing thought, the network approach does not distinguish between (a) the functional (institutionalized) role an organization might have as a distributor and (b) its generic (positional) role in one or more "business" network(s). The network approach implicitly views distributive functions as, in effect, inseparable from production functions and deserving of no special analytic place. But structural sociology and anthropology are far less influential in the analysis of business networks than are sentiment or attitude concepts borrowed from inter-

personal psychology (and prominent in so-called "relationship marketing").

Contemporary analysis of business networks puts much more emphasis on flows of information than on flows of goods and services. Furthermore the "network" structures depicted can be of low density and not extend very far beyond conventional vertical structures in marketing. These points are evident in the two cases discussed by Anderson, Hakansson, and Johanson (1994). These business network cases are the "New Saw Equipment" case and the "Danprint" case (Anderson, Hakansson, and Johanson 1994). Most of the relationships in both cases are exchange relationships with the focal firms: depicting what amount to rather traditional dyadic marketing scenarios. In the "New Saw Equipment" case, a process of postponement of final form and collaborative customization dominates a process of matching speculative assortments of standardized saw blades and equipment.

As discussed by Priem (1992), the DeBeers "transvection" that matches heterogeneous supply of rough diamonds with heterogeneous demand for finished mounted diamonds lies at another extreme. In the DeBeers case, there is a considerable degree of speculation and matching throughout the system (Priem 1992). Historical evidence presented in two recent studies suggests that horizontal networking in the phonograph record industry, much like the VCR industry, facilitated technical standardization whereas vertical structures in the phonograph record industry effectively performed a matching function (Robertson and Langlois 1992; Mittelstaedt and Stassen 1994).

Several tentative observations emerge:

1. Business network analysis tends to be more descriptive than theoretical.
2. Business network analysis does not adequately distinguish between structural network positions and their roles and institutionalized status positions and their roles.
3. Many business networks are of such low network density that they can hardly be called networks.
4. Many relationships depicted in business network cases are vertical rather than horizontal relationships.

5. Horizontal networks can contribute to product standardization which serves to enhance the sorting process and allows product development attention to focus on content rather than format, potentially enhancing variety of supply.
6. Vertical networks perform different functions depending on the degree of supply and demand hetero-

geneity and volatility. As the "New Saw Equipment" case shows, homogeneous and rigid demand implies that vertical relationships function to postpone final product form to the point of end use. As the diamond and record cases show, greater heterogeneity and volatility increasingly ask the vertical network to perform a matching function.

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# RELATIONSHIP COMMITMENT, TRUST AND NON-OPPORTUNISTIC BEHAVIOR: COMPARING SELECTED BUSINESS AND SOCIAL VALUES

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## ABSTRACT

Discussions of relationship marketing emphasize an apparent change in business values manifested by increased relationship commitment, greater trust and less opportunistic behavior. The current paper compares perceived changes in business values associated with relationship marketing to changes in comparable values in society in general. The results indicate a significant gap exists among marketing academics with regard to changes in business and social values.

## INTRODUCTION

Relationship marketing is a term recently added to the marketing lexicon. Though not clearly defined (Marketing Educator 1995), the term applies to buyer/seller exchange situations generally characterized as longer term in nature and requiring greater involvement from each partner. Examples of relationship marketing include partnerships, strategic alliances, outsourcing, networks, and effective buyer/seller interfaces (Morgan and Hunt 1994).

Similar marketing terms have been used in the past. Converse (1922) wrote of "cooperative organizations"; Cox (1958) described the channel of distribution as a "unit of competition"; Alderson (1957) emphasized the "systems" approach to understanding marketing; and Fisk (1967) examined "consensus command systems." Interest in marketing relationships was such that in 1970 a conference entitled "Contractual Marketing Systems," was held at Hofstra University (Thompson 1971).

The purposes of this paper are to examine the notion among marketing academics that business values are changing and to compare any perceived changes with comparable values in society in general. Potential gaps between business and social values are identified.

## RELATIONSHIP MARKETING AND BUSINESS VALUES

Recent discussions of relationship marketing are in some ways similar to, and in other ways different from, previous treatments of the subject. Like earlier authors, current researchers attempt to understand conditions under which relationship marketing shows particular

promise. The benefits of specialization, lower costs, and improved coordination and communications have been discussed in the past (Alderson 1957; Coase 1937; Tugwell 1927) and are featured in current writings (Weitz and Jap 1995). Environmental changes such as the presence of geographically dispersed markets and access to low cost resources also appear in writings from various time periods (Hower 1968; Varadarajan and Cunningham 1995).

Some contemporary authors, however, differentiate relationship marketing from previous marketing theory. Some point to what they perceive to be an historically unique competitive environment within which firms must create a differential advantage (Nevin 1995; Prahalad 1995). Others highlight the need for marketing theory that is distinct from transaction theory (Webster 1992). Still others emphasize an apparent change in business values associated with marketing situations (Morgan and Hunt 1994). (Though interesting and subject to considerable debate, the first two topics are beyond the scope of the current paper.)

Morgan and Hunt (1994) argue for the importance of certain business values in the relationship marketing context. The authors present a model with statistically significant results, including the importance of relationship commitment and trust and the negative impact of opportunistic behavior. The roles of relationship commitment and trust as key mediating variables are based on the following theoretical argument:

... we theorize that the presence of relationship commitment and trust is central to successful relationship marketing. Commitment and trust are "key" because they encourage marketers to (1) work at preserving relationship investments by cooperating with exchange partners, (2) resist attractive short-term alternatives in favor of the expected long-term benefits of staying with existing partners, and (3) view potentially high-risk actions as being prudent because of the belief that their partners will not act opportunistically (Morgan and Hunt 1994).

Thus, relationship commitment and trust appear to act as intangible glue holding marketing relationships together. Relationship commitment and trust are intangible because, in addition to the cost/benefit balance of

current activities, they promise unknown future benefits.

Other authors make similar claims. Macneil (1980) emphasizes the importance of societal relations on future market exchanges. Berry (1995) suggests the "primary" bond in relationship marketing can be financial, social or structural. Social is preferred over financial and structural preferred over social. Each requires a greater level of commitment than the previous and each promises a more sustainable competitive advantage. The advantage stems from a exchange process that is difficult to quantify and thus difficult to duplicate.

According to Weitz and Jap (1995), relationship marketing represents a movement away from authoritative control toward control by shared sets of principles and norms. As the relationship between two partners becomes more "institutionalized" multiple personal relationships become more important than individual role relationships, psychological contracts replace formal legal contracts, and formal agreements mirror informal understanding. Wilson (1995) argues relationships have existed "since humans began trading goods and services" and that relationships developed "as buyers and sellers developed trusts and friendships supported by quality products and services." Now, however, relationships have become more "strategic" and the process of relationship development more accelerated "as firms strive to create relationships to achieve their goals."

