

**Arizona State University  
University of Rijeka**

**Marketing Contributions to  
Democratization and  
Socioeconomic Development**

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# Marketing Contributions to Democratization and Socioeconomic Development

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Editors:

Clifford J. Shultz, II  
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# Marketing Contributions to Democratization and Socioeconomic Development

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25<sup>th</sup> Annual Macromarketing Conference

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## Foreword

### Marketing Contributions to Democratization and Socioeconomic Development

“Dobro došli” -- welcome -- to the 25th Annual Macromarketing Conference! A Conference on Croatia’s Opatija Riviera affords Macromarketing enthusiasts the opportunity to engage in stimulating dialogue, while working with scholars from around the globe who are keen to understand and to implement the Macromarketing concept. Furthermore, a conference in transitional Southeast Europe provides an extraordinary opportunity to reach-out and to work with fellow scholars responsible for building new socioeconomic systems, in a manner consistent with our mission as Macromarketers. Thus, this year’s program includes not only regular participants, it also includes new participants from Croatia -- Croats are very well represented on this year’s program -- Slovenia, Bosnia-Herzegovina, Ireland, the UK, France, Poland, Finland, Turkey, Denmark, New Zealand, Australia, Canada and the USA.

Croatia has a deep and long-standing marketing tradition. Nestled at the crossroads of Europe much of present-day Croatia, particularly Istria and Dubrovnik, was a pillar of the Renaissance. Records indicate that Marco Polo, the person who opened Europe to the East, and to spice and silk trading, was originally from the Island of Korčula, on the Dalmatian coast. Croatian universities had marketing and commerce curricula over 400 years ago; even when Croatia was a Republic in the former Yugoslavia, it was known as a European leader in marketing education, innovation and practice.

As Macromarketers, we like to view marketing as an integral force that, when administered properly, is a catalyst to help the human condition, most notably optimal consumer outcomes and ultimately democratic processes and social justice. Here, too, Croatia has made distinguished contributions. Consider that the first law in Europe to abolish slavery was enacted in Croatia, on the island of Korčula, in the thirteenth century. This statute “is a picture of the constant effort of the inhabitants...to make official the forms of liberty, and to consolidate their rights.”

Since the disintegration of the former Yugoslavia, the Republic of Croatia has invoked new democratic processes in the forms of free and fair elections and a socioeconomic turn to markets and marketing, with hopes to rebuild its nation and to become a responsible member of the European and global communities. Again, these changes are a momentous opportunity for marketers to “seize the day” and thus to help ensure that the transition process in Southeast Europe culminates in a network of countries, with consumer-driven economies and enhanced life-quality for a larger and larger number of citizens, regardless of national and ethnic heritage.



**Competitive papers: Reflection on the  
Evolution of (Macro) Marketing –  
Views from inside and outside Croatia**

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## **Marketing in Croatia: 30 Years of Change**

*Bruno Grbac, University of Rijeka, Croatia*

*James H. Martin, John Carroll University, Cleveland, USA*

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*Marketing adjusts itself to the changes in the macro-environment but it also affects that same environment. Influences of socio-economic changes on the level of implementation of the marketing concept in two significant periods for Croatia, the early seventies and the beginning of the new millenium, have been researched in this paper. Results of a survey suggest that the level of marketing implementation has increased and that newer trends have been accepted in business practice.*

### **Introduction**

The socio-economic environment influences the acceptance and implementation of the marketing concept by firms. In the past, this environment has wide ranging changes in Croatia. The first of these changes were a result of decades of policy shifts in the central control mechanisms of the former state of Yugoslavia. The second set of changes came after Croatia became an independent state and were a result of the process of transition from a controlled economy to a free market economy.

A former socialist, centrally planned economy might expect the marketing concept and associated marketing activities to be universally rejected in favor of business decisions oriented toward maximizing employment and meeting planned production quotas. As Croatia passes through its transition from a planned economy to a free market economy, it might be expected that managers have become significantly more accepting of the marketing concept and are engaging in significantly more marketing activities in the year 2000 than 30 years ago. As it turns out, Croatia (as part of the former Yugoslavia) was not a part of a strict, centrally planned economy as were most other Eastern European countries. In addition, the transition process has been interrupted by war and political wrangling that has made the transition process anything but a smooth one. Therefore, the period covering the past 30 years in Croatia represents an interesting macro-environment for studying the macro-environment's impact on the acceptance of the marketing concept.

The goal of this research was to determine whether the sweeping socio-economic changes between two important periods of Croatia's recent history have affected the extent of marketing concept implementation in Croatian firms. The first period of interest is in the early 1970s. This was a time when significant Constitutional changes motivated the development of the Croatian economy and society in general. Also during that period major political ideas about Croatian independence were born and, therefore, the early seventies are known as the "Croatian Spring". The second period is related to the year 2000 and is also of

Constitution<sup>1</sup> and reflected a change in economic policy. Unfortunately, although development of efficient markets were frequently discussed, results were not adequate. Market mechanisms for a self-managing socialist system were neither sufficiently defined nor sufficiently developed to produce the necessary social and economic organization to create the desired quality of life. The development of the new system continued to struggle with the old, socialist state and its conservative attitudes and viewpoints, producing inconsistencies and inefficiencies in the functioning of the economic system. (Kalođera 1970; Turkelja 1971; Kovač 1971; Knežević 1972)

Throughout the 1970s a misperception and misunderstanding of what a market actually is and how to regulate it represented significant obstacles in planning and realizing an efficient economic system. During that time, the structure and function of a market wasn't accepted, written about, or discussed at the level it was in the developed economies of western countries. In the early seventies the perception of marketing and its implications for the larger society were a reflection of the existing contradictions in Croatian society. These contradictions stemmed from two perspectives. First, the self-managed system that focused on a desire for individual businesses to succeed and prosper for the generation of individual income, wealth and employment and second, the macro-society's pursuit of the collective good often at the expense of the individual. These contradictions produced the need to find completely new, often unknown and unexplored paths in business activities.

#### *Introduction of Marketing and the Level of Its Usage in the 1970s*

The extent to which firms accepted the marketing concept in the 1970s was assessed in two ways. First we investigated the academic and professional marketing activities in Croatia during that time. Second we examined, in-depth, the results of a survey of Croatian managers that was conducted in the early 1970s exploring the nature of marketing activities in firms.

#### *History of Introducing and Implementing Marketing through the Early 1970s*

The degree to which firms adopt and implement the marketing concept is a result of the macro-environmental conditions in which businesses have found themselves. However, the adoption of the marketing concept is also a function of the level of theory development and the transfer of theory into business practice.

The early appearance of marketing in Croatia, according to one of the founding fathers of Croatia marketing, can be traced to the first half of the 1950s in two of its instruments: advertising and market research (Rocco 1996). Advertising, which started a little bit earlier than market research, was primarily more decorative than functional.

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<sup>1</sup> Constitutional changes were encouraging development of economic and social systems that tend to adjust themselves to each other, to cooperate and collaborate, to communicate and share information among themselves.

- 1) attitudes about the marketing concept,
- 2) business oriented problems that affect day-to-day decisions,
- 3) market oriented problems that affect day-to-day decisions,
- 4) factors leading to success in generating sales,
- 5) attitudes about key information used for business decisions, and
- 6) specific communication activities in which firms were engaging.

The results from this pioneering 1973 study indicated that even in its infancy, Croatian managers tended to agree with the general concept of marketing. All managers agreed that “companies have to create products and services that will meet needs and wishes of customers in the best possible way”. Almost all managers (97.1%) agreed that “co-ordination of market research, product planning, product/service development, production and advertising, is crucial for successful business”.

Examination of attitudes about specific implications of the marketing concept reveals a lower acceptance rate by these same managers. Significantly fewer managers, but still a clear majority (79,2%) agreed that “business activities should be planned and organized to satisfy consumers and consumption, not to maximize existing capacity”. A similar percentage of managers (78%) agreed that “companies have to implement the philosophy that the customer is always right”. A much lower percentage of managers (42%) agreed that advertising was an essential tool for strengthening the competitiveness of a product in a market. Very few managers in 1973 (18,1%) felt that a profit motive was a desirable reason for satisfying customers, which might indicate that self-managed socialism and profits were not entirely compatible in the early 1970s.

**Table 1. The Level of Marketing Concept Implementation in the Early 1970s**

<b>Attitudes about the basic marketing concept</b>	<b>%</b>
• Companies have to create products/services that will meet needs and wishes of the customers in the best possible way	100
• Coordination of market research, product planning, product/service development, production and advertising, is crucial for successful business	97,1
• all business activities should be planned and organized to satisfy consumers and consumption, not to maximize existing capacity	79,2
• companies have to implement the philosophy that the customer is always right	78,0
• firms whose products/services are not doing well in the market should invest in advertising	42,0
• companies should be more interested in generating profits through satisfying customers than in just satisfying customers	18,1
<b>Business oriented problems in day-to-day decisions</b>	<b>%</b>
• business organization issues	36,9
• sales related issues	27,6
• supply and inventory issues	10,6

organization (36,9%) and sales related issues (27,6%). Of less importance to managers were issues surrounding supply and inventory (10,6%) and of even less importance were issues pertaining to the development of new products and services and long term marketing programs (3,1% for each). Market related problems that impacted the day-to-day decisions of managers in 1973 were market size (19,4%), characteristics of the potential market (14,9%), long term market trends (13,6%), competition (13,4%), pricing (10,6%), cooperation of suppliers and channel intermediaries (9,0%) and customer attitudes toward new products (9,0%). Of little importance to managers appeared to be the market's response to new products (1,5%).

Croatian managers felt that factors affecting their sales in 1973 included the quality of their product (88,7%), their price (73,2%), their business' organization (69%), and their company's image (67,6%). To a lesser extent distribution networks (46,4%), product design (45%), personal connections (39,4%), and advertising (32,4%) were also thought to be affecting their sales.

In 1973 almost all managers (98,1%) were tracking some sort of information about their sales. Far fewer managers used information relevant to their prices (30,6%) or customers (30,4%) to make business decisions. Very few managers appeared to use information about competitor pricing (11,3%) or the availability of new products (7%) for making business decisions.

Marketing communication was not widely accepted as a tool for enhancing business performance among managers in 1973 supporting Rocco's (1996) suggestion that among Croatian managers, advertising was for appearances only. Forms of marketing communication most often used by managers in 1973 were catalogues and price lists (25,3%), billboards (23,9%), brochures and other forms of direct mail (23,9%) and newspaper ads (22,5%). Somewhat less important were fairs and exhibitions (15,4%) and store windows (11,2%). Much lower in importance were radio (9,8%), magazine (9,8%) and television (5,6%) advertising, charitable donations (9,8%) and press conferences (1,4%).

In the seventies, business managers generally appeared to accept the most basic aspects of the marketing concept, but were less than enthusiastic in their endorsement of its specific implications. Croatian managers in the early seventies tended to be less focused on market and marketing related problems and tended to be more focused on business organization and sales levels problems. Customers were in the center of interest for managers, but without clear implications for how customers should affect business activities. Marketing communication was in use in the early 1970s, but not widely in any form. Most firms were not using market research as a way of gathering information. This is probably due to an unawareness of its importance and uneducated staff. Thirty years later, Croatia has experienced a number of tremendous changes. What impact these changes have had on firms in the year 2000 is explored next.

One of the most important aspects of the transition process was the transformation of ownership (privatization). Unfortunately, according to many analysts, the privatization program in Croatia hasn't produced the desired results. Privatization in Croatia did not ensure transparency of ownership, new investments in business, or faster development of the economy (Horvat 1999; Bendeković 1999; Zdunjić 1999). On the contrary, "...in hardly explainable conditions, many capacities were given to the people who mostly did not know, and did not have the intention, as it soon showed up, to keep and develop production. The capacities that they were given, enabled them to become rich in the short term, often by speculating." (Štajner 1999). Today, we are witnessing many negative consequences connected with Croatia's privatization program including privileged access to privatization information, corruption, and scoundrel-like activities (Novi list 2000, Vukić 2000). The disorganization of the transition process, speculation in individual privatizing firms, along with normal market processes have led to a great decrease in the production of goods and services. Combined with the government's artificially stabilized prices and currency, these problems have taken their toll and led the whole Croatian economy into a deep crisis (Sirotković 1999; Baletić, Znudić 1999).

Under such conditions, businesses could not base their success and progress on the new market rules, which implicated marketing as a significant tool for success. During the past 10 years, managers and business owners have arrived at other solutions such as: the reduction of employees, the selling off of assets crucial to the future of the firm and a fatalistic, non-entrepreneurial acceptance of the poor financial performance of their firms (RRIF 1999-1)<sup>4</sup>. Many new small businesses have started and the number of imports has risen dramatically, thus creating a more intense competitive environment giving existing firms that have been privatized a very difficult environment to which to adapt. Characteristic of the whole period (1990-1999) is that many companies that remained the state's property needed the state's financial support in order to survive. Significant funds were allocated for that purpose, but without any measurable return on that investment. For example, banks, for their survival, were given 50 billion kunas or \$6, 25 billion (Haluzan 2000). Furthermore, foreign investors showed little interest in investing in Croatia. For example: "...from 1993 till the end of 1998, only \$2, 3 billion were directly invested in Croatia..." (RRIF-2, 1999)<sup>5</sup>.

As Croatia's economic situation continued to worsen, Parliamentary elections were held in December 1999, and Presidential elections in January 2000. The resulting new Parliament and the new executive branch have consistently, realistically and ambitiously started solving the accumulated problems in Croatia's society and economy.

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<sup>4</sup> The unemployment rate has been growing and in 1999 was 19, 6%. The number of unemployed surpassed 350 000 people and many more are employed but without salary on a regular basis.

<sup>5</sup> The majority of this was invested in the pharmaceutical industry (38% of total investments), banking, glass production, naphtha production, and telecommunication equipment. Major investors were from USA, Austria, Switzerland, and Germany.

competitive advantage for firms in Croatia lay in creating value for customers, keeping customers satisfied and creating long term partnerships with market participants (Grbac and Martin 1999; Hooley, 1999; Martin and Grbac 1998).

Taking into consideration all of the above mentioned issues, the current level of marketing concept implementation among Croatian firms is questionable. Therefore, survey research was conducted. Questionnaires were sent to 121 companies, 71 of which were those subjected to the research 30 years ago (Grbčić et al. 1973). The remaining 50 companies were the most successful companies in west Croatia (regions of Rijeka and Istria) based on revenue growth, profit growth and the number of newly employed. The questionnaire consisted of two parts. The first part contained identical questions to the questionnaire 30 years ago. The second part contained more detailed questions about the level of marketing concept implementation. Out of 121 companies, 54 participated in the research, which is approximately a 45% response rate. Non-responding companies were of three types: 28 companies refused to participate because they were involved in a bad situation (strikes, bankruptcy or blocked bank accounts), 19 companies do not exist any more and 20 companies did not react at all. The margin of error for this survey is approximately + or - 13%.

Results are presented in the same way as in the 1973 study. We expected that 30 years later some attitudes would be supported by more managers, but some attitudes, with less managers. The percentage of managers that "agree", or "agree completely", with certain statements is presented in the Table 2.

All managers agreed that "companies have to produce products and services that will satisfy the needs and wishes of customers in the best possible way". Almost all (97,9%) consider "coordination of market research, product planning, product/service development, production and advertising to be crucial for success in business". Slightly fewer managers (87,8) agreed that "companies have to implement the philosophy that the customer is always right". Significantly fewer managers (73,9%) agreed that the customer should be central to business planning instead of capacity maximization. A much lower percentage (43,8%) agreed that firms whose products or services are not doing well in the market should invest in advertising. A similar percentage of managers (41,3%) agreed that a profit motive was a desirable reason to satisfy customers.

Problems facing Croatian managers in 2000 were analyzed in two categories: problems focusing on the business operations and problems focusing on market conditions. According to managers, major issues of concern with business operations were: business organization issues (25%), sales related issues (22,7%), development of new products (17%), long-term development of effective marketing programs (17%), and supply and inventory issues (12,5%). Market problems that managers felt were important were: market size (24,7%), competition (23,4%), long term market trends (15,9%) characteristics of the potential market (11,8%). Supplier and channel intermediary cooperation (5,3%), pricing research (3,2%), customer attitudes toward new products (3,2%) and the market response toward new products (2,1%) were apparently of very little importance.

•• characteristics of potential market	11,8
•• long term market trends	15,9
•• competition	23,4
•• price research	3,2
•• supplier and channel intermediary cooperation	5,3
•• customer attitudes toward new products/services	3,2
•• market response toward new products/services	2,1
<b>Factors affecting sales</b>	%
•• quality of products/services	94,2
•• price of products/services	92,6
•• business organization	76,5
•• company's image	69,2
•• organization of distribution	60,8
•• product design	39,6
•• personal connections	86,5
•• advertising	39,2
<b>Key information for business decisions</b>	%
•• sales information (quantity, value, assortment etc.)	92,6
•• information about prices	72,2
•• information about customers	74,1
•• information about competitor prices	61,1
•• information about new products	42,6
<b>Market communication</b>	%
•• catalogues and price list	61,9
•• billboards	32,4
•• brochures and other forms of direct mail	47,4
•• newspaper ads	14,8
•• fairs and exhibitions	44,7
•• store windows	30,1
•• radio messages	14,8
•• donations	22,5
•• magazine Adds	22,2
•• TV messages	3,7
•• press conference	11,4

In order to compare the level of marketing concept implementation across the two periods, a comparative analysis is presented in the following section.

### **Socio-economic Influence on Marketing Evolution-Comparison of Two Periods**

Results of the research about the level of marketing concept implementation across the two crucial periods for Croatia (70s and the year 2000), are presented by comparative analysis in the first part of this section. In



past 10 years, the “rules of the game” were less focused on market performance than they might have been.

For a successful business an appropriate information base is fundamental. In the seventies, as well as in the year 2000, sale data were considered crucial (over 90% of managers). Data about customers and prices were considered important in the 70s by slightly over 30% of the managers, but these factors were much more important in the year 2000 (over 70% of managers). This sizable difference may reflect that managers are recognizing the complexity of the current market situation. A significant increase in managers also felt that information about competitors and information about new products (49,8% and 35,6% increases, respectively).

Almost all forms of marketing communication increased in their usage across the two time periods. The only forms that did not significantly increase in usage were TV, radio, and newspaper advertising and billboards. The communication forms with the largest increases were catalogues and price lists (36,6% increase), fairs and exhibitions (29,3% increase), brochures and direct mail (23,5% increase) and store windows (18,9% increase). The conclusion is that the modernization of media, along with a higher need for market communication, has resulted in a greater usage and reliance on certain media.

Changes in the Croatian economy and society in the past 30 years have positively affected the level of marketing concept acceptance and implementation. The differences shown in relative values between the two periods suggest that there are positive shifts in acceptance and implementation of the marketing concept.

For a more detailed impression about the level of marketing concept implementation in Croatia, additional analyses were conducted based on managers' answers to the second half of the year 2000 questionnaire. This research analyzes the level of accepting new trends in marketing, especially those related to information flow, the level of accepting needs of present and future customers and the level of partnership relations among market participants.

#### *Acceptance of New Trends in Marketing*

The main characteristic of a truly market oriented company is its ability to generate information about the needs of present and future customers, to distribute the information within entire company, and to react to the information in a timely manner (Day 1994; Jaworski and Kohli 1994; Vohies and Harker 1999). For achieving success in a market, a company must cooperate with customers and suppliers (Boone and Kurtz 1998; Heiens 2000).

Businesses adapt themselves to environmental changes by anticipating and following the actions and reactions of other market participants. The vast majority of those questioned, about 90%, agreed that it is necessary to collect information and create data base about customers, about suppliers, about the competition, and about distributors (percentages vary from 86,6% to 94,3%). Information most often gathered is contact information. Most businesses collect

## **Conclusion**

Marketing concept implementation is affected by many factors. From a macromarketing perspective, the key factors are related to the socio-economic environment. This paper analyzed changes in the socio-economic environment in two periods important for Croatia, and the influence of those changes on the level of marketing concept implementation. The first period is related to the 70s and the enthusiasm that came with "Croatian Spring". The second period, called "Period of Changes", is related to the year of 2000 and the hopes that arose with the declared changes in political and economic environment of Croatia.

The economic situation in the Republic of Croatia at the beginning of the seventies was influenced by structural problems from the previous period. The Croatian economy was burdened by the process of development based on central planning without a macromarketing infrastructure. It was concluded that it was no longer possible to approach the market intuitively and unsystematically. Learning the nature of markets and developing a set of rules that would direct all business activities was necessary. The best way to achieve this was to implement the marketing concept.

Systematic studying of marketing theory and practice in Croatia began in the 60s. Development of marketing theory was based on experiences of the developed economies, rather than on business practice in Croatia. During this time the market and its rules were not properly treated, and the customer was only of tangential interests. There was no clear understanding of the implications for the structure of marketing functions.

Today, thirty years later, Croatia faces new socio-economic conditions. After becoming independent, ten years ago, Croatia entered the transition process, which is also known as process of democratization and establishment of a market economy. That process should have compensated the imperfections and structural failures of the previous self-managing economic system, by correcting errors on a macro and micro level. Ten years later, the results are at best modest, and in many cases defeating. This is partly justified by war and war destruction in this area but may also be the result of misguided economic policies. At the beginning of the new century, Croatia chose changes that are focused on strengthening the market oriented economy, enabling free market competition, privatization, strengthening entrepreneurship and attempting to integrate Croatia into the European economic environment. Implementation of the marketing concept is an imperative for fulfilling those goals.

Results indicate that the level of marketing concept implementation is higher than 30 years ago. Those attitudes were examined by set of questions about several aspects of the marketing concept and marketing activities. The results point to the positive effects of socio-economic changes on acceptance and implementation of marketing concept in Croatia.

Furthermore, results indicate that businesses follow and accept newer marketing trends. Appropriate gathering and processing of information about the

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## Market Democracy in Croatia – Situation and Prospects

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*The topic of market democracy in Croatia may at first seem less significant than the accumulated, current economic problems, particularly financial ones, which prevail in our country. Tackling these problems will burden in the future, not only the leaders of the state, but also the whole scientific and professional public. However, this public is not at all marginal, but represents a crucial basis for our future development, particularly in view of the European integration that we are so (verbally) eager to join.*

### Introduction

In this work we start from two fundamental assumptions:

1. Market democracy is the basic precondition for total democracy in a particular society, and
2. It represents the *conditio sine qua non* for Croatia to join the developed part of the world, particularly within the context of the globalisation processes which are already well under way.

Due to these premises, it is certainly necessary, when devising our strategy for the development of the economy at the beginning of the 21<sup>st</sup> century, to fully respect these facts. Furthermore, the value systems of the Croatian economy (which, unfortunately, do not meet even the average European criteria) heavily depend on the level of market democracy.

The objective of this work is to stimulate reflection on this topic, without claiming to provide answers to all the questions, and to create models and systems of market democracy. We want to give a global view of the situation and establish potential prospects. Just considering this topic at this conference is, in our opinion, very important, because it can open up the much needed processes of thought and prompt activities, both by the state and by scientists and experts.

### Theoretical Framework

Market democracy is made up primarily of structural standards, of which we select the following:

1. a multi-party system
2. a free market and market freedoms

17. choice and use of resources (resource management)
18. marketing as a function of companies adapting to the macro and micro environment
19. corporate financing
20. the standard of living<sup>8</sup>

Apart from these areas, there are a number of other, less significant, ones. In researching the situation, that is, the level of market democracy, we have decided to use this theoretical framework which has allowed us to research the situation and the prospects for market democracy in Croatia.

### **Discussion and Presentation of Results**

By analyzing each of the above mentioned areas, significant for the total system of market democracy, we have reached some very interesting but also very worrying and poor results of the situation in Croatia. We created our methodology by using a method of synthesis (in most cases), as well as other desk methods, and by extensive research of individual problems, such as, for example, scientific freedoms, the value system of the Croatian economy, the level of ethics in business operations, marketing or market standards, the individuality and sociality of private ownership, democracy in privatization, a free market and its repercussions on economic entities, as well as the standard of living of the population. We also used several years of research results from external institutions<sup>9</sup> in order to reach the results of the situation of market democracy in Croatia in the last ten years. Some weaknesses in this research lie in the fact that for one part of the mentioned areas, due to the lack of more extensive research, we used some auxiliary methods, like the estimate method, etc., which can lead to a degree of subjectivity in the assessment and presentation of results.

If we observe the level of total market democracy on a scale from 1 (the highest market freedom) to 10 (total lack of market freedom), then we can see the position of Croatia in comparison with transitional countries in 1999, using the following table:

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<sup>8</sup> The standard of living in countries that possess a high level of market democracy can be redefined a number of times, compared with more traditional views. This means primarily the level of the quality of life and the freedoms that people have in their everyday life. Therefore, it is not just purchasing power, or the price of a basket of goods and services, but also, for instance, the right to live in an ecologically friendly environment, etc. Therefore, it is clear that the search for a higher standard of living is connected to the search for greater freedoms and a higher level of market democracy.

<sup>9</sup> EBRD, Analytical documentation *The Economist*, London, The Vienna Institute for Southeast Europe and data of the World Bank. Of the domestic sources, we used some results of the Centre of Strategic Market Research (former CE-MA), Zagreb.

6. The state functioning as a lobby for imports
7. The drop in production and in GDP
8. Public expenditure
9. Unemployment
10. "Survival tactics", "smuggling", "shady business", particularly regarding privatization and banks
11. The drop in the standard of living, both on an individual and social basis, etc.

One of the indicators of the level of ethics in business operations in Croatia is the perception of corruption. This perception, as a significant factor considered by foreign investors before deciding on whether to invest in our country, is also a barrier to our development and to market democracy.

In this case, the marks are the reverse of those presented in Figure 1. The least corrupt country (Denmark) has an index of 10, whereas the last in the scale (Yugoslavia) has 2. In the world, there are examples of even lower indices of corruption (for instance, Cameroon and some other African countries, 1.5). regarding other countries, it is interesting to observe the rank of the USA (18) and an index of 7.5.

**Table 2. Index of the Perception of Corruption in Particular European Countries**

Rank	Country	Index
1	Denmark	10.0
14	Germany	8.0
17	Austria	7.6
25	Slovenia	6.0
31	Hungary	5.2
39	Czech Republic	4.6
44	Poland	4.2
58	Belarus	3.3
63	Bulgaria	3.3
74	Croatia	2.7
75	Ukraine	2.6
82	Russia	2.4
90	Yugoslavia	2.0

Source: Transparency International, 1999.

This information is also significant due to the fact that international investment, or capital, flows more readily into countries with a lower index of corruption.

We could discuss separately each of the areas from 1 to 20 presented on page 2. However, we want to show them in this work, believing that they will be dealt with separately and in detail, particularly at the International Symposium on Market Democracy in Croatia which will be held this autumn under the auspices

### *Management, Decision Making, Employees*

“Management is a system of thought and functions. As a system of thought, it supports the reasonable usage of human efforts and other attempts to change the environment. Management is also a function through which managers establish and achieve the objectives of the organization, as well as their own” (Lowry 1987).

It would not be possible to talk about a modern company without mentioning the system of management, as the dominant institution which, with the aid of increasingly developed decision-making models, achieves the established objectives in order to change the environment. In this, it is of great importance to stress the issues of responsibility and authority. When we talk of responsibility, we mean the obligation to carry out an entrusted task. Regarding authority, it includes the power of making decisions which are necessary in order to carry out the task. Naturally, in this process of the correct functioning of management, we have to count on a certain hierarchy of authorities and responsibilities. This hierarchy can be formed through various models and, depending on whether we are looking at a centralized or decentralized company organization, we must not forget that it is ownership that constitutes economic power. However, this power must not, in principle, be abused, so the system of management of a company, and especially that of a corporation, has to be adjusted accordingly. The management has to take this into consideration. Therefore, strong economic entities (joint stock companies in particular) strengthen the institution of management (board of directors) as an institution that guards the legitimacy of the company, to prevent power being concentrated in the hands of the director general. Hence, in the last few years, the pressure of the board of directors to function as managing bodies has increased. Management reforms democratize the system of the board of directors and its activities (subcommittees are formed, the number of meetings grows, an increasing number of reports are submitted, etc.). Furthermore, the opening up of corporations and the decentralization of management are also reflected in the increased and better organized participation of employees in the decision-making process (Sturdivant 1985, pp. 313-329).

This transformation (since this is a stronger and more appropriate expression than the term reform) encompasses and strengthens the process of democratic changes in the behavior of companies. In this light we can also observe the newest attitude to team work. Thus, we can read this thought in the book “Menedžer i pobjednički tim” (“The Manager and the Winning Team”) (Tudor and Srica 1998, pp. 3-5): “Team work has become essential in our life. Even though great, people are too weak to conquer and manage the complex, sometimes spectacular, surroundings they have created. An individual in a team becomes a giant, because such are the works which the team leaves behind.” Then, further on: “What makes team work so special is the attitude towards the objective, the many characteristics which mark the establishment and all the

production to private ownership, which is a condition for the transition from socialism to modern (social) capitalism, can undoubtedly be considered a key demand. Therefore, we certainly have to ask ourselves whether transformation and privatization in Croatia have been (and whether they are today) democratic processes or not. What is the level of transparency of these processes? Who has led them and how? What do we know about them? How far ahead are they? Namely, this was a national asset (the estimate of the value of Croatian companies – although it is not possible to make a correct valuation – is around US\$80 billion) which had to be partly shared among those who had created these assets (or return what they had earned), and partly offered and sold on the market. Therefore, this process had to be completely public, because the state is responsible to the nation, so that the nation had to be informed on a regular basis. Unfortunately, this was not done; on the contrary, a lot was done about which nobody knows absolutely anything. The democratization of this process was completely absent.

If things had been done as they should have been, privatization would not have led to the collapse of the economy. Excuses that the war was to blame are nonsense. While the war was under way in Croatia, privatization should not have been carried out. This is a process that demands a peaceful climate, a stable nation and the full functioning of the market. Because, only in such circumstances could competition be realistic and demand obligations from the buyers, which would have allowed for the formation of better economic relationships on the market of goods, labor and capital. The process of the transformation of the economic system carried with it the obligation to carry out simultaneously the following processes:

- change of ownership from state to private hands;
- market orientation of companies;
- restructuring of organizations (companies or large systems of complex companies);
- redeployment of employees and care to re-employ those made redundant (by opening new units and retraining);
- restructuring of production through established development strategies of the company, its business policy, and especially through a product portfolio.

Since privatization was carried out at an inauspicious time (the war, the occupation of a third of the territory, the flow of displaced people and refugees, and all the consequences that this brought), accompanied by exceptional risks for any reasonable investment (for the modest domestic, somewhat stronger, expatriate community, and particularly for the huge international capital), this process became an open area in a speculative game where commitment to the obligations implied by the mentioned changes and restructuring was not even considered. We know the result of all this (over one million retired persons, 350,000 unemployed, a drop in GNP and purchasing power, etc.) Therefore, we must conclude again that the most significant transitional process in Croatia has



## Prospects

If we observe market democracy from the point of view of the presented facts, then we do not have much reason for relative, long-term optimism. The indices in both the macro and micro-environment are catastrophic. Croatia in these past 10 years has not only stagnated, but also regressed significantly. However, certain circumstances which have happened, or are under way (thinking here primarily of the democratic change of government, and of the expected and necessary repercussions of this fact), give us an indication of the possibility for changes in this area. However, we must certainly keep in mind that the healing process, or the movement towards market democratization in Croatia, will be neither easy nor quick.

We do not agree with the thesis that for these “10 lost years we will need at least another 10 to recuperate”, but we admit that the process will be complex and long. Firstly, we have to take some significant steps towards structural standards which are the foundation of market democracy. The past elections have given us a chance to develop a real multi-party system, so it seems that we can achieve some good results relatively quickly.

A more difficult issue will be the standard of a free market and of market freedoms. Here, work will have to be done on greater positive changes in the capital market, in market legislature, on a different role for the state and its institutions, on growth in production, gross national product, and overall standards of living, on the elimination of the gray economy, on a redefinition of the strategy of privatization, etc.

We have to stress the role that science will have to play in the observed process. The fact that scientific freedoms do not exist to a satisfactory degree and that in our country science has been pushed to the margins of state interests must certainly be changed. Science has to be given the role which it has in the developed, democratic world. Regarding this, we have to strengthen significantly the application of technological resources. According to some experts, Croatia lags far behind in this area. This can be established primarily in the field of information technology, and some authors even claim that Croatia is in “informational darkness”. This darkness is lethal, both for the development of the state and for market democracy.

A huge task also awaits us in the area of the development of value systems in the economy and, within the same framework, in an increase of ethical behavior in business operations, but also in society in general. At the previous conference in May last year, we presented the results of empirical research which showed a poor situation in this area, supporting the hypothesis which indicated that, without a significant increase in the level of ethics, we cannot count on joining the processes of European integration.

The problems of ownership, human rights, individual freedoms and development are structural standards which are slightly easier (but not at all easy) to solve. There is another problem that has to be tackled and effectively cured. This is the problem of narrow-minded nationalism which directly challenges

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## **The Intellectual Heritage of the Macromarketing Seminars cum Conferences**

The first Macromarketing Seminar was held at the University of Colorado, in Boulder, in August, 1976. In his "Introduction" to the *Proceedings*, Slater wrote, "The seminar drew on the tradition of the Marketing Theory Seminars that had been held over the past two decades here at the University of Colorado and other universities, most notably the University of Vermont." These seminars were "invitation only" affairs, and the invitations came from Wroe Alderson, Professor of Marketing at the University of Pennsylvania's Wharton School and senior member of the consulting firm that bore his name, and Leo Aspinwall, Professor of Marketing at the University of Colorado, and an associate of Alderson's firm. The University of Vermont made a convenient location to meet; Alderson's summer home was only a few miles away.

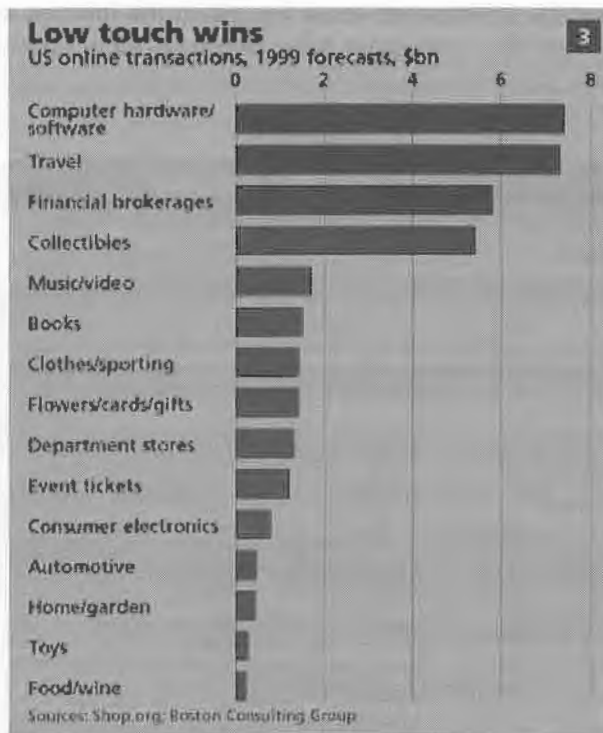
Apparently the name, Marketing Theory Seminar, reflected the nature of the meetings. No written record remains, but at the first Macromarketing Seminar, Edwin Greif of the University of Vermont, one of those who had been part of the earlier meetings, expressed the flavor of those meetings in a call for "a true resurrection of the thought approach that characterized the Marketing Theory Seminars...a rededication to developing a coherent set of general propositions that may be used as principles of explanation for classes of marketing phenomenon" (Greif 1976, p. 61).

Charles Slater's career began in industry with Arthur D. Little. Later, he was Professor of Marketing and Director of the Latin American Marketing Planning Center at Michigan State University. In 1972 he moved to the University of Colorado as Professor of Marketing and, in 1976, organized the first Macromarketing Seminar on his home campus.

George Fisk, who had been a colleague of Alderson's at the Wharton School, was Professor of Marketing at Syracuse University, and later at Emory University. George was an active participant in the first 24 meetings of the Macromarketing Seminars and, when the *Journal of Macromarketing* was started in 1980, was selected as its first editor.

The heritage of these four scholars extends beyond their association with this meeting; they shared a point of view that has shaped the way Macromarketing scholars approach the subject matter. Three themes can be detected in the work of each of them. First, although each of them referred to what we now call the supply chain in other terms, that entity – as a system – was their unit of analysis. Second, each was convinced that the market operated to drive out inefficient entities and only those that were efficient and effective survived for long. Finally, because each was a student of the economic systems of other times and places, each one believed that the standards of efficiency and effectiveness were defined by the nature of the society in which the market system operated. Reference lists are included in all academic manuscripts, but the

Figure 1



Looking at the data, it is apparent that the sales of products usually considered as services are prominent in e-tailing. Although the marketing discipline has long drawn a distinction between goods and services, and the data of the U. S. Census of Business do not include services as "retail sales," the emerging

e-commerce literature tends to lump together all goods and services that are sold to households as e-tailing. Further, by defining e-tailing to include customer-to-customer transactions, as on an auction site such as eBay, e-tailing sales include dollar values that were likely unreported as either goods or services in official statistics.

If one focuses on the sales of products that bear some approximation to official statistics, the order of sales is computer hardware and software, collectibles, music/videos, books, clothing, flowers, general merchandise, automotive parts, plants and seeds, toys, and food and wine. The order of products bears a strong resemblance to the order of products sold, according to the Census of Business, by mail order. On the other hand, looking only at transactions completed over the Internet presents an incomplete picture of the effects of e-commerce. Figure 2 shows, by product category, the amount spent offline as a result of on-line shopping for every dollar spent online, suggesting that considering only sales may underestimate the impact of the internet. It

### Some Old Rules that Seem to Explain the Current Situation

The purpose of this section is to look at some of the theoretical contributions made by Alderson, Aspinwall, Fisk, and Slater to see what they would say about the developments in e-commerce just described. We draw upon the work of each author, as cited in References. Recall that the last of these was published in 1968; they are the “old rules.” **The need for intermediaries in a channel of distribution arises from the discrepancy of buyers’ and sellers’ assortments.** In discussing the need for intermediaries in a channel of distribution, Alderson invoked the now familiar argument about intermediaries reducing the number of transactions. It is apparent that, as the number of buyers and/or sellers increases, the importance of the intermediary is increased. However, Alderson’s analysis went beyond this simple point to include the concept of the discrepancy of assortments. More than just a matter of the number of buyers and sellers, the need for intermediaries arises from a need to match the assortment of goods offered by the seller with the assortment demanded by the buyer, both in kind and number. The extreme case is instructive: If B (a buyer) buys everything that A (a seller) can offer for sale – and that quantity and assortment completely satisfies B’s needs and/or wants – there is no need for an intermediary. The question of why A and B, if they are firms, exist as separate entities went unasked in the marketing literature until marketing scholars “discovered” the work of Williamson, who had “rediscovered” the work of Coase.