In summary, some business values (e.g., trust, commitment, non-opportunistic behavior, and even friendships) have long term economic implications that may not be apparent in many short-term market exchanges. According to some authors, these values have historically been a part of business dealings but are becoming more important. Within the relationship marketing context these values may, in fact, determine the success of the relationship.

## BUSINESS VALUES AND SOCIAL VALUES

Increased interest in certain business values within the relationship marketing context raises interesting questions: If there is an apparent movement toward increased relational commitment, greater trust, and less opportunistic behavior, is this movement consistent with changes in these values in society in general? And if not, what are the implications? Substantial inconsistencies in values would make business relationships susceptible to the influence of social values. Long term relationships may become difficult to maintain. Business organizations may have problems training employees to exercise business relationship values that differ markedly from their general social orientation.

To ascertain a perspective of changes in business relationships and in society we probability sampled *Macromarketing Proceedings 1996* use page number to the right for citing  
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marketing academics. Marketing academics were selected because of their expertise in observing individuals and organizations, and because they are a primary source of theory regarding relationship behavior within and across firms. We ask questions regarding both business and social values. We then compare the findings pertaining to social values with national survey opinion research. We measure the perceived presence of selected business values, the perceived presence of comparable social values, and evaluate the consistency between our results on social values with those published by national polling firms.

Since existing relationship research in marketing uses measures directed toward practitioners, our perceptual measures directed at academics are new. We also use new social value measures in an attempt to bridge the gap between perceptions of business values on the one hand, and available national social survey data on the other. While our comparisons are to some extent indirect, we believe they capture at least some of the differences that may exist. Furthermore, to account for the possibility of differences among academics based on their ability to relate the current business and social environments to previous environments, we control for the length of time the respondent has held her/his Ph.D.

Using multiple items, the survey measures perceptions of three business values (relationship commitment, trust, and non-opportunistic behavior) and four social values (honesty, trust, caring for others and equality) in the early 1990s and early 1960s. The issue of equality was added as a reference check against national polling data. To avoid confounding effects that might be associated with various industries, respondents were directed to specifically consider changes in business values between industrial buyers and sellers. Respondents were also asked to evaluate changes in industrial buyer/seller relationships over the same period with regard to their being productive, effective, cooperative, and long-term. In the social arena, honesty, trust, and caring for others were selected as values that to some extent correspond with the aforementioned business values.

## METHODOLOGY AND RESULTS

Two groups of marketing academics were surveyed, those who received their Ph.D.s before 1971 and those who received their degree after 1985. A probability sample was drawn from the *Wiley Guide to Marketing Faculty 1995*. Questionnaires were sent to one half of the 473 marketing faculty listed as having received a Ph.D. or D.B.A. before 1971. For the second group, questionnaires were sent to one third of the 669 faculty listed as having received their degree after 1985. A random process was used to select a starting point on both lists. One hundred and six of 459 original surveys were received, providing a response rate of 23.1 percent. The degree date of respondents that corresponded with the

initial groupings provided a sample size of 93 for group comparisons, a response rate of 20.3 percent. Early versions of the questionnaire were pre-tested with faculty and Ph.D. students at two state universities in the south-western and south-central parts of the United States.

Table 1 compares industrial buyer/seller relationships in the early 1990s to those in the early 1960s. Respondents characterized industrial buyer/seller relationships in the early 1990s as having greater relationship commitment, greater trust, and less opportunistic behavior. The Cronbach alpha reliability for the items measuring each business value met or exceeded .70 for each time period. In addition, the results held regardless of when the respondent received her/his degree. The only noticeable change in the between group comparisons (not presented here to conserve space) was in the area of non-opportunistic behavior, where the statistical difference declined from .001 to .05 for each group across the two time periods. In addition, respondents felt that industrial buyer/seller relations in the early 1990s were more productive, effective, cooperative, and long-term when compared to the early 1960s. There were no statistically significant between group differences in these four measures. These findings reflect the dominant tone in the current relationship marketing literature.

Respondent perceptions of change in social values, however, diverge from proposed changes in business values. Table 2 indicates that all respondents characterized the early 1990s as having less honesty, less trust, and less concern for others when compared to the early 1960s. Respondents viewed the early 1990s as having greater equality than the early 1960s. The Cronbach alpha reliability for each value exceeds .70, with the exception of a .69 reliability for measures of honesty. With the exception of two minimal changes in the level of statistical significance (neither of which reached less than .05), there were no statistically significant differences in the between group comparisons across the two time periods.

Finally, Table 3 presents the results of national polling data relevant to the social values of interest. Two important caveats deserve mention. First, each of the social values measured is subject to multiple interpretations and may, at times, be considered situational. Second, no single measurement or data set can claim to capture all of the nuances of changing social values. Nonetheless, care has been taken to establish multiple measures, many of which have been used by firms that have dominated national polling during the last few decades.

With regard to honesty, The Gallup Poll reports a noticeable decline in the public's perception of the honesty and ethical standards of individuals in many

important occupations, ranging from bankers, to stock brokers. Even the ratings of medical doctors and clergy, both traditionally rated high, have declined in recent years. A 1986 survey indicated a 5 percentage point increase from 1963 in the number of people dissatisfied with the honesty and standards of behavior in the country. Though not a direct measure of honesty, a more recent survey reports that 75 percent of voters feel America is in a state of moral decay.

In the area of trust the perceived long term trend appears clear. From 1964 to 1993 the percent of respondents who feel "most people can be trusted" declined from 53.8 percent to 35.7 percent. During the same time period, the percentage of respondents who felt people "would try to take advantage of you" increased from 29.2 percent to 36.4 percent, while those that felt most people would "try to be fair" declined from 66.8 percent to 55.8 percent.

Concern for others manifests itself in a variety of ways. In one survey respondents indicated that from 1981 to 1991 people became more concerned with themselves than for those who were less fortunate. In addition, from 1991 through 1995 the Harris Alienation Index has been at a record high, reporting that people feel powerless and left out of things around them.

As an additional social reference point the survey asked respondents about changes in social equality. In spite of some discouraging statistics, such as the increasing percentage of black children raised in families headed by single mothers (Wattenberg 1995), there is clear evidence that some progress has been made. The number of black elected officials, the number of blacks entering and graduating from college, and the rate of black employment in some preferred occupations have all increased. Similarly, the number of college degrees conferred on women, the weekly earnings of women employed outside the home, and the percentage of women among top wealth holders have also increased.

In summary, the marketing academics surveyed agreed with national trend data in each of the four social areas. In the three areas most compatible with the business values associated with relationship marketing, both the current survey data and national opinion research suggest inconsistency. That is, while business relationships are characterized as being increasingly commitment oriented, trusting, and non-opportunistic, social relationships can be fairly characterized as less honest, less trusting, and less concern for others. Of course the more positive view of business relationships is not universal. Some authors suggest that some of the benefits resulting from building outside relationships have been at the expense of long-term relationships with internal employees (Pearlstein 1995).