Whether they produce raw materials or assemble products from components made by others, the drive to achieve economies of scale forces producing firms to limit the assortment of items they produce, but produce them in quantities larger than any one buyer could possibly use. For example, in 1999 Texaco’s U. S. refineries produced about 1,377,000 barrels of refined petroleum products every day. While only a part of that output is gasoline, it is enough to supply the needs of literally millions of motorists. Further, the presence of by-products, plus economies of scope, will lead to the production of assortments that no one buyer will need or want. As an example, as a look at any assortment of men’s shirts indicates, taking into account neck and sleeve lengths, the buyers come in at least 30 separate sizes. Clearly, no shirt manufacturer would make only one size – but, equally clearly, no single buyer would buy more than one. Thus, in the absence of production to the order of a specific buyer (whether for gasoline or shirts), a mechanism must exist to reduce these discrepancies. The traditional mechanism is an inventory produced in anticipation of sale and, somewhere along the line, someone must own this inventory – and bear the risk attendant thereto.

It should be noted that, although the communications potential of the Internet may make “bespoke goods” possible, the Aldersonian analysis would be quick to point out that many of the goods that could be made to order (e.g., computers from Dell or Gateway) are, in fact, assortments of components sold as options and identified as the branded goods of their makers. This does not negate

2. communications, including the seller's offer to the buyer and the buyer's acceptance of that offer;
3. payment, including the granting of credit;
4. title or, more properly, evidence of ownership;
5. risk that accompanies ownership.

He went on to show that these flows may, and often do, move independently through "channels" of their own, each with intermediary and facilitating institutions as part of the flow. Common carriers, public warehouses, advertising agencies, credit card issuers, auction companies, and futures markets are but a few of the possible "actors." Some of these flows can be fairly elaborate with their own set of intermediaries. For example, the evidence of a credit card purchase is likely to flow through several intermediaries between the point of sale and the issuer of the card, a process that, incidentally, also represents a discrepancy of assortments and the attendant need for intermediaries. Taken together, these intermediaries and facilitating institutions form the infrastructure from which channels of distribution are constructed.

Slater, who devoted his professional energies to the study of the development and the costs of distributions systems, would add that the nature of the flows in any particular channel of distribution would vary from product to product within a given society, and from society to society for any given product. This gives rise to the analytic necessity to "map" every channel, tracing each flow and identifying each actor and its stake in the channel to understand the nature of distribution costs and the likely consequences of any change in flow or shift of function. In addition, Slater pointed out that the actors within the channel have, of necessity, limited capacity, plus a natural reluctance to accept the risk associated with increased or new flows. These factors create the barriers to the expansion of the channel.

As noted earlier, most of the products that have moved over the Net so far are the same as those that have moved by mail. The nature of at least three of the flows in mail-order (or "telephone order") is not that different from those of e-tailing. Products are delivered by common carrier, payment is in the form of a credit or debit card, and the "receipt" that follows payment is the evidence of ownership. On the other hand, there are some differences. To the extent some e-tailers act as, in effect, drop shippers (e.g., amazon.com in its early days), the risk that accompanies ownership is shifted "up channel," a move that Slater argued was likely to lead to greater efficiency because the risk of owning an inventory would be diversified, at least against geographically related factors, as is was centralized.

As for communications, the differences observed so far may be more apparent than real. Most Web sites have yet to realize the potential for multimedia presentation that even approximates that of seeing/feeling/touching/tasting the product, or that allows a degree of interactivity that approximates talking to a live sales person.

The result of fully specified purchases is that the buyer becomes indifferent between vendors. This is obvious in the classic commodity markets, which are said to approximate the economist's ideal of "perfect competition." For those products for which the brand, or other brief descriptor, is capable of conveying everything the consumer needs to know to make a purchase, the consumer's indifference among vendors is fueled by the ease of making comparisons on-line. The irony is that those products best suited to being sold over the Internet are the same products for which the on-line shopping services are also best suited. No doubt the high start-up costs of many e-tailers have inflated their costs but their inability to charge prices sufficient to cover those costs seems quite understandable.

### **The Old Rules and Some Speculations**

This paper has reviewed several concepts drawn from the writings of those people associated with the founding of the Macromarketing Seminars. All of the literature that informed this paper is at least 30 years old; in fact, three of the authors did not live to see the Internet or even, one would imagine, the idea of an Internet. Yet, it appears that their ideas, because they focused on the underlying nature of markets and marketing, explain the "big" observations of the current phenomenon. The next logical questions are: What would these authors say about the future of e-commerce? Are their concepts applicable to the future of e-commerce? This section attempts to address those questions.

**The efficiencies of e-commerce will make merchandising profits difficult to achieve and sustain.** Aspinwall observed that the difference between the price the consumer pays for a good and its cost of production includes the amounts necessary to cover "all direct and supporting storage, handling, and transportation activities performed by intermediaries on an actual cost of service basis" and a "merchandising profit" which he defined as "a charge added to the cost of goods for the assumption of the inventory risks" (p. 658). In an economic system in which goods are produced in anticipation of sale, these merchandising profits accrue to those merchants (i.e., anyone who owns an inventory) that correctly anticipate the needs and wants of consumers.

Aspinwall argued that the need for inventories in the system, and therefore the existence of merchandising profits, arises because transportation takes time and from the less than instantaneous communication of consumers' demands to producers. Nearly forty years ago, he saw improved forms of transportation and communications squeezing the merchandising profits out of the system and turning intermediaries, including retailers, into "depots" which he said "is a military term and refers to the storage of supplies purely as a service function." Reviewing the development of the early "discount house" and the trend toward backward integration by food retailers, he argued that his depot theory "envisions a steady flow of goods from the point of production to final consumption" that was yet to come:

Cameras” are exactly the same, regardless where they are purchased, and price (including shipping costs) becomes the only real point of differentiation among the sellers. The ease with which the consumer can compare prices among e-tailers will only amplify the squeeze on any merchandising profits they may enjoy.

**Removing inventories from the system does not eliminate risk, rather it changes its nature.** All four of these marketing scholars discussed risk, a term that seems largely to have passed out of the marketing literature. Slater, in particular, saw the magnitude and incidence of risk as being important determinants of the structure of marketing systems. Their attention to risk tended to center on the kind that accompanies the ownership of an inventory, i.e., the “long” position. This includes both physical loss and impairment of value from obsolescence or a decrease in price. If, as argued above, inventories produced in anticipation of sale are squeezed out of the system, the risk of being long is reduced and, perhaps, eliminated. Traditional mechanisms for shifting this risk – insurance, consignment sales, discounts intended to induce early purchase – will diminish in importance, along with the need for trade credit in its various forms. Of course, these are exactly the savings that are part of the economic efficiency and, hence, the social benefit of e-commerce. On the other hand, the push toward production that closely follows demand yields a system in which some parties, especially the manufacturer, is put in the position of offering for sale goods that are not yet produced and, possibly, for which the components have not yet been purchased. In other words, the system that reduces the risk of being long may very well increase the risk of being short. Here the risk is one of rising input prices during the period between the making of the offer and the purchase of those inputs. It is notable that the United States, almost alone among the world’s nations, has experienced very low levels of inflation over the past decade. One might speculate that this has made the increasing level of short risk tolerable, more tolerable here than in those nations experiencing double-digit inflation, for example.

The effects of increasing inflationary pressures on e-commerce are not totally clear, but two observations seem pertinent. First, organized commodity markets provide a mechanism to hedge this risk with futures contracts. Over the past decades, this form of risk reduction has come to a greater number of commodities (e.g., fuel oil, frozen orange juice, lumber). It is possible, perhaps likely, that futures markets will develop for more commodities. Clearly this would produce opportunities for new forms of electronic trading. Second, in the absence of futures markets, the other mechanism for reducing, at least shifting, short risk has been the use of contracts with suppliers to make the prices of inputs predictable. Contracts of this kind would reduce the use of the sorts of supply networks, with their intermediaries, that many now predict to be the future of B2B commerce.

**Because the purchase of all goods on the Internet is equally convenient in conventional terms (or equally inconvenient, depending on your point of view), the traditional concept of convenience is outmoded. To**



purchase specification would be a useful starting point. One direction that this might lead is to a consideration of household assortments and their role in the specification process.

Finally, and most importantly, it is clear that e-commerce is more than a new channel of distribution or a new advertising medium. It is a new system – and it needs to be studied as a system. The intellectual tradition of Macromarketing can prepare us for this task.

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**Environment and Sustainability  
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## **Marketing Role in Croatian Tourism**

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*Relevant features of tourism in general and with a particular stress on the coast tourism is analyzed in this paper systematically from a macro point of view as a basic factor of the development of the Croatian economy and its integration into developed Europe. The interactions of tourism in Croatia in the context of the global world processes are elaborated after analyzing the elements of the market approach in Croatian tourism. In such constellation of the relations there are analyzed the tourist resources in Croatia as well as the realized turnover in the last few years. A special attention is given to the advantages which Croatian tourism has to consider and to use.*

### **Introduction**

Croatian tourism is one of the main factors in the development of the country economy. The appropriate offer of the attractive destinations in tourism and the tourist-product are the efficient ways to tourist markets in the developed Europe, and all over the world. Although, now during the transitional period, comparing with the developed Mediterranean countries, we are straggling behind regarding the quality of infrastructure as well as the integral tourist offer, but we are not aware of all possibilities and advantages which our country could objectively realize in a rather short time. The result of it would be a remarkable, bigger effect in cooperation as well as integral processes with the countries of Europe and all others, especially with the European countries in transition.

From the aspect of the tourism in Croatia, it is important to stress out that the tourist consumption is orientated to the offer of services and goods, which in prices include numerous fees, that are not included in the normal export, but these prices include expenses of the real trade and services.

Tourism includes a great deal of the "invisible" export of goods and services, which could be placed with great difficulties on the discerning and competitive market of the countries in Europe Union. Croatia, as a receptive tourist country, has the economic justification to invest a part of the income in the tourist marketing of a higher quality in order to increase useful consumption in the future, what would influence the increase of Gross National Product (GNP).

The tourist movement in Croatia has not only favorable influence on economic growth, but it also contributes to the increase of the moral, social, health services, cultural and intellectual level of the population. Especially important is the role of Croatian tourism in the absorption of the purchasing power of the population in more economically advanced Europe, as well as those, which are in the process of transition and whose living standard shows growth.

particularly must address both macro and micro aspects; every activity of Croatian companies oriented to the tourist market should be considered a micro-promotion for tourism in Croatia.

### **Croatian Tourism Advantages and Global World Processes**

Tourists typically want a change from everyday routine regarding: clothing, transport, lodging, recreation and rest. Purchasing power of tourists varies and changes, which in turn affects tourist choices of destinations. Croatia must determine the fit between its portfolio of tourist offerings and consumer interests / purchasing power.

The dynamic increase of the tourist consumption in the world is the proof that such a type of tourist is dominant. A well-planned and conducted tourist activity is one of the best ways for countries to realize the developing aims. In the last five years the international tourist voyages have increased 30%, so that the amount has reached over 650 million voyages in 1998. The income of tourism in the world has increased more than 50%, that means, they have reached the amount of almost 600 billion US dollars. Given these trends and current national resources, Croatia can see a remarkable income source in tourist activities through the income of foreign currency, which is needed to decrease the debts and to use it in paying the import goods.

According to the forecast of the World Tourist Organization (WTO) the tourist increase in the last five years will continue in the 21st century. Till the year 2000 it will reach the number of 750 million, till the year 2010 about a billion, and till 2020 it will come up to the number of 1,6 billion.

Just to compare, the world industrial production and the international trade growth are considerably slower. It is known that the growth of agriculture production and its share in the international trade is even slower, that means the growth of the international trade, which has remained on the level of the industrial production, depends only on the growth of international tourism. This fact is extremely important for the development of tourism in Croatia.

The main profit of Croatian tourism is its effect on marketing systems; for example, in opening more working places, especially for young people as in the undeveloped parts of the country. With the spreading of tourism the fish and agricultural markets develop rapidly. So, the tourist market has a strong influence upon many economic fields in the country. However, more important, regarding those aims, is the fact that tourism in Croatia is one of many economic branches, through which could be collected financial means for keeping on a higher level the productive, cultural and social environment.

Well led and correctly planned tourist activity allows the continuance of tradition and cultural custom, which would meet an uncertain future without it. Besides that, tourism offers extraordinary possibilities for people to enlarge their knowledge about people, cultures and places. Indeed, tourism is almost as old as human civilization. From the beginning of human civilization people had a desire to move and to travel. The movement of the urban population whose purchasing

The macro trends, to which tourism in Croatia has to adopt its activities, which have been noticed by the European Travel Commission (ETC) in 1997, and which are going to have a remarkable influence upon tourist market during this century, are (Richards 1997):

- For a large number of European countries the traffic over borders will increase quicker than some of the inland excursions.
- Two age groups will increase travels: the elderly and young markets. The number of the older people is comparatively large, with more disposable income; young people will travel because of education feasibility and new traveling possibilities.
- Particularly, comparing with other forms of vacations, a faster growth of consumption will be noticed in the domain of "cultural" visits and trips during the summer/winter vacations.

### **Some Final Thoughts**

Tourism is of vital importance to Croatia's successful socio-economic transition. Croatia tourism sector has extraordinary and unique natural assets, but resources must be allocated to upgrade service offerings. The proportions of the price/quality or value for money are going to play a great role in the selection of the destination and accommodation, by tourists; the quality of the environment is going to be a determinant in tourist acceptance. Infrastructure, including roads, hotels, etc. remain substandard and will require investment. Nevertheless, the biggest challenge, which is in front of the development of the tourist activities in Croatia, is in the preservation and protection of the environment and surroundings upon which tourism has a strong influence. Intensification of activities should demand attention to preservation and restoration and thus to render Croatia's tourism assets superior or at least better value in comparison to other developed tourist countries.

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institutional background. Fully aware of complexity of the present issue the authors here have focused on several representative issues that could provide an overview of sustainable development performance in Primorsko-Goranska County.

### **General Data on Primorsko-Goranska County**

The implementation of the sustainable development concept always has to be adjusted by considering the existing natural and other preconditions. Due to that reason some general information about Primorsko-Goranska County should certainly help to determine and to understand what specific implementation model is most suitable within the existing set of circumstances. Primorsko-Goranska County is situated in the northern part of the Adriatic Sea. It encompasses the area of some 8.000 square kilometers, but approximately the half of its' territory is a marine area. The population of the County is 323, 000 living in 582 settlements. The capital city is Rijeka (population of 164,000) which is an administrative, economic and cultural center of the County. The geographical position at the crossroads of Central European and Mediterranean traffic routes largely determined its' past and present development. By using the natural and economic features as criteria, the County is commonly being divided in three micro regions:

- the mountain (highland) area with developed forestry, timber industry and small scale agriculture;
- the coastal area with the industry and transportation in its' urban part, and tourism along the rest of the coast;
- island area predominantly featured by well developed tourism, catering, fisheries, olive growing.

Generally speaking, characterised by traditionally well developed industrial and tourist orientation on one side and extraordinary natural richness on another, Primorsko-Goranska County can serve as a model for integral sustainable planning, since the various overlapping interests ought to coexist within the rather limited space.

### **Croatian Legislation and Sustainable Development**

#### *General Note*

It is not just a coincidence that Croatian Parliament has passed its' Declaration of Environmental Protection in the Republic of Croatia while the Earth Summit was taking Place in Rio de Janeiro in 1992. That progressive piece of legislation, as well as following authorities, is founded on the same ideas and principles as the Rio conference documents. This means that contemporary environmental law in Croatia is deeply influenced by international environmental treaties and policies.

communication links, bearing in mind the characteristic of the surrounding ambiance and landscape.

Another substantial domestic environmental authority is the Environmental Protection Act (Public Gazette No. 82/1994). Passed in 1994, this Act "...regulates environmental protection, in view of preserving environment, reducing risks to human health and lives, ensuring and improving the quality of life, to the benefit of both present and future generations.". As the Act declares, environmental protection ensures the basic conditions for a healthy and sustainable development. It is important to mention that the Environmental Protection Act includes all contemporary and substantial environmental law mechanisms such as environmental impact assessment, the right to know principle, polluter pays principle, public participation in decision making process, consideration of alternatives, mitigation, sustainable development principle and others.

Nature protection, including the procedure on establishing protected natural areas, is regulated by the Nature Protection Act (Public Gazette No. 30/1994). Pursuant to Article 3 of the Act, 9 types of protected natural areas are provided. Possible types of protected areas are: national park, natural park, strict reservation, special reservation, park-forest, protected landscape, monument of nature, monument of park- architecture, particular animal or plant species.

While the establishment and management over national park and nature park are generally under the jurisdiction of the central Government (Parliament) of the Republic of Croatia, other listed areas fall within the jurisdictional domain of local authorities, i.e., County Assembly.

The physical planning plays an outstanding role as environmental protection or sustainable development tool. Recognizing the physical space as a particularly valuable and limited national resource, the purpose of physical planning is to ensure its' adequate management and protection. The Physical Planning Act (Public Gazette No. 30/1994) among its' basic principles lists both sustainable development and rational use and protection of the physical space. Practical implementation of these principles is provided through the sophisticated system of physical planning documents, which is described within the case study on Physical Plan of the Primorsko-goranska County.

As for commercial laws and regulations, based on western European model these laws recognize all the typical forms of business entities such as share companies or limited liability companies. The business entities are bound both by national and local environmental laws and regulations generally applicable to their activities.

#### *Competence of Local Authorities in Environmental Matters*

Considering the law making competence, the Croatian legal system in regard of relationship between state and local authorities is generally structured in a way that state laws provide binding general framework, while the local authorities are allowed to adopt adequate detailed regulations to be applied on

importance for sustainable development planning and implementation - such as environmental protection and physical planning – were existing within various governmental bodies which fact posed an obstacle in sense of discontinuity of work. Environmental protection was firstly (from 1992 to 1994) covered by the Ministry of Building and Environmental Protection. Afterwards, the adequate state directorates (lower-level governmental bodies) have been established for environmental and nature protection.

It is specially interesting to mention that within the last decade environmental and nature protection were never covered by their own ministry. Nevertheless, numerous demands for organizing environmental and nature protection at the ministry level were finally materialized after recent parliamentary elections - held in January 2000 - by establishing the Ministry of Environmental Protection and Physical Planning. Beside the Ministry itself, there is a network of its regional offices as well as two special branches – one in charge of marine and coastal protection (located in Rijeka) and another whose competence are soil protection and Danube basin protection (located in Osijek).

The environmental NGO scene in Primorsko-Goranska County is primarily characterized by numerous voluntary based organization. Overall, the scope of their activities covers a wide range of environmental issues from local Agenda 21 to endangered species protection or reforestation. Thus, we should point out that some successful projects carried out by NGOs are directly focused to practical implementation of sustainable development concept. It is otherwise very common that projects are either fully or partially financed internationally. Extremely handicapping economic circumstances surely affect the NGOs' work. Although a number of environmental NGOs means significant potential in implementation of the sustainable development concept, the serious lack of funds largely limits both scope and intensity of their activities. Despite the fact that their membership often includes experts, only a couple of major NGOs can afford professional full time employed personnel.

Theoretical aspects of sustainable development concept are well described and worked out in detail by a number of various scientific and expert papers. However, it doesn't seem that these theoretical achievements are being often implemented in practice. The reason for such situation lays in fact that scientific institutions, particularly the academic ones – such as faculties or universities – are traditionally rather oriented to purely scientific or educational goals.



the precise information about various natural features, stakeholders groups or interests. For this particular purpose we could focus at the couple of most important issues. Firstly, among the other novelties that the Physical Plan introduced in counties' enforceable regulations, it has to be mentioned that an detailed assessment on particularly valuable natural areas has been made. The Plan thus proposed a number of over 90 mainland and marine areas for establishing the protection regimes within various categories as set by the **Nature Protection Act**. Comparing to existing situation where only 26 areas are protected, such proposal will mean a significant step forward towards creation of a Counties' network of protected areas or individual objects, such as natural monuments. Furthermore, instead of the existing waste management practice - which consists of several low standard dump sites only and does not include recycling or reusing by any mean - an entirely new system based on best international practice is proposed. The study on waste management was financed and partially made by a couple of eminent international institutions such as World Bank or UNEPs' Mediterranean Action Plan.

Watershed protection is among the priorities as well, while some significant improvements of the water supply system are proposed and worked out in detail. Also, a great deal of work is spent on proper coastal and marine areas management by using zoning as a method.

During the preparation period which lasted about four years all the public participation mechanisms mandated by law, such as public insights and hearings, have been fully obeyed during the entire process of making the Physical Plan and so provided feed-back information largely contributed to accuracy of the Physical Plan.

Finally, as for technical requirements, the geographic information system (GIS) has been adopted and developed with purpose to serve not only as a tool in drafting the Physical Plan, but to stay as an permanent data-base that should meet all the future needs of Primorsko-Goranska County.

## **Case Study 2: Business Entities and Sustainable Development**

As it has been already pointed out, sustainable development is a focus of global economic, technological, social, political and cultural transformation that repeatedly determines limits of what is possible and desirable. Sustainable development requires a change in values within quality living systems and transformation of technology, i. e., a compromise among economic, political and environmental goals. Sustainable development brings profound changes of goals and presumptions which are necessary for companies' managing. It conditions such changes in managing in a way that these changes "simultaneously contribute to economic growth and environmental protection". Thus, one can ask, "how to make changes with business entities, especially in the Croatian economy that has been burdened with many problems?". However, it should be stressed that Declaration of World Business Council for Sustainable Development (WBCSD) says the following:

1. "DINA", enterprise for production of chemical products, built in 1978 by help of The Dow Chemical Company – USA. Today this firm employs 580 workers and around 85% of its production (some 1000 million US\$) is exported to the Western markets.
2. "Rijeka" Power plant, that is part of Croatian electric-power system and one of the largest polluter in our area. It has got around 150 employees and produces yearly some 1300 GWh of electric power.
3. "Viktor Lenac" Shipyard earns its almost whole income on international markets, and its 700 workers realize annual revenue of approx. 100 million US\$.
4. "Koromačno" Cement plant, the major owner of which is a Swiss company, employs 232 workers who produce over 420.000 tones of cement and make profit of around 30 million US\$.

Analysis and survey of the above stated companies have shown some common, interesting characteristics:

1. All these companies manage their affairs positively and make profit, and find international markets for their products (with exception of the Power plant).
2. Except for the Power plant, that is a part of Croatian electric power system as we have already mentioned, all the other companies have been privatized among the first companies in Croatia.
3. These companies have introduced ISO 9002 system of quality and prepare themselves to realize ISO 14001 environmental managing system, except for the Power plant, which is in state ownership.
4. The companies have established a permanent system of environmental monitoring and have adopted acceptable communication with the environment, i.e., they present referent data to the public.
5. Their financial investments in the field of environmental protection are important for political and economic situation, which our economy is currently passing through. Nevertheless, from the point of view or perspective of environmental protection and sustainable development, these technical and technological investments are not sufficient.

With respect to this, "DINA" enterprise has invested some 280.000 US\$ in environmental protection during last five years. The Power plant has put aside around 20 million US\$ for protection of the environment and new technology introducing around, while the Shipyard has made a considerable investment in necessary equipment for environmental protection, in the amount of 4 million US\$. The Cement plant has invested approx. 25 million US\$ in its new technology and for the purpose of healing and cleansing of environmental damages.

Such common characteristics of these companies have shown that those companies that have been privatized and with quality owners have made

while according to our presented example one could make a conclusion that Croatian companies are ready for accepting environmental changes, the real world is quite different. Nowadays many Croatian companies operates with reduced capacities, do not possess modern production porgrammes, have not been privatized but are still in state ownership, or work with financial losses and show some kind of decaying.

Yet, the stated companies: DINA, the Power plant (TE), the Cement plant and the Shipyard are rare examples which showi that “a prosperous firm and modern management accept environmental protection and sustainable development syntagm and that it adapts itself to environmental requests. Such a firm sees in all that its business oportunities and chances for future development”.

## **Conclusion**

Overall, a conclusion may be drawn that Croatia has adopted the idea of sustainable development, and it created an comprehensive legal background for its' application based on “command and control” principle. However, there is still need for some further adjustments of the legislation by following contemporary environmental legal standards, especially those from western countries. These adjustments always have to be done with respect to domestic conditions and circumstances. Namely, the analyses done so far point out the necessity of searching for our own way in implementing the sustainable development principles.

The importance of a regional approach is certainly materialized in new physical planning legislation, which allows counties, towns and municipalities to adopt enforceable regulations. Therefore, local self-management units can recognize and apply their own environmental and development policies. Practical obstacles they face in making physical plans lay in fact that insufficient financial and human resources in many Croatian regions cause serious delays in promulgating these acts.

The case study on sustainable development application by the industrial business entities is showing that companies that engaged top professional management staff and who are engaged with foreign markets are seriously considering environmental issues. On the other side, majority of domestic industrial companies who are heavily burdened by economic crisis will likely neglect their environmental responsibilities, especially if they could pose some additional financial obligations. Such circumstances only emphasize the need for assistance by developed countries, particularly in terms of leadership in introducing “up-to-date” environmental standards and clean technologies.

In our belief, the first thing that an transition region like Primorsko-Goranska County should learn from developed westerners is that unrestricted development often proves itself to be the reason for regret and overwhelming losses in the future. However, the situation that we aimed to present in this paper

UNEP (1996), *State of the Marine and Coastal Environment in the Mediterranean Region*, MAP Technical Report Series No. 100, UNEP, Athens

Van den Bergh, J.C.J.M. and van der Straaten, J. (1994), *Toward Sustainable Development*. Island Press, Washington, D.C.

A statement from the UN Secretary-General, suggesting a compact between business and the international community, and a joint statement from the International Chamber of Commerce (ICC) and UN will be shortly commented on because these statements are strongly related to the issue of this paper: sustainability and societal role of business.

The aim is by way of a rhetorical analysis and interpretation to demonstrate whether the alleged new environmental agenda is in fact represented in the communications from these actors. How do they communicate, argue and reason and what is the arguing about?

The two business corporations are not chosen randomly, but from their merits in comprehensive and competent communication concerning issues of sustainability and social responsibility.

### **Approach**

The point of departure is language in action. That is, the way language is used by the two firms when reporting on their positions and practices concerning environmental and social responsibility and what is said in an ICC/UN joint statement and a statement from the UN Secretary-General. This information has been retrieved from the informants' respective web sites.

The approach is somewhat inspired by Billig (1987, p. 91) and also draws heavily on Myerson and Rydin (1996) but does not strictly follow the terminology and methodical steps suggested by these authors. Nevertheless, a few words on the rhetorical approach might be appropriate.

Rhetoric is the counterpart of dialectic Aristotle (1991, p. 66) maintained in the introductory chapter of his *Rhetoric*. Rhetoric as well as dialectic is the study of proof and argumentation aiming at the furnishing of explanations. But rhetoric and dialectics are related to different subject matters or fields of inquiry. The subject matter of dialectics is the realm of the unchangeable whereas the subject matter of rhetoric is the changeable. That is, rhetoric is the study of reasoning and arguing concerning things which could be otherwise.

According to classical rhetorical theory therefore, the subject matter of rhetoric was considered to be opinion, rather than certain knowledge. Rhetorical reasoning, Aristotle wrote, is used only about subjects of debate. Matters which are uncertain. Deliberation "is about matters that appear to admit of being one way or another; no one consciously deliberates about things that cannot either have been different in the past or be about to be different in the future or be disposed differently in the present, as there would be no profit in it" (Aristotle, 1991, pp. 76-77).

The contemporary conception of rhetoric (new rhetoric) has much in common with the ancient conception in seeing rhetoric as occupied with processes of reasoning, talking and arguing. It is a theory about explanations and arguments. Not having, as sometimes believed, its focus on style alone or seeing style above substance. And rather than studying individual mental states, rhetoric studies language in action (Billig, 1987, p. 6). When people are using language,

audience (Geist, 1996, p. 44). Logos represents the discursive strategy of impartiality, objectivity, and logical reasoning whereas ethos and pathos to a higher degree involve feelings and emotions. Ethos is characterized by a strategy in which the speaker seeks the sympathy, respect and trust of the audience. It is a strategy which tries to convince by reference to the virtues of character of the arguer. Pathos is even more emotional in its appeal to the audience. Its method is the arousal of emotions and passions in the audience rather than reflections concerning the trustworthiness of the message sender. In marketing terms one might argue that PR more often uses the ethos strategy and advertising more often uses the pathos strategy.

Myerson and Rydin focus on ethos in their rhetorical analysis of the language of the environment. The key theme is trust and the core question is about "how arguments imply personalities, and how those personalities are value-laden" (Myerson and Rydin, 1996, p. 23).

As a rhetorical type it seems plausible to apply the ethos perspective as the most appropriate when it comes to the study of language used by corporations concerning sustainability. Actually, this analysis will show that ethos is at the core of reasoning and arguing when it comes to how firms communicate about sustainability and environmental concern.

Finally, topic analysis also involves the identification of figures of speech or figures of argument. Such figures are often culturally ready-made phrases. They do not simply mirror reality. Rather, they are constitutive which means that they have impact or effects. Figures of speech construct the world of discussion. Myerson and Rydin distinguish among three figures: Metaphor, Irony and Association.

In short, we have the following analytical keywords to be applied in the topic analysis.

**Topic analysis**

**Invention**

- Cultural innovation
- Differences and alignments

**Discourse**

- New information discourse
- New concept discourse
- New practice discourse

**Ethos**

**Constitutive figures of speech**

- Metaphor
- Irony
- Association

*UN and ICC Contributions to the Societal Role of Business and the Sustainability Agenda*

Specifically, I call on you – individually through your firms, and collectively through your business associations – to embrace, support and enact a set of core values in the areas of human rights, labor standards, and environmental practices (<corpwatch.org/trac/undp/ann> 7. Febr. 2000).

In suggesting that business should incorporate the above values and principles in their mission statements and corporate practices, the Secretary-General more than once explicitly makes use of a contractual metaphor:

I believe what I am proposing to you is a genuine compact, because neither side of it can succeed without the other. Without your active commitment and support, there is a danger that universal values will remain little more than fine words – documents whose anniversaries we can celebrate and make speeches about, but with limited impact on the lives of ordinary people. And unless those values are really seen to be taking hold, I fear we may find it increasingly difficult to make a persuasive case for the open global market.

#### **Two Cases (SCA and Novo Nordisk)**

Based on information from two Scandinavian firm web sites (Mission statements, Environmental Policy and Environmental and Social Reports), I shall now take a closer look at their way of reasoning and arguing about sustainability. I shall do so based on classifying excerpts of the above information in four groups, Box I-IV.

In Box I (Concept Discourse), I have collected evidence of reasoning and arguments concerning the concept of sustainability itself and the role of business. Sustainability is as previously mentioned a rather complex term involving a lot more than ecological considerations. Concept discourse is about new ways of thinking or different ways of thinking, and through innovative arguments the discourse seeks to persuade the reader (the audience) into the adoption of some ideas.

In Box II (Practice Discourse) I have collected statements which relate to the invention of new practices. The practice discourse takes the concept discourse further to consider new business – and management politics. The discussion is about the implementation, feasibility and relevance of a proposed practice.

In Box III (Ethos) the question is about identity, trust, credibility and ethics. That is the communicator is here trying to convince the audience about his or her character or identity. That he/she is a person to be trusted.

Finally, in Box IV (Associative argumentation and figures of resolution) I have collected excerpts of sentences which connect different concepts and try to enhance arguments by association. Associative argumentation is (Myerson and Rydin ,1996) a process for fixing the terms, the issue, the fact. It does so by

*Concept Discourse (continued)*

**A stakeholder view on business**

“Our stakeholders opinions and involvement in our business are of primary importance to our future financial growth”. (CD)(A)- (sca).

“Dialogue (with stakeholders) is a vital element in increasing SCA’s business potential for the future” (NPD)(A)- (sca).

Since the Earth Summit in Rio in 1992, the international environmental agenda has undergone fundamental changes. At Novo Nordisk, we have witnessed these changes as a shift from a solely compliance-based agenda towards a more stakeholder-based one. In addition to complying with all relevant environmental regulations, we are also increasingly required to meet the expectations of a wide range of stakeholder groups including employees, environmental organizations, customers, consumers and investors.

**A new spirit of openness in business**

“In the past, we have quietly continued our progress towards sustainability”. (NCD)-sca ....“The new spirit of openness in business...”. (NCD)(E)-sca ...“Opening our doors to public scrutiny” (NCD)(NPD)-sca.

“Building credibility requires transparency in the data and information we put forward in our social report. .... We shall continue to explore how to create a verification process that meets the need for credibility while matching the process behind and content of our social report” (CD)(NPD).

**The importance and meaning of sustainability**

“Sustainability will be one of the central features of industry in the 21st century” (NID)(NCD)-sca.

“Environment care gives SCA employees a real stake in their future, and in the future of the next generation” (NCD)(A)-sca.

“The tripartite nature of sustainability presents SCA with one of its biggest challenges for the next century” (NCD)-sca.

“Three pillars of sustainability – sound financial performance, continuous improve in environmental performance and high social and ethical standards” (A)(CD).



**Textbox II****Practice Discourse**

Theme: environmental initiatives

**Pollution and energy:**

“For SCA, it is important to reduce the emission of substances which may affect the environment and to reduce energy consumption as much as possible” –sca.

“SCA plays an active role in the technical development of more environmentally friendly products and processes in various segments of its operations” (NPD)-sca.

“...in carrying out our business goals we will:

seek to minimize the impact of our operations on the environment by developing more environmental sound processes and minimizing emissions, consumption of raw materials and energy” (NPD).

**Openness**

“An important aspect is providing open and comprehensive information regarding the Group’s operations and measures to reduce impact on the environment” (NPD)-sca.

“Informations about SCA’s environmental efforts shall be open and freely available” (NPD)(A)-sca.

“...we will: communicate openly – both internally and externally – about our environmental responsibilities, and report on our environmental performance annually” (NPD).

“We wish to: Expand the international coverage of our social performance by reporting on Novo Nordisk activities in countries beyond those covered in this cycle.”

There is also an important argument concerning the self-regulation debate. Namely, the proposition that the pace of global business is so rapid that businesses will frequently encounter political or cultural dilemmas earlier than politicians or regulators. This argument – which also resembles a view put forward by the UN secretary-general – points to the utilization of knowledge and the problem-solving capacity that exist within the business community itself. The active participation of business concerning sustainability is therefore presented as a necessity.

A significant proportion of utterances found on the web site are devoted to discussing new practices. The practice discourse (textbox II) continues the concept discourse by pointing out different environmental initiatives such as the

## The Ethos of Sustainability

### Textbox III

### Ethos

Theme: Our role, vision, character, identity

#### **A Good corporate citizen**

“Novo Nordisk believes that everyone must care for the environment and our natural resources. Novo Nordisk is committed to constantly improve our environmental performance as part of our ambition to be a good corporate citizen”.

“Responsible neighbour: We shall all over the world conduct our business as socially and environmentally responsible neighbours, and contribute to the enrichment of our communities” (E).

“SCA assumes responsibility for the environment” (NCD)(E)-sca.

“All decisions must include environmental considerations” (NPD)(E)-sca.

“Information about SCA’s environmental efforts shall be open and freely available” (E)-sca.

“Our way (E): Accountable, Ambitious, Open and honest, Close to our customers, Ready for change”.

“By signing the Charter for Sustainable Development to the International Chamber of Commerce (ICC) in 1991, we committed ourselves to this new broader approach to environmental management where environmental considerations were increasingly to become an integral part of the company’s activities” (E)(CD).

“In 1996, our Environmental Policy was further amended to reflect the fact that environmental issues are very much a part of the corporate governance of Novo Nordisk. A team of 14 internal facilitators was appointed to audit and ensure that Novo Nordisk’s policies, including the Environmental Policy, and our management principles are ingrained in the daily business of the entire company”.

“We have chosen to use our social reporting as a means of documenting our performance against Novo Nordisk’s basic values...we wish to be able to demonstrate that we walk the talk”.

#### **Textbox IV      Associative Argumentation and Figures of Resolution**

Theme: Reconciliation

##### **Reconciliation of terms**

“Environmental efforts are regarded not as an expense but as a contribution to increasing profitability” (NCD)(A)-sca.

“Making economy and ecology meet” (A)-sca.

“There is, however an increasing need for information relating a company’s environmental performance to its financial performance”.

“SCA is convinced that sustainability makes good business sense. (A) It opens up new competitive areas which will, in turn, secure the long-term existence of the Group. (A) Sustainability is necessary to fulfill the economic, environmental and social demands of the company’s stakeholders: consumers, customers, employees, suppliers, investors and the wider global community” (A)-sca.

“SCA, as a forward-thinking company is increasingly gearing its activities towards fulfilling the economic, ecological and social responsibility demands of its stakeholders” (NCD)(A)-sca.

*Associative Argumentation and Figures of Resolution (continued)*

“SCA conducts extensive dialogue with stakeholder groups in industry. ..regular exchanges of views with authorities, environmental groups and consumer representatives. (A)...---sca can learn more about the needs and demands of society – involve stakeholder communities in developing solutions through partnership” –sca.

“It is important for us to be the best in our businesses, but it is equally important to achieve this while setting the highest standards for our business conduct. We believe this will be achieved if we follow our company’s core values” (A).

“Our approach will seek to align the company with the vision of the United nations’ Universal Declaration of Human Rights in a way that has practical meaning for the way we work”.

“In my view, social accountability is a prerequisite for creating shareholder value” (A).

“At Novo Nordisk we believe that commercial activities can in many ways make a significant contribution to the understanding of democratic values, human rights and sustainable development” (A).

in accordance with the so-called broad definition which includes any group or individual who can affect or is affected by the corporation (Freeman, 1984).

Although the word "contract" is not explicitly applied in any of the two cases, the general idea behind the notion of social contract is represented. The existence of social contracts for business does not rest on the explicit use of a certain terminology, but rather on whether corporations actually behave as if they had struck a deal with the rest of society.

The interpretation of the two cases scrutinized in this paper has the outcome that they very much talk in a way which supports the notion of a hypothetical social contract. By inventive arguing and reflecting about their social role they implicitly create a world or define a situation which seems to acknowledge reciprocal expectations between business and other social institutions.

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Europe and Japan. Further, many countries are planning to block all U.S. grain shipments because conventional grains are mixed with "altered" crops. The United States currently exports over two billion dollars a year of corn and soybean to Europe, and as H.H Kroner of Eurocommerce emphasized, U.S. farmers risk losing this market unless genetically engineered grains are kept separate and labeled (Cummins and Lilliston 1999).

A changing regulatory environment for biotechnological outputs in Europe and other parts of the world has created new impacts of biotechnology on American farming. The European Union has passed a law requiring special labeling on food products containing components derived from transgenic crops, and it is expected to approve similar legislation governing livestock feed. This means that, in the near future, Europeans may also block shipments of corn gluten, a livestock feed product. Such an action is expected to result in a loss of 550 million dollars for U.S. farmers in the corn gluten market (Fitzgerald 1999).

Today, U.S. farmers are facing another threat: Skepticism about genetically modified food (GMF) products among American consumers. European experience has shown that consumer attitudes toward the issue are extremely brittle and could change radically. After all, "the European backlash developed almost over-night" (Kilman 1999a, p.1). In other words, the biotech backlash is not just an export problem. Now, giant U.S. food companies such as Heinz, Gerber Foods, and more recently Frito-Lay have elected to stop using genetically modified food ingredients in at least some of their products. They fear that mandatory labeling will be imposed and (like the European consumers) U.S. consumers will react drastically. However, to date there have been no in-depth studies to investigate how American consumers view/react GMF products and GMF labeling.

In this paper, we provide some focus for the impact of GMF labeling on U.S. farming. We begin with a brief overview of general research regarding the effects of biotechnology on U.S. farming. Then we assess American consumers' reaction to GMF products and GMF labeling by comparing American and European consumers and argue how American consumers' reactions to labeling would affect U.S. farming.

We believe our paper should interest the macromarketing community for various reasons. First, changes in farm structure and the role of farming in sustainable consumption have recently received greater interest among macromarketing scholars. Last year's Macromarketing Conference was held under the theme "sustainable consumption and ecological challenges" and participants visited a Nebraska organic farmer, listened to his problems and offered cooperation and academic support through research. This paper, to some extent, attempts to fulfill this promise by focusing on a growing farming problem: consumer concerns on biotechnology-based farm/food products.

Secondly, our paper deals with various core "macro" environmental variables of marketing such as technology, publics (interest groups), consumers, and public policy surrounding farming and the food industry. Through a literature

that the farmers will continue to grow the crops, but the choice of which crop to grow will increasingly be influenced by large corporations.

#### *Effect on Relationship with Research Institutions*

The new technologies may also restructure the relationship between farmers and researchers. As noted by Lacy and Busch (1991), until recently farmers were seen as the primary clientele of public sector research. However, the entry of molecular biology into agricultural research has increasingly been accompanied by the insertion of the agribusiness sector between farmers and researchers. As a result it is quite possible that only problems of interest to the agribusiness sector will be the subject of public research agendas. Further, the authors argued that a significant change in farming community may result if the information and products of this technology bypass the Extension Service and agricultural cooperatives. In the past, the information regarding biotechnology have been disseminated by the Extension Service. However, the development of new seed-chemical packages through biotechnology will remove the research institution from information dissemination system.

#### *Effect on Patterns of Farm Ownership*

Advances in biotechnology appear to be fostering the continuing trend toward vertical integration of agricultural production in the U.S. (Hobbelink 1991; Kloppenburg 1988). Since the mid-1980s transnational chemical companies have acquired many seed companies with interest in pesticides and pharmaceuticals. These vertical integration attempts are expected to have an indirect effect on U.S farm ownership structure. That is, according to some authors, it is not clear anymore if the farmers own or rent their farmland. Shand (1994), for example, indicated that "the American farmer become a 'renter of germplasm,' rather than an independent, owner/operator" (p.81).

It is an indisputable fact that over the last a few decades, the number of farms has reduced as the average farm size has increased. It may be too early to blame biotechnology for this trend, however, vertical integration and control of production strategies of chemical companies may have an impact on this trend. Futurists have to be careful here because as also noted by Krinsky and Wrubel (1996), if the use of crops for chemical synthesis becomes lucrative, there may be niches for new farms or reinvigorated declining farms to emerge and meet the new biotechnology markets.

#### *Effects on Ownership of Seeds*

Biotechnology has made the patenting of seeds viable, which provides an economic incentive for corporations to invest in biotechnology. As indicated by Fernandez-Cornejo, Caswell, and Klotz-Ingram (1999), protection of intellectual property has not only promoted industry investments, but has also contributed to increased industry concentration. For example, "four-firm concentration for corn

## **American Consumers' Potential Reactions to GMF**

Consumers will make the ultimate decision about the acceptability of GMF products through their market behavior. That is, whether American farmers would continue losing customers in the United States will be depending on predicting consumers' potential reactions to GMF and its labeling. Therefore, we believe, in order to shed light into various questions surrounding GMF, social scientist should uncover consumers' feelings, emotions, concerns, and beliefs about GMF, and its regulations (including labeling). The European example has shown that consumer attitudes toward the issue are extremely brittle and may change radically. American food industry and regulatory agencies have feared that the European experience could be repeated in the United States. In the next section, we will attempt to understand American consumers' potential reactions to GMF by comparing American and European consumers on certain social dimensions. Such an analogy would not only provide guidance to food industry and policy makers but also lay ground for future research that aims at uncovering the complex array of meanings and emotions consumers associate with GMF products.

### *Culture: Is This a Matter of Risk Taking?*

One news magazine recently surmised that Americans may be culturally more inclined to embrace new technology than the Europeans. However, here the question is whether accepting/rejecting attitudes are due to risk taking or proneness to new technologies. It is awfully difficult to accept that the Europeans are conservative to new technologies and high-tech products. Europe is full of power plants, telecommunication gadgets, and high tech consumer goods. Europe is the pioneer in many technological developments, including numerous biotechnological marvels. In a recent study, Ekstrom and Askegaard (1999) reported that Danish consumers have a high novelty orientation toward technology and scientific progress. Further, as indicated by Beck (1992), modern capitalism and industrialism have created "risk societies" everywhere in the western world. Therefore, we believe the main reason for resistance to GMF in Europe is the fact that it deals with "food," not technology.

### *Food as Culture*

It can be argued in general that food has greater importance in European culture than in American culture. Here the question is how we can understand a culture for which food is very important (or more important than in the U.S.). Anthropologist Mary Douglas has argued for decades that social aspects of food and eating (as opposed to the nutritive and physiological) can help us better answer this question. More specifically, she introduced the theory of pollution (see Douglas 1966) and suggested that pollution is a quality attributed to things that do not fit the category system, that are marginal, interstitial, or anomalous. Analyzing the theory of pollution, Meigs (1997) indicated that "foods that are

modification of biological organisms and the use of this technology in food production is obviously the leading fear of French in particular, and of Europeans in general.

Another important distinction between Americans and Europeans is the way in which food products are purchased and consumed. Americans have grown accustomed to eating “wrapped”, “canned”, highly processed, “taken out of its natural setting”, unnatural food. For many Americans GMF may be just another unnatural food that they buy in groceries every day. Americans are also accustomed to a continuous stream of novel products offered by a highly competitive food industry. Europeans, on the other hand, tend to be more traditional about what they eat (Greenberg, 1999). Food occupies a place of high importance in the European lifestyle, far beyond what is common in the United States. Almost all major European cities are still full of many large-scale open markets and specialty food shops. In the U.S., so-called “farmers’ markets” have neither quantity nor quality to convey the same public involvement with food production and consumption. Based on the preceding section, we propose that consumers’ willingness to purchase labeled GMF products will be:

P1: Negatively associated with preference for low-processed food consumption (raw ingredients), and positively associated with preference for high-processed food consumption (packaged, convenience ingredients).

P2: Negatively associated with symbolic associations of food with roots, nature, tradition.

P3: Negatively associated with belief that food preparation and consumption is a source of social distinction and craftsmanship.

### *Farm as Culture: The Meaning of Farm*

The word “farm” symbolizes different things for Americans and for Europeans: in the U. S. the farm is more recognized as an agribusiness production facility, whereas for the Europeans, “farm” encompasses something traditional, rural, and idyllic. As noted by Bereano and Kraus (1999), travel agencies in Germany, France, and Italy offer vacation holidays on the farm, so that individuals or the whole family can get back to their farming roots.

Moreover, farming and everyday urban life are largely separated in the United States. According to the recent statistics, the actual share of people working on a farm is only two percent in the U.S. The European Union rural population is 50 % larger. This could mean that, compared to agribusiness in the U.S., farmland in Europe is much more integrated into people’s daily lives. Further, many more of European’s relatives still live in rural areas, making Europeans even more connected with farming. Although 50 per cent of the area farmed in the EU is located in mountainous and less favored areas, such incentives as European Regional Development Fund and European Social Fund still encourage Europeans to live in these areas, and continue farming (Commission of the European Communities 1993). High rural population and



interpersonal trust. According to Giddens (1990) the importance of social trust has increased as the complexity of the societies increased.

Renn and Levine (1991) also investigated the role of trust in risk management/communication and defined trust as “the generalized expectancy that a message received is true and reliable and that the communicator demonstrate competence and honesty by conveying accurate, objective, and complete information (p. 53). Their definition is formulated based on the following five attributes of trust: perceived competence (degree of technical expertise assigned to a message or a source), objectivity (lack of biases in information as perceived by others), fairness (acknowledgement and adequate representation of all relevant points of view), consistency (predictability of arguments and behavior based on past expertise and previous communication efforts), and faith (perception of “good will” in composing information).

Social trust may be considered to be the most prominent factor (strategy) that could be used to deal with problems between publics and their representatives. Social trust, for example, could be used as a tool to facilitate the bridging by citizens of the gap between participatory and representative democracy. The concept of traditional social trust, as indicated earlier, includes two major components: competence and responsibility. When the representatives of the systems (including the government organizations) prove at some point that they are responsible and competent, then the citizens would trust them. Similarly, the citizens would lose their trust in the organizations and their representatives, should the representatives prove at some point that they are incompetent and irresponsible.

As mentioned earlier numerous food related problems have been quite mishandled by various European governments, creating a perception among European consumers that their government organizations are incompetent and irresponsible. On the other hand, earlier anecdotal evidence suggests that American consumers believe in their government/organizations to act in the best interest of the public because “...[the United States] has the most-consumer oriented system in the world.” Further, the U.S. is believed to be competent in detecting food related problems. According to Secretary of Agriculture Dan Glickman, “[the Europeans] just don’t have, really, the same kind of sophisticated mechanism to scientifically examine food products and determine if they are safe that we do...By and large, people have confidence in this country’s system of food safety regulation.” (Mokhiber and Weissman 1999) Therefore, by looking at the conceptualization of traditional social trust (consisting of competence and responsibility), we argue that Americans possess greater social trust than Europeans, thus, they may be less skeptical about potential negative consequences of GMF products raised by some scientists, environmental groups, and consumer activists. More specifically, we make the following proposition:

P5: Consumers’ willingness to purchase labeled GMF products will be positively associated with social trust in food regulation and inspection systems and negatively associated with distrust in these social institutions.

GMF products, as suggested by the study, the education “would be hard sell:” not everyone would be interested in learning the finer details of genetic modification.

Regulations imposed to date have not removed the heavy cloud surrounding the future of American farmers. Both bio-tech and organic farmers have indicated their concerns with this highly volatile business environment. A recent ACGA (American Corn Growers Association) study indicated that although they were satisfied with the yield performance, the corn farmers will plant 20% less genetically modified corn seeds in the year 2000 due to the market uncertainty. Further, recently the USDA has announced that foods that are genetically modified or irradiated would not be considered “organic.” This new legislation indicates that foods labeled “100 percent organic” must contain only organically produced raw or processed products. At the first glance, these federal guidelines seem to solve the organic versus genetically modified confusion by indicating that all organic foods are genetic-free. However, we believe the problem has not been addressed fully: first, this new guidelines only cover fruit, vegetables and meat. The majority of the genetically modified foods will still remain as mystery to the consumers. Second, because organic foods are considerable higher priced than regular foods, only a small percentage of the consumers would be able to ensure that they are buying genetic-free food products. As indicated by organic farmers, this new legislation would increase their operating cost, further increasing the price of organic foods (Reuters 2000b). Very small number of people seems to be satisfied with the way federal agencies have been handling the issue.

We believe, the questions regarding the regulation of GMF products and the future of American farmers can be answered better by taking proactive approaches to public policy. We first need to uncover the complex array of meanings and emotions consumers associate with GMF products. Therefore, future studies should attempt to identify consumers’ feelings, emotions, concerns, and beliefs about various food products that contain genetically altered ingredients. Consumers’ view would definitely provide guidance to food manufacturers for their supplier decisions. Further, combining American consumers’ view with scientific findings about the effects of GMF would lay a sound ground for policy makers.

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## **Ownership Transformation in the ex-USSR: An Engine or just a Lubricant of the Socioeconomic Development**

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*The empirical evidence collected from some 450 ex-USSR companies suggests that private companies did not improve their productivity more than the non-private firms did. Surprisingly poor results from productivity improvement in private enterprises are mainly caused by the difficulties involved in privatization. If the private start-ups are compared with privatized companies, the data clearly indicates that the private start-ups did improve their productivity more frequently than the privatized companies, though the majority of their capital stock would have moved into private hands. On the basis of the collected data, it can be argued that the transition path is a more important factor in explaining organizational performance change than ownership at this stage of organizational transformation.*

### **Transformation from State Ownership towards Privately Driven Entrepreneurship to Enhance Socioeconomic Development**

One of the core features of the classical Soviet system was that of state ownership and the state monopoly over enterprise activities. Enterprises in the centrally planned economies formed one economic entity, within which they were closely integrated to another's operations, at least in principle.

As planning the activities and controlling a large number of small state enterprises would have been a complicated task, centrally planned economies preferred a small number of large state corporations. Another reason besides control was the economies of scale thinking, which emphasized the role of large production units in increasing efficiency.

Due to the control aspect and efficiency thinking, the number of corporations remained small until *perestroika*, which started the transition from the socialist system towards a market economy in the mid-1980's. *Perestroika* abolished enterprise megalomania and the state monopoly over enterprise activities. Hence, the seeds of small-scale enterprises and private entrepreneurship (including foreign-owned companies) were laid for the first time in the former Soviet Union since the NEP period of the 1920's.

Within the past 10 years the enterprise population of the former USSR has multiplied. For example, the Russian enterprise sector has expanded over 15 times during the 1990's. According to Blasi et al. (1997, p. 25), "*at the beginning of 1991 the Russian Federation had approximately 23,766 mid-sized and large industrial enterprises and 170,000 smaller ones, mostly retail shops*". By the beginning of the year 2000, over 3 million enterprises have been registered in

notorious examples where companies have been privatized substantially below their real market value or the ownership has been fragmented into the hands of many employee-owners.

One of the special problems that employee-owned companies often face is that employees may aim at maximizing their own benefits in the short run rather than act in a manner which maximizes the longer-term shareholder value (Filatotchev et al. 1996, p. 91). On the other hand, other scholars have not found a constant linkage between employee-ownership and weak organizational performance. For example, Jones and Mygind (1998, p. 1) argue that "*the key obstacle to enhance performance does not appear to be employee ownership [in Estonia]*".

Contrary to the rather dissatisfactory results of privatization, some scholars have found that private start-ups improve their performance faster than other companies in transition economies. For example, Bilsen and Konings (1996) have found that start-ups improve their performance more frequently than do old companies. To sum up the discussion on the impact of private ownership on company performance, the literature review indicates the poor outcome of privatization whereas the results of the new enterprise generation seem to be rather encouraging.

In addition to the privatized corporations versus private enterprise discussion, the role of foreign ownership in the economic recovery of the transition economies has received a lot of attention in the literature. Some studies stress the importance of foreign direct investments in the transformation of post-socialist economies. For example, Hertzfeld (1991, p. 91) argues that "*direct foreign investment is a fundamental engine of social change in the [former] Soviet Union*". Correspondingly, Purju (1998) suggests the significance of foreign ownership, as it leads to a better financial position and easier penetration into foreign markets.

On the other hand, the empirical evidence also shows that foreign influence is not a pre-condition for successful organizational transition. For example, Akimova and Schwödiauer (1998, p. 20) state that "*[organizational] restructuring can start successfully even in the absence of foreign investment*". Besides, scholars suggest that foreign practices are not always effective in the former Soviet Union, and therefore, foreign practices should be adjusted to local circumstances (Holt et al. 1994; Nurmi and Üksvarav 1994; Shekshnia 1994).

The fact that the post-Soviet managers do not want to adapt all Western influences is not perhaps as adequate an indication that market economy practices are not directly transferable to the former USSR as the fact that foreign managers are sometimes forced to adopt local practices in their managerial behavior (Shekshnia and Puffer 1996; Suutari 1998). For example, a Finnish manager stated that "*the management models that I have learned did not apply in Russia, and thus I had to start to learn a totally new basis for my thinking*" (Suutari 1996, pp. 262-263). Foreign managers are sometimes forced to adopt features that are at least partially influenced by the less advanced methods of "*Management Sovieticus*" (Liuhto 1999, p. 58).

The time frame for analyzing the productivity improvement is three years (development during 1995 - 1997). Such a narrow time span naturally increases the risk that productivity change may have been caused by temporary factors. Despite the relatively short time frame, it should be stressed that expanding the time frame in order to have a longer time span for analysis would have decreased the validity of the views. In addition, it should be emphasized that asking managers to evaluate productivity change since 1995 contains an implicit retrospective assessment of the phenomenon, which is never as accurate a method as a replication of the study. Unfortunately, the replication of the research was not possible within the timetable of the research project.

The questionnaire was translated from English to Belarussian, Russian and Ukrainian. English or any other language, was not used as a unitary language in the questionnaire because the command of foreign languages in the CIS can be rather weak, especially in the peripheral areas of these countries. On the other hand, Russian was not regarded as an appropriate unitary language in the questionnaire though Russian is widely understood in these countries, due to historical reasons. As translation always endangers the content equivalence, the questionnaire was checked that it remained unchanged in the translation process. Before the actual data collection started, a pilot study was organized to detect possible weaknesses in the questionnaire.

Should the designing of an applicable questionnaire be considered an unenviable task, conducting a scientifically puristic sampling process in the CIS is an even more complex academic exercise. Conducting stratified sampling is difficult since the enterprise statistics in the CIS do not offer the best basis for focusing the survey. On the other hand, random sampling can be doomed because there are so many non-active companies in the former USSR. Due to the deficiencies of the enterprise registers and statistics, it was considered more appropriate to focus on active companies than to pursue a scientifically puristic sampling. Since the enterprise registers and statistics did not offer a sufficient basis for sampling, databases of various business associations were combined to locate active enterprises (Michailova and Liuhto 1999, p. 17).

As studying performance of post-Soviet entrepreneurship was the main theme of the overall research project, companies which started their operation after the collapse of the Soviet system were central to this research. Thus, the guideline for the data collection was the fact that new entrants would form half of the sample. These start-ups could operate in any sector, but enterprises which were already operating during the Soviet period should be chosen only from manufacturing companies. Other sampling restrictions were not applied. The data collection was carried out in the second part of 1997. In practice, the data collection was conducted as follows. A local partner of the research team contacted the company management and asked about the possibility of interviewing the company management, and hence, the filling-out of the questionnaire occurred in the presence of the researcher.

In Ukraine, 25 per cent of the companies approached participated in the research. In Belarus, enthusiasm to participate was slightly higher but in Russia

issues are central to this research, the author considers it appropriate to divide the companies into different ownership categories on the basis of the absolute majority ownership<sup>11</sup>.

The data shows that the personnel size of the firms studied have decreased by two-thirds during the years 1990-1996. The decline in the personnel size of the sample follows a similar trend as the drop in real GDP of these economies. On the basis of this rather similar transformation trend it can be assumed that the transformation of the sample does not entirely differ from the transition of the enterprise population as a whole.

### Empirical Results

Almost 50 per cent of the managers expressed the view that the productivity in their company has gone up during 1995-1997. Only a quarter perceived that productivity has remained the same. The remaining quarter considered that their productivity has gone down (see Table 2).

**Table 2. Summary of Empirical Results**

	PRODUCTIVITY CHANGE			N.A	PEARSON'S CHI-SQUARE TEST
	gone down	remained the same	gone up		
<b>DISTRIBUTION</b>	24%	24%	48%	4%	
<b>OWNERSHIP STRUCTURE (majority)</b>					
<b>State and municipal</b>	33%	24%	43%	33	<i>Non-significant test result</i>
The rest of the sample	24%	25%	51%		
<b>Local private</b>	22%	23%	55%	33	<i>Non-significant</i>
The rest of the sample	30%	26%	44%		
<b>Foreign</b>	11%	44%	44%	33	<i>Non-significant test result</i>
The rest of the sample	27%	25%	49%		
<b>Employee-ownership</b>	30%	24%	46%	33	<i>Non-significant test result</i>
The rest of the sample	26%	25%	49%		

<sup>11</sup> The category 'local private' is comprised of local private companies, where ownership is not divided between employees. Employee-owned companies are treated separately. The group 'other' includes companies, which do not belong to any other ownership category mentioned or where the ownership is divided between these ownership groups in a manner where none of these ownership groups holds an absolute majority (over 50% of the capital stock).



important factor in explaining performance change than that of ownership structures at this stage of organizational transition.

However, the impact of survivor bias should not be forgotten when these empirical findings are assessed. In other words, it should be kept in mind that this survey only covered those new entrants, which have survived from 'infant mortality'. In order to study performance of the entire private start-up population, research should put more emphasis on analyzing the bankruptcy and idle rate among the new entrants.

The empirical evidence does not support *the second working hypothesis* which assumes that foreign ownership would have a positive impact on productivity change. In this context, it should be remembered that the small number of foreign enterprises does not allow us to draw a solid conclusion regarding the difference between foreign enterprises and other companies. Despite the limitations caused by the insignificant amount of foreign companies studied, it is possible that foreign companies are ahead of local companies and hence, they may guide organizational transformation, even if there is no significant difference between their changes in productivity.

In other words, the forerunner position of foreign companies can be a factor which forces or tempts local companies to imitate the managerial practices of their more advanced foreign competitors. Due to such an organizational spill-over effect, the importance of foreign companies should not be underestimated, though the foreign ownership itself does not necessarily determine a faster transformation speed.

Moreover, it can be asked whether foreign ownership is the ultimate factor behind positive transformation or whether the main determinant is one of capital accumulation, regardless of the country of origin. Here, it should be mentioned that it is estimated that a substantial share of the FDI's, in the Russian Federation for instance, are Russian by origin, although they might have 'a foreign flag' flying above them. For example, the share of Cyprus was some 12 per cent of the FDI inflow to Russia in 1998. Most probably, Russian capitalists are behind the majority, if not all, of these investments from Cyprus to Russia.

In addition, it should be noted that foreign ownership is often erroneously used as a synonym for Western ownership. In other words, the majority of the researches unconsciously neglect the fact that foreign ownership does not automatically mean that owner arrives from the developed West but the owner can also be from other transition economies or even developing countries. Therefore, it would be highly recommendable that scholars would put more emphasis on analyzing the background of the foreign owner and defining a foreigner's ownership share before arguing a strong correlation between Western ownership and positive performance development.

Another rather good indicator that foreign ownership does not guarantee success is the great number of inactive foreign-owned companies. For example in Russia, only fewer than 5,000 companies with foreign capital were active on October 1999, out of approximately 50,000 registered foreign companies. As some 90 per cent of the registered foreign companies do not operate on a

## Conclusion

The empirical findings suggest that private companies did not improve their productivity more than the rest of the sample. Surprisingly poor results from productivity improvement in private enterprises are mainly caused by the difficulties involved in privatization. If the private start-ups are compared with privatized companies, the data clearly indicates that the private start-ups did improve their productivity more frequently than the privatized companies, though the majority of their capital stock would have moved into private hands.

This finding infers that ownership is not the main determinant in explaining organizational performance change but that the transition path is. Privatized companies need to go through organizational reconstruction whereas the private start-ups may develop their business activities without the burden of a centrally planned economy. Therefore, it can be argued that the transition path is a more important factor in explaining organizational performance change than ownership at this stage of organizational transformation.

Even if the empirical data did not produce a significant correlation between private ownership and productivity improvement, the author does not argue that private ownership would not lead to better organizational performance in the long run. In the long-term, it is more than likely that privatized companies will improve their productivity significantly or they will disappear. Both these phenomena would increase the performance of the private enterprise population. However, it is too early to estimate the time period necessary after which the privatized companies either will have reached the average level of the private enterprise population or have vanished.

The empirical data suggests that foreign ownership has not led to any significantly stronger improvements in productivity that were observable in local companies. This unanticipated result may stem from the fact that foreign-owned companies, at first, need to adjust their managerial practices into those of the CIS before they are able to effectively use Western management practices in the CIS. Even if productivity change is no faster in foreign companies than in local companies, foreign companies are, in many respects, ahead of local companies, and hence the guiding role of foreign enterprises should not be overlooked. As the share of the foreign-owned companies is relatively small in the enterprise sector of the CIS, foreign companies should be thought of more as a lubricant than as the engine of organizational transformation.

In the light of the empirical data, it cannot be argued that employee-ownership would be more disastrous to performance change than any other form of ownership. Therefore, it cannot be argued that employee-ownership should be avoided, though it can be argued that a fragmented ownership structure allows the management to misuse its position, if neither internal (company regulations) nor external (enterprise legislation) controlling mechanisms are not functioning properly. These empirical research results indicate that it is more important how a company is owned rather than who owns the company.

**Appendix Summary of questionnaire<sup>12</sup>**

- 1. In which branch does your company operate?**
- 1. Manufacturing
  - 2. Trade
  - 3. Services
  - 9. Other  
(specify).....

...

- 6. Who owns the company? (What is the ownership distribution at present and before?)**

	Previous	Present
1. the state	..... %	..... %
2. the person who answers the question	..... %	..... %
3. other private partners inside the country	..... %	..... %
4. private investors outside the country	..... %	..... %
5. employees	..... %	..... %
6. municipality	..... %	..... %
9. other: .....	..... %	..... %
<b>Total</b>	<b>100 per cent</b>	<b>100 per cent</b>

- 8. What is the ownership history of this enterprise? (multiple answers are possible)**

- 1. private since establishment
- 2. previously it was a part of a state enterprise
- 3. previously it was a whole state enterprise
- 4. the majority of assets will remain state owned in the near future
- 5. the majority of assets will be privatized in the near future
- 9. other (specify) .....

- 20. Did the productivity in your company since 1995**

- 1. go down
- 2. remain the same
- 3. go up

<sup>12</sup> This appendix contains a summary of a 19-page-questionnaire with 79 questions. As it would not have been possible to present the whole questionnaire, only the variables which were analysed in this article are shown.

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population of what was then Southern Rhodesia, commerce was reserved for the colonialists and Asian immigrants. A land act was passed in 1930 that gave the best farming land to whites, and in 1934 a new labor law prohibited Zimbabwean blacks from entering skilled trades and professions. The economic impact of these actions was to force Africans in Zimbabwe into low paid labor on white farms, mines, and factories. Coupled with "hut taxes" that had to be paid in currency, the result was a new form of wage slavery that disrupted the traditional economy fundamentally. Schooling was also restricted with a severe funnel system that allowed only a select few blacks access to higher education. Housing, recreational and sports facilities, and medical care were other areas of consumption to which blacks had limited and restricted access under colonialism. The small percent of the population that was white lived in white suburbs, patronized white clubs, ate at white restaurants, stayed at white hotels, were educated at largely white schools and universities, and enjoyed white sports such as cricket, rugby, golf, tennis, and lawn bowling. Cheap black labor provided them with guards, gardeners, cooks, housekeepers, maids, and drivers. They traveled to exclusive resorts and enjoyed sites that few blacks ever saw, including Victoria Falls, Great Zimbabwe, Lake Kariba, and game parks. The four percent of the nation that was white enjoyed sixty percent of its income. Only a very small number of blacks in privileged positions had sufficient wealth to afford luxuries like televisions and automobiles (Bourdillon 1976; Burke 1996). In 1977 average European wages were more ten times greater than average black wages in the country (Weiss 1994, p. xxi).

All this began to change as whites began to flee Rhodesia during and following the war of independence. The white population of Zimbabwe dropped to one percent, which together with a new constitution provided Africans new opportunities in education, management, government, housing, and independent businesses. Those blacks who were able to take advantage of these opportunities, largely through higher education, have become the new elite on whom this project focuses. They are the *nouveaux riches* of the country and include its new bankers, accountants, lawyers, doctors, politicians, commodity brokers, engineers, upper level bureaucrats, entrepreneurs, tobacco growers, transporters, professors, and others. Weiss (1994) defines the new black social strata as being composed of a ruling elite, an educated business bourgeoisie, a *petit bourgeoisie*, a working class, and peasants. To this might be added urban unemployed and a growing number of street children. The focus here is on the educated business and governmental bourgeoisie. In addition my focus is primarily on those residing in Zimbabwe's third largest city, Mutare (population 150,000), where I spent 11 months in 1998-1999.

The 1998-1999 period of the study was a time of rapid inflation (50-70%) in Zimbabwe, with currency devaluation occurring several times, resulting in a loss of 50% against the U.S. dollar. Unemployment was estimated at 40 percent and average monthly earnings were US\$42 per month, with 80 percent of the Zimbabwean population earning less than US\$100 per month. About 40 percent of this income is spent on food (Mhone 1993). Only 3 percent of the

maid, a factory worker, a bank clerk, and a labor relations clerk. Four informants were female and the remainder were male. The majority of informants were in their thirties and forties, with an age range from 23 to 58. Interviews were primarily conducted in English, which all informants speak fluently. Some of the interviews conducted by the MBA students were a mixture of Shona and English and were later translated into English.

### **Findings: Consumption Patterns of the New Elite**

#### *Their Backgrounds*

All informants were substantially better off economically than their parents, due in part to restrictions in education, occupation, residence, and other opportunities. That is, they are *nouveau riches*. Nevertheless, within the constraints of colonialism, many of their parents occupied the higher social tiers then available to them, including being teachers, nurses, and local chiefs. This relative wealth provided them with better educational opportunities as well as parental encouragement, especially for males. For others whose parents were rural and impoverished, it was mission schools that provided them with their early educational opportunities. And for several of the informants, government programs following independence provided them with opportunities to study abroad in England, Senegal, or South Africa. Each informant credited their education with providing them with "opportunities" that led to their success -- by which they mean knowledge, credentials, job opportunities, and social networks involving connections to important others. Although one law partner with stock in several law firms aspires to be a member, none of those interviewed were members of the truly elite group known as the Pajero Club (after the Mitsubishi Pajero sport utility vehicle). This club is known for its partying, womanizing, and connections to top government officials. With the exception of one Member of Parliament, those studied formed part of the business elite rather than the ruling elite (Dashwood 1996). Almost everyone, including the medical doctors in the study, began in a lower corporate or governmental position before, in most cases, starting businesses of their own or moving on to upper managerial positions. This allowed them to accumulate experience, connections, and capital.

Thus those studied have come a considerable distance from their beginnings under colonialism. Nevertheless, all have aspirations to achieve more. Their goals are both in the arenas of production (e.g., to start a bank), and consumption (e.g., to own a Mercedes and a second home). They also have goals for their children to be university educated and to achieve as they themselves have. Toward this end they enroll their children in elite private schools. However, unlike the conspicuous consumption discussed below, this is primarily out of a concern for their children rather than out of a concern to display their own status.

are buying houses in suburbs like Murambi for their employees who transfer to Mutare. Hence a number of middle class and low class who would normally not afford to stay in these suburbs will find their way into these suburbs using a company ticket... A number of houses along this avenue [where they formerly lived] were bought by a Harare company to accommodate their staff. Because these people could not afford to stay there, they ended up subletting some of the rooms, resulting in over crowdedness and a noisy environment. This is the main reason why we moved to this place and we think they are not going to follow us here, as this place is a bit out of town.

In furnishing these homes, many of those studied find the local market too limited and go to the capital of Harare for furniture, have it custom-built, or even import it from abroad in the case of those with more global connections. One marketing manager for a large timber company had recently made an impulse purchase in Harare of a living room suite for approximately US\$750. He and his wife were in the process of having the kitchen remodeled and were also trying to find a place for the new furniture so they could decide on complimentary carpets and curtains. He too had come from a rural background. He is somewhat unusual in that household furnishing decisions were more often left to the female adult in the household (none of the families studied included multiple wives, although many of them came from families with more than one wife). By Zimbabwean traditional standards, allowing one's wife to make major purchase decisions is seen as emasculating and abhorrent. The businessman with the pool and tennis court described his wife's penchant for redecorating:

I am not very particular about fashion as long as a piece of furniture or gadget can still serve its purpose. I will not bother changing for the sake of fashion. This is not the case with my wife; she is very particular about fashion. For instance the lounge suite you have seen in the main lounge was purchased last month to replace a very good piece we acquired just two years ago and most of the household appliances you have seen have recently been replaced. At times I have found the changes not necessary, but home goods are not my area of jurisdiction; the decision to buy and choose is always hers, and she always argues that we must maintain our social status by acquiring the latest home goods on the market.

Home goods, often referred to as gadgets, included televisions, VCRs, stereo systems, microwave ovens, computers, videogames, and other entertainment products and kitchen appliances.

While the referents in the preceding quote are local, for many of the informants their relevant social comparisons are from other parts of the world. As the first informant above who had recently bought the house his wife had seen when she first moved to Mutare suggested:

I tend to look at things in U.S. dollar terms, all right? My turnover in U.S. dollar terms, it's really nothing. It's nothing if you convert it into U.S. dollars. Alright? I bought this house for Z\$3 million, which would convert to what, to about \$100,000 U.S., slightly under \$100,000 U.S..

it to Zimbabwe. The concern is not with impressing remaining whites in Zimbabwe however. As one of Weiss's (1994) informants stated:

It's nothing to do with the whites ... we've taken over their homes, but we're not trying to copy them. We like to impress our friends and relatives, not whites. We compare our cars with those of our friends, that's what matters" (p. 143).

Nevertheless, worries of envy provocation as well as his involvement in a shooting led one local owner of a supermarket chain to have his truck modified to be bulletproof.

### *Eating and Drinking Patterns*

If houses and transportation have changed dramatically for the new elite of Zimbabwe, the foods they consume have not. The staple food most characteristic of the Zimbabwean diet is sadza, a white corn mush usually served with greens and sometimes with a meat or kapenta fish relish. Sadza has remained a regular part of the diet of all informants. As a 34-year-old lawyer put it, "I think what has changed is the quantity, not the quality." Meat too has increased in frequency more than in type of meat or preparation. Goat, chicken, and beef are still eaten, but are no longer primarily the holiday delicacy that they were in the childhood of most informants. Although ironic nutritionally, canned foods have replaced fresh foods in part of informants' meals. But the meals themselves have not changed much. There is some use of relatively new foods such as spaghetti, rice, and pasta, but they have not entered diets in any substantial way. Restaurant meals are more common, but since all informants have household help to prepare meals, eating out is not the treat that it might otherwise be. Restaurant meals are more likely to be eaten with business colleagues or clients than with family.

Daytime beverage consumption has remained anchored in hot tea for almost all informants, but a few have changed to coffee and chicory drinks. Both tea and coffee are grown in Zimbabwe, but tea was also the beverage of choice for the former colonialists. Carbonated soft drinks have become more common and have largely replaced less expensive non-carbonated drink concentrates that were mixed with water and served to them when they were growing up. Alcoholic beverages have changed from home brewed mahewu and "opaque beer" to bottled "clear beer" and stronger alcoholic drinks. Opaque beer is a pulpy looking drink served in brown plastic 3 liter "scuds" (named after the scud missile) that are typically passed around to others who share a drink. They are widely regarded as a lower class beverage. Before Zimbabwean liberation in 1980, these were the beverages of blacks, with clear bottled beer being mostly a drink for whites. Graduating to clear beers, liquors, and wines is one clear status-demarcating act, whether at home, a club, a restaurant, parties, and funerals. There is some wine connoisseurship among those studied. The limited range of Zimbabwean wines is considered acceptable, but imported wines from South Africa are regarded as superior. There are clear gender differences as well, with



clocks, watches, radios, electric fans or portable air conditioners, telephones, stereos, computers, decorative art, and extensive sets of dishes, glasses, and cutlery. Some owned washing machines and two also owned electric dryers. Most likely the availability of household help and the lesser visibility of these luxuries made their adoption relatively less important.

### *Recreation and Leisure*

The one aspect of leisure and recreation behavior that has not changed much among these new elite consumers is music. There is a strong preference for African and Zimbabwean popular music among all those studied. Only among three informants who had been educated abroad (two in England and one in Senegal was there a preference Jazz. This was not simply a question of exposure to different musical styles since Jazz from South Africa could frequently be heard on the radio when those studied were in their teens and twenties. It seems rather that Jazz was seen as a mark of sophistication for these three informants. At the same time, they prided themselves on their eclecticism in their musical tastes and also liked such diverse styles as Angolan rumba, chorale music, and African Christian hymns (typically more spirited than those of the West). Unlike the new elite in South Africa (Dreyer 1989), there was no fondness for classical music in the present study.