**TABLE 1**  
**Comparison of Selected Business Values Associated with Relationship Marketing:**  
**Early 1990s Vs. Early 1960s**

Business Values (7 point scale: Agree/Disagree)	Means (s.d.)		t value	Cronbach's alpha	
	early 1990s	early 1960s		early 1990s	early 1960s
<b>Relationship Commitment</b>	5.33 <sup>3</sup>	4.4 <sup>3</sup>	7.14**	.72 <sup>1</sup>	.83 <sup>1</sup>
Industrial buyers and their suppliers are (were) willing to put forth great effort to ensure the relationship between them endures (endured) indefinitely.	(.85)	(1.10)			
Communications between industrial buyers and their suppliers are (were) informative.					
Industrial buyers and their suppliers are (were) committed to the relationship between them.					
<b>Trust</b>	4.96 <sup>4</sup>	4.49 <sup>4</sup>	22.53**	.83 <sup>3</sup>	.89 <sup>3</sup>
Buyers in industrial firms generally believe (believed) salespersons from their suppliers (made) make reliable statements.	(.91)	(1.25)			
Buyers in industrial firms generally believe (believed) salespersons from their suppliers can (could) be trusted.					
Buyers in industrial firms generally believe (believed) salespersons from their suppliers have (had) integrity in their business dealings.					
<b>Non-Opportunistic Behavior</b>	5.08 <sup>4</sup>	4.61 <sup>4</sup>	3.56*	.70 <sup>2</sup>	.81 <sup>2</sup>
Industrial buyers and their suppliers try (tried) to be faithful to explicit promises between them.	(.92)	(1.19)			
Industrial buyers and their suppliers do (did) not attempt to deceive each other.					
Industrial buyers and their suppliers try (tried) to be faithful to implicit promises between them.					
<b>Productive</b>	5.33	4.69	5.56**		
	(.96)	(1.21)			
<b>Effective</b>	5.27	4.46	7.14**		
	(1.01)	(1.24)			
<b>Cooperative</b>	5.21	4.20	6.06**		
	(1.04)	(1.41)			
<b>Long-term</b>	4.83	3.43	6.42**		
	(1.30)	(1.45)			

<sup>1</sup>N=102; <sup>2</sup>N=103; <sup>3</sup>N=105; <sup>4</sup>N=106; \*p < .001 \*\*p < .0001

## LIMITATIONS

Given the use of new perceptual measures of business and social values, and the absence of previous studies employing academic subjects in the relationship context, the current research should be considered exploratory. At the same time, however, the apparent gap between business and social values deserves further exploration. The following discusses the limitations of the study, later we offer suggestions for future research.

The current study is limited in both its scope and sample size. Not all traits of relationship marketing are measured and the analysis is based on a small sample of academics. In addition, the measures are susceptible to problems of anchoring and contrast, since informants may vary in their interpretation of terms such as "commitment," "integrity" and "MORE. . . individual cynicism." The measures also may be considered by respondents to be situation specific. The current study does not control for situation variance.

The study uses marketing academics because of their role as social observers and because they are a significant source of relationship theory. The current study, however, does not include the perceptions of business practitioners, a subject group of primary concern. There is evidence (Morgan and Hunt 1994) that some practitioners agree with academics regarding the perception of closer business relationships. To the best of our knowledge, however, no study has measured

practitioner perceptions of changes in social values.

The current study also does not control for the stage of relationship development. That is, perceptions of business and social values may differ if the respondent knew the respective relationship was in a later as opposed to earlier stage of development. Since business and social relationships develop over time, stage of development could be an important variable.

In reference to social values, the current study does not distinguish between population differences. Thus, the social values of organizational decision makers may differ from those of the general population. The presence and direction of such a difference would provide important information. A difference between populations may alter the values gap.

Comparing across two time periods also has its limitations. Respondents may have had special problems in reconstructing an experienced or non-experienced past for comparisons with the present situation. This could hold true for measures of business and social values.

## Definitions and Measures

Definitions of values such as "trust" require clarification, particularly relative to improvements in performance measures. Zucker (1986) states that "trust. . . is seen as an informal, interactive process, operating through

**TABLE 2**  
**Comparison of Selected Social Values**  
**Early 1990s Vs. Early 1960s**

<b>Social Values</b> (7 point scale: 7 = more in 1990s; 1 = less in 1990s; 4 = 1990s = 1960s)	<b>Means<sup>1</sup></b> <b>(s.d.)</b>	<b>Mean 4.0</b> <b>t-value</b>	<b>Cronbach's</b> <b>alpha<sup>1</sup></b>
<b>Honesty</b>			
Individual honesty	3.31	-6.66**	.69
Political honesty	(1.07)		
<b>Trust</b>			
Individual cynicism <sup>R</sup>	2.81	-9.53**	.91
Individual skepticism <sup>R</sup>	(1.28)		
<b>Concern for others</b>			
Individual community orientation	3.36	-5.88**	.78
Individual caring for others	(1.12)		
<b>Equality</b>			
Equality of gender	5.65	15.64**	.92
Equality of race	(1.09)		

<sup>R</sup>reverse; <sup>1</sup>N=106; \*\*p < .0001

**TABLE 3**  
**Trends in Selected Social Values Measured at the National Level**

**Honesty**

The percentage of respondents giving a Very High or High rating to the honesty and ethical standards of lawyers, journalists, insurance salesmen, stockbrokers, bankers, and Congressman declined noticeable from 1976 to 1993. The ratings of building contractors, medical doctors, and even clergy also suffered during the same period though their declines were less dramatic (Gallup 1977-1994).

From 1963 to 1986 the percentage of people reporting that they were dissatisfied with the honesty and standards of behavior of people in the country increased from 58 to 63 percent (Gallup 1987).

A 1995 survey reports that approximately 75 percent of voters feel America is in a state of moral decay (Etzioni 1995).

**Trust**

The percent of respondents agreeing with the statement "most people can be trusted" declined from 53.8 percent in 1964 to 35.7 percent in 1993, while those agreeing with the statement "you can't be too careful in dealing with people" increased from 44.2 percent to 59.7 percent during the same period (Converse, et al. 1980; Davis and Smith 1993).

When asked if most people "would try to take advantage of you" or would "try to be fair" when given the chance, the percent of respondents who felt people would try to take advantage increased from 29.2 percent in 1964 to 36.4 percent in 1993, while those who felt people would try to be fair decreased from 66.8 percent to 55.8 percent (Converse, et al. 1980; Davis and Smith 1993).

**Concern for others**

A large majority (77 percent) of individuals surveyed agreed that: "For the past 10 years, people have spent more time concerned with greed than on how to right the wrongs done to the less fortunate (Harris 1991).

Since 1991 the Harris Alienation Index has remained at its highest level since the index was started in 1966. Respondents increasingly feeling powerless and left out of things going on around them (Taylor 1995).

**Equality**

The number of black elected officials, the number of blacks enrolled in and graduating from college, and the rate of blacks employed in better occupations have all increased (Wattenberg 1995).

The percentage of college degrees conferred on women, women's weekly earnings relative to men's, and the percentage of women among top wealth holders in the United States, have all increased (Caplow, et al. 1991).

internalization or moral commitment: formalization. . . is generally seen as necessary only when trust is disrupted." Similarly, Williamson (1993) views trust in commercial relations in terms of risk and the organizational context within which contracts are embedded.

For both authors "institutional" trust involves risks within social and organizational environments. According to Zucker (1986), institutional-based trust rests on membership in a subculture with clear and specific expectations (e.g., medical doctors) or intermediary mechanisms that provide *some form of guarantee* [emphasis added] that the transaction will take place as promised (e.g., bank supervision of escrow accounts). With improved information and communications (e.g., the ability to independently access medical information; the ability to check the balance of an escrow account at

any time, day or night), the guarantee of performance appears to be more assured. Performance is guaranteed without a contract but also without the "faith" or risk required of more conventional definitions of trust (Merriam Webster's Collegiate Dictionary 1993).

In other words, improved performance measures and access to information may, in fact, reflect changes in internalization that makes both contracts and reliance unnecessary. The "trust" is based on the knowledge that should a partner deviate from an agreed plan, the misstep will be identified before significant damage can be done. While each partner may report with greater confidence the expected performance of the other, the real credit lies not with trust but with greater Orwellian oversight. Confusion in terminology can lead to more apparent rather than real differences.

## FUTURE RESEARCH

Setting the definition and measurement issues aside, further research is also needed to examine the impact perceptions of increased commitment, trust and non-opportunistic behavior have on business relationships. The following research questions are derived from possible discrepancies between the study results and some contradictory evidence:

1. Will the emphasis on commitment, trust, and non-opportunistic behavior relieve pricing pressure from purchasers? Despite the desire for mutual gains, a key motivation to form a partnership is in pursuit of lower costs (Wilson 1995). According to Lacity, Willcocks, and Feeny (1995), "the belief that suppliers can be strategic partners is usually wishful thinking. Ultimately, a supplier's need to maximize profits conflicts with a customer's need for good service, low costs, and the ability to change course."
2. What is the relationship between the perception of greater trust and economic advantage? Examples of relationship marketing frequently include firms that have a dominant position relative to their partners (Anderson and Narus 1990). Some smaller firms have found that, at times, the relationship also included significant cost shifting from the stronger to the weaker firm (Duff 1995). Thus, research is needed to sort out the relative impact of economic advantage with respect to maintaining a relationship.
3. Will relationships be short lived or at least shorter lived than many academics observers might indicate? Substantial capital commitments are frequently made when forming relationships, which gives the impression of longevity. Nonetheless, articles in the business press suggest growing concerns over the limits of outsourcing, partnerships, single or few suppliers and other forms of relationships (The Economist 1995; Byrne 1996). Given the current results, changing social values may contribute to other relationship constraints.
4. What can be learned about business relationships by approaching the issue from an historical perspective? Cooperative behavior has been of interest to academics in the past (Converse 1922; Cox 1958; Alderson 1957). Some authors have placed current relationships within the broader context of existing long standing relationships (Frazier and Antia 1995). An historical perspective may highlight factors (e.g., a changing business environment, a change in

the market position of individual firms, etc.) that contribute to the formation or dissolution of marketing relationships.

5. How should the current interest in maintaining relationships be viewed relative to known concerns regarding cooperative behavior? The periodic enforcement of state and federal regulations suggests that business practitioners revisit practices that test the bounds of anti-competitive behavior. Since a marketing relationship can be viewed as movement away from the operational problems of vertical integration or discrete transactions, the range of existing regulations that may be brought to bear on relationship activities is considerable.
6. Is decreased social trust an unfortunate irony of improved economic equality for minorities and women? Huston Smith (1996) suggests we are entering a century where ethnicities will be the dominant consideration. The values gap identified in the current study may represent a divide between business and social values that will widen as relations between social groups become more acrimonious. Additional research tracking change in business and social values may contribute to understanding the phenomenon.

## SUMMARY

The current study explored the possibility of a gap between business and social values. The data suggest divergence between closer interorganizational relationships on the one hand, and less harmonious social relationships on the other. Closer business relationships should be viewed in the context of apparently deteriorating social relationships. Marketing academics see individual decision makers in business as increasingly valuing certain relationship characteristics that society may in general value less.

Additional work is needed. Future research can refine measures, and identify the trends and situations influencing the strength with which specific values are held in each arena. Studies are also needed to better understand the impact a values gap may have on inter-firm relationships on the one hand, and social relationships on the other.

The current study has highlighted an apparent perceptual gap among academics between changing business and social values. Managerial or social implications will evolve as the current results are confirmed and/or altered.

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# EN ROUTE TO RELATIONAL ETHICS: PROPOSED DETOUR FROM MONADIC RESEARCH PATHS

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## ABSTRACT

Given that *exchange* has evolved into a central tenet of the discipline, a monadic perspective of ethical decision making contests the very ontology of marketing. As Pennington (1968) advised, researching only one party in an exchange process is prone to error because the countervailing influences of the other party is likely to confound the observations. While marketing scholars have implemented dyadic perspectives in other research streams (e.g., Sheth 1975; Solomon, et al. 1985; Weitz 1981), few applications have been made to marketing ethics research.

The *purposive* aspect of the transaction suggests that individuals are cognizant of an implicit behavioral contract in channel relationships. As such, a channel member's Gestalt is tempered by individual, situational, and stimulus characteristics. Furthermore, channel mem-

bers' interpretations are fostered by the recursive nature of the transaction.

Marketing practice, by definition, links organizations and customers through the process of exchange. Within business functions, marketing appears to be one of those areas associated with the most ethical abuse. In part, this occurs as a result of the inherent nature of the communication function aimed at satisfying customer needs and wants (Murphy and Laczniak 1981; Tsalikis and Fritzsche 1989). Additionally, the nature of the advertising function is fraught with the potential for ethical infringements (Hyman, Tansey, and Clark 1994). This study augments the extant models of ethics in the marketing literature by recommending a dyadic perspective in the investigation of issues related to ethics, especially in the context of the relationship between channel members.

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# **1996 AMA Summer Educators' Conference**

## **Session 7.7**

### **Marketing and Development**



# WHEN SILENCE IS GOLDEN: RELATIONSHIP MARKETING AND THE SILENT TRADE PROCESS

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## ABSTRACT

The Trans-Saharan "silent" trade of gold and salt in the seventh and eighth centuries appears to offer some insight into the practice of relationship marketing. Utilizing Morgan and Hunt's (1994) theory of relationship marketing, the author believes that the parties involved in the process exhibited trust and commitment illustrative of that employed by successful relationship marketers.