While travel outside of Zimbabwe was still prohibitively expensive for many of those studied, some made regular or occasional visits to South Africa, the United States, and Great Britain. Trips to less developed nations in Africa were only for business, not pleasure. The ideal was to visit countries seen as more advanced than Zimbabwe, never less. These trips were also seen as opportunities to shop for products that were either not available locally or that are much more expensive in Zimbabwe, including clothing, electronics, and even furniture. All of those studied also traveled within Zimbabwe for leisure, although some did so more extensively than others. One of those studied, a 36-year-old supermarket owner, has a caravan (i.e., a travel trailer, a rarity locally) that he and his family use for traveling. Tourist attractions such as Victoria Falls, Great Zimbabwe, Nyanga (in the Eastern Highlands), and Lake Kariba are popular destinations. These are also attractions popular with foreign tourists and this validation of their worth as well as the opportunity to visit places where they could mingle with foreigners is regarded to be part of the attraction.

Other leisure activities included participant sports, especially golf. Some of these golfers suggest that golf is a way to do business and meet contacts and customers. As a 33-year-old marketing manager of an international timber company explained:

I've become a very avid golfer and I like my golf. I could put [in my yard] some chipping greens...It's got to do with, when I became marketing manager of the forestry division, I found that most of our export customers play golf and they would come in and talk about golf and so on and so forth. So that's why I took it up. And I took it up and

When a African gets a job in the city and works in the cash economy, his entire family may regard him as a financial resource for paying the costs of its food, clothing, schooling, and other necessities. City dwellers will wonder why they should save if some day they may have to share their savings with relatives (p. 4).

In a study of Aboriginal consumers in Australia, colleagues and I found that a somewhat similar traditional system of sharing provided an incentive for immediate rapid consumption of cash and other liquid resources (Belk, Groves, and Østergaard, forthcoming). At the same time, it is possible that such sharing can reduce the envy and feelings of ill will that might greet the nouveau riche Zimbabwean consumer. Members of the new elite might well wish to demonstrate that their success has not led them to forget their roots and traditional societal values. What I found with those studied, is both patterns of support and non-support for extended family, with some evidence of a gradual retreat to devoting wealth to the nuclear family only.

The supermarket owner does not allow his extended family free or discounted access to the groceries he sells and says that their expectation of such treatment makes them an unwelcome factor in life. Responding to the question of whether he sometimes shared his wealth with relatives, a 34-year-old lawyer said,

I think a number of them are trying to milk me actually. Sorry to say that. You know the problem with the family members, is that in your family many people if you've got a profession, they think money is all over. And that is not really the case. So some people they would not believe that you can't afford to help them with \$1000 once in a while.

A 48-year-old Member of Parliament who felt that he wasn't doing enough for his extended family, attributed it to their reluctance to believe that he cared for them, given his high position in society. And a 35-year-old businessman restricted his help to his extended family to helping cover funeral costs and occasionally helping to provide jobs for them. Notably, funeral celebrations are another opportunity for conspicuous expenditure as well as a relatively noticeable way to demonstrate that old ties are not forgotten. Generally it was the older informants who were more likely to provide financial help for their extended families, suggesting that the younger generation is moving farther away from sharing with more distant families.

Another factor that made two younger converts to a Pentecostal denomination (Zimbabwe Assembly of God in Africa, or ZAOGA) unwilling to support their relatives was a church injunction to renounce all relationships with family members who were not members of the church (see Ranger 1986 and Gifford 1998). ZAOGA claims to be the largest denomination in Zimbabwe, although as with the black elite in South Africa (Dreyer 1989) Methodism was the most frequent denomination of those in the present study. The presence of a Methodist mission in Mutare has to some degree skewed religious distribution compared to new elites elsewhere in Zimbabwe.

Not all of these newly wealthy informants are religiously active, but the

the right social class, the children are given an all around education.

Although attending private schools is a status symbol and this father indicates concern that his children's peers are those of upper social class, there is nevertheless a sincere desire to provide his children with greater opportunities in life by sending them to this school. English is the language of all education in Zimbabwe after primary school. In private schools there are also more white teachers for whom English is a first language. English is also the language of Zimbabwe's universities where all informants except those educated abroad were students. Thus the higher the amount of education, and especially with more private and university education, the greater the dominance of English over native languages in the experience of these new elites.

While most informants had achieved their new economic status primarily through one member of the family, many had met their spouses at university and it was common that a partner had a relatively high status position as well. Only one informant was single (a widow). For those who were married, spouses were more likely to work than not. In some cases they helped in the family business or had started other businesses of their own. None of those studied had multiple wives, but two men admitted to having multiple on-going affairs with other women. This is a pattern in Zimbabwean life that appears to transcend social class and may partially be an artifact of the declining frequency of plural marriages. There is a widespread belief that this is the nature of men and that they need more than one sexual partner.

## **Conclusion**

While there is some concern shown by these informants in establishing their status among other new elites whom they know locally, it is clear that for most of them the critical referents are instead 1) the former colonialists (but not remaining whites in Zimbabwe), 2) the more developed world generally, 3) the United Kingdom, and 4) the United States. Except for music and food choices, those making these comparisons emulated non-indigenous consumption patterns in all other consumption areas described. They compare their lifestyles to television and film images of consumption in America. They occupy former colonialist homes and neighborhoods. They obtained their educations and educated their children in former colonialist schools or in some cases in the UK or elsewhere in Africa (especially more developed South Africa). They have taken up and follow British sports with enthusiasm. They dress and speak as the former colonialists did and frequent the hotels, resorts, and holiday destinations of former colonialists and current visitors from abroad. They have abandoned the alcoholic drinks previously consumed by blacks and now relegated to the lower classes. Instead they drink the beers, wines, and liquors once reserved for whites. And they have begun to renounce traditional obligations to support their extended families.

One explanation that has been offered for the Japanese fascination with things Western is the phenomenon of the victim (in World War II) identifying

Holt did not study nouveau riche consumers. As Janeen Costa and I found in the U.S. (Costa and Belk 1990), conspicuous consumption is still regarded as the ultimate status marker. The same is true among newly wealthy Zimbabweans. While Holt (1998) found a preference for exotic foods and music among those with high cultural capital in the U.S., these were two areas of consumption where the new elite in Zimbabwe have changed their tastes very little. It may or may not become the case that more subtle and non-material signs of class and status replace material status markers in Zimbabwe. But for the present at least, the status symbol is critical to new elite identities.

Thus, for better or worse, the new elite in Zimbabwe are striving to materially emulate a global peer group, with special attention to the British and Americans. Lacking a preexisting indigenous elite to emulate, it is possible that succeeding generations may localize their consumption patterns to a greater degree. As a 23-year-old bank clerk reflected:

I can speak to some of the customers who come to the bank [and they] drive nice cars. And you can assume they've got nice houses. And you can even assume they are enjoying their lives.....See, I also wish to be like them.

At the same time, in an increasingly global world, the new elite of Zimbabwe seem to be taking their place among a global cadre who may well have more in common with each other than they do with their poorer countrymen and countrywomen.

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to is increasing inequality, social disintegration, and displacement (Rodrik 1997). Developments associated with globalization contribute to increasing polarization and exclusion, and threaten social cohesion around the world (Ger 1997). As the world's regions have become more and more interdependent, the problems of social disintegration, ethnic violence, poverty and ecological degradation, cannot be contained to local areas but can have repercussions in the entire world.

Facing up to the consequences of globalization is challenging. Rodrik (1997) argues that part of the difficulty in thinking prescriptively about the problems of globalization and is that, some of the basic analytical and empirical work on the consequences of globalization remains to be done. Contrary to what many economists believe, we lack a full understanding of how globalization works. This points to a general concern about the whole discussion on globalization. While globalization has become a household term in journalism, political debates, business rhetoric, and cultural criticism, and studies of the phenomenon abound, much of the discourse fits Abu-Lughod's (1997) label of 'global babble'. Commentators seem satisfied to engage the same icons and standard myths endlessly (Miller 1998). The figures employed, whether Coke, CNN, MTV, McDonald's or Jihad, function as support for oversimplifications and undue generalizations about a supposed "global condition" (Barber 1992). We argue that to enhance our understanding of globalization and expand our global imaginary, we must think differently, test our assumptions and explore new metaphors, experiences and perspective.

Our exploration of new paths in the study of globalization, departs from the study of the effects of the expansion of Western consumer products, systems and technologies, and turns to the study of the survival and revival a non-Western craft tradition, namely Oriental carpets. According to Anthony Giddens, one of the imprints of globalization is the "evacuation of tradition" (Giddens 1994a, p. 95). This suggested effect or symptom of globalization, which others have depicted as a process of "detraditionalization" (Heelas, Lash and Morris 1996), seems at first glance at odds with what has been seen as a "return to tradition" in a recent revival of oriental carpets (Anderson 1998). The apparent contradiction points towards the problem in defining the underlying mechanisms that drive globalization, and mandates a closer examination of the role of tradition (and processes of detraditionalization) in globalization and the context of oriental carpets. In the following, we will elaborate on the theoretical debates of the place and nature of tradition in globalization. Rather than paying scant attention to numerous contributions to the subject, we will elaborate on Giddens' analysis in more detail to present a coherent theoretical argument on the nature of tradition in its place modernity and globalization.

### **Tradition, Modernity and Globalization**

Although traditions cannot be seen as static, the notion of tradition presumes endurance, integrity and continuity. Traditions constantly change, but it is in the organic character that the "authenticity" or integrity of a tradition lies,

related to the new global (universal) structures cannot maintain their stability, specificity or distinctiveness and their embeddedness in the local.

Giddens makes the distinction between two phases or concepts of modernization. Simple modernization is characterized by seemingly predictable processes of rationalization, capitalist industrial evolution, and scientific-technological advancement. Reflexive modernization reflects and responds to the impact of globalization, which he sees not as a unitary process tending in a single direction, but a complex set of changes with mixed and quite often contradictory outcomes (Giddens 1994b, p. 81). The distinction between the early, simple modernization and its contemporary reflexive and globalizing manifestation is important for understanding the role of tradition. The early phase of modern social development was not a simple process of modernization. In fact, the collaboration between modernity and tradition was a crucial element and distinctive trait of the era. Obviously, the erosion of tradition and advancement of modernity was a gradual and slow process. Furthermore, it was complicated by the fact that modern institutions not only invoked and made use of the authority of tradition, but also "invented tradition" by alluding to more or less fictitious forms of the past. This is especially evident in the formation and consolidation of modern nation states. The formulaic truths and rituals, in which Giddens believes the authenticity of traditions are anchored, could be called upon to legitimize power and to generate or regenerate personal and collective identity. A powerful example of the role of tradition in modernity is found in McCracken's (1988) survey of the symbolic uses of patina to authenticate status claims and signal long-standing status and honor. In accordance with Giddens' arguments, McCracken finds that modern patina strategies are but pale versions of former manifestations. Patina is replaced, but not entirely supplanted by fashion, as new modes of distinction are sought (McCracken 1988, p. 41).

In the reflexive phase of modernization, the balance between tradition and modernity is altered fundamentally. Under the impact of development of global electronic communication, remaining enclaves of traditionalism, regions and contexts within as well as outside the West are "excavated" (Giddens 1994a, p. 96). The experience of globalization intensifies, and the effect of "time-space compression", described by David Harvey (1991) and captured in McLuhan's metaphor of the "global village", adds to the disembedding of place and local context. In a world where no one is outside global systems of communication and influence, pre-existing traditions cannot avoid contact with others or alternative ways of life (Harvey 1991, p. 97). This is when the reflexive moment occurs. This of course works two ways. In the early phase, globalization was governed primarily by the expansion of the West and its institutions. Today globalization, though still dominated by Western power, can no longer be understood as a matter of one-way imperialism. Mutual interrogations become possible. Despite modernization, traditions do not disappear even in the most advanced societies. According to Giddens they persist in new guises in two forms. The first form is when traditions are justified as having value in a universe of competing values. The discursive articulation and defense of course removes the "natural", self-

## Patterns of Decline

Persian legend has it, that the "Spring of Khosrow" carpet was the most costly and magnificent of all time ("Spring of Khosrow Carpet" 2000). According to the Muslim scholar at-Tabari, it represented, in silk, gold, silver, and jewels, the splendor of flowering spring. It was also called the Winter carpet because it was used in bad weather, when real gardens were unavailable. Its design was a formalized paradise with streams, paths, rectangular plots of flowers, and flowering trees. Water was represented by crystals, soil by gold, and fruits and flowers by precious stones. This Garden of Eden in fabric was destroyed, when the Arabs captured Ctesiphon (ad 637). The carpet, which is supposed to have measured about 8 m<sup>2</sup> was cut into fragments and distributed to the troops as booty ("Spring of Khosrow Carpet" 2000). However, different sources cite other eras as the apotheosis of oriental carpets: 12<sup>th</sup> century Seljuk Anatolia, Safavid Persia, Mogul India or the Early Ottoman Empire (Alexander 1993; Eiland and Eiland 1998). So we find ourselves with rival "myths of the fall" of Orient carpets. The most recent version is linked to implications of the advancement of modernity. Modernization and international commerce has affected the production and consumption of carpets in profound, if rather, contradictory ways. A resurgence of the longstanding Western interest in Oriental carpets took place in the late 19<sup>th</sup> Century. This growth coincided with and was no doubt related to the emergence of mass consumption of industrially produced commodities (including machine-woven carpets). Modern developments, however, would result in a decline of the oriental carpet in terms of aesthetic and technical quality and "authenticity". Synthetic, chemical dyes and, later, machine-spun yarn were introduced in the late 19<sup>th</sup> Century, partly to meet increased Western demand, and were rapidly diffused, even to nomadic weavers in the most remote regions. The new dyes were cheap, easy to apply and covered a wider range of colors than natural dyestuff. However, they were often poorly understood and used. Early synthetic colors had a tendency to run when wet, weaken the wool, and fade when exposed to light. The fade is an important aesthetic dimension of oriental carpets, as "a fine rug ages like fine wine" (Micucci 1997, p. 57) — the colors mellowing or softening, without essentially changing and upsetting the visual harmony of the carpet. Eiland and Eiland (1998, p. 60) note that synthetic dyes "represent one of the rare examples in which modern science has, at least so far, failed to match traditional standards". As natural dyes were abandoned in the first decades of the 20<sup>th</sup> century, it became clear that the newer carpets would never age as old carpets had. From that point, carpet connoisseurs gradually turned their interest exclusively toward older, naturally dyed carpets, which as time past became more and more rare and expensive. A link to the past and part of the aura that had revived the interest in oriental carpets in the age of mechanical reproduction was lost with the ancient techniques of dyeing. Subsequent incursions of modern technologies have further challenged and perhaps altered prevailing aesthetic ideals for oriental carpets.



"integrity" of the carpet depends on the connection to past regional carpets. Some observers find that the integrity comes from the weavers lived experience or through a connection the spirit of the age (Ger and Csaba 2000). Besides, since traditional designs have always changed and migrated with the nomads or mobile artisans it can be very difficult to define what an authentic regional or local, folk design is. Folk designs were influenced by the fine designs found on city and court carpets. The intricate and complex patterns and symbols of city rugs were meticulously planned by special designers (who drew inspiration from far away) and executed by a number of weavers under the strict control of a master weaver.

The framework of the DOBAG project hardly reflects tradition. The cooperative form represents a new approach to the social and economic organization of weaving echoing contemporary social ideals and governmental regional development policies, not local traditions. Although the project has sought to avoid challenging local customs and values—including gender roles—it has had a certain impact in this area (Anderson 1998, p. 68). And the innovative marketing of DOBAG carpets marks a turning point in the commercial history of oriental carpets. The philosophy of natural dyes, quality control and integrity of local design might not have been compromised by catering to the demands of Western buyers. Instead it has been effectively communicated around the world by Böhmer and dramatized by village weavers who have traveled to places like Oslo, Bonn and San Francisco to give weaving demonstrations in museums and at exhibitions. In these places, Marmara University-registered and carefully labeled DOBAG-carpets are sold through exclusive dealers.

It is evident that the DOBAG project illustrates how traditions can be discursively justified in a modern context and brought back. It represents first and foremost the realization of a vision to restore weaving traditions to correspond with a certain Western aesthetic gaze on oriental carpets. This Western gaze can be described in terms of four — often intertwined — aesthetical dimensions, which reflect the ways carpets are appraised and appreciated by Western collectors. The first dimension is a penchant for attribution and technical analysis, in which carpets are placed within taxonomies of material properties and provenience. The analysis sometimes has the character of a detective story in which clues lead to hypothesis about the origins of carpets. It reflects the fascination for knowledge and the esoteric. The second represents an ethnographic interest in the understanding the cultural context in which carpets were produced. This gaze tends to aestheticize the Other, and is related to the association of carpets to natural, primitive and primordial forces. The third dimension represents a more pure aesthetic appreciation of oriental carpets their geometry, colors and forms that are often judged in terms of western art. Finally, a dimension of the sign value is related to the significance of oriental carpets as prestigious social markers in the West. The possession of oriental rugs and/or the ability to judge and appreciate them suggests taste and social position.

In the course of the past 10-15 years carpet dealers have gradually acknowledged the importance of traditional methods of dying and spinning in

traditional conditions and contexts of carpet weaving. In other areas, such as Iran and Northern Iraq, politics of forced settlement, political suppression and military subjection has destroyed the nomadic way of life and tribal structures (Opie 1992). In Pakistan, Iran and Nepal large refugee communities, try to make a living under very difficult circumstances by weaving strictly according to the directions of Western entrepreneurs (Eiland 2000). It is clear that the renaissance of the oriental carpets has significant geo-political underpinnings.

The marketing concept and concepts of marketing theory are manifested in a variety of ways in contemporary the contemporary carpet business. New carpet-makers are increasingly following the marketing dictum of "creating, delivering and communicating customer value to selected target markets" (Kotler 2000, p. 19). The process of creating carpets is more closely connected to market demand and strategies of targeting and differentiation than ever before. Trends and fashions now guide the designs more directly. After a period with a strong interest for coarser and simpler carpets such as Persian gabbehs, the market is now driven by so-called "decorative carpets" — carpets with light, soft, low-contrast colors and an inviting texture (Eiland 2000; "Hali - Modern Carpet Focus" 2000). Such fluctuations affect the production communities: the decline in the Gabbeh market left the Qashqu'i nomad weavers with the only option of urban migration, until a German and an Iran company joined forces to resurrect Fars kilim production ("Hali - Modern Carpet Focus" 2000). In the world of new oriental carpets, it is the weavers who become the real victims of fashion. The market's openness to new styles and types of carpets have led to much experimentation and a wide variety of choices, both in terms of designs and material.

Carpet-makers have probed a range of possible approaches to what meaningful contemporary symbolism would be. Some have reproduced historical carpets, greatly assisted by widely available, excellent photographic representation in museum catalogues or collector magazines. Some, like DOBAG, seek to be true to local or regional traditions. Other projects, such as Woven Legends, have taken a different approach to expressing the weaver's world in carpets. In its "Folklife" rugs the company encouraged weavers to weave whatever they liked, and most of them chose motives from village life including whimsical representations of houses, animals, and children playing (Eiland 2000). Other collections from Woven Legends are more eclectic, combining and reinterpreting traditional designs. Designs originating in Northern Iran are now modified and produced by Kurdish weavers in Turkey. In terms of representing the experience of the weaver, the so-called "Afghan war rugs", woven by Afghan refugees in Iran and Pakistan after the Soviet Invasion, are perhaps the most striking examples. They depict the Russian tanks and machine guns that devastated life in weaver's home country (Eiland 2000). A whole range of carpet designs do not to represent the oriental or weaver's world at all, but use the woven fabric as a medium for (Western) artistic representation or more mundane reproduction. The artistic use includes singular or limited series of "works of arts" where the artist-designer makes a unique design which a weaver

dialogue not only with other traditions but with alternative modes of doing things" (Giddens 1994a, p. 105). We have examined a specific case of how a cultural tradition has declined, been made available to discursive justification, and experienced an aesthetic and commercial revival. While it is clear that the "renaissance of oriental carpets" does not represent a true return to tradition, the discursive justification and negotiations of the meaning and the integrity of aesthetic forms raises important issues. As Clifford (1988, p. 222) has pointed out, "cultural or artistic 'authenticity' has as much to do with an inventive present as with a past, its objectification, preservation, or revival". If the "inventive present" is the global condition we are struggling to come to terms with, the renaissance of oriental carpets is perhaps a way of negotiating our doubts about the values and ethos of our age.

A prominent carpet dealer/scholar recently wrote about the renaissance: "Weavers in the producing countries benefit significantly, as do local ecologies. The profits of successful producers are reinvested in parts of the world that desperately need support from the West. Private firms are succeeding where the UN and other foreign subsidy would surely fail. In these commercial endeavors, the West gives back pieces of Asian culture that were destroyed and damaged by earlier Western commercial influences". (Opie 1998, p.199)

The redemption of oriental carpets would seem to demonstrate how marketing might effectively promote humane development. However, behind the rosy images of beautiful carpets and thriving communities, controversial and complicated issues appear. While in the past hand-woven carpets could be seen as an index and conveyor of a people's traditions, it might be claimed that they now represent their loss of tradition, displacement, poverty and struggles in a new world. Among the weaver's voices in Anatolia, one hears complaints of a "sore ass", of boredom, underpayment and hopes for future without weaving for their daughters (Ger and Csaba 2000). This surely is a part of the aesthetics and ethics of oriental carpets today.

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## **Women, Banking and Entrepreneurship in Southeast Asia's Transition Economies**

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*In this paper we share exploratory results from a qualitative study designed to examine the effects of economic transition on entrepreneurial women in Southeast Asian Transition Economies (SEATE's). In these formerly centrally planned economies authorities seek to improve economic conditions by encouraging entrepreneurial ventures. We used expert interviews in SEATE's, with the goal of understanding the strategic actions that may be useful for bank marketing efforts to target, educate and serve female entrepreneurs in the SEATE's. Results suggest that critical elements for success involve improving access for women to credit and managerial knowledge, and also development of strategies to re-orient the state-dominated banking system to supply financial and knowledge resources to this important and potentially profitable market segment.*

### **Introduction**

The move to the market economy by the Southeast Asian Transition Economies (SEATE's) of Vietnam, Laos and Cambodia represents a major challenge for the advancement of women in these traditional Asian societies. During the transition process, women are more likely to enjoy success in the private sector compared with the diminishing opportunities in the downsizing state industries. This is especially so if they can develop entrepreneurial endeavors in "small and medium sized industries" (SME's) (Albee 1996; Shultz and Pecotich 1997; United Nations 1997). Entrepreneurial success grants women the opportunity to advance economically, and become "empowered" through recognition of their valuable contribution to the household economy (Beresford 1994). For some women in urban areas - those with access to education, training, or employment with foreign firms - economic transition has created opportunities for social, economic and managerial advancement. However, for the majority of women who reside in the countryside and lack the opportunity for salaried employment, the only road to survival and success often involves self-employment and entrepreneurship (Minot 1996; Tan 1998). To encourage employment, and escape from the common challenges of poverty, unemployment and underemployment, and reduced status for women, many SEATE governments have looked to the areas of banking reform, and macromarketing initiatives. The specific objective is to encourage women to access credit from banks, to save money, and to use bank loans to start or expand businesses

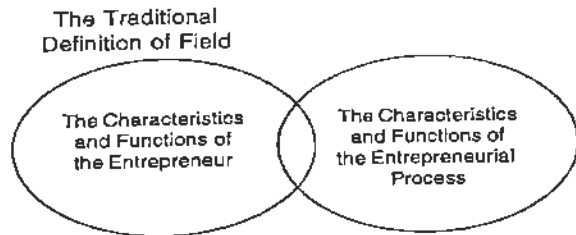
loss-making state-owned industries which provide large scale employment, rather than seeking out women entrepreneurs in the countryside (Ardrey and Shultz 1995; Ardrey, Shultz and Chanthavilay 1998, Beresford 1994).

### Women Entrepreneurs and Bank Marketing

Despite infrastructure difficulties, customers in the rapidly growing SEATE's represent attractive target markets for providers of financial services, and the two most attractive segments involve women and SME's, respectively (Copestake 1995; Drucker 1999). These markets offer the opportunity to sell a range of services from deposits, to loans, to insurance, to investment advice (Albee 1996; Hughes 1970). Unfortunately, rural credit markets operations are

Figure 1.

Changing the Focus of the Field of Entrepreneurship



A Revised Definition of the Field  
Some of the Key Questions in the Field

Focused on the Entrepreneur	Focused on the Entrepreneurial Process
1. Who becomes entrepreneurs?	1. What's involved in perceiving effectively & efficiently?
2. Why do people become entrepreneurs?	2. What are the key tasks in successfully establishing new organizations?
3. What are the characteristics of successful entrepreneurs?	3. How are these tasks different from those involved in successfully managed ongoing organization?
4. What are the characteristics of unsuccessful entrepreneurs?	4. What are the entrepreneurs unique contributions to this process?

- It is initiated by an act of Human volition.
- It occurs at the level of the individual firm.
- It involves a change of state.
- It involves a discontinuity
- It is a holistic process
- It is a dynamic process
- It is unique
- It involves numerous antecedent variables.

Source: William D. Bygrave and Charles Hofer, "Theorizing about Entrepreneurship", *Entrepreneurship Theory and Practice*, 16 (Winter), 1991, p. 16.

strongly influenced by habit, tradition, custom, in-group relationships so that formal banking institutions face major challenges in accessing markets in the countryside (Bearden and Etzel 1982; Childers and Rao 1992; Roman 1994;

economies, are also subjected to revolutionary policy that has pulled them into the formal sector workforce, which in turn has resulted to positive changes in women's self perception and position in society (Sapin and Nachuk 1997). Market reforms of the state-owned sectors in Vietnam, Laos and Cambodia have generally affected women and minorities more than male managers and workers and the resultant, budding private sector is more likely than the state sector to "put talent in important positions," irrespective of gender (VET 1998, p. 19).

### **Enter Marketing and Proactive Reforms**

The introduction of strategic marketing concepts into financial services, along with modern market research techniques, assists banks in differentiation of products, intensification of competition, product positioning, and the matching of services to the needs of increasingly sophisticated customers (East 1993; McKechnie 1992; Philip, Haynes and Helms 1992). For example, many SEATE entrepreneurs serve export markets, foreign companies, and increasingly, state-owned industries seeking efficiency as they undergo the pains of competing under market forces. Worldwide, the ability to collect, analyze and interpret the flow of information about financial services has increased in the banking sector. Injecting the "marketing concept" into banking creates a positive effect on loyalty and profitability, both of which are in short supply in SEATE's (Howcroft 1993; Keeling, Fowler and McGoldrick 1998). However, the banking sector in SEATE's is in danger of being left behind by rapid advances in banking technology and practice currently revolutionizing financial services marketing in neighboring ASEAN countries (Kibria 1995).

The literature suggests that women have different management and banking decision styles compared with men (Huou 1991; Still 1990; Wentling 1996; Woodson, Cbilders and Winn 1976), and this is certainly true in the SEATE entrepreneurial context (Albee 1996). Thomas (1995), submitted that women tend to be less knowledgeable bank customers, however they also tend to be more loyal customers to financial services providers who give them information as well as good service. Shultz and Pecotich (1997) suggest that "knowledge systems" are closely interconnected with marketing, economic and other systems operating in an SEATE context. In SEATE's, the need for knowledge is acute, and inhibits the ability of micro or family enterprises to grow into the dynamic entrepreneurial firms described in the business press (Ardrey, Pecotich, Renko and Pavacic 1998). The availability of credit-training combinations is crucial to enable women to seize opportunities from market reforms (Beresford 1994). In developing countries, credit for entrepreneurs can also be linked to incentives for family planning, family health initiatives, and poverty reduction programs (Copestake 1995). Lastly, women are more likely than men to repay their loans and to become repeat customers in SEATE's (Sapin and Nachnk 1997).

The growing body of bank marketing literature suggests that banks can profit from accessing SME's in general, and women specifically, in SEATE

## **Preliminary Findings**

Our preliminary findings vis-à-vis factors affecting women entrepreneurs as a target market segment for bankers were organized around the dimensions suggested by Sapin and Nachuk (1997), namely empowerment, the debunking of myths about women entrepreneurs, women-focused credit initiatives and poverty alleviation, the flow of credit with savings, financial sustainability, and institutional contributions. Note that in all three countries surveyed, banks are arms of the state and many officials were reluctant to criticize state banks. Moreover, the financial infrastructure in all SEATE's generally supports state industries and state owned agricultural cooperatives or state-partnered joint ventures, and efforts to research in detail the needs of consumers and SME's have only recently begun in these markets (Liljestrom 1991; Ljunggren 1992). Emergent themes are described below:

### **Bank Services and Empowerment**

One of the principal social benefits of providing banking services to women is the empowerment of this target market segment. Although female entrepreneurs have the potential for empowerment, in all three SEATE countries surveyed they faced these particular challenges: they struggle to access credit from banking organizations, they are twice as likely to lack formal education, they still face gender bias because some ethnic groups or local customs maintain traditional perceptions about women irrespective of their financial contributions or of modern legislation with respect to equality (cf. Minot 1996). Nevertheless, women with education as well as financial resources are more likely to succeed in business, become empowered, and plan how income will improve quality of life or actually save time. This may lead the reader to charge: tautological argument, to which we agree. Thus policy must be implemented to educate women and to make financial resources available; from a managerially pragmatic position, such a policy would put money in the hands of people more likely to repay it (Adams 1991).

### **Institutional Support**

If wealth does not lead automatically to increase empowerment, education, training, or quality of life, there is a question of what will empower women. Legal reform, especially in the area of land tenure, would be a logical first step, yet in Laos land in many regions is already "matrilocal" or held by women or jointly (Ungar 1994; 1997). Being the head of a household, a task forced on women in Cambodia, has not automatically conferred power to women. Employment in the civil service was, initially, a stepping stone for many women in the post-revolutionary period, with Vietnam seeing 25% of the National Assembly and many government department posts held by women. Yet in economic restructuring women are disproportionately among the first to be



Mutua 1997). Conversely, excessive restrictions and regulations by government can lead to a pool of "unlent" funds which have been allocated to women and disadvantaged areas, but which can not be provided because of bureaucratic hurdles (Sapin and Nachuk 1997).

### **Credit and Savings**

The poorest market segments generally lack collateral for loans, and must be encouraged into group borrowing and lending schemes in SEATE's (Kibria 1995). Many development experts hotly debate the approaches to encourage increased access to banking services for women in SEATE's; most agree that creating a flow of funds, whereby credit is used to increase income and assets, and a portion of that increased wealth is deposited in the bank or back with the lending agency, represent desirable outcomes of lending to women entrepreneurs. However, for many programs, success is hindered by a lack of public trust in banking institutions, setting of interest rates to encourage borrowing and savings, control of funds, and policy objectives (Sapin and Nachuk 1996).

Because of poor training in governance and accountability, many initiatives to assist women are difficult to justify as long-term, sustainable programs. The costs to banks of managing many small deposits and small loans without technology are very high. Most importantly, women often distrust state run banks, or feel that the money is better spent on their families rather than deposited in banks. Designing effective systems for credit evaluation, allocation, monitoring and recovering to ensure a flow of deposits and loans represents a major challenge for rural credit markets (Adams 1991). Moreover, since women tend to have more difficulty than men in dealing with state banks, additional initiatives to encourage women to save and access credit and use the additional financial resources appropriately suggest that public policy, banking, and women's issues are closely inter-related (Vu 1991).

### **Financial Sustainability**

Most experts agree that government programs should emphasize the institution-building of financially sustainable banking initiatives to support women. However, when interviewing agricultural bankers involved in Laos and Vietnam, research uncovered a tradition of government assisted loans to small farmers as part of poverty alleviation efforts, and these loans are often given based on policy (to keep farmers on the land, to prevent social unrest, to smooth out a drop in commodity prices and exports, promote employment) rather than repayment. Thus, there is a debate between aid agencies and for-profit private banks. The aid community (e.g., UNDP 1997) suggests that policy-based lending is most appropriate. Private banks, encouraged to form partnerships with various organizations, prefer effective credit procedures for entrepreneurial lending; based on such criteria as loan repayment, evaluation of loan applications, loan

mass organizations, or rural cooperatives. Demographic trends, which suggest that the next generation of financial services consumers will increasingly be located in the developing world suggest an early start in marketing initiatives will pay off in the long run. The target market segment of women entrepreneurs will likely turn out to be the most accessible, loyal and profitable market segment as transition continues to bring prosperity to SEATE's.

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Starting in the 1980s many developing nations began dismantling controls on the movements of capital and by 1994 significantly lowered trade barriers. According to Yusuf (1999) the greater receptivity towards foreign direct investment, declining transport costs and advances in communication and information technology has integrated global markets. This spatial diffusion and the widening of global markets are behind the proliferation of production networks that allow business to specialize, to focus their research efforts and to leverage their scarce resources. This is primarily partly achievable through the advances made in communication and information technology and in particular the adoption of the Internet by business (Yusuf 1999). At the same time rapid technological changes in information technology will allow developing countries to “leap-frog” stages of development (Braga 1995). IbEc that is based on information technology, on its own will not predicate a level playing field for developing nations. Other factors that are of importance include, economic and infrastructure development, education and skill, reduction of trade barriers, open markets, political stability, public policy and regulatory framework. Each developing country is at a different phase in its developing cycle. More importantly the level of communication infrastructure varies from country to country and as the Internet is dependent on the level of development of communication infrastructure the degree of adoption of this technology will vary. Information systems based on telecommunication technology are essential for economic gains (Talero and Gaudette 1996). Communication infrastructures in developing countries between 1969 and 1988 almost doubled their share of the world’s telephone lines, from 7% to 12% (Saunders 1994).

Existing literature on the Internet and in particular IbEc focuses on comparative advantages in virtual markets (Weiber and Kollman 1998; Rayport and Sviokla 1995; Yakhlef 1998). Others discuss opportunities created by interactive markets (Sahay, Gould and Barwise 1998). Still others discuss advantages of earlier adopters of the Web (O’Keefe O’Conner and Kung 1998) and technology diffusion and competition (Gatignon and Robertson 1989). By reviewing data on the extent to which the Internet was contributing to the American economy, DePrince and Ford (1999) concluded that more than \$300 billion of revenue was generated and employed 1.2 million workers in 1998. Research done by Allen Consulting Group (1999) for the National Office for Information Technology in Australia indicated that overall output or GDP might be higher by 2.7% in 2007 if Australia adopts greater use of e-commerce. In current terms that is equivalent to more than 14 billion dollars per annum and could be driven by better use of existing capital and the creation of employment in this environment.

Recent advances in strategic marketing literature have developed general models and theories on comparative advantages and resources management, often combining the seminal work of Porter (1980, 1985) and Wernerfelt (1984). Despite these claims there is little discussion on economic gains through using a combination of information technology and winning strategies.

Rayport and Sviokla (1995) state that business today competes in two worlds: a physical world of resources that managers can see and touch and the virtual world made up of information. The latter has given rise to the world of electronic commerce, a new locus for value creation. The IbEc has a variety of features. They include (1) connection between buyers and sellers (2) support fully digital information exchanges between them (3) reduce time and place limits (4) support interactivity and therefore can dynamically adapt to consumer behavior and (5) can be updated in real-time and are therefore always up-to-date. In addition, both buyer and seller can view images in real-time (Bloch, Pigneur and Segev 1996). In this context IbEc is becoming strategically significant to business value chain systems. Bradley (1993), Porter (1985), Porter and Miller (1985) and Venkatraman (1994) state that the strategic use of IT can play a significant role in establishing a firm's competitive position by transforming the way value activities are performed and the nature of the linkages among them.

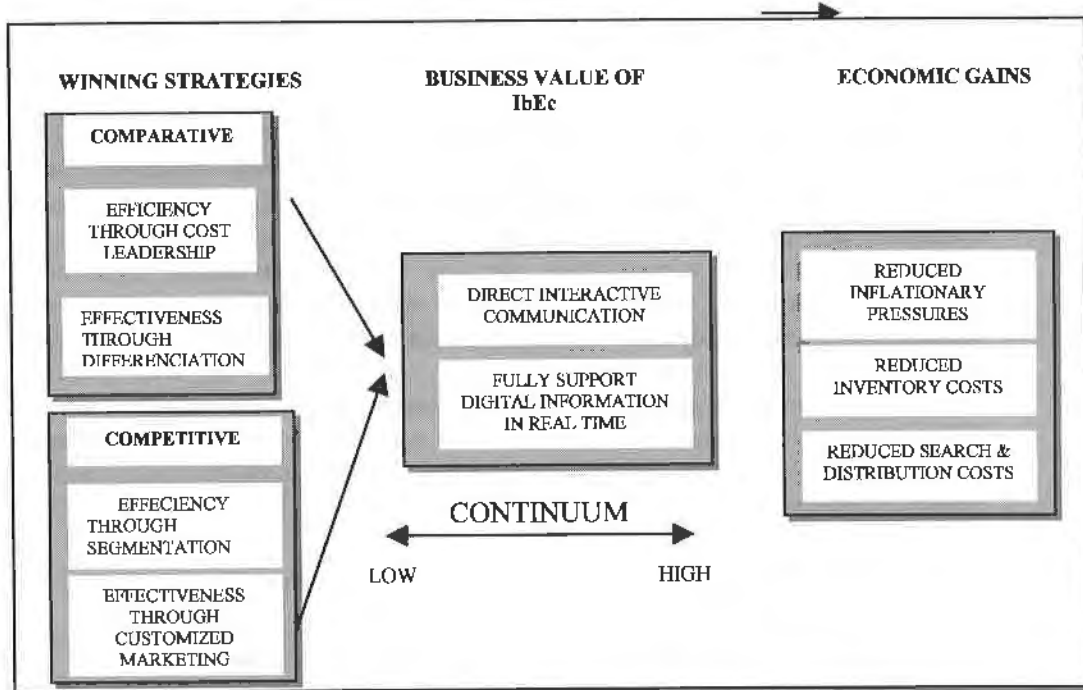
Malone, Yates and Benjamin (1987) state that by reducing the cost of co-ordination through the application of networked information technologies the value system will lead to the development of both electronic markets and hierarchies. These authors state that electronic communication will allow for a greater amount of information to be communicated in the same amount of time economically thus reducing costs of communication and information. IbEc will also provide the opportunity to connect potential buyers and sellers and will potentially reduce transaction costs (Malone et al 1987). Cronin (1993) argues that not only will transaction costs be reduced but also that ordering, delivering and tracking of goods by both suppliers and buyers will be enhanced. This will lead to better planning and inventory control.