### **Building Marketing Relationships Through Silent Trade**

Morgan and Hunt (1994) posit that relationship marketing refers to all marketing activities directed toward establishing, developing and maintaining successful relational exchanges. The authors theorize that it is not power, but relationship commitment and trust that are vital to successful relationship marketing. These constructs are considered to be instrumental because they encourage marketers to work at preserving relationships by viewing potentially high risk actions as being prudent based on the belief that their partners will not act opportunistically. The silent trade process was facilitated by such commitment and trust.

*The Silent Trade Process.* The Soninke traders of Ghana sent their gold to Sijilmasa, a town to the north of Ghana, to exchange for salt and various goods. These goods were obtained from the Arab merchants and then taken south and exchanged for gold in Wangara where the gold was mined. The Soninke traders themselves were not gold miners; they primarily acted as middlemen or agents between the gold producers in Wangara and the Arab merchants.

The exchanges between the Arab merchants and the Soninke traders of Ghana, and between the Soninke and the gold miners, were both conducted through a process referred to as "silent trade" or "dumb barter" (Bovill 1958; Chu and Skinner 1965; Fage 1962; Shinnie 1966). This method of exchange is described as follows:

... Upon arriving at the trading site, the Arab merchants would beat drums to signal the opening of the market. The merchants piled the goods and salt in rows. ... The caravan would pull back a half day's journey from the trading site. The gold traders would then come and heap a quantity of gold beside

each pile of goods and salt that the merchants had left behind. They too retired from the scene.

Once the Arab merchants came back to the site of trading, if they found that the traders had left a satisfactory quantity of gold for their goods, they picked up their gold and went their way, beating on their drums to show that their business was concluded. But if the Arab merchants decided that the gold traders had not left enough gold. . . they would leave the pile untouched and the traders would return and add to the gold offering. This went on until a bargain which was satisfactory to both sides was struck (Chu and Skinner 1965, p. 79).

*Relationship Commitment.* With regard to organizations, relationship commitment has been defined as an enduring desire to maintain a valued relationship (Moorman, Zaltman, and Deshpande 1992). The Arab merchants valued their relationship with the Soninke traders because it afforded them the opportunity to sell or trade the gold they acquired into Europe. In addition, these exchange relationships allowed the Soninke to exploit their middleman position and dominate the export of gold and the import of salt in Africa (Davidson 1966). Also, the value that the gold miners of Wangara placed upon their relationship with the Soninke traders is evidenced by reports that they often gave gold *in equal weight* to the salt they received (Shinnie 1966).

The scarcity of the natural resources involved in the exchange process limited the number of alternative trading partners for the parties involved in the silent trade process. As a result, the costs of terminating these exchange relationships were extremely high. These anticipated termination costs can lead parties in a relationship to view that relationship as important and as a result, increase their commitment to the relationship (Morgan and Hunt 1994).

*Relationship Trust.* In the marketing literature, Anderson and Narus (1990, p. 45) define trust as "the firm's belief that another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that will result in negative outcomes." While it is often theorized that the silent trade process was motivated by fear and distrust (Robbins 1947; Davidson 1966), this author believes that assertion to be an inappropriate evaluation of these dyadic trading relationships. Clearly the dyadic trading part-

ners trusted each other. Each left their own valued merchandise to be examined at the discretion of the other party. There were no mechanisms in place to prevent the Soninke traders from departing with the merchandise left by the Arab merchants and leaving nothing to be evaluated in the exchange. The same is true for the gold miners of Wangara in their exchange with the Soninke.

It does appear however, that a certain level of distrust may have existed between the gold miners of Wangara and the Arab merchants; not actual partners in the exchange dyad. The gold miners' distrust of the Arabs may have been well-founded since it was widely reported that the merchants once captured one of the Wangara in the hope that he would show them the location of the gold, but he died without speaking, and the miners were so angry that it was three years before they would trade their gold again (Bovill 1958; Shinnie 1966; Davidson 1966).

This type of opportunistic behavior is a deceit-oriented violation of appropriate behavior in the ex-

change relationship (John 1984). According to social exchange theory and the principle of generalized reciprocity, this mistrust will breed further mistrust and decrease the commitment of the exchange partners to the relationship (Emerson 1962). The unwillingness of the miners of Wangara to resume trade for three years is evidence of such a phenomenon.

### **Conclusion**

The Trans-Saharan silent trade of gold and salt provides some evidence, although inferential, that the gold miners of Wangara, the Soninke traders of Ghana and the Arab merchants were involved in some form of relationship marketing. It is believed that this type of exchange went on for more than seven centuries (Bovill 1958). This implies that some level of commitment was present which generated such acquiescence on the part of the Arab merchants and the Soninke traders to engage in such an exchange process. Morgan and Hunt (1994) believe this acquiescence to be an outcome of successful relationship marketing.

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# ASSESSING THE DETERMINANTS OF BANK SAVINGS ADOPTION IN DEVELOPING COUNTRIES: AN EVENT HISTORY ANALYSIS APPROACH

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## ABSTRACT

Savings is of fundamental importance to economic development, and formal financial institutions are considered to be the most effective intermediaries in mobilizing savings for economic development. Accordingly, policy makers and development planners in the less developed countries (e. g., Malawi, Pakistan, Bangladesh, Ghana and India). have set up formal financial institutions, or banks, for the purpose of mobilizing savings in rural areas. Furthermore, developing countries' interest in mobilizing rural savings through banks is reinforced by increasing evidence that rural households possess substantial savings capacity. Unfortunately, rural savings mobilization programs have failed in part because rural consumers continue to patronize informal institutions (i. e., pawn brokers and family members). Yet, to date, there is little empirical knowledge about the conditions that impact rural consumers' adoption of banks in less developed countries (LDCs). While considerable attention has focused on the rural savings mobilization issue, much of this attention has focused on macro-level issues, such as the role of saving in economic development, and recently, the role of marketing in economic development.

With few exceptions, studies of marketing and economic development have neglected the rural savings issue. Thus, as a new concept that affects economic development, rural savings mobilization programs have not been accepted by rural consumers who make up the bulk of the population in LDCs. Acceptance of such programs would contribute to economic development of LDCs by accumulating capital for development projects and agricultural lending.

The present study argues that part of the problem with inducing voluntary savings with banks among LDC rural consumers pertains to the methodological limitations of traditional innovation diffusion research. Hence the study seeks to introduce and demonstrate to development researchers and planners the application of the event history analysis (EHA) methodology as an effective procedure for savings mobilization research and planning. EHA is a recently developed methodology in

various fields of science that addresses the question of : (a) how much time ensues before an event occurs, (b) the rate at which an event occurs with respect to time, (c) whether the rate changes with time, and (d) whether different subgroups of a population might show variation in relationship of the rate to time. EHA models can address the dynamics of discrete as well as continuous change by relating the rate of transition to time as well as to variables. When the event or transition at any given instant depends on how long the individual has already been in that state, the change can be modeled as a probability in the rate of transition with respect to time based on how long (duration) a person has been in that state. Duration can be defined with respect to any baseline: and it can be measured with respect to some event specific to an individual. Thus, LDC planners using EHA can obtain comprehensive estimates (i. e., both the duration as well as the probability) of event adoption and better predict potential adopters of banks for savings purposes.

As part of the EHA illustrative analysis, the procedure was applied to a sample of Ghanaian farmers, most of whom were exposed to banking institutions for the first time in 1982. Using the Gatignon and Robertson propositional inventory model as a framework, the analysis explored the determinants of the bank adoption decision and bank savings behavior. For comparison purposes, logit and ordinary least squares (OLS) models of the adoption decision were also estimated.

The EHA estimates were consistently more parsimonious than the logit and OLS estimates. Thus, the EHA results were examined for their implication for savings mobilization efforts. In particular, the EHA model isolated the two key variables that influence the timing as well as the probability of adoption. From a macromarketing viewpoint, the EHA results suggest that diffusion of bank savings can be accelerated in African context by targeting large farmers and heavy savers. By focusing on both of these variables, planners can reduce the cost of designing and implementing savings mobilization programs. Other macromarketing implications are discussed.

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# SYSTEMIC AND HISTORICAL INFLUENCES ON MARKETING IN A TRANSFORMING ECONOMY

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## ABSTRACT

Recent changes in the world's geopolitical structure have provided numerous opportunities for Macromarketers to (re)examine the nature and "reach" of marketing systems, but some important works and developments have been overlooked or disregarded by mainstream marketing scholars. The challenge, therefore, is to find and to examine those works and developments and to integrate them into the marketing literature. To those ends, a re-evaluation of the development, strengths and weaknesses of one of the failed Eastern bloc nations may provide a good opportunity for reflection. Thus, the purpose of this paper is to provide a historical assessment of the development of marketing in Croatia with a particular emphasis on the systemic nature of Marketing education.

To focus on Marketing in Croatia without a reference to the wider aspects of the environment would provide a caricature of the events. Therefore, it is necessary to focus on a broad social system. We submit that the interactive system of marketing education and practice consists of a network of (at least) six elements in constant interaction. Each of these in turn has three aspects that are critical for its influence on the social system and educational function. The first of these is "the political system" that guided by its ideological orientation as to the correct nature of the values and structures of the society will determine the budget or financial allocations to various uses (including education) and finally will decide the extent of intervention in the system. The "economic system" is the second element of the conceptual framework. Again the nature and influence of this system are determined by three factors: the ideology that determines the nature, structure and operation of the system; the performance of the system; the demand for the educational product within the system. Third is the "social system" that consists of culture, character and interaction. Culture determines the most general, enduring set of values within the community. The community may, for example, place a great value on education, which may have much honor or prestige associated with it. Character is used here to refer to the characteristics of the society, for example, the demographic structure. Interaction is used here as a term indicating the extent of the open or closed nature of the society, i.e., freedom of interaction. The marketing "knowledge system" is the fourth element enumerated.

The three components of this system are: the extent to which knowledge is well documented, i.e., the degree to which knowledge in written form as well as the technological facilities are readily available; the degree to which it is independent, i.e., can be relied upon to be objective and free of ideological influence; and finally the degree to which guidelines for application may be distilled from the knowledge base. The fifth element, the "educational system," consists of pedagogy, research and practice. The practice component is emphasized because marketing is an applied discipline, and the test of the relevance of the knowledge development, teaching and research efficiency is in the effectiveness of application. The final component of the system is the "executive system." Fundamentally, this refers to the professional practice of marketing. The quality of it depends on the aptitudes of the executive population, their motivation and the extent they actually implement modern marketing practices.

Each of these elements is addressed in the context of historical and social evolution, and in some instances, revolution. The authors have categorized historical events in three periods. These periods include (1) a general overview of Croatia prior to 1945 and as far back as the establishment of the first Croatian University in 1669, and as part of the Austro-Hungarian Empire and the Kingdom of Serbs, Croats and Slovenes; (2) an examination of events between 1945 to 1990, i.e., the communist era in which Croatia was a Republic within Yugoslavia; and (3) an examination of events between Croatia's "turning point" year, 1990, and the present, including the break from Yugoslavia, democratic elections, war, economic crisis and the transformation to a market economy. As part of this text, the authors note that marketing precepts have a rich tradition in Croatia, have—in various forms—almost always been included in university curricula except during the most draconian days of the communist era, and slowly emerged as integral to management practices despite continual interference from ideologues.

The authors conclude that Croatia's marketing system, including the marketing education system, has been profoundly affected by historical events. Prior to 1990, theory and practice of marketing were weakly developed, but as noted by the authors, some *de facto* marketing practices emerged. Nevertheless, marketing as a discipline did not have adequate support within the

Universities' Faculties. Social and policy changes in the last decade are beginning to have an impact on marketing theory and practice. However, despite rhetoric about a market oriented economy, there is still no integrated or comprehensive system to develop marketing philosophy and management practices in Croatia. Therefore, it is essential to support further efforts in marketing education, which we have argued are linked to historical foundations and the systems articulated above. Included

in war-recovery is more reform to the Croatian university-level education apparatus so that it will coincide with worldwide standards. It is hoped that the long term net result will be a critical mass of marketing scholars and practitioners who will expedite the transformation to a fully integrated market economy.

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# **1996 AMA Summer Educators' Conference**

## **Session 8.7**

### **Integrating Consumer Research and Public Policy Concerns**

# THE ADVERTISING OF NATURE'S SUBSTITUTES: SOCIETAL ISSUES AND IMPLICATIONS

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## ABSTRACT

Advertising is a powerful communication tool. Used by businesses as a primary source of information distribution, critics argue that it can have negative consequences on consumer behavior (Pollay 1986; Christians, Rotzoll, and Fackler 1991). Zinkhan (1994) suggests materialism is one potential outcome of advertising. "Advertising plays a demand-stimulation role, encouraging this pattern of 'over consumption'."

Critics of advertising suggest that advertisers are responsible for the increased sales of luxury items such as designer clothes, perfumes and fast cars. However, little attention has been paid to "non-necessary" items, such as pain killers, appetite suppressants and infant formula. Before technological advances, if someone suffered from a headache, they would lie down for a nap, if they needed to lose weight they would change their lifestyle, and if mothers needed to feed babies they would nurse them at the breast. Has our "over consuming" society supplanted nature's solution with "modern technological developments?"

Policy makers face the task of insuring public health while allowing competition in the marketplace. Some have suggested an outright ban of all advertising deemed not in "public interest." This, however, may have negative implications for competition within the industry. Policy makers often overlook the potential benefits of advertising in public health education such as Kellogg's advertising campaign (Calfee and Pappalardo 1991) which greatly increased fiber in the American diet.

Can advertising be used as a vehicle of public education about the disadvantages of product usage as well as the benefits? Policy makers have used the warning label to educate about the use and misuse of alcohol and tobacco. There is potential for a similar label in markets where advertising supplants nature's solutions. The focus of this paper is on the infant formula industry that currently faces a controversy over marketing practices. Medical professionals argue the superiority of breast-feeding and suggest advertising promotes the use infant formula. This paper explores the impact of advertising on breast-feeding by assessing the mother's decision making process and projecting the effects of a label that states the surgeon general's recommends breast-feeding.