#### *Augmenting Economic Gain through Adopting Appropriate Strategy and IbEc*

Layton (1991) states that in a macromarketing context the flow of interest is the transactions between buyers and sellers in various business sectors, as the transactions reflect the level of marketing activity within and between sectors in the macromarketing system. Transaction and value added point of view, however, are relevant in understanding the marketing and economic challenges that have to be resolved in achieving economic gain in increasing turbulent global markets.

The business sector in the developed world is slowly losing its global market share to developing countries (Spencer 1990). In the age of comparative advantage, international trade among nations was viewed as a win-win situation, but in the age of competitive advantage it is likely to be a win-lose situation (Thurow 1992). One may argue that this competitive advantage has been made possible partly through faster communication channels and up-to-date information accessibility, both of which were available before the appearance of the Internet. The difference is that the Internet has additional qualities that previous communication and information systems did not possess. Competitive advantage is achieved through innovation (Porter 1990) so, in its broadest sense,

**Figure 1: Framework Combining Strategy & IbEc to Augment Economic Gains**



*Direct Interactive Communication*

**Proposition 1.** *A high degree of adoption of IbEc (promotion, creation of brand image and customized products) can augment economic gains by reducing inflationary pressures through price competition.*

**Proposition 1a.** *A high degree of adoption of IbEc offers cost advantage through differentiation.*

Internet based electronic commerce is cost effective and provides information to customers through on-line electronic brochures or buying guidelines. This facility can be used to promote manufactured product, create brand image and offer product information on customized product capability features to buyers. The marketing mix can be customized by buyer category based on customers' business profiles. Buyers can communicate directly with customers in order to develop an efficient and effective marketing mix. As the cost and skill aspect required adopting this technology is low, IbEc can allow developing nations to provide goods and services at competitive prices thus reducing inflationary pressures through increased price competition. Porter (1985) state that through a combination of both low price and a differentiation strategy that focuses on a particular market segment, manufacturing sectors in



business and can design and develop new products. Due to the low cost of production and labor costs specific products can be manufactured as per the requirements. This would lead to new markets both in the domestic and international markets. Information will allow sellers to more accurately segment the market globally and provide customized products (Pine 1993).

Due to the global reach property of the IbEc developing countries can access markets that were considered uneconomical for a variety of reasons, for example geographical distances. With the introduction of IbEc geographical boundaries would not constitute a barrier providing the customer has the infrastructure and expresses buying intentions. Segmenting the global markets by using the information will further enhance the selling capabilities of the manufacturing sector. The seller can then proceed to the next stage of the selling process, which is to arrange terms and conditions with buyers.

Going direct to the buyer will mean bypassing costly intermediaries in developing countries. This will make it easier in the distribution network by using the publicly shared Internet infrastructure. In-turn business sectors could also take on the role of intermediaries by outsourcing and manufacturing goods and packaging them as per purchaser's requirement at a lower cost. Cost information made available through IbEc immediately provides the buyer with fast accurate information so that terms could be negotiated and agreed upon in real-time. This is made possible through the information exchange in the IbEc platform (Bloch, Pigneur and Segev 1996).

### **Conclusion, Limitations and Future Direction**

Developing nations need to consider either competitive strategies or comparative strategies. To engage such strategies in today's dynamic market, nations require up-to-date, economical easy to retrieve information technology in order to develop innovative products for niche markets and markets that require products that are 'custom built'. From the examples mentioned, IbEc technology helps in creating employment and invites capital flow from developed nations. IbEc clearly reduces inflationary pressures by intensifying price and product development competition and by reducing unit labor costs. It also enhances the nation's economic growth by reducing macro-economic costs of carrying inventory of finished goods. Finally, it clearly reduces searching, distribution and transaction costs throughout the economy.

There are a number of limitations that need to be addressed including government policy, political stability and infrastructure development in order to augment economic gains. However in order to maximize economic gains developing nations ought to invest in IbEc.

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## **Information Technology in Developing Countries – Bridges and Buffers of Market Globalization**

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*Technological development, especially information technology and the Internet play a crucial role in modern marketing and all economic activities. Information technology can be considered as an important facilitator of business network design and catalyst for rearranging business relationships in the process of economic and social globalization that is not only affected by but is also affecting the production, distribution and transfer of technology. Developing countries depend heavily on the international diffusion of technology originally developed in the more industrialized countries, but there is a considerable disagreement in the gains they can derive from adopting and using that technology. For many developing countries, IT and globalization have had little or no effect on the pace of economic development. The reasons for inadequate IT culture and the relatively low level of its adoption could be derived from the following: 1) lack of adequate IT education, 2) inability to exploit new opportunities and 3) inappropriateness of technology.*

### **Introduction**

Macromarketing is a complex social process focused on society's welfare (Moyer and Hutt 1978) and connecting of all aspects of supply and demand within society (McCarthy and Perreault 1993). With such very broad scope, it is focused on searching for the best possible ways of organizing the flow of goods and services between supply and demand (producers/providers and consumers) that matches generally accepted socioeconomic needs of some particular society. Till the last decade of the 20<sup>th</sup> century "particular societies" were dominantly considered as "local" or "national" societies, but the recent processes of social, economic and political integration (for example – the EU) had broadened the term "society" and now it is more "regional" and "global" than it was ever before.

Technological innovations are some of the most important *conditio sine qua non*s of both: the development of modern societies and perhaps one of the most relevant focuses of macromarketing. That is, because they can be considered as bridges and buffers of market globalization, which seems to be a primary goal of the development of global economy. Technological innovation is said to be breaking down borders. The Internet, the explosion of globalized financial markets, increased foreign direct investment by transnational corporations show evidence of a global market in which a state becomes an

services. Information technology includes computers, software and telecommunications and is different from other technologies in its ability to greatly reduce communication and transaction costs and in its degree of predominance across all aspects of the economy and the society as well as geographically.

At the policy level there is a currently prevalent consensus among economic policy makers that policies of liberalization and deregulation ensure national economic welfare. The basic idea is that economy should be open to two-way flows of trade, technology and capital, which ensures the best profit from the opportunities that the increasing world of globalization offers.

While developing countries depend heavily on the international diffusion of technology originally developed in the more industrialized countries, there is considerable disagreement in the gains they can derive from adopting and using that technology. The intensity with which they accumulate their own capacities to generate and manage technical change is likely to influence a range of important performance variables. These include variables that differ widely between developing countries: the efficiency of investment in new production capacity (both market/economic efficiency and technical efficiency); the subsequent rate of total factor productivity growth in existing firms and industries; and the competitiveness of their product specifications and designs. Over longer periods, the intensity with which these change-related resources are accumulated and applied in the process of technical change will influence other variables, such as the strength of forward and backward linkages to suppliers and customers, the ease to structural change towards more technology intensive lines of production, and the ability to enter a new market successfully.

Technological accumulation involves knowledge that is tacit. In other words, uncodifiable and person- (or institution-) embodied. The transfer of tacit knowledge, even the kind of knowledge needed for efficient operation of "given" techniques, is therefore neither costless nor quick, since it requires the acquisition of this experience. Beyond that, the tacit components of the kinds of knowledge and skill needed for changing products and processes are also substantial (Senker 1992), and their transfer may yet be slower and more expensive than the transfer of operating know how (Scott-Kemmis and Bell 1988). It is not surprising that therefore the economic historians have emphasized the importance of the movement of people as a key mechanism for the international transfer of technology during for example the late industrialization of North America, France and Germany (Henderson 1965).

For the developing countries the pursuit of openness and liberalization and the consequent integration with the global economy is seen as necessary for growth and increased welfare. The spread of data communication networks and resulting benefits will inevitably continue to be concentrated in the first instance in the industrialized countries. These countries have used IT to generally enhance the global competitiveness of their economy. The general absence of such communication networks in developing countries impacts on the flow of foreign direct investment to these developing countries in the first instance, and more

## **The Role of Information Technology in the Process of Globalization**

IT and globalization should work in favor of the developing countries as these countries can now exploit the link between the two in order to further their socio-economic development. In reality, however, few developing countries have these opportunities. On one hand some countries have made substantial headway in utilizing IT for enhancing their global competitiveness. On the other hand for many developing countries IT and globalization have had little or no effect on the pace of economic development. Consider the very slow diffusion of the Internet in Africa (0.8 million users) for example. IT cannot be considered (yet) a very important resource and catalyst for the socio-economic development (Forrest 1999). In addition, another indicative fact concerning the Internet: more than 25% of all Web pages in Belarus are provided by independent nonprofit organizations (Nesterenko 1999). Although such information indicates the positive trend in developing a nonprofit sector, nonprofit organizations historically are not real generators of economic growth and development.

In such cases the country has not been able to develop an IT culture that could compliment its efforts to attract FDI. The reasons are not necessarily a lack of financial or educated human resources or infrastructure. Even in the presence of some of these resources, the desired end results in terms of IT, or furthering the economic development process through the use of IT, are not being achieved.

## **The Reasons for Inadequate Information Technology Culture**

### *Lack of Adequate IT Education*

Some recent authors (Kalakota and Robinson 1999, p. 262-263) emphasize the problem of insufficient knowledge about uses and advantages of IT in the education system. It is obvious that IT education at the primary level is not the same as that at the college or university level. The objectives of the two differ: where the former might attempt to produce an IT literate population in general, the latter would be directed toward building capabilities in IT use in professional areas (medicine, engineering, business studies, computer sciences, etc.).

### *Inability to Exploit New Opportunities*

There are accessible opportunities in IT that go unexploited in developing countries, for lack of interest. There are qualified IT personnel, some of them actively working as independent consultants who don't seek business opportunities that are being created by the growing ease of international communication.

Small software houses with limited resources and marketing contacts are generally carrying out the software development activity in the domestic market. A vicious circle is set up whereby a small firm is unable to bid internationally because of its small size and limited resources, and the inability to reach this

exhibitions for selected as well as general population. The awareness programs can highlight the use of specific IT application for enhanced productivity. For instance, the use of IT for manufacturing or service industry can be introduced. In the European developing ex-socialist countries, some of the most popular ways of IT introduction to business and the general public are trade shows and exhibitions (like Zagreb Fair's specialized exhibition).

Nearly all governments in market economies have a similar core of policies that are designed explicitly to influence the rate and direction of technical change, and that are justified because they correct market failure. These include the adoption of common technical standards for interfaces and networks, and penalties or restrictions on technological change that damages health, safety and the environment. Other areas of government policy have focused on the creation of new knowledge through research, and on the diffusion of the existing knowledge through education and training. Therefore, governments in all developed market economies have established similar systems for the protection of intellectual property rights and in widely varying degrees and structures they have provided more direct forms of financial support for research and innovation.

The main economic benefit from basic research is not the published information, but a supply of scientists and engineers with problem solving skills, comprising background knowledge, familiarity with research methodologies and instrumentation and membership of informal and often international networks of professional peers (Senker and Faulkner 1992). Policies to develop academic research capacities, closely connected to postgraduate training, have made important contributions to technological accumulation, even if they have not resulted in directly traceable inputs of knowledge and information for "innovation".

The academic community too needs to organize itself for a more conscious involvement with and absorption of IT. Collaborating activities related to IT research and its application with the government and the private sector could partly do this. Research into the local experience and the development of the local IT literature is another area where the academic community's efforts could be directed. Industry - academia partnership is essential for the alignment of the curriculum design with the IT market demands (examples could be found in Bosnia Herzegovina: National and University Library in Sarajevo (<http://www.geocities.com/CapitolHill/6777/library.htm>), University of Banja Luka (<http://www.urc.bl.ac.yu/uni/etf/index.html>), in Slovenia – University of Maribor and Ministry of Education (<http://www.pfmb.uni-mb.si/sr/sr.html>), etc.).

### **Long Term Approach**

In the long term as the awareness of use of IT for socio-economic development becomes established, there may be a sharp increase in demand for IT in education as well as more generally for IT personnel and equipment.

Once there are effective measures to deal with the problems faced in the short term, the problems of existing infrastructure would need attention. For

Government needs a set of policies to draw the country into the integrated international production system. The development of applicable IT is an essential part of these policies. As businesses are distributing different functions geographically, for example design, manufacturing and marketing across national boundaries, developing countries must organize to take advantage of such developments. In the short term this effort should be directed towards creating IT awareness as well as appropriate use of IT. The long-term efforts would require focus on such issues as IT education, training, telecommunications and investment policies. The short-term and the long-term policies, however require concentrated efforts on the part of government and private entrepreneurs.

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## Motivation, Culture and Ideology in the Personal Selling Context in China

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*We develop a conceptual model that links macro cultural and ideological variables with individual level work variables and relate them to human happiness in the personal selling context of China. In the process we discuss the normative ideological philosophy of marketing to satisfy human needs at a profit and its implications, at the macro level, concerning the nature of humanity and the purposes of life, and at the micro level, the fundamental hedonic assumptions that are used to manipulate human beings in the everyday business motivational context. It is the purpose of this paper to sketch an outline of the variations of cultural and ideological viewpoints on this topic, and to speculate on the impact on individual motivation in the Chinese personal selling context. In the process, a reconciliation of the macro-micro levels is attempted and the validity of the largely western motivational precepts is challenged.*

### Introduction

There is no point in work  
unless it absorbs you  
like an absorbing game.

If it doesn't absorb you  
If it's never any fun  
Don't do it.

When a man goes out into his work  
He is alive like a tree in spring,  
He is living, not merely working.

D. H. Lawrence

Lawrence concludes his poetic treatment on the purposes of life and the nature of work with the lines that "man will smash the machines" or "he will cancel the machines we have got." This prophetic premise that humanity has somehow lost its way and must find or return to a new spiritual way of life underlined with the threat of doom or revolution is a major theme throughout literature, religion, politics, philosophy and the social sciences (Berkowitz 1975; Halliday 1999; Stevenson and Haberman 1998). Indeed, most of the major visionary theoretical constructions in the social sciences have at their foundations



consequences, a belief that whatever feels good at the moment must be worth doing.

This is a far cry from the original view of materialists, such as John Locke, who were aware of the futility of pursuing happiness without qualification and who advocated the pursuit of happiness through prudence--making sure that people do not mistake imaginary happiness for real happiness.

He elaborates further on page 822 and poses the questions directly:

The popular view holds that pleasure and material comforts should be grasped wherever they can, and that these alone will improve the quality of one's life. As the fruits of technology have ripened and the life span has lengthened, the hope that increased material rewards would bring about a better life seemed for a while justified.

Now, at the end of the second millennium, it is becoming clear that the solution is not that simple. ...

The indirect evidence that those of us living in the United States today are not happier than our ancestors were comes from national statistics of social pathology--the figures that show the doubling and tripling of violent crimes, family breakdown, and psychosomatic complaints since at least the halfway mark of the century. If material well-being leads to happiness, why is it that neither capitalist nor socialist solutions seem to work? Why is it that the crew on the flagship of capitalist affluence is becoming increasingly addicted to drugs for falling asleep, for waking up, for staying slim, for escaping boredom and depression? Why are suicides and loneliness such a problem in Sweden, which has applied the best of socialist principles to provide material security to its people?

Having defined and provided evidence for the existence of the problem Csikszentmihalyi (1999) then offers three explanations for the phenomenon before attempting resolution through "psychological approaches to happiness." The first explanation has to do with the "escalation of expectations - habituation" phenomenon. (The blame for this "trading up" is often assigned to marketing.) The second, related, explanation has to do with "social comparison" processes i.e. "the relatively affluent feel poor in comparison with the very rich". The third explanation is somewhat convoluted and unclear but appears to involve material "reward dependency" and the "cultural elimination" of other goal alternatives. Having specified the possible reasons for the "unhappiness" he then moves to the

is important. An essential clarification (consistent with the motivational perspective) is that both materialistic rewards and flow rewards (note, Csikszentmihalyi uses the terms rewards) may be viewed as outcomes while the process or flows involved in their attainment may be viewed as independent source variables. The issues are philosophically complex and involve the notion of events that may consist of a substance, a property and a time. Such events may involve both actions and rewards, and the critical distinction made between extrinsic and intrinsic rewards is in terms of their sources. Extrinsic rewards emanate from external sources and are not in the individuals control while intrinsic rewards are internal to the individual and have to do with neural needs (Churchill and Pecotich 1982; Deci 1975; Deci and Ryan 1985; Lawler 1973; Maslow 1970; Pecotich 1979; Steers and Porter 1991). This perspective although complicating matters has the advantage in that it implies that outcomes, products or rewards may have meanings that emanate from the culmination of flows and or for the attainment of flows (see Dhar and Wertenbroch 2000 for a marketing example). It allows for the development of a conceptual framework that integrates cultural, ideological and individual motivational outcomes.

#### **Motivation, Culture, Ideology, Reward Preference, and Human Happiness in China**

The above introductory section has identified and attempted to justify all the critical elements that may lead to human happiness or more formally life satisfaction. A summary of the major elements is shown in Figure 1. Consistent with motivational formulations as well as marketing prescriptions human needs are central to the conceptual framework. Our use of the term rewards refers to both outcomes (results of flows, intrinsic) and concrete material rewards (objects, pay, extrinsic). It is our general proposition therefore that the correlated macro variables *Chinese traditional values* and *socialist ideology* will influence the *existing reward structure, need satisfaction, job satisfaction* and so *life satisfaction* (an indicator of happiness), and that this will be available for resolution through *reward preference* that will form concrete guidelines for future reward allocation.

1973; Vroom 1964) we selected the following as the critical dimensions:

1. The Nature of rewards – Rewards may be financial (pay) and non-financial [promotion, social, self actualization (emanating from flows)].
2. Time and frequency – The essential dimensions involve short term versus long term (weekly, monthly, annually and longer).
3. Fixed amount versus ratio or proportion – This refers for example to all salary versus salary and commission.
4. Contingent versus non-contingent – This addresses the critical assumption of connections to performance, for example, performance or seniority.
5. Behaviors or outcomes – The critical issue here is whether the rewards are given for what sales people do or for what they achieve.
6. Self-determined or other-determined – Here we are referring to the control and autonomy issue.
7. Individual or group – The issue is whether the rewards are based on the individual or the group.
8. Limited supply (zero-sum - competitive) or unlimited.
9. Emphasis on equality, Equity, or needs.
10. Received with certainty or uncertainty

These dimensions form the basis for the evaluation of the existing reward structure, need satisfaction and reward preference.

### **Reward Preference - The Content Theories of Motivation and Need Satisfaction**

The early attempts to provide an explanation for human work behavior had their sources in hedonism where it was assumed that human behavior was motivated to seek pleasure and avoid pain (Campbell, Dunnette and Weick 1970; Campbell and Pritchard 1976; Cherrington 1980; Csikszentmihalyi 1999; Lawler 1973; Vroom 1964). Motivational explanations were based on instinct. Influenced by Darwin's theory of evolution, psychologists, such as Freud (1920) and McDougall (1908), claimed that human activities were determined by inherited, purposive, goal-seeking tendencies. However, instincts started to lose favor during the 1920s (when the number of instincts totaled near 6000) and researchers began to focus on needs, or "internal state of disequilibrium or deficiency that energize or trigger a behavioral response," as motivating factors (Steers and Porter 1991, p. 32). Research in this area in some respects paralleled the work on instincts as Murray (1938) identified a list of fifty needs which were sorted into two categories: viscerogenic (primary physiological needs) and psychogenic (secondary social and psychological). As a result a number of similar content theories emerged, for example, McClelland's need for affiliation, need for achievement, and need for power (Atkinson 1964; McClelland 1961; McClelland 1965); Maslow's dynamic needs classification of five categories

employees' needs are met through work and, as a result, employees' satisfaction vary across nations" (Ronen 1986, p. 145). Work values are motivational antecedents that are a function of needs, and cultural environmental factors. In explaining these value differences, two research streams may be perceived. One attributes value differences to the cultural socialization process while the other emphasizes the patterns of production under different political systems (Sverko 1989; Sverko and Vizek-Vidovic 1995). As this paper focuses on salespeople's work values in a different political and cultural context from the West, it is essential to discuss the traditional cultural values and political ideology and their impact on salespeople work values in China.

### **Chinese Traditional Values**

A large number of studies has indicated that Chinese values are different from the West (e.g., Bond and Hwang 1986; Hofstede 1993; Triandis 1995). Although dominated by Confucianism for more than two thousand years, Taoist, Buddhist and Feudalistic values are also important. Based on the Kluckhohn and Strodtbeck (1961) value orientation model, Yau (1994) developed a Chinese value research framework. This framework offers a particularly useful analytic vehicle for present purposes. In the following, we attempt to explore the main values originated from the major Chinese value systems and their influences on reward system respectively embedded within the five major elements, ideal life orientation, man-nature orientation, relational orientation, behavioral orientation and time orientation.

### **Ideal life Orientation (Integration of Reality and Ideology or internal/external balance)**

For Chinese the most serious philosophical problem facing human beings is the conflict between reality and ideology. To resolve this they try to attain the "internal state of a sage" and to maintain "external kinship" in social relations so as to achieve an ideal integration for a harmonious, virtuous life. Confucianism, as a humanitarian philosophy, emphasizes moral discipline and self-cultivation in the process of social development and the achievement of stability. Self-cultivation is a critical premise for a person to maintain a family and bring peace to the world (Zheng 1997, p. 48). To attain the "internal state of a sage" requires an individual to pursue self-cultivation and to achieve spiritual supremacy while management of external kinship brings social and personal harmony. Only through self-cultivation is it possible for an individual to receive social recognition and commendation (Yu 1996). Confucius has stated that gentlemen only talk about benevolence while trivial persons calculate profits (Zheng 1997). A person should not be attracted by money, should not surrender to an external power and should not give up hope due to poverty. In contrast, one should pursue goals, such as "developing the internal moral self" and "conquering selfishness to restore ritual propriety" (Yu 1996, p. 233). When a person faces a situation

meanings. "Non being" is presented as the best way to reach the ideal goal. It requires the repression of material desires the living of a simple life. Lao Tzu (1990, p.14) has said,

No guilt is greater than giving in to desire  
no disaster is great than discontent  
no crime is more grievous than the desire for gain."

High value is, therefore placed on integrity, self-cultivation, spiritual supremacy and harmony with people and nature.

In the attitudes towards "materialism," Buddhism although having similar beliefs to Confucianism and Taoism is perhaps more extreme. In Buddhism, any desire for physical possessions are considered "Zui" (inner crime). It is also believed that any person who pursues these desires will go to hell when they finish their life on the earth. On the other hand, the Feudal interpretation (similar to the western Protestant ethic) considers fame, reputation or possessions as very important e.g. "birds die for food and people die for possessions." It is important to realize that many Chinese have adopted a mixed of traditional values, and that their ideal life philosophy is also a "combination," which surely affect their preferences for rewards. For instance, a person should prefer non-financial type of reward if he values Confucianism but this may not be the case if at the same time he is also influenced by the feudalistic ideology, in which gaining money and profits is a life pursuit.

### **Man-Nature Orientation**

Perceptions concerning the capacity to deal with natural challenges vary between cultures. In the West, due to the influence of the Protestant ethic and individualism, people tend to believe that they have the competence and ability to control their lives. In contrast, traditional Chinese culture places emphasis on external locus of control and humanity is regarded as part of nature. This has its origin in the doctrines of the Tao (the *Way*) and *Yuan* (karma). Confucius also said that "life and death are fated; wealth and honor hinge on the will of providence" (Chan 1963; Fung 1983; Fun, 1948; Schwartz and Bilsky 1990; Yau 1994). *Yuan*, which appears in Confucianism, Taoism, Buddhism and even in Feudalism is another important influence. *Yuan* refers to the predetermined relations that are beyond one's control. Chinese attribute friendships or even marriages to *Yuan*. When *Yuan* exists, it leads to the chance that two people, living thousands of miles apart, could meet each other and become friends. When a couple divorces, people say that the *Yuan* ends. It is a tenet of both Taoism and Buddhism that everything is determined by a super-natural power, humans can do little but accept. This fatalism is explicitly represented as reincarnation in Buddhism. Confucianism and Feudalism also recognize there are things beyond human control decided by "Yuan," however, they also believe that human effort may influence events and outcomes.

set of collective relations. They find their own identities with reference to others and adopt group goals in exchange for reciprocal care. A manifestation of group orientation is in the "danwei" (work unit), where the focus is not only on work-related activities but also on non-work areas. As a result, the social needs of people in a workplace tend to be ranked higher than autonomy and self-actualization needs. The belief that a person should grow with the community and contribute to its development and harmony is still strong. To achieve this, one should be modest and always willing to learn from others and listen to constructive suggestions. For example, in Confucius, it is said: "the beauty of a flower can be enhanced by green leaves" (Lau, 1979; Stevenson & Haberman, 1998). The American concept of "individualism" presents a negative image because it appears to the Chinese as "selfish" and "arrogant." Shared group rewards may, therefore, be important for Chinese who may be willing to sacrifice for group welfare. Group recognition of personal achievements is highly valued. Internal personal rewards such as money and bonus are important but without group recognition and community recognition, work satisfaction can hardly be said to have been obtained.

### **Behavioral Orientation**

The daily behavior of Chinese is influenced by *Zhong Yong* (the doctrine of "taking the middle way") and the norm of harmony, which form the core of the Confucian "in society" philosophy. *Zhong Yong*, as a behavioral guide occupies a central position in both Confucianism and Taoism. However, in Confucianism the emphasis is more on harmony among people while in Taoism the emphasis is more on the way people deal with nature. *Zhong* means non-bias, "never go to extremes"; *Yong* means "unchangeable" or "insensitive" - everything should be balanced and harmonious. This doctrine requires a humble attitude and repression of feelings in public. According to Lao Tzu (Lao, 1990): "The river and sea can be kings of the hundred of streams because they are good at lying below them... one who knows does not speak; one who speaks does not know". Holding these norms, extreme actions (or difference from others) can bring harm or difficulty for a person. For example, some feudalistic proverbs are still popular in China today e.g., "the outstanding bird will get killed first and the famous man and the fattest pig will share the same fate." Based on *Zhong Yong* Chinese people try either to avoid appearing different from others due to modesty or to avoid harm. This may influence reward preferences, e.g. a group or average reward may be preferred.

### **Time Orientation**

Lao Tzu (1990) believed that the world consists of two complementary parts: *yin* and *yang* (Cooper, 1981; Zheng, 1997) and that the world is complex and timeless. A similar view may be perceived in the Buddhist reincarnation notions where the soul is eternal and never dies, and earthly actions influence

2. Goal relationship: Personal goals have priorities over group goals with individualists, but they are subordinated to collective goals by collectivists.
3. Relative importance of attitudes and norms: Social behaviors of collectivists are more likely to be driven by social norms, duties, obligation, whereas those of individualists are more likely to be driven by their own beliefs, values and attitudes.
4. Emphasis on relationships: Individualists are more oriented toward task achievement, sometimes at the expense of relationships, whereas collectivists put more emphasis on harmonious relationships, sometimes at the expense of task accomplishment.

Erez and Earley (1993) have suggested that as collectivists derive their self-identity through the in-group and its success, they expect their leaders to play a paternalistic role and focus on the continuity of the organization and consolidation of the group. Because of higher centrality of the organization to workers in collectivistic societies, long-term tenure, job security and good relationship with co-workers are more highly valued than job challenge and self-actualization. More importantly, values of collectivism and group orientation strongly influence the reward distribution. The rule of equality is consistent to the collectivistic norms, whereas the equity in distribution is highly emphasized by individualists. Empirical research offers evidence for this notion. For instance, it was found that individuals with strong needs for good interpersonal relationship used egalitarian policy in pay distribution to a greater extent than individuals who are more self-oriented (Adler 1991; Leung and Bond 1982). Research has also shown that Chinese with collectivistic values have stronger intention to allocate rewards equally among the in-group than do Americans who are guided by individualistic values (Adler 1991; Leung and Bond 1982; Leung and Bond 1984; Leung, Smith, Wang, and Sun 1996). This evidence supports the general link proposed between Chinese traditional values and reward preference as shown in Tables 2 and 3.

Bond and Hofstede (1987) derived Confucian dynamism to represent a range of Confucian-like values based on: (1) the existence of unequal relationships, (2) the social organization of the family, (3) virtue in the treatment of others, and (4) virtue with regard to life tasks (Hofstede, 1993), p. 165). A more direct indicator designed to measure the unique aspects of Chinese Traditional values was developed by Yau (1994) and included: (1) its hierarchical nature; (2) the importance of face and guanxi; (3) clan based structure; and (4) long term orientation. This plus the introduction of altruism and personal ideology provide the final links designed to capture Chinese traditional values.

### **Socialist Practices in China**

In the People's Republic of China the ideological basis of Chinese government has been based on Marxism-Leninism developed in China chiefly by Mao Zedong and referred to as Maoism (cf. Fromm 1963; Marx 1844/1969;

change. Ideological education and political campaigns were the essential approach to fully release “the boundless creative powers” and “inexhaustible enthusiasm for socialism” (Meisner 1986). This view was very important giving the poor economic condition in China. In analysis of relationship between economic and psychological factors, Mao described a vicious cycle in which economic stagnation and mental stagnation tend to reinforce each other. Because of China’s economic backwardness, the Chinese people were still “spiritually restricted” and unable to take much initiative. The way to break this cycle was to stimulate “socialist consciousness”. In 1958, Mao publicly set forth his notion on the revolutionary advantage of being “poor and blank” and put forward his proposition that the more backward the economy the easier would be the socialist and communist reorganization of society (Meisner 1986). “Being poor is glorious”; “the poorest class is the most confident participant for the social revolution” were popular slogans. Personal wealth was stigma attached to bourgeois thought and style of life. For Mao, material incentive was the product of capitalist production. Financial incentive in socialist society was branded as evil that would transform the nature of labor; erode people’s rationale and strengthen the propensity for the so called “fetishism of commodity”. Although socialism emphasized the “rewards according to one’s contribution”, material needs were largely ignored as the basic motive and salary was fixed and classified into 25 levels with an average difference of 20Yuan (RMB, equivalent to \$5) between each level. Personal value at that time was mainly shown through group recognition rather than salary. Work was not differentiated according to classes (differential payment) but rather according to “different social skills” (such as your contribution to the country). So the highest office holder and the lowest worker may in the ideal sense have the same value to the community.

The practical evidence confirmed Mao’s prediction. Series political campaigns stimulated unprecedented progress. Chinese people at that time deeply believed that the communist society is the ideal society; Marxism is the unique correct theory of human history which, analogous to periodic table of chemical elements, scientifically illustrates the underlying locus of social development—from primitive, feudalist, capital and communist society. With a strong faith that “three years of struggling would be followed by a thousands years of communist happiness” (Meisner 1986, p. 233), Chinese people worked with little concern for financial rewards (Zwass 1995). People established mutual help and cooperation relationships in the workplace. The enthusiasm and dedication sparked by socialist ideology were unprecedented (Zwass 1995).

In order to achieve social equality and eliminate social hierarchy, Mao launched a series of campaigns to narrow three big gaps, namely the distinction between manual and mental work; urban and rural areas, industry and agriculture. Inspired by the Prise Communes in 1871—the first government of proletariat dictatorship in human history, People’s communes were established. They were considered as not only productive organizations but also as new “communist embryos” that “combined economic, cultural, political and military affairs” and thus merged “workers, peasants, merchants, students, and militiamen



Mao considered all these opinions a “bourgeois regression” and “an attack to the dictatorship of the proletariat”. As some senior leaders, such as Liu Shaoqi (President of the People’s Republic of China) and Deng Xiaoping (the General Secretary of CPC) stood for these opinions, Mao believed that Communist Party of China was in danger of being dominated by bourgeois ideology and that some senior officials were undertaking the “capitalist road”. Thus, only by arousing the socialist consciousness of masses can the party be purified and the bourgeois influence be eliminated. This notion triggered the mass movement of the “Cultural Revolution”. It was Mao’s belief that bourgeois representatives had infiltrated the party at all levels, and the “counter-revolutionary revisionist” were preparing to seize power and turn the dictatorship of proletariat into dictatorship of the bourgeoisie. Mao advocated young rebels to “turn the old world upside down, smash it to pieces, pulverize it, and create a chaos and make a tremendous mess, the bigger the better” (Meisne 1986). The movement quickly resulted in national wide chaos and turbulence. The majority of factories and schools were closed and national economy was on the edge of collapse (Baum 1994).

### **Post-Maoism and Deng’s Theory**

The death of Mao in 1976 marked the end of “Cultural Revolution” and ushered in a new era for China. Facing the catastrophic results of ten years of social turbulence and chaos, many senior leaders (especially Deng Xiaoping) began to reevaluate some basic ideological issues including the very essence of socialism. After analyzing the lessons of socialist practices in China, Deng highlighted the importance of accurately and comprehensively understanding Marxism. He stressed that although the principles of Marxism are applicable everywhere, the concrete applications are subject to objective conditions. Based on the successful experience of ten years of reform and open door policy Deng constructed a new framework of socialism (Dart 1995; Deng, 1994):

1. The essence of socialism is to “liberalize and dynamo the force of production, to eliminate poverty and drastic contrasts, and to ensure the prosperity for all” (Zwass 1995, p.196) - “Poverty is by no means socialism”.
2. To get rich by a proper channel is glorious. Any mechanism or approaches that facilitates the economic development and social prosperity can be employed for the sake of socialism. Individual interests and private property are recognized and protected by law. “Rewards according to one’s contribution” should be the dominant distribution approach; other patterns of remuneration, such as speculation in the stock market is allowed. Socialism allows the existence of a multi-ownership system while the state ownership plays a dominant role.
3. Market mechanics as a manipulative tool in economic transaction can be employed by both capitalist and socialist societies. The market economy itself bears no ideological character.

counter to socialist ideology. Research indicates that employees in China are more motivated by financial incentives than their counterparts in the West (Chen, Chao, Meindl, and Hun 1997; Xie 1996; Yu 1992). Several large-scale surveys have indicated that the egalitarian norm in distribution is not as valued as traditionally expected. Indeed there is a strong belief that the application of equity rule in material allocation can be more effective in stimulating worker's efforts and morale (Yang 1986; Yu 1992). Further "unfair distribution (of rewards and bonuses)" was ranked as a paramount factor that dampens employee's work motivation and initiative (Hui and Tan 1996). Xie (1996) tried to explain this tendency by arguing that social upheaval and reform, such as that occurring in China, may expedite the change of cultural values that under normal circumstances alter little; cultural values alone are not enough to account for human attitude and behavior.

It is too premature to draw the conclusion that Chinese people have given up their traditional cultural values and socialist ideology. Some evidence shows that proportional distribution of honuses is not always welcome in all situations throughout China. In some organizations, especially smaller ones, employees still prefer bonuses equally shared by all (Hui and Tan 1996, p. 373). There have been reported cases where senior managers have refused to accept large sum of bonuses and insisted on equal distribution with their subordinates (Baum 1994). Socialist ideology remains the philosophical basis of government and social structure. As Deng stated "socialist market economy with Chinese characters will end in futility unless we can consciously persist on the principles of Marxism and Maoism".

To capture the changes in Chinese traditional values and their implications for reward administration, four variables have been selected: alienation, money orientation, materialism and Marxist related beliefs. A preliminary version of their likely format for differentiation is shown in Tables 1 and 2, and the forming new theoretical statement in Figure 2.

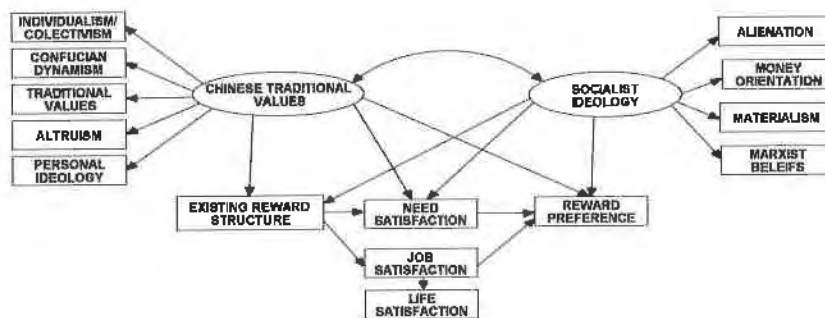


FIGURE 2 SPECIFIC INDICATORS OF CULTURE, IDEOLOGY, REWARD PREFERENCE AND HUMAN HAPPINESS IN CHINA

**Table 3. Chinese Traditional Values, Socialist Ideology and Reward Preferences**

Indicators	Traditional Values	Mao's Socialist Ideology	Deng's Socialist Ideology	Western Ideology
1. Nature of Rewards	Non-financial	Non-financial	Financial	Financial
2. Time and Frequency	Long term	Long term	Short-term	Short term
3. Fixed or proportion	Fixed	Fixed	Some Fixed and Some Proportion	Proportion
4. Contingent or non-contingent	Non-contingent	Non-contingent	Contingent	Contingent
5. Behavior or outcomes	Behavior	Behavior	More on Outcome but also look at behavior	Outcomes
6. Self or other determined	Other	Self (other?)	Self	Self
7. Individual or group	Group	Group	Individual	Individual
8. Limited or unlimited	Limited	Limited	Competitive	Competitive
9. Equality or equity	Equity	Equality	Equity	Equity
10. Certainty or Uncertainty	Certainty	Certainty	Certainty and Uncertainty mixed	Uncertainty

### Conclusion and Implications

After generations of cultural change most Chinese have been influenced by a mixture of values and their ideal life philosophy is also a “combination,” which affects their preferences for rewards. While Confucianism, Taoism, Buddhism and Feudalism all exert an important influence more recently Marxism has been adopted as the philosophical basis of a social ideology. Maoists’ radical socialist ideology and series of political campaigns substantially reinforced the collectivist orientation and overall egalitarianism in the society. For Mao, social ideology determined social being, people in socialist society were to be motivated to “serve the people wholeheartedly” by “socialist consciousness” rather than material gain. To eliminate the traditional social hierarchy and gaps between different social strata, reward administration was done according to the rule of equality, and incentives (commission and bonus) were abandoned. When Mao’s ultra-left socialism was confronted with opposition, the “Cultural Revolution” was initiated to combat “capitalist regression”. This movement threw China into political, economic, and ideological chaos. Deng’s “socialist market economics with Chinese character” was designed to synergize market rationality while retaining socialist ideology. In this paper we have made a

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## **Bank Image as a Factor of Competitive Marketing Strategy in Croatia**

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*In this abridged study the authors examine bank image as a factor to determine marketing strategy in the banking industry, in Croatia. Empirical data collected from several banks are used. Results of the research shows that the image of the bank represents the most important single competitive factor; core services are also important features of Croatian banks, then come relational performances and thirdly performance features.*

### **Introduction**

The need to research image in the banking system emerged with the changes in the world financial market that began in 1980. In Croatia, significant changes have taken place over the last six to seven years during the transition period of the economy and with the entry into its market of foreign banks. In Croatia, this transformation is due to the privatization of government-owned banks combined with the fact that several foreign banks have already entered the Croatian market. The third factor which has influenced this need is that competition from outside the banking system is about to enter the financial market in Croatia through investment funds, pension funds and insurance companies.

With the change in the Croatian economy, most of the banks have changed from government to private ownership. Some banks have gone bankrupt. Besides that, many new private banks have been founded on the Croatian market since 1993. In the period from 1990 to 1994, the number of private banks rose from 5 to 32. In the same period several foreign banks entered the Croatian financial market. At the beginning of the year 2000, several private investment funds, insurance companies and pension funds were ready to enter the financial market. In short, the financial market in Croatia has changed dramatically in the last five years. Most banks have passed along the path from being in a monopolistic position (at least locally) to becoming part of a very competitive financial market.

With such severe competition, domestic banks are experiencing a huge transformation. The two biggest Croatian banks (Zagrebačka and Privredna) have gone through a process of privatization. At the same time, they have been losing clients to new small private and foreign banks.

According to the Tier One Capital ten first ranking banks for 1998 were Zagrebačka banka d.d., Privredna banka Zagreb d.d., Hrvatska poštanska banka

is necessary, and it is widely argued that such differentiation lies in quality of service (Berry et al. 1989; Edwards and Smith 1989).

In 1992 the Consumers' Association survey found that 10% of customers were unhappy with the service of their bank accounts, twice the proportion reported in 1990. These results show that there is a direct correlation between the quality of service and customer satisfaction, and between customer satisfaction and the image of the bank. One of the objectives of this study is therefore to discover a distinctive market image based on the quality of bank services.

Howcroft (1991) suggests that quality of service in banking implies consistently anticipating and satisfying the needs and expectations of customers. This definition is consumer centered, but it does not presume prior knowledge and experience of the consumer. This suggests that if a bank wants to provide high quality services it must identify these needs and expectations and the way in which customers value them.

No matter how the value of bank services to the consumer varies, it is obvious that the image of the bank depends on one hand on the expectations of consumers and on the other hand on the perceived quality of the services. Consequently, this research will be directed to the interrelation of different segments of services (core, personal and functional) with the image of the bank.

The purpose was to find out which of the factors of bank services are the most influential in creating the image of the bank. In this research we did not extract the segments of customers on the basis of their prior knowledge and expectations. This means that we did not measure the difference between the expected and offered services. We measured the undifferentiated consumers and their perception of the quality of service that is shown in satisfaction and in the projected image of the bank.

The objective of this study was to examine the importance of the bank image as a competitive marketing strategy for increasing customer satisfaction in order to establish loyalty, and in order to attract new customers to the bank. Emphasis was placed on attributes relating to the services of the bank and the satisfaction which customers draw from different bank services. We investigated all banks which have branches in the greater area of Zagreb, but extracted the 7 biggest banks which account for 87% of all customers (respondents).

## **Research Methodology**

The data were gathered by a personal interviews in the homes of respondents. Valid responses were obtained from 558 respondents, out of which 324 used the services of only one bank. The sample was chosen on the basis of a geographical zone sampling procedure in the wider area of Zagreb. Inside of the specific zone respondents were chosen on the basis of quota sampling procedures with age and gender as control variables. We used the total number of respondents (558) for the purpose of this study: to investigate factors which are important for the bank image and the satisfaction of customers. The sample structure is given in Table 1.

**Table 2. Frequencies Customer distribution for 7 first ranking banks**

Banks	Absolute No.	Relative No.
Zagrebačka	269	47.4
Privredna	113	20.21
Splitska	33	5.90
Poštanska	31	5.54
Karlovačka	20	3.57
Groškasa	12	2.11
Dalmatinska	11	1.96
Other banks	74	13.24

### Results

In this study we investigated the determinants of the bank image in general through customer satisfaction with different service features. We gave 20 statements in respect of different bank services, allowing respondents the possibility of marking (on a scale of seven) the importance of the single features of the bank image. The top ten determinants of bank selection are given in Table 3.

**Table 3. Top Ten Determinants of Bank Selection**

Features	Mean importance rating on 7 point scale (mean scores)	Rank
My bank has a convenient branch location	5.381270	1
My bank's employees are neat in appearance	5.345878	2
My bank provides easily understood statements	5.010753	3
My bank provides a complete range of services	4.881720	4
My bank provides its services at the time it promises to do so	4.867384	5
Employees in my bank have required skills and knowledge to perform the services	4.838710	6
My bank's physical facilities are visually appealing	4.831541	7
My bank performs its service fast and accurately	4.655914	8
Employees in my bank are always willing to help	4.336918	9
Employees in my bank are constantly courteous	4.323581	10

These top ten ranking factors are the most important for the customers of any bank in Croatia. This means that a mixture of functional, core bank services and personal relationship represents the ten most important determinants in bank selection. Logically, these ten features of bank services are also the most important in the creation of the bank image.

Secondly, we wanted to find out whether there are factors which can represent all bank services. For that purpose we used a multivariate factor



**Table 5. Correlation of service quality with satisfaction and future intention**

Services Quality		Future intentions		
		S**	R**	SV.**
1. My bank provides its services at the time it promises to do so	C	0.63*	0.52*	-0.39*
2. My bank performs the service accurately	C	0.65*	0.58*	-0.40*
3. My bank tells me exactly when services will be performed	C	0.52*	0.46*	-0.27*
4. Employees in my bank have required skills and knowledge	C	0.57*	0.57*	-0.33*
5. My bank offers a complete range of services	C	0.58*	0.54*	-0.32*
6. My bank offers competitive interest rates	C	0.53*	0.45*	-0.22*
7. Employees in my bank are always willing to help	P	0.64*	0.57*	-0.36
8. Employees in my bank are constantly courteous	P	0.59*	0.53*	-0.34*
9. My bank gives me individual attention	P	0.56*	0.49*	-0.28*
10. Employees in my bank understand my specific needs	P	0.60*	0.56*	-0.31*
11. My bank's physical facilities are visually appealing	F	0.48*	0.42*	-0.29*
12. My bank's employees are neat in appearance	F	0.45*	0.41*	-0.20*
13. My bank has convenient branch location	F	0.33*	0.36*	-0.20*
14. My bank provides easily understood statements	F	0.41*	0.41*	-0.18*
15. It is very easy to get in and out of my bank quickly	F	0.38*	0.34*	-0.19*
16. I am extremely satisfied with my bank	S	1.00	0.77*	-0.50*
17. If people ask me, I would strongly recommend my bank	S	0.77*	1.00	-0.50*
18. Things happen in my bank which make me switch to another bank	U	-0.50*	-0.50*	1.00

\* Marked values are significant at  $p > 0.05$

\*\* S-extremely satisfied with the bank; R- would recommend to others; SV- consider switching

The satisfaction of customers shows the highest correlation with core factors, then personal features and finally the functional features of the bank. The same order holds with recommending the bank to other people. That is, if customers are satisfied with the core and personal factors they will recommend their bank to others. The functional features show the least influence on consumer satisfaction and further recommendation.

The same is true with dissatisfaction, but in an opposite direction. Dissatisfaction is higher if core and personal factors do not meet customers' expectations.

**Table 6 - Results of Multiple Regression Analysis**

	Customer satisfaction	Recommend to friend	Consider switching
Relational	0,29*	0,27*	-0,16*
Core	0,67*	0,61*	-0,47*
Features	0,19*	0,27*	-0,07
Constant	-0,65*	-0,68*	5,74*
Adjusted R <sup>2</sup>	0,68	0,55	0,20

\*  $p < 0,05$

4C	4,747	4,708	5,061	4,613	4,900	5,500	4,909
5C	5,064	4,540	5,303	4,226	4,500	4,250	5,273
6C	3,611	3,159	4,182	3,710	3,000	2,750	4,091
7P	4,174	3,938	4,818	4,613	4,650	5,583	5,091
8P	4,132	3,938	4,788	4,419	4,800	5,583	4,636
9P	3,298	3,053	3,545	3,387	3,800	5,333	4,273
10P	3,347	3,000	3,394	3,452	3,250	4,750	3,909
11F	4,751	4,628	4,576	4,839	5,300	5,583	5,273
12F	5,309	5,230	5,212	4,871	6,000	5,917	5,909
13F	5,566	5,274	5,212	5,226	5,900	4,667	4,273
14F	5,075	4,788	5,333	5,194	5,250	4,417	5,000
15F	4,725	4,602	5,030	4,710	5,200	4,917	4,091
16S	4,438	4,230	4,909	4,065	4,400	5,500	5,000
17R	4,547	4,212	4,788	3,903	4,450	5,417	5,091
18U	2,585	2,717	2,667	3,419	3,400	1,417	2,818

\*Services are listed in table 8.

These data are transformed by correlation analysis in the matrix object x object (banks x banks) where the correlation coefficient corresponds to similarity data. This matrix serves to obtain a perceptual map of seven banks. In this case we have two dimensions. The first dimension can be marked as satisfaction with the bank (Dimension 1) and the second dimension is correlated more with the core features of the bank (Dimension 2). It is obvious from Table 7 that many more variables are correlated with the first than with the second dimension.

**Table 8. Correlation Coefficient between Bank Services and Two Dimensions of the Perceptual Map.**

Services	Dimension 1	Dimension 2
1. My bank provides its services at the time it promises to do so	0.93	0.18
2. My bank performs the service accurately	0.88	-0.02
3. My bank tells me exactly when services will be performed	0.21	-0.39
4. Employees in my bank have required skills and knowledge	0.81	-0.20
5. My bank offers a complete range of services	0.13	0.87
6. My bank offers competitive interest rates	-0.25	0.86
7. Employees in my bank are always willing to help	0.70	0.06
8. Employees in my bank are constantly courteous	-0.83	-0.30
9. My bank gives me individual attention	0.88	-0.30
10. Employees in my bank understand my specific needs	0.83	-0.11
11. My bank's physical facilities are visually appealing	0.70	-0.30
12. My bank's employees are neat in appearance	0.63	-0.14
13. My bank has convenient branch location	-0.82	-0.49
14. My bank provides easily understood statements	-0.60	0.53
15. It is very easy to get in and out of my bank quickly	-0.17	-0.74
16. I am extremely satisfied with my bank.	0.93	0.15
17. If people ask me, I would strongly recommend my bank	0.95	0.19
18. Things happen in my bank which make me switch to another bank	0.80	-0.14

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- a) countries with a high level of consumer protection: The Netherlands, Great Britain, France, Germany, Norway, and Sweden.
- b) countries with a moderate level of consumer protection: Belgium, Italy, and Spain
- c) countries with a low level of consumer protection: Greece, Portugal, Switzerland.

In the Republic of Croatia the situation is significantly different in relation to developed western countries in terms of the existence of activities whose objective is protecting the interests of consumers. Croatia does not yet have a Law on Consumer Protection, even though international conventions and the regulations of the European Union, which Croatia wants to join, require this. However, in the Republic of Croatia, there is a large number of different laws and procedural provisions which regulate the relation between consumers and the suppliers of products and services, the most significant being: the Law on Compulsory Relationships, the Law on Trade, the Law on Market Supervision, the Law on the Protection of Market Competition and Special Practices in the Retail Trade, while the Croatian Chamber of Commerce also exerts certain influence on trade flows (adapted from Kesić (1999, p. 448)).

However, taking into consideration the number of existing laws that regulate certain areas, we could say that there are even too many regulations in Croatia. For instance, there are as many as 38 laws and more than 80 books of regulations regulating the production and trade of food products. Therefore, it is not at all probable that a consumer-citizen with an average education will be able to compete on equal terms with the suppliers of goods and services. It is well-known that throughout the world, consumers, individually or in groups, undertake actions like "lobbying" government officials and agencies, writing letters or public announcements, and boycotting companies which they regard to be irresponsible, whereas in Croatia, until two years ago, the activities of consumers consisted mostly in anonymous pleas to the market inspectorate.

The major concern of citizens over the last nine years has been focused on the defense of the country, the problems of transition and the disappearance of public property, on growing unemployment, on general impoverishment and the fall in the real purchasing power of the population. Such conditions of work and living are added to a 50-year practice of not checking information on products and to the fact that dissatisfaction with products and services is rarely expressed. Nevertheless, some signs of consumer awareness were apparent in Croatia, even when it was still part of Yugoslavia, since in the Chamber of Commerce there was a so-called Consumer Council whose scope of activity was very modest and, for the most part, formal in nature.

After Croatia became independent and the well-known events had ended, the attention of citizens was directed primarily to survival. It was only in November 1997 that the Association for Consumer Protection was established (in 1999, it changed its name to the Croatian Association for Consumer Protection) and, although burdened with practical difficulties (insufficient financial resources), has been achieving increasingly significant results. Hereafter, an

members of the Association tried, through a direct request to EU DG 24 in Brussels, to receive financial support to manage consumer protection as a nongovernmental organization, but the response of the office manager was negative. All other efforts directed at receiving financial support (AED with USAID) from the Government Office for Non-Governmental Organizations of the Republic of Croatia also failed.

The offer of financial support given by some trade organizations was turned down by the majority of the Board of Directors, because this could have led to a conflict of interests. The Croatian Association for Consumer Protection is supported financially by annual membership fees and by donations from physical persons, from the Ministry of Economy, and from the Croatian Chamber of Commerce. In 1999, the Government Office of the Republic of Croatia allocated 10,000 kuna (approximately US\$ 2000) to the Association for the publication and distribution of a leaflet to consumers, as the first piece of free information on consumer rights and on the "Golden rules of behavior" in the purchasing of goods.

The activities of the members of the Association (the members of UO were mostly working) were carried out on two levels:

1. individual – offering help to consumers who requested it;
2. general – the protection of general consumer rights in the Republic of Croatia (work on the Law on Consumer Protection, co-operation with the Institute for the Advancement of Schooling, work on the Bio-Ethical Board of the Ministry of Agriculture, co-operation with the Institute for Weights and Measures of the Republic of Croatia, co-operation with the Croatian Chamber of Trades and Crafts and the Croatian Chamber of Commerce, the continuous supervision of games of chance, the responsibility to inform the Ministry of Finance on irregularities, the prevention of unlicensed advertising services in newspapers, the promotion of consumer rights in the media, etc.)

#### *Individual Support/Counseling of Consumers*

Since the members of the Association, due to insufficient financial support and the lack of appropriate premises, were not able to organize constant duty and direct contacts with consumers, the latter were forced to write letters or leave messages on the answering machine. In mid-1999, the members of the Association engaged a retired Master of Science in Economics to be on duty for 2 hours twice a week in the Association's premises, to receive phone calls, answer the questions he was able to answer, and give basic information on the manner of work of the Association.

Each individual case is analyzed if it falls within the competence of the Association. Either the consumer is given advice about what to do, or the members of the Association try to solve his/her case. Since after the adoption of the Law on Consumer Protection, the Association is expected to have greater institutional authority, for the moment the members of the Board of Directors use their knowledge of the law and of the people on executive bodies (inspection

people do more shopping) CACP warns consumers through the media about the need for self-protection and for active involvement in the buying and selling processes.

HEP (the Croatian Electric Company) has been requested to change their Regulations on the making out of bills for the consumption of electricity (consumers should pay only for the power they have actually used and not for the so-called installed power). The Croatian Association for Consumer Protection carried out research on the manner of charging for the consumption of electric power in Italy, Great Britain, Switzerland, Germany and Austria, in order to compare this with how charges are made in the Republic of Croatia. It has been established that the existing Tariff Regulations are unfair, so a change has been proposed.

The activity of preventing the publication of misleading information on home-employment opportunities through newspaper advertisements has still not been completed, but not as a result of the work of the members of the Association, but due to the inefficiency of all those who are supposed to take part in this process (the State Inspectorate, the Ministry of Finance, the Croatian Chamber of Commerce, the Croatian Chamber of Trades and Crafts, and the newspapers that print the advertisements). The Association requires traders to abide by the law, which means that advertisers must announce their telephone number for official purposes, meet minimum technical conditions to carry out their operations, display all legally regulated data related to the company, while the owners must be capable of performing particular jobs.

For almost a year now the action of reporting to the Ministry of Finance all the organizers of games of chance who have not published in the media the Regulations and Conditions of the Game of Chance, and the date and number of the statement from the Ministry which authorizes the game of chance.

The representative of CACP on the Bio-Ethical Board of the Ministry of Agriculture is a Doctor of Biochemistry, a member of the Academy of Medical Sciences and a member of the Association. His main task is to represent the interests of consumers in passing laws and regulations which will regulate the production and trade of genetically modified organisms.

The Sanitary Inspection of the City of Zagreb has been warned about irregular working hours. From Friday 3 p.m. to Monday 8 a.m., citizens can file a report only through the duty service which answers emergency calls and reacts only in cases of widespread poisoning, etc.).

Since, on the initiative of the Croatian Association for Consumer Protection, and through lobbying at the Ministry of Education and Sports, it was decided that basic knowledge of consumer rights and protection should be included in the new teaching curricula of primary and secondary schools, CACP has contacted the National Institute for Consumerism in Paris. On the request of CACP, the Institute provided samples of booklets for teachers and children in primary schools, which teach children the basic principles of consumer behavior. The Association has taken upon itself responsibility for organizing the training of

1. A direct contact has been established with AED (Academy for Education), the promoter of the goals of USAID (the American Agency for International Development) which carries out the Program for the Development of Non-Profit Organizations in the Republic of Croatia. The main objective of this agency is to promote the development of non-governmental, non-profit organizations which will effectively represent the interests of citizens, and be a partner to local authorities. Unfortunately, in the competition for the allocation of financial support to associations in 1999, CACP did not receive support, so the project of opening branch offices in Osijek and Split fell through.

2. Throughout 1999, CACP collaborated very successfully in the completion of the Law on Consumer Protection with the **Ministry of Economy of the Republic of Croatia**. For its work on this project which is of great significance for the implementation of consumer protection in the Republic of Croatia, the Association received financial support, through a deed of donation, to the amount of 150,000 kuna to establish a Counseling Office and to organize a counseling service for the needs of consumers in Zagreb. The Zagreb Office was founded as a pilot project in order to check the efficiency of the program which will be implemented at a national level.

3. At the **Ministry of Education and Sports**, after discussion with the program counselor, a proposal of syllabuses was drafted with the objective of acquiring basic knowledge of the rights and ways to achieve consumer protection. These syllabuses are to be included in the curricula of primary and secondary schools. Meanwhile, consultations have been held with the President of the Croatian Pedagogic Society.

4. Unfortunately, in the **Ministry of Health**, the proposals, questions and incentives of CACP were not received with the expected interest. Such behavior is surprising, because of the importance of this issue for the protection of the health of the population of the Republic of Croatia.

5. Direct contact with the **Office for European Integration** (now the Ministry for European Integration) was made through the office director. The discussion resulted in an invitation to take part in the adoption of standards and regulations which will be in line with the Law of the European Union. The experts who work in the Ministry for European Integration gave their proposals of areas and manners of unifying the proposal of the Law on Consumer Protection with the legislation of the EU, which has been carried out.

6. **The Government Office for Associations of the Republic of Croatia** invited the Association to take part in a competition for annual financial support. The Association took part, but the necessary funds were not allocated to it. In October 1999, an agreement was made with this Office for a one-off payment of 10,000 kuna. The funds were earmarked and used for the printing and distribution of a leaflet for consumers.

7. Regular contacts are made with the **Croatian Chamber of Commerce**, and the CCC has, through a one-off payment, financially supported the realization of part of the consumer protection project.

- the right to protection from dubious products and marketing procedures (appointing a consumer representative onto the boards of companies in order to protect consumer interests)
- the right to have an influence on products and marketing procedures in a way which will improve the “quality of life” (a control of the components of a product, packaging, etc.)

**Figure 1. List of Rights of Traders/Consumers**

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**Traditional traders’ rights**

- the right to introduce any product, of any size and style, making sure that it is not dangerous for human health and safety, and if it is dangerous, to include regulative warnings and controls,
- the right to set any price for a product, taking into consideration the fact that there is no discrimination among similar types of buyers,
- the right to spend any amount on the improvement and popularization of the sales of a product, making sure it is not considered as unfair competition,
- the right to use any information on a product, making sure that it is not dishonest or misleading in terms of the contents or performance of the product,
- the right to use any stimulating idea of the buyer which is not dishonest or false.

**Traditional buyers’ rights**

- the right not to buy a product on offer,
- the right to expect the product to be safe,
- the right to expect that the product keeps in an appropriate manner.

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Source: Kotler, Armstrong, Saunders and Wong (1999, p. 56).

Companies are facing the dilemma of how to balance the needs and rights of consumers with their own goals, at the same time abiding by the ethical codices which influence their behavior towards consumers, by developing a more positive relationship with them, by introducing consumer-oriented marketing activities, by establishing their own offices for relations with consumers, by offering help in educating consumers, by financially supporting consumer groups, by providing free telephone lines for complaints and information, and finally, by improving the quality and lowering the prices of their products and services, since the manner in which a company treats the problems of safety and quality of their products can ruin its reputation and result in unprofitable business operations. In the Republic of Croatia such practice is carried out by the largest companies like INA (the national petrol company), PLIVA (a pharmaceutical company), PODRAVKA, KRAŠ (food industry), AGROKOR (a VMS system



Since, in the Republic of Croatia, citizens are not yet sufficiently aware of the need primarily to do something for themselves in terms of self-protection, the focus of interest of CACP lies in:

- educating the population on consumer rights through the media, lectures and by organizing debates in schools, universities and symposia;
- lobbying national and local authorities;
- stimulating the passing of laws and regulations which will, through reliable implementation, lower all kinds of risks for the average consumer;
- co-operating with similar organizations abroad and drawing on their experiences;
- establishing a national network of counseling centers, since the one-year experience of the pilot project (the Zagreb office) has shown the efficiency of this type of individual support for consumers (about one hundred cases solved).

The lack of institutionalized support, an insufficient legislative infrastructure and the lack of understanding of those who need to support organized groups of consumers, are compensated by the members of this Association who use the power of their own knowledge and reputation in society to achieve the above goals. The media has also contributed to this, giving their space to the Association for a variety of information, interviews and promotion of the Association's objectives. The result of this work is also seen in the fact that in the first two months of 2000, the number of CACP members grew by 50% in relation to 1999. We hope that the Government bodies of the Republic of Croatia will not in any way jeopardize the work and independence of this Association, because the authority of the future Government Office for Consumer Protection of the Republic of Croatia is clearly defined in the proposal of the Law on Consumer Protection. Its competence will lie in the implementation of the National Program for Consumer Protection and the stimulation (including the financial stimulation) of activities of independent associations of citizens.

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## **Consumer Protection in the Republic of Croatia - Fact or Fiction?**

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*Serious problems of consumer protection have been noticed in the countries in transition. In the Republic of Croatia, the problem became more severe as a result of the war. These factors have created an environment for many forms of violation of consumer rights. Some of the most drastic examples include financial fraud, information and advertising deception, the unsuitability for use of food and pharmaceutical products, and the rights of tourists. Although some laws partially apply to consumer protection, The Law of Consumer Protection has not yet been passed. This has created a vacuum in which consumers experience violations of their rights. Two surveys which were conducted, in preliminary 1998 and final 1999 support these conclusions. Future solutions are suggested.*

### **Introduction**

Consumerism as a modern movement of consumer protection arose at the beginning of the twentieth century, although some legal aspects were noted at the end of the nineteenth century in the USA and Germany. Since then, many different associations of consumers have emerged as a result of consumer movements or as a demand, common in European countries, for the legal regulation of consumer protection. The main difference between consumer protection in the USA and in the countries of the EU is in the institutional part of these two forms of protection. In the USA most of the legal acts which have been passed have resulted from consumer movements which reflected consumer dissatisfaction. On the other hand, European countries have brought legislation to protect consumer rights before such demands were made. The reason probably lies in the time gap in the development of consumerism. In the USA this started at the beginning of the twentieth century and in the EU it developed rapidly in most countries in the 1970s. In this paper we wanted to see where The Republic of Croatia stands in the sphere of consumer protection, what the problems are in our market and which segments of consumer rights have been drastically violated in the last nine years. In addition, we asked consumers what they think about the protection of their rights generally and regarding several specific aspects concerning some products in Croatia. Finally, we suggest a model of consumer protection in Croatia as a result of the theoretical and empirical test of the present situation and the legislation in Croatia, and following the research we conducted at the end of 1999.

these sectors. In addition, special concerns that require specific attention are mergers, acquisitions, and the monopoly of food manufacturers and traders, tobacco industry etc.

The Law on Market Inspection, passed in March 1995, also deals in some parts with consumer protection. Article 2 of this law explicitly states that consumer protection is one of the primary concerns of this law. This law also deals with the quality of domestic and imported products, the control of product prices and the truthfulness of product declarations. The tasks of the market inspector are: quality control of goods, the analysis of goods on the request of consumers, the control of hygienic conditions in shops, the control of the seller's professionalism, the inspection of measuring instruments.

Besides these laws, which apply in part to some aspects of consumer protection, there are different customs and usage called the Autonomic Economy Law.

The Autonomic Economy Law consists of the following:

- business customs
- usage
- general conditions of doing business
- different clauses and trade terms

In line with the tradition and generality of law, business customs develop, which then become accepted business customs and general rules of behavior.

One aspect of great interest to consumers is information. This aspect is regulated by the Law on Telecommunication and the Law on Public Information. The core principles of these laws have been taken from European and other contemporary laws. The crucial statement of this law is that information must be truthful, precise, complete and given at the right time. Crucial aspects of these laws have been accepted by the Code of Standards of Advertising Practice<sup>25</sup>.

So, the area of communication is one of the most important segments of consumer protection. There are three aspects of marketing communication, which should be stipulated in the future as part of consumer protection:

- First, is the self-regulation of social and economic advertising, which should be legal, decent, truthful and fair;
- Second, the exact time should be stipulated for broadcasting advertisements during the day and which should be within the standards of other developed European countries;
- Third, information should be available to the consumer at the right time, at the right place, to the right degree, and in the right way.

Croatian advertisers have accepted the main principles of the Maastricht treaty, which apply to advertising and other types of promotion. The Croatian Code of Standards of Advertising Practice was accepted in June 1995 as the minimum requirements for advertising agencies and companies. The Croatian

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<sup>25</sup> Croatian Code of Standard of Advertising Practice, 4. Conference of Croatian Advertisers, Opatija 05.1996.

**Table 1. Socio-economic Features of Respondents**

Sex	Percentage	Age	
Male	38	-18	4
Female	62	19-25	27
		26-35	18
Education		36-45	24
Vocational school	11	46-55	18
High school	52	56+	8
College	37		

**Results**

The first part of the study was concerned with general issues of consumer protection. It is surprising that 54% of respondents do not know whether there is a law of consumer protection while 35% think that such a law exists. That leaves only 11% of consumers who know that the Republic of Croatia still does not have a law for consumer protection. The very same frequency distribution of answers was given for the existence of a consumer protection organization. Although there is some association for consumer protection, it is located in an association of trade which gives it no credibility whatsoever. So we cannot speak of the existence of such an association on any formal state or local level. When asked where such an association should be located, 45% of respondents think that it should be totally independent of the government, 42% stated that it could be partially supported by government institutions and 12% that it should be inside government institutions.

We measured consumers' attitudes in Croatia toward this issue through several questions (Table 2).

**Table 2. What Consumers Think of Consumer Protection**

Statement association	Well acquainted with concept of CP %	Consumers are well protected in Croatia %	Consumer could help %
Do not agree at all	38	41	1
Do not agree	27	29	3
Neither agree, nor disagree	25	23	21
Agree	5	5	30
Agree completely	3	3	45

Very few people are well acquainted (3 %) with the concept of consumer protection; the average mean (on a scale of 5) is 2.07. The results are even worse when we asked respondents of their position as consumers in respect to producers and traders. Only 3% of consumers consider that they are well protected in respect to producers and traders, with an average mark of all answers of 1.9. This

to what degree could an association of consumers protect consumer's interest	3,913	3,817	3,759	p=0,0887	p=0,0064*	p=0,2862
have you ever made complain about some products	37,16%	19,94%	1,91%	p=0,0000*	p=0,0000*	p=0,0000*
Yes						
No	60,45%	77,19%	94,26%	p=0,0000*	p=0,0000*	p=0,0000*
kindness and cooperativeness of personnel in case of a complaint	3,048	3,130	2,808	p=0,5210	p=0,3256	p=0,2138
satisfaction about promptness and method of solving consumer's problem	2,941	2,890	2,724	p=0,7150	p=0,3976	p=0,5174

Note: F - Food products, H - Household appliances, OTC - Over the counter drugs

The attitude of consumers towards the core dimensions of three groups of products shows that the quality and price (except for pharmaceutical products) have the highest average values. For food products, more important is the assortment of the product, personal information and the courtesy of sales personnel than is the case for other observed products. For technical products, the trademark and information on the seller are more important than for food and pharmaceutical products (see Table 3).

The general conclusion is that consumers agree that an association of consumers would be of great help in protecting their interests in all three product categories (average mark 3.75). As shown in Table 3, consumers expect highest protection in the domain of food products (3.91).

The next group of questions dealt with the ecological attitudes of Croatian consumers. From the study it can be concluded that Croatian consumers have a neutral opinion toward ecological issues. The average mark on all questions was around 3.0 (whether and how much ecological products and packaging influence their buying decisions). The statements that dealt with the price of ecological products (average mark was 3.6) show that consumers perceive ecological products as more expensive than regular ones. The final conclusion is that Croatian consumers lack information on ecological products and packaging, what has influence on their attitudes toward these products.

### Proposed Model for an Association of Consumer Protection

At the beginning of the process of learning about democracy and exercising the rights of consumers we propose a semi-public organization for consumer protection (Figure 1).<sup>26</sup> This means that the Ministry of the Economy,

<sup>26</sup> This was the result of authors' knowledge of present economic and social state in Croatia, and the fact that 42% of respondents stated that an association of consumer protection should be partially

Later, associations of consumers should move more toward the public concept of an organization which would function independently of the government. There is some danger of a possible influence of some government institutions on decisions. This can be overcome by partially financing the consumer organization structure directly from the budget and partially through dues paid by consumers. Secondly, most of the work at county and municipality level should be on a voluntary basis directly influenced by consumers. However, the most important issue is that representatives of consumers are present at all institutions and committees where decisions that concern consumers are brought.

## **Conclusion**

Comparing the legal aspects of consumer protection and the results of the research we can conclude that violations of consumers' rights are more drastic in countries in transition (e.g., Croatia) than in developed countries.

The Republic of Croatia inherited some Yugoslav laws that deal with some issues as trade, market inspection, market competition inspection, antitrust, telecommunication and public information. The first draft of the Law for Consumer Protection was proposed almost a year and a half ago, but nothing happened at that time. It is expected that the law will be accepted by June 2000. The biggest mistake is that no consumer has the opportunity to see the draft of the Law and to discuss it, to give suggestions and opinions. Since no country is the same, the Law for Consumer Protection in Croatia, besides general articles, should pay attention to specific parts that are important for Croatia. Some of these areas are the protection of tourists, especially individuals on land and on sea.

Special attention should be given to the segment concerning information and advertising, the time devoted to these activities and their truthfulness. It is of utmost importance to control the amount of advertising and the content devoted to children. Another area of special interest is financial activities which should be controlled by the Central Bank and by Government financial institutions. In Croatia there was a rapid growth of financial institutions from 1990 to 1997. The number of banks rose from 21 in 1990 to 60 in 1997. The number of savings banks rose from 0 in 1993 to 33 in 1994. It is obvious that our Central Bank did not tightly control the development and conditions of the beginnings of financial business, since many banks went into bankruptcy. Special attention should be given to pharmaceutical products, especially those which can be bought without a prescription (OTC). Since this segment of the market is quite new in Croatia, consumers must be educated in order to choose the right products and combinations of products. A consumer journal could help to some point.

Finally it is always necessary to control the segment of food from the point of view of consumers. This is usually the sector where consumers exercise most strongly their power in respect of producers and traders. But this does not mean that all other segments of consumer rights should be neglected.

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## **Internal Marketing in Profit and Non-Profit Organizations' Contribution to Democratization**

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*The processes of democratization in the South-East European states in transition have taken an identifiable course. Many expected the processes of democratization in Croatia to move faster than in neighboring eastern countries. Since this outcome is not unilaterally the case, means for expediting the democratic process are being sought in all areas of public activity. This paper offers the implementation of the concept of internal marketing to support the change of behavior, primarily of the employees towards their environment, creating thus the presuppositions for a faster development and advancement to a political democracy. The samples of business and non business entities used did not produce valid and reliable conclusions about the possibilities of internal marketing instruments, but they did provide hypothetical bases that can be further audited in practice. We expect that this work will provide an incentive for more comprehensive and detailed research in this area.*

### **Introduction**

The processes of restoration of modernized capitalist relations and the restructuring of the entire social system have begun on the territories of the contemporary Republic of Croatia somewhat sooner than its establishment as an independent and recognized state. Namely, by the end of the eighties a transformation of the self-management principles ingrained on the premise of public ownership of all the means had begun in almost all the layers of Croatian society, a transformation into new relations which were based on private property and market economy. These self-management principles which were until then often defined by the ruling communist party as "direct democracy" were transformed by a process of de-regulation into a democracy of western type (indirect and participatory democracy) and a model of socio-market economy. The objectives of such a de-regulation of state find their confirmation in Article 48 of the Constitution of the Republic of Croatia, which states: "market and business freedom are the foundations of the economic constitution of the Republic" (Constitution of the Republic of Croatia 1993, p. 27) and Article 55: "The Republic of Croatia is a democratic and social state" (Constitution of the Republic of Croatia 1993, p. 27). During the previous forty years of formation and modeling of the "democratic socialism" and self-management a certain scale of values had been established, a mind-frame and a habit pattern of the general public, and therefore also of the working population, which are very slowly and with great difficulty changing and adapting to the necessities of the transitional

favor of such a theory. Certainly, in such an environment good co-operation of all the employees and great mutual trust are necessary, which will doubtlessly contribute to the general democratization of the relations in the society.

Considering that in Croatia this issue is not even sufficiently present in theoretical discussions, let alone in practice, it is our intention to point out the level of profit and non profit institutions certain possibilities that this idea provides for the promotion of democratic values and explain it in view of possible implementation within the Croatian institutional frame. Our wish is at the same time to stimulate the marketing theory and practice in Croatia to undertake more comprehensive researches and to recognize different aspects of the influence of internal marketing on the transformation of the culture of behavior of the people and on the development of new democratic values.

### **Concept Definition and Demarcation**

Marketing science is constantly exposed to the challenges posed by the development of human society and is consequently also exposed to the challenges of new democratic values. For a long period of time the spotlight of marketing theory and practice was directed towards the concept of "external marketing" concentrated on the market of sale. The implementation of this concept in the practice of the Croatian economic entities has not yet given the expected results. Namely, it was discovered that the success of the external marketing depended on the implementation of market philosophy within the company, a philosophy ingrained in the processes of direct and indirect production of values and in the internal relations of exchange of the related work-effects. Therefore a need arises for the establishment of a certain balanced correlation between the marketing plan and performance of the employees in and out of the company in order for the internal action of the employees to radiate among the external customers of the company. In this manner a direct interdependence of the external customer and company product consumer satisfaction objectives and the internal employee satisfaction needs is established. Hence in order to secure successful external marketing it is necessary to create the presuppositions within the company implementing the marketing method of problem solution within all the work-processes in the company. This necessity is more prominent in the companies that achieve their marketing goals with more difficulty and that are struggling with certain difficulties in their development. However, this is also required of other companies and institutions if they wish to attain a better effectiveness and efficiency of their marketing activities in today's rapidly globalized world. Such a marketing concept provides the grounds for an integrated action of all the marketing activities in both the micro and macro environment of the companies and institutions. The "internal marketing" is the focal point of the ideas for the solution of evident problems in the micro and the macro environment.

As there are several definitions of marketing, there are also several definitions of internal marketing. Bruhn (1999) for example, defines it as a



## **Internal Marketing and Democratization**

If we understand democracy as indirect government by the people within which the principles of freedom, justice, equality before the law, and fellowship are realized it is difficult to comprehend the direct functional interdependence of internal marketing activities and the development of democracy as such. However, if we broaden the definition of democracy to participatory democracy, certain forms of interdependent influences of internal marketing and the development of economic democracy in particular can be identified. Namely, such democracy tries to make good the principles of a whole range of freedoms such as: free negotiation, free competition, freedom to choose the desired economic activities, free transactions, free production, free investment, and their development and advancement, in order that they should not become their own opposites. It is not our intention to enter into wider explications of the interdependence of internal marketing and democracy. It is our intention to focus on some of the forms such interdependence appear in. It is our hope that we can at least hypothetically determine through them the existence of such interdependence and in this manner justify the choice of the title of this paper.

In the participatory democracy the people freely act and participate wherever such participation is possible in the decision-making, and this is also true of the micro levels where businesses and different associations are active. The implementation of the instruments of internal marketing on this level contributes to the institution of a system of a community's collective and general values. The original structures of hierarchy are gradually substituted with teams and the obedience of the employees towards their superiors turns into their active shaping of the programs and decisions of the companies and associations they work or volunteer in.