Because of the exploratory nature of this study, a qualitative research study design was chosen. Twenty-eight people were interviewed, eleven breast-feeding mothers, eight bottle feeding mothers and nine medical professionals. Five major themes emerged. Mothers' decisions were based on their attitudes about their baby's health, perceptions of convenience, the father's involvement, benefits to themselves and the how they related the breast to sexuality. The attitudes appeared to evolve mainly from conversations with family and friends. These attitudes also result from the sharing of misinformation, particularly in the low income segments. Misinformation was largely perpetuated by close social networks and cultural taboos. Mothers' responses indicate that the social networks are the most important factor in the decision process.

When asked, participants consistently denied the influence of advertising on their individual choice process. However, medical professionals, did indicate they felt advertising played a role in mothers' attitudes about the acceptability of infant formula as a feeding option. This perception correlates mothers' responses about the impact of their social network. That cultural and familial influences are effected by advertising and this in turn can effect a mother's choice behavior. Thus policy towards infant formula advertising should focus on a change in societal perceptions versus individual behavior. This agrees with the previous suggestion of using surgeon general recommendations on labels. Warning labels already used in tobacco and alcohol industries appear to increase societal awareness more effectively than they alter individual behavior (Mazis, Morris, and Swasy 1991; Graves 1993).

Respondents in the study exhibited positive attitudes to the idea of a surgeon general's recommendation label. Health care professionals felt it might add credibility to the recommendation to breast-feed. Some even suggested that labeling would be more effective in educating low income mothers than the current nutrition programs. However, mothers denied that a label would have altered their decision but allowed that something as powerful as a surgeon general's statement would provoke them to consider breast-feeding more seriously.

The use of "recommendation" labels may be effective in altering societal perceptions of the benefits of breast-feeding. This provides a new and exciting alter-



native to public educators who want to increase the awareness of the superiority of breast-feeding without restricting market information available to the consumer. There are potential benefits of recommendation

labels not only for the infant formula industry but also for other products that may be supplanting nature's solutions.

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# SHOULD CHILDREN'S TELEVISION PROGRAMMING BE REGULATED? MOTHERS' PERCEPTIONS AND PREFERENCES

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## ABSTRACT

While diminishing somewhat during the deregulatory climate of the 1980s, the debate regarding child-directed advertising appears to be mounting once again. This is due, in part, to increasing opportunities for children to come into contact with commercials (via cable television or ads on child-focused videotapes) and greater public scrutiny of the practices of television station managers. At issue is how society should deal with the potential ill effects of advertising directed at children, and in a more general sense, the effects of television programming on children as well.

It appears that certain television programs (e.g., toy-based programs) are likely to influence factors such as children's social behavior and creative play. A recent debate is whether parents, educators, the television industry, or the government should attempt to mediate the effects of television on children. In fact, Armstrong and Brucks (1988) propose several different options regarding the regulation of television directed at children. Parents' views of two of these options are examined in the present study: the preparation of children to deal with television and government regulation of television commercials and programs directed at children.

Previous research dealing with concern about advertising directed at children and television programming suggests that parental perceptions about regulatory options may not be uniform across all parents. These studies suggest that perceptions may depend on the socialization style employed by parents. Four parental types are prevalent: Authoritarian, Neglecting, Indulgent, and Authoritative. Authoritarian parents tend to be more restrictive than tolerant, and attempt to maintain high levels of control over their children. Neglecting parents are detached from their children and neither seek nor exert parental control. Indulgent parents are more permissive than restrictive and more warm than hostile when interacting with their children. Authoritative parents are most likely to balance parents' and children's rights and responsibilities. Parental socialization theory suggests the following hypotheses:

H1: Authoritatives will be *more* likely to agree that family guidance is needed to mediate the effects of

television on children than Authoritarian, Neglecting, and Indulgent mothers.

H2: Authoritatives and Indulgents will be *more* likely to agree that parents should actively participate in attempting to mediate the effects of television on children than Authoritarian and Neglecting mothers.

H3: Authoritarians and Indulgents will be *more* likely to agree that governmental regulation is needed to mediate the effects of television on children than Neglecting and Authoritative mothers.

To test the hypotheses, self-administered questionnaires were distributed to 435 students in grades 3 through 6 in two elementary schools (one located in the Southeastern United States, the other in the Midwest). Students were asked to have their mothers complete the questionnaire. One-hundred-and-fifty-eight usable questionnaires were returned and used in the analysis. H1 was partially supported; Authoritative mothers were more likely to agree that family guidance is needed to offset the effects of television on children than the Neglecting and Authoritarians, but not Indulgents. In addition, H2 was partially supported since Authoritative mothers were more likely to agree that family guidance is needed to offset the effects of television on children than Neglecting, but not Authoritarian, and that Indulgent mothers were more likely to agree than the Neglecting group. H3 was supported in that Authoritative mothers were less likely to agree that regulation is needed to offset the effects of television on children than Authoritarian mothers; no differences were observed between Authoritative and Neglecting mothers.

In lieu of the evidence provided in this study, it might be tempting to conclude that further federal intervention is needed, or at least that the requirements of such legislation need to be clarified and enforced. Yet, our results would suggest that alternatives such as the Children's Television Act are not warranted or in demand by at least some parents. For these parents, such governmental intervention is *not* the most preferred alternative, and it is possible that additional legislation might even alienate parents such as Authoritatives as they do not appear to prefer governmental intervention.

However, Authoritatives are also those who are most likely to avail themselves of marketplace information and, therefore, rather than invoking more laws, public-policy makers might provide the means by which these parents can resolve perceived problems on their own. Yet, using the logic above to justify dismissing all potential solutions offered by additional legislation concerning children's programming is too simplistic and

short-sighted. It is worth reiterating that the scale means for both Authoritarian and Indulgent mothers were above the midpoint. If the midpoint represents a "middle of the road" view on whether governmental intervention would be acceptable, it could be concluded that some type of legislation might be a satisfactory alternative for about half of our sample.

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# NEGLECTED DIMENSIONS OF THE SURROGATE EXPERIENCE

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## ABSTRACT

Many consumer decisions are made with the help of a surrogate shopper. The breadth of consumer purchases handled by surrogate shoppers is staggering, as are the sales collectively handled by them. If, as George Fisk says, macromarketing is concerned with the way society provisions itself, then typical marketing channel arrangements are an oversimplification of the provisioning process. By overlooking marketing surrogates in the channel of distribution, we neglect a significant flow of advice, information, decision making and money. This paper broadens the concept to include a large array of individuals who intervene in the consumer's decision making process.