We believe that by introduction of internal marketing into the state institutions and by implementing its appropriate instruments fundamental principles are created for the reduction of politicization of the official sector of economy. According to the researches by Faulend and Sošić (1999) the reduced politicization would limit the discretionary power of the state employee and would render possible a greater freedom of competition in the state's economy. It is likewise considered that a reduction of a significant number of non-official economic subjects now present in the Croatian economy could be achieved. In this manner a significant portion of the non-loyal competition coming from such an unofficial area of economy could be eliminated, the healthy competition could gain new power, a better allocation of public resources could be secured, and the area of political influence on the efficiency and effectiveness of work of the companies could be limited. The internal marketing with its communication policy, its rules and guidelines can certainly positively effect the prevention of abuse of office and power over the people and the organized subjects of a society, integrating conflicting interests and inaugurating their harmony.

company policy, the concept of customer satisfaction as the purpose of their work and other visible aspects of internal marketing). The significance of the ascertained manifestation of internal market activities between the companies that have fully applied the marketing concept and those who have only partly applied it is minor and insufficient for a reliable conclusion of possible interdependence, as suggested in Table 2.

**Table 2. The Relation between the Degree of Implementation of the Marketing Concept and the Manifestation of Internal Marketing in the Examined Companies in Croatia**

No.	Manifestations of internal market activities	Number of companies	
		Fully implem. market. Concept	Partly implem. market. concept
1.	To offer the customer a specially valuable product is one of the fundamental principles of company policy/culture	25	20
2.	Customer satisfaction is the purpose of the work performed by the employee	19	14
3.	The management believes that customer satisfaction is the main objective of business operation	16	13
4.	The management clearly transfers ideas of market orientation to the employees	22	13
5.	There is a conflict between individual functions within the company	25	18
6.	The wages of the employees depend also on the achieved level of satisfaction of the customers	11	16
7.	The wages of the employees depend on the achieved sale results	22	21

Source: Author's raw data from a sample of companies examined in 1999.

Some incongruous results were found when the answers of the examined companies were compared, especially with respect to the providing of products of special value to the customers as one of the fundamental principles of the company policy, and the influence of the employees on the attainment of customer satisfaction. The differences between the manifestations of internal marketing activities in the companies that have fully implemented the concept and the companies that have only partly implemented the concept should be prominent. However, the test of interdependence made via analysis on the level of 95% reliability did not confirm the hypothesis of the interdependence between the degree of implementation of the concept of external marketing and the

**Table 4: Dependence of the Manifestations of Internal Marketing Activities and the Extreme Degrees of Implementation of the Marketing Concept**

Manifestations of internal marketing activities	concept implemented (n=4)		concept not implemented (n=10)	
	Number of companies	%	Number of companies	%
Valuable product fundamental principle of company culture	4	100	5	50
Customer satisfaction purpose of employee work	4	100	3	30
Customer satisfaction main objective of management	3	75	4	40
management transfers ideas of market orientation to the employees	4	100	3	30
There is a conflict between individual functions within the company	1	25	3	30

Source: Authors' raw data.

The considerably small number of companies represented in these two extreme groups does not provide sufficient data for a valid and reliable conclusion about the interdependence of the implementation or non-implementation of the marketing concept on the manifestation of internal marketing. It has also been noted that companies which have predominantly or partly implemented the marketing concept in their operation perceive the political and legal environment (legal regulations, government agencies) as aggravating factors in the implementation of the market orientation in the transitional conditions. However, these same companies experience the attitudes of the wider public towards them and their offer as motivating factors for the implementation of the market orientation which certainly has positive reverberations on the development of internal marketing activities and democracy.

The partial assessments of the researched factors of interdependence of the internal and external marketing could not raise above the description of the hypothetical assumptions on the dependence of single variables due to the structure of the used data (which was not collected for the purposes of this article). Further targeted and more comprehensive research is necessary in order to explain more thoroughly the interdependence between the internal and external marketing and the development of democracy, but this exceeds the boundaries of our work and remains as an incentive for future work.

The employees are informed about the changes in the organization via a bulletin board	9		
A permanent education is organized for the employees	8		
The degree of satisfaction is measured by the atmosphere within the organization	14	excellent 5	average 9
Degree of identification of the employees with their institution	13	high 4	average 9
Possible influence of the internal marketing activities on the strengthening of the public democratic processes	13	strong 8	average 5

The sample is too small for the data shown in Table 5 to be considered valid. However, they do give certain indications for the presence of internal marketing manifestations and especially, they confirm that the possible influence of the internal marketing is considered to be strong.

The citizen's associations and other organizations play an important role in the strengthening of democracy. There were 29.977 (CROSTAT 1999, p. 67) such associations registered in Croatia in 1998. They make it easier for the individuals to articulate their interests. They are some kind of channel through which political requests are made and by which the expenses generated by decision-makers can be reduced because the number of parties negotiating about the realization of interests and therefore their satisfaction is reduced. The associations possess an emphasized expert signature and they can provide substantial help in political decision-making. If internal marketing principles were applied in them they could give an even greater contribution to the development of democratic relations not only in their interest area but also in the broader community. Internal marketing as a sub-concept of marketing offers its instruments to the non-profit and the profit organizations, instruments that can certainly provide new incentives to the expansion of democracy and it is for this reason that we shall summarize some of them in the following text.

### **Instruments of Internal Marketing**

We have already emphasized that internal marketing instruments should be differently implemented in profit and non-profit institutions and therefore they are thus presented here.

#### *Instruments of Internal Marketing in Profit Institutions*

The instruments of internal marketing used today in the democratic countries of the west are numerous and diversified. Depending on their area of implementation the appropriate instruments are used in general management, in the management of individual processes, in total quality management and especially in the human resources management. It is not our intention here to open a theoretical debate about the functional categorization of individual

having taken over the management over the purchased Croatian company, soon realized that it will have to use internal marketing instruments if it wishes for its employees to think about the processes they are participating in regardless of their formal position in the organization of the company, and come up with a teamwork approach in the identification and the search of a responsible solution of the problems related to customer satisfaction. The company's managers discovered that by the implementation of such activities it was possible to build feelings of mutual trust which had been shaken due to lack of communication and information.

The mentioned company has tried to modify the behavior of its employees by displaying drawings and posters on company premises. These communication means contained appeals such as: "to think and act in accordance with the production processes and the buyers, to stimulate and recognize the work of others, to effectively communicate and inform, to participate in teamwork, to decide and to carry out such decisions consequentially in practice, to be open to new things and ideas" (von Mutius 1998). The size of the company, the complexity of the production process, the internationalization and the specialization put certain employees in a significantly different condition from the one in which they were found before. The individuals are required to cooperate in interdisciplinary and international solving of problems. Co-operation and dialogue become categories of value.

It is hoped that the illustrated approach to the modification of employee behavior will contribute to the long-term bonding of the employees to the company and at the same time the long-term loyalty of the customers to the products of the same company. This example could, with the addition of self-management and synteegrity teams<sup>+</sup> serve as an indicator to the Croatian companies that have not yet implemented the mentioned activities on how to tackle the problem of modification of employee behavior.

We believe that the instruments of examination and segmenting of the employees could be successfully applied as preliminary instruments in the implementation of other internal marketing instruments aimed at the modification of employee behavior.

#### *Instruments of Internal Marketing in Non-Profit Institutions and Organizations*

The diversity of the activities of the non-profit institutions and organizations for which it is assumed that they implement social marketing requires a specific composition of the internal marketing instruments, different from the one required by the profit institutions. The public institutions with traditional civic responsibilities are required to offer to their service and activity program users the greatest possible degree of satisfaction with the least possible expenditure of the public, mainly budget derived funds, and at the same time to secure the satisfaction of their employees and volunteers. This specific position of the employees in these institutions has contributed to create, due to its predominantly stiff hierarchical organization and vertical distribution of

itself, which has been long implemented cannot institute a new set of values, form a new democratic conscience or develop a democratic culture. Therefore it will be necessary to introduce in all areas certain measures of re-education and transformation of the philosophy of thinking of productive individuals, their customers and the public in general.

One of the possible measures that can contribute to the raising of the consciousness about the democratization of the society among the working population and the members of different free associations is the implementation of the concept of integrative internal marketing. The research on the conditions of implementation of the marketing concept in profit and non-profit institutions in Croatia indicate that the conditions are unfavorable, or better said, unacceptable. Only a small number of profit institutions has implemented the marketing concept both in theory and practice and therefore the effectiveness of the internal marketing activities is small. The comparison of manifestations of internal marketing between institutions that have implemented the marketing concept with the institutions that have not implemented such concept has shown that a certain significant interdependence can be ascertained to exist between the manifestations of the internal marketing activities and the degree of implementation of the marketing concept. When the examined institutions, grouped according to their intermediate stages of marketing implementation, are included into the comparison, then the significance of the interdependence between the manifestations of internal marketing and the implementation of external marketing is lost. The implementation of internal marketing presupposes a simultaneous implementation of quality management and the selection of most favorable internal and external processes of creation of a product's value. It also presupposes a systematic integrated communication of the employees with the purpose to create mutual trust and introduce individual persons into the solution of the existing problems of the institutions and organizations. It is in this manner that on the basis of the achievements of the arts and sciences the institution will develop the ability of an individual to behave responsibly towards the others. Finally, we believe that a successful implementation of the internal marketing instruments' mix in profit and non-profit institutions and organizations can significantly help in the transformation of the current employee behavior towards better care of the customer's and end user's satisfaction and will in this manner contribute to the development of market and economic democracy in Croatia.

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## **Strategic Tourism Industry Marketing Plan of the Republic of Croatia in the Function of Social Changes Realization**

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*A new image should ensue from the Croatian tourism-industry strategic marketing plan, based upon development of a new competitively positioned tourism product as to effectively utilize the existent economic resources. The strategic marketing plan should be integrated and supported by an overall approach of all the key participants in the aggregate tourism-industry, but also by other tourism-relevant ones. In other words, a strategic marketing plan should articulate a long-term integrated tourist vision of the Republic of Croatia.*

### **Introduction**

For the Republic of Croatia, the tourism industry undoubtedly represents one of the priority directions of economic consolidation and further economic development. Although almost all relevant subjects are aware of the aforementioned fact, the question is being raised: who and how can we/they direct the activities in order to realize these tasks as efficaciously and as rapidly as possible. The answer may lie in Croatian tourism industry's strategic marketing plan, that may be an integrative implementation factor of efforts at all levels in the operationalization of all social endeavors in this respect.

As a modern-time phenomenon emanating from variously motivated (environment) alternations on one side and numerous activity aggregates that enable that transparently on the other side, tourism industry may be observed from different standpoints, but there is an unavoidable fact that it pertains to a socioeconomic phenomenon with very broad social implications.

The history of environment alternations was manifested in the following: environment alternations due to favorable living conditions in a new environment, due to an acquisition of material goods (e.g., wars), due to the knowledge and education acquisition, due to the rest, recreation, entertainment, happening and adventure seeking, etc. It is obvious that incipiently "... people's migrations have solved the problems that could not be solved through the goods traffic" (Baudin 1954).

Recently, especially nowadays, the majority of environment alternation motives of individuals (or their families) may be reduced to a basic one, representing in its essence a striving to eliminate the alienation of man in an everyday, domicile environment, so that a temporary environment alternation in that way, necessarily bringing with itself also the phenomenon of guest's consumption in a new environment, simultaneously represents an aspect of disalienation of that individual. Thereby, the motivating factors of environment

## Croatia's Tourism Industry Analysis

The tourism industry and agriculture should be the priority strategic directives of the economic development of the Republic of Croatia, especially in the postwar conditions, primarily because these two economic branches leverage natural resources and are mutually very tightly connected. Nevertheless, in order to be successful, it is necessary to invest significant marketing efforts in the tourism industry as to make the tourism-industry product of the Republic of Croatia recognizable, more competitive, and more clearly positioned in its entirety on an increasingly demanding international tourist market. The aggregation process in the tourism industry is based upon complementarity of individual activities and therefore on the realization of synergies.

The activities in a tourism-industry aggregate have an inductive and multiplying effect. Each entity from any field of tourist activity in a narrower or in a broader sense represents a polyvalent unit more or less directly interest-directed toward other subjects of other economic activities. Therefore, a mutual connection of entities of different economic (and even extraeconomic) activities should be based on a permanent or at least on a more permanent interest in order to integrate the products designed for the satisfaction of tourism-industry consumers' needs in a better and a higher-quality way. That simultaneously implies that tourism also imposes a contemporaneously integral approach to the satisfaction of tourist consumers' needs on all activities aggregated in it.

The tourism industry, still most often comprehended as an aggregation of activities in the Republic of Croatia, has a direct and indirect influence on an overall economy, what can be at best established through the input-output method. Namely, according to the nowadays already obsolete data from the input-output tables of the Croatian economy devised for the year 1987 (Jurčić 1998), it was calculated that the final services unit of the tourism sector causes an overall production of all sectors of the Croatian economy in the amount of 1.42260 units, which simultaneously presents a multiplying effect of the tourism sector. Since the direct influence of the final tourism-industry product on all sectors of the Croatian economy thereby amounts up to 0.2736 product units, it is deducible that its indirect influence amounts up to 0.149 units. At the same time, one should mention that in the Republic of Croatia even now nobody theoretically or practically talks of a "tourism industry" or of a "travel industry" as it is already accustomed in the world terminology but almost exclusively of tourism. However, disregarding this fact, it is sure that tourism industry, as an aggregation of all activities, both economic and extraeconomic, inevitably includes in itself also a social note that is, first of all, necessary in order to establish the tourism industry as an aggregate, and on the other hand, it also presents the interest of a society as a whole in the satisfaction of needs that are absolutely necessary at the existent development level for the majority of its members. One should emphasize that the nonprofit affairs in the tourism-industry aggregate have a directional-coordinational function, while the economic affairs have a working-productional one.



Zaltman 1971), social marketing, in a way a constituent part of the nonprofit marketing, has evolved up to the present, generally still overall acceptable, denotation, under which one implies that social marketing is a technology of managing the social changes that incorporates in itself a design, implementation, and control of the programs directed toward the acceptance of social ideas or practice in one or more target adopters' groups (Kotler and Roberto 1989).

It is especially symbolic, however, that social marketing (as well as the nonprofit one) does not present only a mere transposing of conventional marketing to the area of social activities but an overall unification of, in this case, specific marketing efforts and communication of technologies in order to effect a social change. The latter is especially manifested in a strong influence on alternation of ideas, behavior, and practice of targeted adopters, because the adopters' behavior, as denoted by the name itself, is based on an adoption of thoughts, standpoints, and values.

Thus, the goal of social marketing is to make the social changes and social behavior a result of willing and conscious strivings of the society members directed toward an acceptance on the scale of qualitatively higher social values and toward assumption of responsibility and risk for all the consequences ensuing therefrom. In order to succeed a supposition is also the existence of a certain level of the social values system as well as of an anticipative projection of its development.

The social marketing task is obviously not an easy one. In a long-term perspective, depending of course on the area of its activity, it should effect the changes in consciousness and consideration of an individual, which can cause the social changes for everyone's benefit. Social marketing really represents a kind of social force that does not pertain only to the living standard but also serves as a force that reflects and influences on cultural values and norms (cf. Lancaster 1988).

The social marketing objective should be a change in behavior. If a final product of an individual program is just a change of mental status, then it can be more adequately referred to as education or propaganda; that outcome is not really marketing (cf. Kotler and Andreasen 1991). Thus, the main characteristic of social marketing is that someone (a body corporate or a physical person, i.e., an association) tries to influence the change in behavior of a member or members of a target group. A basic principle hereby is a reduction of psychological, economic, and practical distance between the consumers and certain behavior. In other words, the social marketing objective is eventually a reaction of the targeted market adopters. However, it is essential that a reaction to a social marketing product emerges on the demand side (as consumption, usage, adoption and the like). The entirety of these unidirectional reactions leads up to social changes and to an increase in the quality of life, of course depending on their rational representation at the level of a society as a whole. That is why we understand under the notion of social changes the partial processes of a dynamic change of social structure as a system of interrelations and ties between

1. changes in an attitude toward tourism industry as one of two priority directives of the economic development of the Republic of Croatia, pertaining to all real and potential participants in the tourism-industry offer;
2. behavioral changes with regard to potential foreign tourist consumers should follow the basics of the aforementioned changes.

However, the question is being raised of whose task this directive should be? The answer is actually very simple but of course undoubtedly very complex in its operationalization. Namely, all the entities that have to implement the aforesaid strategies have to mutually respect their intercomplementarity. It is clear that a strategic marketing plan may be an integrative factor of the aforesaid efforts.

It is sure that tourism industry, among other things, stimulates an overall economic development, increases the utilization of natural and inaterial resources, increases employment and living standard of a population, increases the life quality, cultivates the behavior and interpersonal communication, stimulates a cognitive curiosity as well as people's educational level, eliminates various prejudices, modernizes dressing and housing, stimulates the knowledge of foreign languages, acquisition of a good psychophysical form and an overall health condition and the like.

The development of a tourism industry also brings along the potential creation of certain detrimental processes as a disturbance of economic equilibrium, devastation of nature and cultural heritage, unauthorized construction, disturbance of biological equilibrium, social changes and the like, but also other negative characteristics such as snobbism and other detrimental influences on the local culture, environment, or on the social structure of a receptive country up to the creation of certain pathological phenomena (criminality, prostitution, drug traffic, and the like). Therefore, the tourism of the future will be first of all based upon a selective and differentiated offer directed toward a qualitatively higher level of needs of various differentiated tourists' segments with high-positioned ethical, humane, moral, social, esthetic, environmental and cultural goals set up in parallel.

It is worth knowing that the Republic of Croatia accumulated from the tourism industry prior to the Homeland War between US\$ 2 to 3.2 billion with regard to tourist consumption, out of which more than two thirds pertained to foreign consumption. The tourism industry is traditionally of vital importance to the Croatian economy (Table 2).

In the tourism sector, 2,890 entrepreneurs and 14,389 craftsmen stores are operational. The accommodation potential in all accommodation-offer forms amounts up to 725,000 beds. Today, the private sector is also included in tourism industry, wherein approximately 85,000 employees are permanently operational. In commercial accommodation facilities, camps, and marinas, approximately 33,000 employees work in an unlimited working period (approximately 25.5 thousand in the catering industry) although their effective work actually is the season-based one (Ministry of Tourism 1999). This is partially a consequence of the acquired state of affairs in employment in the conditions of still non-privatized and unreconstructed companies, with an inapt and inelastic labor legislature and stipulated branch-bound collective contracts that are practically entirely based upon the institute of unlimited-term employment.

The favorable geographic and climatic characteristics of a northern Mediterranean location as well as a rich cultural heritage represent a potential for development of a strong and diversified tourism-industry product. Nevertheless, the actual basic characteristic of the Croatian tourism industry offer is an insufficient development of the tourism-industry product. The increasingly demanding market segments regard the quality level and the tourism-industry offer diversification degree as dissatisfying (Tourism Institute 1997). The reason therefore is the fact that a capacity increase is not supported by an adequate offer adjustment to the changeable guests' demand and requests, which resulted in a mediocre offer and a poor image.

Since the basic economic and technical-technological standards have not been respected in the construction of the offer facilities and a necessary level of investment maintenance has not been successfully secured, nowadays the majority of hotels, as the keystones of the tourism-industry offer, is in an unsatisfactory physical condition and irrationally structured, thus conditioning high maintenance costs. The physical tourism-industry turnover maximum in Croatia was reached in 1986 with the realized 68.2 million bed-nights. With regard to 1986, the physical turnover decrease in 1990 amounted up to 23 %, being created as a consequence of the offer disharmony with regard to the changeable demand requests. Due to the war activities, the lowest physical tourism-industry turnover level in this decade was recorded in 1991 (10.2 million bed-nights), and a more intensified tourism-industry recovery began in 1994. In 1998, 46 % of the 1986 physical turnover were realized, i.e. 60 % of the last prewar year (1990).

In addition to the aforementioned quantitative tourism-industry demand indices, the qualitative ones have also been strongly expressed (Ministry of Tourism 1999):

- an outspoken seasonal character: 60 % of the annual physical tourism-industry turnover total are realized during two summer months, and even 87 % in the June – September period,
- a dominant foreign origin of the tourism-industry demand in Croatia: even 83 % of the 1998 tourist-day total are of a foreign origin,

one side and concentration of large tourist operators and market-controlling consortia on other side (Ružić 1997).

To compete with global travel organizers and to establish a distribution network that guarantees a corresponding capacity utilization, it is necessary to dispose of at least five to six thousand high-quality hotel rooms, for that volume provides for a sufficient economy with regard to the cost ratio between the global marketing and sale.

### **Why a Tourism-Industry Strategic Marketing Plan is Necessary?**

It is obvious that the tourism industry of the Republic of Croatia has to return to its starting positions as soon as possible and even surpass them. Of course, achieving this task will not be simple, for it is necessary first to create a new political, economic, and tourist identity for the Republic of Croatia and its specific tourist destinations. Croatia has to build up a new image on the global tourist market, to develop a new tourism product, and to use the extant tourist resources effectively in order to attract the tourists from around the world. It is necessary therefore to devise a strategic marketing plan for Croatian tourism industry that has to be integrated and supported by an overall approach of all the key subjects of the tourism-industry sector but also by other tourism-relevant participants. It is very important to understand that the tourism-industry development strategy in Croatia has to encompass also those issues that are not directly connected with tourism industry. Namely, one should take into account the fact that the tourism industry may act as an investment and economic stimulant but also as assistance in environmental preservation and social development. A strategic marketing plan should make a long-term oriented tourism-industry development vision visible.

Of course, the marketing identity of a more complex tourist destination implies the attractive identity elements of that destination, but also all other identities usable when creating a marketing identity of a tourist destination as a whole. Implied here are the historical, political, democratic, cultural, national, sociological, etc. identities. However, a marketing identity is still to the greatest extent a psychological category created at the perceptual level.

It is empirically possible to establish that the Republic of Croatia momentarily does not have a defined and recognizable image that results from an equally recognizable economic and marketing identity. In order to achieve the aforesaid trinity, it will be necessary to effectuate a positioning of all positive dimensions of an image in a coherent entity that will be able to correspond with a dynamic reality. Probably, that would simultaneously be the most efficacious way out of all postwar trauma and a way of accession to the modern European and global developmental trends. In any case, marketing can be of a great help when operationalizing these efforts. The latter should be predominantly manifested in a change of image of the Republic of Croatia as a tourist destination especially when it comes to the potential foreign tourism-industry consumers. The image of the Republic of Croatia should represent a presupposed

(regional) tourist destinations, as it is done in the Republic of Croatia by promulgation of strategic marketing plans for individual counties.

Eventually, such strategic marketing plans may also subsequently present a framework for devising individual strategic marketing plans of the economic entities more or less directly included in the tourism aggregate. In other words, there has to be a complementarity between the strategic marketing plans and implementational synchronization. It is also worth knowing that a long-term, strategic marketing plan analyzes and warns against the trends on the global touristic scene, defines a long-term tourism product vision of a country in the context of its developmental strategy, and defines the most prosperous markets. A medium-term plan processes in detail each selected geographic market (adducing concretely the products dedicated to certain target groups or the communication ways pertaining to these consumers), while an annual or action plan specifies each activity during the year both for an individual market and for each target group (Weber 1993). When devising the Croatian tourism-industry strategic marketing plan, this process has to take into consideration two main tourism-industry specialties (cf. Kotler et al. 1999):

1. The "tourism industry" is a special one since it distributes the product market, not vice versa. This difference means that tourism industry is irrefutably connected to the space and that its development is connected with transportation, infrastructure, and planning that are the presuppositions for a travel and arrival to a destination.
2. Tourism industry is not an industry in a traditional sense but an agglomeration of sectors. It is fragmented, but it should be observed as a unified system comprised of interconnected parts. As a system, it can be defined, analyzed, planned and managed in an integral way.

Thus, the strategic marketing plan development for Croatia cannot be separated from the following issues:

1. The role of tourism in national economy
  - How important tourism industry is in an overall economy?
  - How important tourism industry is with regard to other sectors?
2. Tourism and space
  - What infrastructure does Croatia need in a short- and a long-term perspective in order to support the tourism-industry marketing strategy?
3. Investment promotion
  - How is it possible to increase the private sector investment?
  - What are the stimuli to tourism-industry development?
4. How to control the tourism-industry development?

Consistent with the literature, we contend that a strategic marketing plan for Croatia's tourism industry should incorporate an in-depth analysis with concrete conclusions and operational solutions, whose compilation may be classified in the following phases:

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**Competition and Markets Panel: The  
Local and/vs. the Global**

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## **The Local and/vs. the Global**

*A. Fuat Firat, Arizona State University West, USA*

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*In recent discourse on globalization and postmodern culture, the global and the local have often been positioned as competing and opposing territories/spaces. Adages, such as, "think global act local," have permeated the conceptual landscape. Globalization has frequently been claimed as the layer of local cultures, identities, and experiences. The presentations in this session illuminate the complex relationships between the local and the global, articulating their historical and, especially, contemporary interdependencies. Ger elaborates an analysis of the global forces of production and consumption as they determine and are determined by the constitution of local-ness. Belk articulates the (re)(dis)classifications of the social through the interplay of the global and the local. Firat re-conceptualizes the osmosis between the global and the local that renders each absent without the other.*

### **Local Firms Outlocaling the Global Market**

*Güliz Ger, Bilkent University, Turkey*

This presentation (based on my recent article: Ger, Güliz, 1999, "Localizing in the Global Village: Local Firms Competing in Global Markets," *California Management Review*, 41 (4: Summer), 64-83) takes the neglected perspective of the less powerful agents in global markets: the local enterprises, especially from marketizing countries. The question that motivates this essay is: are there any strategies which can enable the local companies (LCs) to realistically compete with transnational corporations (TNCs) as active and independent agents whilst simultaneously establishing and integrating themselves into global economy? LCs cannot catch up with TNCs who are far ahead in the road and going very strong, however, they can take a different road. I explore alternative, innovative approaches whereby the global competitiveness of LCs can be enhanced.

Compared to the TNCs, LCs are at an inevitable disadvantage with respect to economic capital. However, there are other types of capital, such as cultural. An adaptation and extension of Bourdieu's notion of cultural capital for individuals to that of firms provides the conceptual basis for the present argument. Within the current global context, greater chances exist for local firms with respect to their cultural rather than their economic resources. Recognition of cultural resources coupled with an in-depth understanding of the global production and consumption dynamics can provide venues for competition.

Three key components of competitive success for LCs are unique perceived value, cultural capital, and alternative targeting and positioning based on the precept of "localness". Cultural resources and positioning/representation



consumption ideals. Even those Europeans who remain in the country serve as referents, albeit distant ones. The second group of social referents for the new middle class of Zimbabwe is an even more distant group represented by media images of Americans and Western Europeans. It is nevertheless not these distant referents that members of the new middle class seek to impress. Rather, they attempt to demonstrate to fellow Zimbabweans and themselves that they are as good as those in America, England, and elsewhere in the more economically developed world. I discuss what this may imply for our conceptions of social class, social comparison, and conspicuous consumption within a global economy.

### **Globalization of the Local – or the Localization of the Global**

*A. Fuat Firat, Arizona State University West, USA*

The content of the global may have historically been necessarily local. In the homogenization scenario of globalization is the idea that one (previously) local is now dominant in (almost) all localities. The seductiveness of this idea is undeniable in the face of the easily observed prominent presence of McDonalds, US television programs, Coca-Cola, and the like, around the world. On the other hand, it is currently possible to find artifacts of a multiplicity of local cultures and identities other than the homogenizing “American” one around the world. The French croissant and café culture, the Irish river dance, the three tenors, Chinatown, Indian cuisine, and others, have become part of the global. Without the presence of a multiplicity of the local, what exists tends to be provincial rather than global. The global is now a mosaic of the local.

The fact that, currently, participation of any local in the global requires its marketability does not, nevertheless, seem to stop the growth of the globalization of the local—that is, presence in all parts of the world of that which used to belong to a single locality in the world. There are significant consequences of this phenomenon for all local cultures and identities. This paper articulates especially one such consequence: the increasing necessity of the existence of/in the global for local cultures and identities to be able to have self-consciousness or self-image.

**Justice, Ethics and Historical  
Dimensions Competitive Papers**

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## **Consumption and the Mobile Self: The Negotiation and Performance of Ethnic Identity among Refugees and Immigrants in Ireland**

*Paddy Dolan, Dublin Institute of Technology, Ireland*

*Pierre McDonagh, Dublin Institute of Technology, Ireland*

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*This paper proposes a conceptual framework to consider identity as a result of the immigrant/ refugee experience, and how this change is marked or negotiated symbolically through commodities and other consumer practices. Firstly, the role of the state in objectifying the refugee subject is problematized as a technology of power. We critique prevailing approaches to the relation between the self and consumption, and draw on alternative perspectives on identity and Diaspora. A methodology is outlined to investigate the refugee experience, incorporating both an analysis of visual display in social spaces, and also through individual biographies. Some implications for macromarketing theory and practice are suggested.*

### **Introduction**

This paper is about several things at once. It is firstly concerned with what it could be like to be a refugee or immigrant in Ireland today. For our purposes here we will use the term refugee, though there has been public debate in Ireland about the distinction between refugee and immigrant. Refugees are viewed within a political context – they are escaping persecution due to their religious or political positions. To remain in their country under such circumstances would be life-threatening. They come to Ireland, and other countries, seeking asylum. Immigrants are classified as such due to their perceived economic status. They are not escaping political or religious persecution – they are seeking to escape conditions of severe material hardship. They are fleeing from poverty.

The initially interesting point here is that they do not themselves necessarily make this distinction. Their sense of reality is more likely to be structured around and within metaphors of escape and the promised land. It matters little what you are escaping – both forms threaten the life they want to lead. Both entail transition, movement; negotiation with oneself as a person ‘in-between’ and with the institutionalized governance of the immigration office. Both involve leaving behind, and joining or becoming – what? In Gilroy’s (1993a) terms, they are joining the ‘Black Atlantic’ (though he concentrates on the movement between the Caribbean, America and Britain). They form emergent diasporas. This paper sets out a conceptual framework, and proposed methodology, for the way consumption practices shape and are shaped by these emergent diasporic identities.

of cultural authenticity and communal integrity. This nation-centredness – with its myriad historical and institutional imperatives - becomes both the cause of cultural panic, and its panacea.

From Irish eyes, the African Other, the presence of the Other in our midst, contradicts the mirror image of ourselves as an ethnic state. At a remove, Africa may represent the Other nation or continent, which, along with other nations in a system of relational terms, forms the different meaning of 'Ireland'. African people, on the other hand, who are bodily present, represent the possibility of a multi-ethnic Ireland, which can only be accepted under a program of cultural assimilation. Hall (1991a, p. 20) writes in a similar vein of the English gaze of the Other - "...the colonized Other was constituted within the regimes of representation of such a metropolitan center. They were placed in their otherness, in their marginality, by the nature of the 'English eye,' the all-encompassing 'English eye.'" It perhaps seems strange that this should seem relevant to the 'Irish eye', as Ireland was an English colony, and thus the Irish were (and perhaps still are in some ways) subjected to the colonial gaze, the construction of Irish as Other, and part of the 'great' Imperial empire. To be Irish and Nigerian is to be post-colonial, but identity is never the result of a single cultural or historical trajectory. Ireland is now the myth and metaphor of 'the Celtic Tiger', itself soaked in the meaning of ethnic absolutism and aggression. Since the end (partial?) of English rule, Ireland has been reconstructed as a modern European nation – economically, but more importantly, psychically – and to be European, means identifying the non-European, as the identity and meaning of any object, person, event or word is always constituted in a system of differences.

Hall (1991b, p. 48) emphasizes the dialectic between the 'indigeneous' population and the black subject in terms of the identity of the subject (refugee) being always somewhat constituted by the objectivizing of the 'indigenous' - "The attempt to expel the other to the other side of the universe is always compounded by the relationships of love and desire... This is the Other that belongs inside one... This is the self as it is inscribed in the gaze of the Other." The inherent dialectic between the 'indigenous' and the 'diaspora' in terms of the processes of identity-making, is echoed also by Brah (1996, p. 181):

Diaspora space is the intersectionality of economic, political, cultural and psychic processes. It addresses the global condition of culture, economics and politics as a site of 'migrancy' and 'travel' which seriously problematizes the subject position of the 'native'. My central argument is that diaspora space as a conceptual category is 'inhabited' not only by those who have migrated and their descendants but equally by those who are constructed and represented as indigenous.

structural anthropology (Leach 1970). As to the role of phenomenology and existentialism in either 'structuralism' or 'poststructuralism', Bourdieu (1999) describes his own intellectual formation as in part a reaction against the 'flabby humanism' taught in French philosophy departments of the 1960s. Thompson's work cites Foucault as the main source of his 'poststructuralism', yet Foucault (1997, p. 290) in his approach to the self also reacted against phenomenological approaches:

What I rejected was the idea of starting out with a theory of the subject – as is done, for example, in phenomenology or existentialism – and, on the basis of this theory, asking how a given form of knowledge [*connaissance*] was possible. What I wanted to try to show was how the subject constituted itself, in one specific form or another, as a mad or a healthy subject, as a delinquent or nondelinquent subject, through certain practices that were also games of truth, practices of power...

It was the question how of power, truth and ethics that intrigued Foucault, rather than the why. Consequently, his work is profoundly historical or, more precisely, genealogical. He searches for the history of the present, not in teleological historical narratives which attempt to trace the continuities of meanings of events. Foucault shows that the meanings of events and practices are not continuous over time. His interest in continuity is in form. For example, what were the forms of subjection which classified mad versus normal people over time, or pure versus sexually deviant. These classifications involve both modes of discourse and practice. In his later work, Foucault focuses on the technologies of the self, or ethics of the self, *ethos*. This approach does not valorize the meanings of the self or the expressions of the self as a reflection of self-identity. Rather, he highlights the genealogy of the relation of the self, the work of the self on the self.

The essence of Foucault's position, the way that he can be conceived as post-structuralist in that he retains the *structuralist* desire for explanation but *post* in that he focuses on discourse and practice or techniques, is in examining the conditions of possibility for the emergence of the relation to the self, whereby people voluntarily seek to embrace discourse/practice into the mind/body. This entails an historical account, and Foucault traces back our concern for the self, the maintenance and extension of the self back to classical Greece. In the complex trio of power, truth and ethics, Foucault sought to understand how did the modern person come to see himself or herself as a subject, capable of acting on the world in their own right.

Such genealogies are beyond the scope of our study, but we can make use of the ethics of the self that Foucault has developed, viewing consumption practices as examples of 'practices of the self'. As Rose (1997, p. 239) states, "We need to focus less on what language means and more upon what language

complete, always in process, and always constituted within, not outside, representation” (Hall 1990, p. 222). In other words, identity is constituted within and through language and discourse. It is not first created and then represented by language, other sign systems, or consumer practices - it is itself created within these systems. Hall’s focus on representation perhaps overlooks the nature of the practices of the self, and the technologies of the self, that Foucault addresses.

However, the temporality and contingency of identity, particularly of diasporic identities, is a central theme in Hall’s recent work. The diaspora, though associated with the Jews, is a concept used to describe the position and experience of those who embarked on the massive migrations from former colonies towards the colonizing nation. It is diaspora to the extent that that great movement of people embodied the image of a shared culture, which was in a sense disembodied from the home nation, the colony. In such migrations culture can never stay the same, nor can identity, as one must negotiate the contradictions and complexities of being in-between cultures, in-between places, and in-between times. As Hall (1990: 225) states:

Cultural identity... is a matter of ‘becoming’ as well as ‘being’. It belongs to the future as to the past. It is not something which already exists, transcending place, time, history and culture. Cultural identities come from somewhere, have histories. But, like everything which is historical, they undergo constant transformation. Far from being eternally fixed in some essentialised past, they are subject to the continuous ‘play’ of history, culture and power. Far from being grounded in a mere recovery of the past, which is waiting to be found, and which, when found, will secure our sense of ourselves into eternity, identities are the names we give to the different ways we are positioned by, and position ourselves within, the narratives of the past. It is only from this ...position that we can properly understand the traumatic character of ‘the colonial experience’.

While these processes of identification could conceivably affect anyone living in the West, or indeed globally, they are likely to be more intense and uncertain in the context of a significant rupture from the homeland, an often perilous migration into the unknown, the explicit disciplinary power and objectivization of the host state, and the gaze of the ‘indigenous’ Other. Further, Hall (1990) contends that diaspora identities are constantly reproducing themselves. The modes of such production and reproduction are not clear and are likely to vary from place to place, as the cultural, economic and political processes of the host nation affect the possibilities and trajectories of such reproduction. Our contention that one such mode of production and reproduction is through consumption practices as cultural and ethical (in Foucault’s terms) strategies. However, rather than see such practices as totalizing they need to be viewed within the context of other practices and personal narratives. Cultural

ethnicity? Is such performance both liberatory in its postmodernism and conflictual given attempts at assimilation in to the wider community? Gilroy (1993) questions both the essentialist and pluralistic perspectives with specific reference to black art and cultural criticism considering the role of art and artist or intellectual in giving the masses a sense of community which knows which cultural objects are appropriate for their identity construction. This invariably reinforces what Gilroy terms the racial self and presents the individual with challenges in terms of his or her own human agency. One could examine the *immigrant's cultural cages* where the individual has not only to break free of both the essentialist perspective but also the racial baggage that surrounds him to assert his identity. Again investigating consumption practices sheds light on such dilemmas.

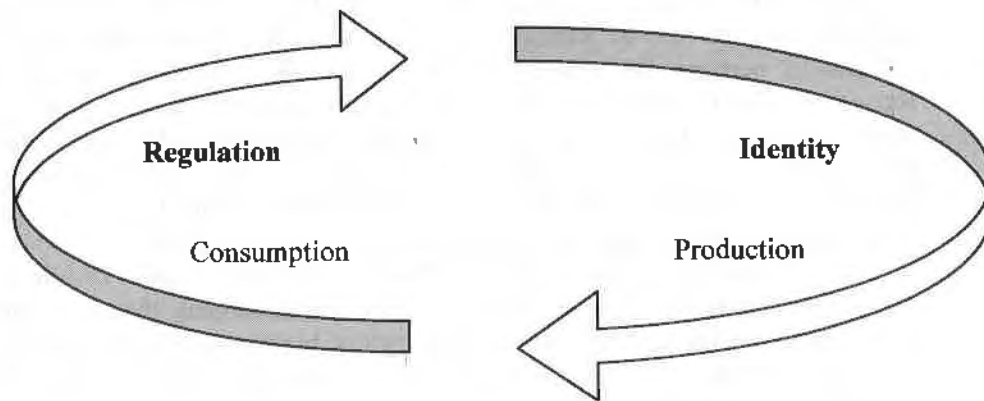
## Methods

We propose a methodology, which adopts the writings of, inter alia, Paul Ricouer (1992) in terms of how our sense of self is 'enplotted' within our own narratives. The process of story-telling produces and reproduces the self, always interweaving with prevailing cultural discourses and practices, and the circumstances and events, which are involved in living one's life. How commodities and consumer practices are connected to such 'enplotment' and serve as markers, signs, and maps for the mobile self is the purpose of our conceptual framework and proposed methodology.