Past research has dealt with selected types of surrogate shoppers [e.g., personal shoppers or wardrobe consultants (Hollander 1970; Solomon 1987; Forsythe, et al. 1990)], and with a limited type of decision making [subcontracting of brand decisions for a single product (Rosen and Olshavsky 1987a, b)]. For the purposes of this paper we define a *surrogate shopper as someone who makes or facilitates selection decisions on behalf of consumers*. Based on this definition, travel agents, interior designers, funeral directors, physicians, independent insurance agents, mortgage brokers, and movie critics are all surrogate shoppers. They shop around, search, evaluate, influence, decide, buy and/or deliver products and services on behalf of the ultimate consumer. Surrogacy has two components: the actual service the surrogate performs for the consumer and the consumer's perception of the surrogate's behavior. Surrogate shoppers have an actual or perceived legal/moral/ethical responsibility to advance the interests of the consumer, i.e., a fiduciary responsibility.

The paper identifies dimensions upon which surrogate relationships vary and parties influenced by the imposition of a surrogate shopper in the consumer's decision making process. The dimensions are five: the source of surrogate income, the amount of control the surrogate shopper exerts over the decision, the type of service, the duration of the relationship, and whether the surrogates are for-profit or not-for-profit enterprises. There are four parties to the surrogate experience: the consumer, the surrogate, the supplier and society. As with other marketing activities, a number of exchanges occur between the parties. Information and commissions/salaries flow from the supplier (a retailer, a manufacturer) to the surrogate. In exchange, the surrogate

shopper returns sales, often in bulk, to the supplier. The consumer supplies the surrogate with money, power, and the sketchy information about the nature of their need; surrogates, in turn, provide consumers with products and services saving them time, money, energy and frustration. Consumers may pay suppliers directly and suppliers may deliver the product directly to the consumer. Suppliers also promote their products directly to consumers, often under the guise of building business for their surrogates. Society regulates the activities of the parties and, in return, gains the efficiencies resulting from surrogate transactions.

Why do surrogate-mediated transactions occur? There are a number of incentives to the four parties, identified above, to make transactions mediated by surrogate shoppers. According to the model, a consumer relinquishes decision making authority to a surrogate shopper as a result of an actual or perceived (permanent or temporary) impediment to a goal object. When consumers do surrender autonomy, it is often due to several factors, such as: strong countervailing forces (legal restrictions, institutional restrictions—physicians, professors), the offer of very substantial savings (buying clubs), a lack of information about a very complicated purchasing system (travel), or the interdependent nature of purchases (interior design, wardrobe consulting). The surrogate's incentive may be monetary (a source of income). In addition, the surrogate may be responding to other incentives. Many surrogate professions provide recognition and status, a position of power, and/or a sense of professional service that goes along with the nobility of their profession (physicians) or the ability to contribute to the beautification of the world (architects, interior designers). Often they approach this side of the profession with missionary zeal. For suppliers, surrogate shoppers provide access to consumers in general, and to high margin consumers specifically. There are transaction cost efficiencies, as well as management and marketing/promotion efficiencies. Surrogates often guarantee payment to suppliers and their transactions are more predictable. From the standpoint of society, the two major benefits are greater efficiency in use of resources and an enhanced ability to protect consumers from harm.

Consumer decisions may be one of the last bastions of autonomy. Consumers do not surrender autonomy lightly. And yet, surrogate-mediated transactions are prone to deception and chicanery. The same impediments that lead consumers to turn to surrogates for help,

# MORAL REFLECTION: THINKING ABOUT BUSINESS ETHICS

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## ABSTRACT

Ethical decision-making in marketing has been extensively modeled (Hunt and Vitell 1986; Trevino 1986; Ferrell, Gresham, and Fraedrich 1989; Jones 1991). However, most scholars agree that we still know very little about what influences a manager's recognition that a given situation has ethical components. Yet, "How managers recognize ethical dilemmas or know when ethical issues are present is a critical matter" (Ferrell, Gresham, and Friedreich 1989, p. 61). In this paper, we explore the philosophical concept of moral reflection as applied in the recognition of business relevant ethical issues and dilemmas. We examine two classes of variables (personal characteristics and firm characteristics) which may influence thinking about ethics. We test for relationships using structural equation modeling.

## Moral Reflection

As philosophers see it, moral reflection is the process of attempting to "balance wants, capacities and moral tradition(s)" (Kekes 1989, p. 161). Kekes describes three dimensions of moral reflection—confidence in one's ability to determine right from wrong (clarity), sensitivity to the consequences of behavior (sensitivity), and ability to maintain consistency between actions and moral principles (coherence). We propose that, in a business context, business-relevant moral reflection has three dimensions: **Certainty** is a person's confidence in what is right and wrong, **self-reflection** is the habit of thinking about one's own behavior, and **industry-reflection** is the habit of thinking about actions taken by other firms in the one's industry.

Responses from 377 marketing and packaging professionals were used to determine whether certain firm and individual characteristics have a systematic effect on business-relevant moral reflection. Structural equation modeling was used to test the relationships so that measurement error could be taken into account. The three dimensions of business-relevant moral reflection were allowed to correlate and served as the dependent variable. The final model fit the data well (chi-square with 17 degrees of freedom = 27.13,  $p = 0.56$ , GFI = 0.98, AGFI = 0.96). Below, we discuss some of the major findings from this study.

## Results

Four organizational characteristics were examined: organizational control, organizational norms, centralization of authority, and existence of an ethics code. Organizational control, i.e., the degree to which an individual feels that his/her work is checked to ensure that it meets company standards (Ferrell and Skinner 1988), was not significantly related to any of the dimensions of business-relevant moral reflections. We hypothesized a negative relationship since highly supervised environments should discourage independent thinking about ethical issues. Next, as expected, we found that individuals in a firm with clear organizational norms (i.e., where it is clear what ethical behavior is expected and rewarded by management) was positively related to self-reflection and industry reflection. Centralization, the degree to which decisions are made at the top and implemented by the staff, was negatively related to certainty and self-reflection. This is likely due to the fact that persons in highly centralized organizations are not encouraged to think about actions, rather they are encouraged to follow directions and established guidelines. Further, while many ethics researchers feel that the existence of an ethics code may improve the ethical climate and increase thinking about ethics, we did not find such a relationship. Indeed there was no relationship between ethics codes within the firm and business-relevant moral reflection.

We also examined the impact of pragmatic versus moral values on business-relevant moral reflection. Values are end-states that an individual finds important. England (1965) suggests that two individuals may hold the same end-state to be important (for instance, both may think that providing safe products is important) but for different reasons. For example, one individual may feel that safe products are important to the firm because they lead to profits and personal success, while another may feel that providing safe products is important because it is simply the right thing to do. For the first individual product safety is a pragmatic value, while for the second it is a moral value. Our hypotheses were not supported. To our surprise, pragmatic values were related to all three business-relevant moral reflection dimensions, such that the greater the number of pragmatic values the more a person engaged in business-relevant moral reflection. Moral values were related to the self-reflection and industry-reflection component of business-relevant moral reflection.