This methodology of narrative and temporal selfhood is echoed in Brah's (1996, p. 183) description - "...the identity of the diasporic imagined community is far from fixed or pre-given. It is constituted within the crucible of the materiality of everyday life; in the everyday stories we tell ourselves individually and collectively." Similarly, Rasool (1997) draws on oral history in her study of black women in Britain, and shows how memory traces of collective experiences allows the reflexive process of self-identification. Previous research (Lalvani 1995; Hawkes 1996) has focused on how the mass exoticisms of the West appropriated, rearticulated and recoded artifacts and images of the East, but what of the people of the Orient (Africa and Asia) - what artifacts and practices do they maintain, abandon, re-interpret, create and adopt in becoming *their* selves.

On noting visual display in social spaces one can draw on Hall's (1997) broad interpretation. The contention is that as well as the written or spoken systems of language visual images, whether produced by hand, mechanical, electronic, digital or some other means, also represent a particular language in that they are used to express meaning. In order to understand the visual signs and the social spaces where they are found it is necessary to unpack the conceptual maps by which their creators give them meaning. Indeed it is already well argued that the production of identities through spatial practices has a particular relevance in lives organized through global immigrant movement and the racial

(1997) we speculate on the performance of the refugee's circuit of culture through the collection of individual biographies, self portraits, photography and observation.



### **Implications for Macromarketing**

What then are the connections to macromarketing theory and practice of this work? It would appear that clarification is needed when we discuss life quality of the consumer when s/he is immigrant. As a result we believe that there is a need for research to explore the performance of immigrants of their ethnicity through their consumption practices. To achieve such distinction is however problematic and the present study addresses the need for data collection in the area as outlined above. Drawing on insights from Oswald (1999) we believe quality of life conceptualization needs to examine the phenomenon of culture swapping and brand consumption that can be argued to be more real than the original. What conditions give rise to such practices and how does it impact immigrants' perception of their own life quality? Such work might also reveal whether or not life quality of immigrants can be internalized as opposed to being dependent on discrete material possessions.

Such macromarketing work might also deliver some insights into the reciprocity of quality of life between individuals and the nation state. In other words how does the state benefit from its inclusion of the immigrant population. One can speculate here on the progression a state goes through in becoming a melting pot for different cultures. Does the resultant society display signs of having a cosmopolitan character and cultural diversity? In this respect the concept of diaspora space Brah (1996) considers does have benefits for both immigrants and the indigenous population. Brah (1996, p. 181) argues diaspora space to be intersectionality of diaspora, border and dis/location as a point of confluence of economic, political, cultural and psychic processes.



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## **Social Marketing Strategies for Fighting Corruption**

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*Social Marketing has been successfully applied to a wide variety of social issues, from reducing consumption of tobacco to the encouragement of breast feeding. Although social marketing is distinguishable from traditional marketing in several respects, it continues to evolve alongside the general field of marketing; for example, a recent trend in social marketing is to form strategic alliances and partnerships with business. A potentially useful application of social marketing is in the realm of battling corruption, primarily by promoting attitudinal and behavioral changes. Corruption, whether petty, grand, systematic, or internationalized, has severe and costly consequences that adversely affect the general welfare of nations. An anti-corruption campaign should be comprised of Education, a National Integrity System, Codes of Conduct and Ethics, and Public Awareness and the Mass Media. Previously implemented anti-corruption strategies that yielded successful results focused on four key areas: prevention, enforcement, public awareness, and institution building.*

### **Introduction**

Marketing, as an academic discipline, is concerned with the study of exchange transactions. Exchanges have occurred since time immemorial and markets, where exchanges take place, have existed for thousands of years. Yet, marketing, as a study is relatively new. Until the time of the Industrial Revolution, exchanges were regarded as strictly an economic activity. But, the Industrial Revolution caused much social unrest and there was a growing feeling that there were also social consequences when exchanges occurred. This led to the enactment of many laws during the latter part of the nineteenth century to protect consumers. At the turn of the century, a group of economists who were a little more practically oriented split and started a new discipline that was later titled marketing (Bartels 1976).

For the first seven decades of the twentieth century, marketing was regarded as strictly an activity performed by businesses. In fact, it was inconceivable to many that marketing could be regarded as anything but a business activity (Luck 1969, 1974; Bartels 1974). In the late 1960's, Eugene J. Kelley, editor of the *Journal of Marketing*, called for papers that should stimulate discussion of marketing's role in modern society and add to the existing fund of marketing knowledge. The result was two classic articles which appeared in the January, 1969 issue of the above mentioned journal.

The first article, by Lazer (1969) examined how marketing affects society and demonstrated the need for business people to become more societally conscious. Failing to do this, Lazer argued, would lead to more government

## What is Social Marketing?

Social marketing has been defined in a number of ways. Lazer and Kelley (1973) include the social consequences of marketing policies, decisions and activities, a perspective which looks at marketing's output as well as input. Most scholars would categorize this approach as societal marketing or macromarketing. Some authors include in their definitions the concept that the ultimate goal of social marketing is to improve personal and societal welfare (Ahmed, 1984; Andreasen, 1995). Although this is most often the case, it is not universally true. For example, family planning is a good idea to many but some religious groups might be opposed to it. Social marketing has been used successfully by both the pro-life and the pro-choice movements. The definition that appears to make the most sense, at least to this writer, is the one proposed by Kotler and Zaltman (1971).

Social marketing is the design, implementation, and control of programs calculated to influence the acceptability of social ideas, and involving considerations of product planning, pricing, communication, distribution, and marketing research.

Synonymous terms that might be used are social *cause marketing*, *idea marketing* or *public issue marketing* (Frederiksen, Solomon and Brehony 1984). Although not all inclusive, examples of causes where social marketing has been used are shown in Table 1.

**Table 1**

<p><b>Public health campaigns to:</b></p> <ul style="list-style-type: none"> <li>- reduce smoking</li> <li>- reduce alcoholism</li> <li>- encourage physical fitness</li> <li>- discourage use of hard drugs</li> <li>- control overeating</li> <li>- encourage proper nutrition</li> </ul> <p><b>groups:</b></p> <ul style="list-style-type: none"> <li>- encourage immunization</li> <li>- encourage sanitation practices</li> <li>- encourage safe sex</li> <li>- eliminate birth defects</li> </ul> <p><b>Education campaigns to:</b></p> <ul style="list-style-type: none"> <li>- encourage literacy</li> <li>- be better prepared for the workforce</li> <li>- retrain for different types of jobs</li> <li>- encourage culture (music, art, etc.)</li> </ul> <p><b>Image campaigns for:</b></p> <ul style="list-style-type: none"> <li>- cities, nations, fund raisers, and nonbusiness organizations that market causes (museums, universities, unions, police departments, churches, etc.)</li> </ul>	<p><b>Environmental campaigns to:</b></p> <ul style="list-style-type: none"> <li>- encourage clean air and water</li> <li>- energy and water conservation</li> <li>- recycling</li> <li>- protect plants and animals</li> </ul> <p><b>Protecting rights of individuals &amp;</b></p> <ul style="list-style-type: none"> <li>- gays and lesbians</li> <li>- racial equality</li> <li>- children from being abused</li> </ul> <p><b>Other issues:</b></p> <ul style="list-style-type: none"> <li>- family planning</li> <li>- abortions (pro-life or pro-choice)</li> <li>- prison reform</li> <li>- gun control</li> <li>- drunk driving</li> <li>- fair play in sports</li> <li>- auto driver safety.</li> <li>- etc., etc., etc.</li> </ul>
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products. The report concluded that plain packaging as part of an overall social marketing campaign would have a significant impact in reducing the consumption of tobacco products, particularly among younger people (Kindra et al., 1995).

*Problem: To improve traffic safety: OECD*

In recognition of the fact that every year 120,000 people are killed on the roads of OECD countries, a Social Marketing approach to traffic safety has been advanced. This approach was also used in Australia in the 1980s to promote the use of helmets for bicyclists.

*Problem: To improve fair play in sport: Canada*

In 1986, Otto Jelinek, then Minister of Amateur Sport in Canada was concerned about the violence that was occurring in sports in general and particularly in hockey. Consequently he set up the Fair Play Commission which consisted of famous Canadian sports celebrities such as Wayne Gretsky, Jean Blinson and Diane Jones-Konigorsky. After developing an extensive marketing plan the program was instituted and many changes were made to make the sport safer. The program continues under the supervision of the Canadian Center for Ethics in Sports. Although the problem is ongoing it is generally agreed that much progress has been made.

*Problem: To increase the prevalence and duration of breast feeding: Brazil*

Brazil, particularly in areas where the lowest income groups live, is known to have unclean conditions, inadequate medical services, poor nutrition, and unclean water. Bottle feeding, under these conditions is not safe and in fact was the cause of the premature deaths of many babies. The Brazilian Ministry of Health with the collaboration of UNICEF resolved to take up the issue. A massive social marketing program was introduced during the 1980's. All relevant segments were targeted. These included the doctor, the health services, the hospital, industry, government officials, and of course, mothers. The campaign was an overwhelming success. Increases in the duration and practice of breast-feeding were recorded in all income groups and the declining trend in breast-feeding had been stayed and reversed. (DaCunha, G., in Fine 1990.)

*Problem: To reduce unintended pregnancy, particularly among teenagers: USA*

Each year in the United States more than 1.1 million teenage girls become pregnant, more than 80 percent of them unintentionally. The Planned Parenthood Federation of America has been committed to eradicate unintended pregnancy since its inception in 1916. A program devised in 1984 proposed various solutions including sex education, changing society's attitudes about sexuality, contraceptive practices, available abortions, etc. Despite criticism from some quarters, PFFA has achieved many of their goals and continues

*Problem: To encourage family planning and safe sex: Vietnam*

DKT International is a USA based non-profit, humanitarian organization implementing social marketing and communication programs for family planning, AIDS prevention and public health. It is active in over 25 countries in Africa, Asia, the Middle East, and South America. The first major activity that DKT undertook in Vietnam was a social marketing program designed to complement and support the program of the Ministry of Health. DKT designed a program to promote, distribute and sell condoms at a small fraction of their cost. A detailed plan was prepared. The various target markets were studied, an efficient distribution system was established and a series of promotions was ready to be implemented.

All of the above examples have shown successful results although the process is slow and the problems never completely resolved. As difficult as it is to bring about successful social marketing campaigns, it is even tougher to do so in some of the lesser developed countries, particularly those with a strong socialist orientation. In these countries marketing often has a bad image and is a misunderstood managerial philosophy (Semenik and Bamossy 1995). Typically, the people here have little or no marketing or professional management training, and they operate in a rigid, bureaucratic environment.

### **Strategic Planning in Social Marketing**

In designing effective social-change strategies, social marketers go through a normal marketing planning process (Kotler, Armstrong, Cunningham and Warren, 1996). Like any marketing strategy, the basic elements consist of (1) the target market and (2) the marketing mix variables of product, price, promotion, and distribution that are directed towards satisfying the needs of the target market. Environmental factors provide the framework within which marketing strategies are planned.

Although the same process of planning is used by both marketers of goods and social marketers, there are some basic differences. Lamb, Hair and McDaniel (1992) describe the unique aspects for social marketers as they go about designing a strategy.

- 1) Target markets: Instead of targeting the most receptive segments of the market, non business organizations must often select apathetic or strongly opposed targets. The mission is often to stop people from engaging in activities that appeal to them.
- 2) Nature of products: The concern is with services and social behavior and not with manufactured goods.
- 3) Nonfinancial objectives: Financial profit is not a motivation.
- 4) Need to attract resources: Cannot recover costs from sales revenue and thus must secure outside funds from donations, grants, etc.

- 6) Procter & Gambler has teamed up with the President's Council on Physical Fitness by sponsoring joint programs.
- 7) Shoppers Drug Mart has worked with the Canadian Center for Ethics in Sport to design programs and promotions for fair play in sports.
- 8) Loblaws has furthered the cause of the environmental movement by supplying and promoting green products.

### **The Future of Social Marketing**

Social marketing, like all of marketing, will evolve as challenges present themselves and new technologies arise to help solve problems. Social marketing is still fairly new and its effectiveness is being constantly evaluated. It is difficult to produce social change but we have seen some very encouraging successes. We will have to see many more applications however before we can fully assess social marketing's potential for producing social change.

If people do not act to preserve their democracy, if they lack civic virtue and commitment to their government, then democracy will certainly fall prey to the vulture of corruption. When citizens call for a more accountable and decent government, they are expressing their anger about corruption, a practice that humiliates the poor by forcing them to bribe minor officials to do their job; that bankrupts the honest trader; that empowers the partnership of unscrupulous captains of commerce and dishonest officials and spreads like a cancer to infest all that is decent in society (Sanchez 1996, pp. ii and iii).

### **Social Marketing and Corruption**

This section of the paper examines how social marketing can be used as an effective weapon in the fight against corruption. In particular, it discusses how social marketing promotes attitudinal and behavioral change towards corruption.

#### *Defining Corruption*

"Corruption" is popularly defined as: being open to bribery, dishonesty and lacking in integrity; moral deterioration and which is "marked by venality and dishonesty so as to destroy or subvert honesty or integrity". The World Bank's Corruption Action Plan Working Group defines corruption as: the abuse of public office for private gain. More precisely, corruption in the public sector occurs when politicians or public servants improperly and unlawfully enrich themselves or those close to them by the misuse of the public power entrusted to them (LSP, P3). Corruption becomes a "pervasive phenomenon" when there has been a breakdown of the social order (Pope, National Integrity Systems: The TI Source Book, viii).

ignore the anti-bribery laws of developing countries, even allowing their corporations to make the payment of bribes tax deductible. "Such actions blatantly disregard the needs of fragile new democracies to prove the value of the democratic system to people who have lived for years under totalitarianism" (Sanchez 1996).

The global spread of political and economic liberalism has had a profound impact on economies in transition, including developing countries and centrally planned economies. Many state-owned monopolies have been privatized and economies have become more open and vulnerable to global competition. New regulatory reforms, while meant to enhance competition, provide fertile ground for additional corruption in the absence of new and improved enforcement capabilities. The public service has seen its relative importance eroded as wealth and power has shifted to the emerging private sector.

#### *Costs and Consequences of Corruption*

Corruption is costly. Besides reducing respect for authority and the legitimacy of government, corruption has an adverse effect on consumer prices, competition, quality of goods and services, and general welfare of the nation.

Recent econometric research suggests there is a negative association between high levels of corruption and economic growth. Case study materials from around the world indicate that illegal payoffs can increase the cost and lower the quality of public works projects sometimes by as much as 30 to 50 percent.

In the form of institutionalized bribery corruption can adversely distort competition by creating artificial barriers to entry. Spending decisions are made for personal ulterior motives ahead of the public interest. Furthermore, gains made through corruption are likely to be siphoned off to overseas bank accounts, creating a serious leakage from national revenue. In addition, corruption diverts productive members of the labor force away from legitimate but less paid activities.

Public expenditure decisions are fueled by private gain and subsidized by bribes with scant regard for the good of the country or its people. Corruption can thus be seen as a cause of poverty, not a result of it.

#### *Social Marketing and Corruption*

To be effective, anti-corruption education and awareness campaigns must make their target audience understand and appreciate the social, economic and personal costs and consequences of corruption.

Social marketing campaigns (i.e. planned parenthood and safe sex), which seek attitudinal and behavioral change must be sustained over lengthy periods of time. As they are usually highly labor intensive and costly in terms of program resources, governments should seek funding from international organizations, foreign countries and their development agencies.

anti-drug programs. Introduced at an early stage, anti-corruption arguments have a greater likelihood of influencing the beliefs, attitudes and values of the target audience. By altering individuals' perceptions of systemic values about corruption, social marketing can achieve its campaign goals.

When recruiting new public servants or making new appointments within the public service, national public service commissions could measure their candidates' attitudes and perceptions towards corruption. All new hires and appointments might be required to undergo anti-corruption training as part of their standard training and orientation. Over the long term, such recruitment and promotion practices should have a positive influence in shaping bureaucrats' perceptions of corruption.

Anti-corruption education campaigns, should make the target audience/primary stakeholders aware of their roles and responsibilities as politicians and public servants. The focus should be on prevention rather than on enforcement. It is more cost effective to use an educational social marketing program to prevent the occurrence of corruption than to implement costly "after the fact" enforcement and prosecution measures. Rather than detecting and punishing the wrongdoer after the fact, such a system reduces the risk of corruption occurring in the first place.

#### *A National Integrity System*

A National Integrity System (NIS) forms the foundation of any anti-corruption campaign. A NIS comprises eight independent pillars: public awareness, public sector anti-corruption strategies, public participation, watch dog/supreme audit agencies, the judiciary, the media, the private sector and international cooperation. NIS provides a systemic approach for an anti-corruption campaign in which attitudes and behaviors respecting corruption can be modified. In large part, the level of political commitment and support will determine the extent to which the campaign will succeed.

Anti-corruption systems and strategies adhere to the principle of interdependency -The eight pillars are interdependent. If one pillar weakens, an increased load is thrown onto the others. If several weaken, their load will tilt so that the round ball of sustainable development rolls off. A NIS identifies gaps and opportunities for using each pillar to establish a coherent framework of institutional strengthening.

An (national) integrity system addresses public sector corruption using government processes (i.e. leadership codes and organizational change) and civil society participation (i.e. democratic process, private sector, media). These reforms are initiated and supported by politicians, policy-makers and members of civil society.

When combating corruption, social marketing serves as a catalyst for cooperation and cohesion between government, the private sector and civil society. A Civil society organization's ability to monitor, detect and reverse the activities of public officials is enhanced by their familiarity with local issues. In



- Objectivity - In carrying out public business, including making public appointments awarding contracts or recommending individuals for rewards and benefits, Holders of Public Office should make choices on merit;
- Accountability - Holders of Public Office are accountable for their decision and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office;
- Openness - Subject to confidentiality considerations, Holders of Public Office should be open as possible about all the decisions and actions that they take;
- Honesty - Holders of Public Office have a duty to declare any private interests relating to their public duties and to take steps to protect the public interest; and
- Leadership - Holders of Public office should promote and support these principles by leadership and example.

Likewise, there are many who believe that Codes of Conduct should also apply to the activities of officials representing multinational corporations. For example, for Sanchez, the private sector of wealthy nations must be made aware of their role and responsibilities in combating corruption. Multinational corporations, whose budgets often exceed the GDP of the countries where they conduct business, often function outside of the law and with impunity. In the absence of enforceable international codes and penalties, it is difficult to convince multinational corporations to voluntarily refrain from business practices that would otherwise be illegal in their home country. This is especially the case when their competitors engage in corrupt practices as part of their regular and normal business practice.

As there is adjudication of anti-dumping and unfair trade practices, perhaps the international community should seek a means whereby complaints regarding corrupt practices by national bureaucracies could be adjudicated by an impartial international third party. The creation of an international Code of Conduct to support "Corrupt Free" business would represent a logical and natural outgrowth from current corporate Codes of Ethics. Like nations, many corporations have discovered that a Corporate Integrity System (CIS) makes for good management and financial sense. If more corporations from wealthy countries were to have a CIS, then it would be easier to communicate anti-corruption messages in those countries where such corporations are closely and strongly linked with the ruling elite.

#### *Public Awareness and Mass Media*

Anti-corruption campaigns cannot succeed without public support. "If ordinary people and business expect to pay bribes and are accustomed to dealing with the State through payoffs, then a change in attitude is essential if fundamental, systemic change is to occur. Some public awareness campaigns in countries focus on the harm done by corruption; the fact that the corrupt are

## **Measuring and Evaluating Success**

It is difficult to determine when attitudinal and behavioral change has occurred. One could ascertain whether the public has changed its perception regarding "existing levels of corruption and where corruption takes place in order to provide a baseline against which performance against anti-corruption reform can be measured" (Pope 1995, pp. xii/xiii).

## **Lessons for Anti-corruption Campaigns**

Different anti-corruption campaigns and strategies, which have been implemented by different countries, have had varying degrees of success. According to Pope, successful anti-corruption reforms have focused on four key areas: prevention, enforcement, public awareness and institution building (Pope 1995, p. 2).

The experiences of various countries are reflected in seven lessons for anti-corruption campaigns which were developed by Pope in Elements of a Successful Anti-Corruption Strategy:

- Power is limited at the top - An incoming administration may wish to tackle corruption inherits a corrupt bureaucracy that often impedes progress;
- Commitment and leadership is lacking - Overly ambitious promises lead to unrealistic and unachievable expectations and a loss of public confidence;
- Reforms are piecemeal and uncoordinated - No one owns the reforms; no group or politician is fully committed to reform;
- Reforms rely too much on legal remedies - Often, excessive enforcement leads to abuses of power resulting in more corruption;
- Reforms focus on the small fry rather than those at the top - The law, seen as applied unfairly and unevenly soon ceases to be applied at all;
- Reforms lack specific and achievable focus - Failure to deliver quick wins soon loses public support; temporary reforms are not institutionalized;
- Successful reforms require participation by civil society and the private sector.

In addition, it should be noted that the effectiveness of social marketing campaigns depends on how well major stakeholders (i.e. political leaders, public servants, the private sector civil society) cooperate to combat corruption. Successful cooperation requires that stakeholder roles and responsibilities be defined, understood and accepted by all stakeholders.

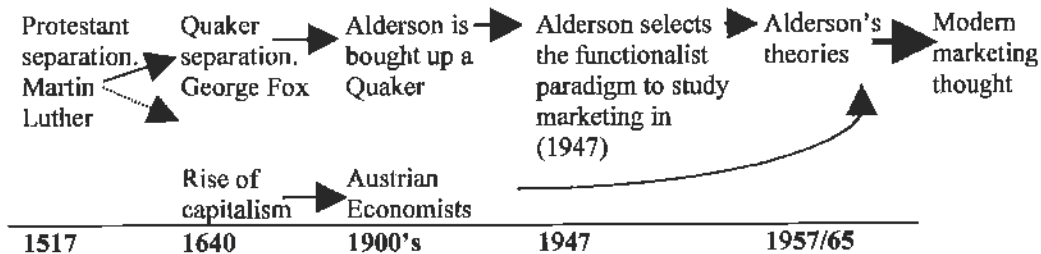
When corruption has identifiable social and economic costs, the World Bank may consider such costs in its investment decisions. In this respect, the World Bank may act against corruption by conducting and publishing research

- Luck, D.J. (1974), "A Social Marketing: Confusion Compounded," *Journal of Marketing*, 38 ( October).
- Neff, David (1987), "Admen for Heaven," *Christianity Today*, September 18, 13.
- Pope (1995), National Integrity Systems: The TI Source Book, 12.
- Sanchez (1996), "Foreword," National Integrity Systems, TI Sourcebook.
- Semenik, R.J. and G.J. Bamossy (1995), *Principles of Marketing: A Global Perspective*, 2<sup>nd</sup> ed., Southwestern College Publishing.

This paper offers a discussion of the influence of Wroe Alderson's strong Quaker faith on his paradigm choice and theory development, and to a lesser extent, the subsequent influence of Alderson's theories on modern marketing thought (see Figure 1). Before presenting the evidence for the conjection of this paper a brief introduction to Wroe Alderson and Quakerism is provided. Evidence supporting a link between Quaker teachings and is presented via three areas of Alderson's theories and their links in Quaker teachings, the use of the functionalist paradigm, the organized behavior system and ethical marketing.

This author suggests that the influence of the Quaker faith on Alderson's theories and their subsequent influence on current marketing thought are significant.

**Figure 1. Proposed Religious Influences on Modern Marketing Theory**



### Wroe Alderson

Wroe Alderson was very careful to document where he found inspiration for his theory of marketing (Alderson and Cox 1948). Other academics have investigated the precursors of Alderson's theories from an academic perspective (Priem 1992; Savitt 1990). No one, it seems, Alderson included, has paid attention to the contribution that Alderson's faith brought to his theory building.

This paper does not suggest that Alderson was necessarily the originator of many of the concepts that he promoted, and that have become part of marketing thought. Rather, it was Alderson who was "marketing the marketing knowledge" (Hunt and Edison 1995, p. 635). As the champion of these concepts Alderson was, at least partly, responsible for their inclusion in the main body of current marketing thought. All research, found by this author, into influences of Alderson have been based on analysis of citations in a manner parodied by Merton (1965) in *On the Shoulders of Giants*. It is indicative of the past immaturity of marketing's historical research that it has not been deeper than citation analysis.

Alderson was the premier marketing theorist of his era (Brown and Fisk 1984). He contributed an article to the first volume of the *Journal of Marketing* and went on to author a further nine articles in the premier marketing journal before his death in 1965. He was also published in the *Journal of Marketing Research*, *Philosophy of Science* and *Advanced Management*, among other journals. He wrote or edited nine books and contributed chapters to several

was a highly influential and successful marketer and marketing theorist he did not lose his strong Quaker beliefs.

### Research into Quakers

The Quaker church was formed by George Fox in 1652, in England. It was formed, in part, as a reaction against the dominance of the state by the church and the ceremonial manner of the church of the time (Grolier 1994). Central to the Quaker faith is the teaching that God is in all men and that by following the "Inner Light" salvation can be found without the help of a minister (Grolier 1994, p. 93). Quakers are well known for their egalitarian outlook and for their pioneering work in abolishing slavery, with women's liberation and with a variety of other social issues (Brinton 1952). Quakers are renowned for their approach to truth. They refuse to take oaths in court, believing that there is no need as they must always tell the truth (Brinton 1952). It is not the purpose of this paper to present a history of the Quaker faith, those interested should read Brinton (1952) or one of the many other volumes on this topic.

Outside of marketing there has been considerable research into the difference between Quakers and other religious communities largely because they represent a relatively distinct homogeneous group which can be identified by researchers (Baltzell 1979; Pratt 1985). Much of this research is not relevant to this paper, however the research into Quakers and both industry and science are relevant to this paper and summaries are provided below. Pratt (1985) discusses the influence that Quaker beliefs had on early English industry and refers to Quaker employment and manufacturing techniques as *the first industrial revolution*. Pratt points to different religion's propensities for commerce, finding that Quakers, together with Protestants, Unitarians, Baptists and the Independent church were most likely to take part in commerce in the 18th century. Catholics and the high church, in keeping with Weber's thesis are found to be least likely to be involved in commerce. These findings are consistent throughout the world where ever Quakers have lived (Baltzell 1979).

In England Quakers had a major influence on business practices and had considerable success in commerce. Pratt states that, "... Quakers played important roles in the financial development and industrialization of England which occurred in the late eighteenth century" (1985, p. vii). One of the major contributions to business attributed to the Quakers is the introduction of the fixed price. Brinton discusses the significance of the fixed price:

It was the custom in the seventeenth century for merchants to ask more than they expected to receive and for the customer to offer less than he expected to give. By a process of bargaining a price was agreed on. The Quaker stated at the outset the price which he was prepared to accept. As a result Quaker business flourished. A child could be sent to make a purchase from a Quaker merchant. (1952, p. 140)

## **Functionalism**

Functionalism, the paradigm which Alderson (1957, 1965) chose for his theory development and which had considerable influence on the content of those theories, has a close relationship to the Quaker beliefs about society and business. Functionalism is a paradigm where society is considered to be akin to a body, with all parts interacting and being necessary (Jarvie 1957). Quaker teachings give an indication of the reason why Alderson may have chosen the paradigm for his theories.

Friends' way of conducting business is of central importance to the very existence of the Meeting. It is the Quaker way of living and working together. It is the way which can create and preserve the sense of fellowship in the Meeting community and from there it can spread by contagion to larger groups and larger decisions in which individual Friends or Meetings have a part. Thus it contributes to the way of peace in the world in which we live. (Philadelphia Yearly Meeting of the Religious Society of Friends 1955, pp. 21-22)

Throughout the Quaker teachings reference is made to being a part of the community and working towards the good of the community as a whole.

The spirit of brotherhood and service should lead all who are engaged in industry to regard each other not as antagonists struggling to win advantages from each other, but as co-operators sharing with one another in their common purpose to serve their community (Philadelphia Yearly Meeting of the Religious Society of Friends 1955, pp. 246-247)

For the Quaker, "Business in its essence is no mere selfish struggle for the necessities and luxuries of life, but a vast and complex movement of social service" (Philadelphia Yearly Meeting of the Religious Society of Friends 1955, p. 121)

All members of the congregation are seen as having a place in the functioning of it. "George Fox says: 'The least member in the Church hath an office and is serviceable and every member hath need of one another'" (Philadelphia Yearly Meeting of the Religious Society of Friends 1955, p. 8). The Quaker church and all other institutions and individuals are considered to be necessary members of society (Brinton 1952). Given the Quaker teachings functionalism was the natural paradigm for Alderson to choose when formulating his theories of marketing. Functionalism is closely related to the use, by Alderson, of the organized behavior system as a cornerstone of his theories.

an extension of this worldly concern in Alderson's theories and certainly Alderson has been credited with a founding role in the macromarketing school of thought (Savitt 1990). The organized behavior system view of society leads to concern for fellow human beings and Alderson was concerned that marketing activities should not harm others.

### **Ethical Marketing**

Quaker attitudes to truth and the introduction of the stated price have already been mentioned, as examples of ethical marketing practices. Their attitude to advertising and product claims is clear in this quote from the 1955 Philadelphia Yearly Meeting of the Religious Society of Friends telling Quakers to seek: "a genuineness of life and speech in which there is no place for sham or artificiality" (p. 23). As truth tellers Quakers are at pains to ensure that all representations made are honest and fair:

From its earliest days our Society has laid great stress on honesty in business and the payment of debts justly incurred. Though social conditions have undergone great changes over the years of our Society's history, so that much of the advice given in the past may seem out of date, it is well to remind ourselves that the principles underlying the advice have not changed. Since we believe that all men are the children of God, we cannot take advantage of our fellows by any form of dishonesty, whether in buying or selling goods, in business or privately, or as employees by failing to give an honest return in labor for the pay we receive. When we have received goods or services, we shall be punctual in making payment of the price agreed on, and we shall not attempt to evade our proper obligations to the community by way of rates or taxes. (London Yearly Meeting of the Religious Society of Friends 1960, section 424)

Smalley and Fraedrich (1995) noted Alderson's "conservative and ethical approach" (p. 7), stating that,

His advice to managers concerning many facets of consumer marketing was always to provide useful merchandise, competitively priced, and honestly represented. Evidence of his attitude may be seen in his advice to marketing managers concerning product claims in advertising. (p. 7)

Alderson further instructed marketers, when he wrote on advertising, that, "claims must be meaningful, plausible, and verifiable" (1965 p. 172). The ethics that Alderson brought to his marketing theories are, perhaps, the most obvious contribution from his Quaker faith. When placed in the context of the

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## **Marketing Contribution to Democratization and Socioeconomic Development**

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*Croatia continues to have economic difficulties. These difficulties are framed by the author's Circle of Underdevelopment. It is argued that the marketing concept is requisite to further Croatian development and that Homeland marketing -- a concept developed by the author -- can be a catalyst for social marketing in ways that benefit the largest number of Croats and Croatian institutions.*

### **Introduction**

Croatia has many common characteristics with most of the countries in the transition, but has some specific characteristics as well. In the present, those are the removal of the war consequences, transition process that will last longer than it was anticipated<sup>127</sup>, including the re-structure of the economic subjects and their privatization, and the efforts for the more successful integration in the international exchange. Considering the major unsolved problems and the challenges at the beginning of the 21<sup>st</sup> century, both Croatia and its marketing need and seek changes, both in their appearance and in their content - modernization of the marketing concept of the business, perception and appliance of the bearing competencies and competitive advantages, from "management", through "marketing relationship" to the "homeland marketing" concept as a complete marketing understanding and the action on micro and macro level. Positive, but still relatively small movements, accompanied by the acute questions such as employment growth and insufficient investment in the economy, impose the questions what kinds of changes are needed and necessary. This relates to the theory and practice of the marketing enterprise and country in transition. Paradigm changes of marketing and its appliance, in Croatia as a transition country, are prerequisite for improvement. If Croatia does not change, successful transition implementation, on both enterprise and state level, will not be possible and the process might be unacceptably slow or even produce negative outcomes.

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<sup>27</sup> This article is an abridged iteration of an earlier manuscript; please contact the author for the unabridged text.

Enchanted Croatian circle of underdevelopment consists of four phenomena that relate to one another on the cause-consequence principle which partly reflected on the destiny of big Croatian enterprises. These are:

- low savings and investment (including the question of their structure)
- low productivity (including the question of unemployment)
- low average personal income (including the question of their structure, unemployment etc.)
- low level of capital accumulation (including the question of its structure and means of acquisition).

Thus, environment characteristics in Croatia, in the existing circumstances, are not very favorable for the development of the marketing activities or marketing thought. However, without the development of marketing activities and marketing thoughts, serious development of the Croatian economy and Croatian society in general is not possible. Further, Europe is not interested in poor and unsuccessful countries since they cannot appear as equal partners. How to take the direction that would help Croatia catch-up with the developed Europe or, given the circle, the question is: How to get out from underdevelopment and to reach the “good circle” characterized by high savings and investment, high level of accumulation, high productivity and high average wages that will allow the Croatian people to satisfy their needs and to have a good quality of life?

### What Do We Want in the Future

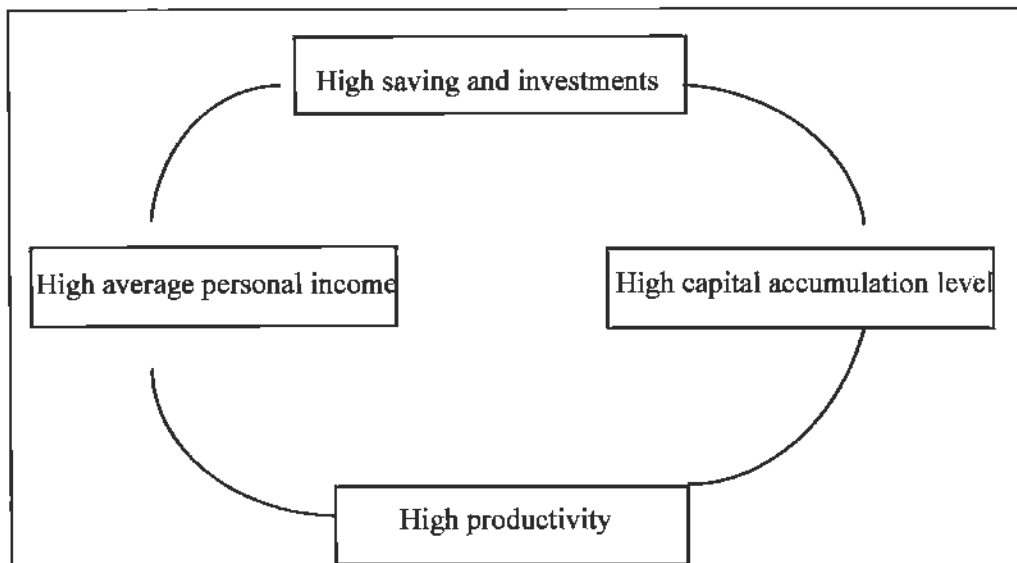
Previous measurement practices compounded problems. Non justified glorification of the latest results and successes was the usual mistake. However, to get the objective image of the economic situation in Croatia, especially of justified expectations and changes as well as planning of the activities in the following period, it is necessary to check side-to-side image of the major indicators in Croatia recently, for 1997, when its indicators were better than in the previous years, right after the war. In table 1 those data are compared to similar data from several developed countries and one neighboring transition country that managed to get closer to “entering Europe” status.

**Table 1. Parallel Macroeconomic Indicators**

	Croatia	Slovenia	Germany	Japan	USA
Industrial production	1,8	4,3	5,9	4,4	3,7
GDP (Annual Growth Rate)	10	9	2,9	2,6	3,6
Unemployment rate	16,5	14	11,6	3,4	4,9
Price index – annual	3,5	8,8	2,1	1,9	2,2
Money volume (97/96)	27,5	16,9	9,8	8,4	-4,2

imperative of more important and more successful involvement in foreign exchange and enhanced foreign trade. Croatia should export approximately 50% of its production in order to incorporate successfully in the global trends. More broadly, some suggestions are capture in what I refer to as the “Good circle of the Croatian development,” as seen if Figure 2; this Circle should be well thought, systematic and constantly improved. It will not be possible without strategy.

**Figure 2. Good Circle of Future Croatian Economic Development**



It is generally accepted that development in following decades will be based on 7 key industrial branches:

1. biotechnology
2. microelectronics
3. industry of the new materials
4. civil airplanes production
5. telecommunications
6. robots and tools machines
7. computers with software

Croatia should make a decision about its development politics and decide whether assure long-term support to the selected groups within mentioned areas. Traditional activities and activities with comparative advantages should not be abandoned in haste, but we should also keep in mind that seven key industrial branches mentioned earlier will have market value and provide success above

they seem to fit into everyday dominating non- marketing practice of economic subject (Ozretić and Previšić 1997). An important reason for relatively slow affirmation of marketing relations is in the prevailing microeconomics approach and microeconomics starting point of marketing discipline, while the macroeconomics aspect usually is neglected. Croatian enterprises are focused on the solution of current management questions and fight for survival. Necessary attention is not given to strategic and development problems. To illustrate, in the wood industry enterprises need help with marketing activities, such as development, information on domestic market, information on foreign market and promotion. The situation in other sectors is not much better.

### **Homeland Marketing and Paradigm Turn**

#### *Several Indications of Marketing Development in Croatia*

Both Croatia and its marketing developed, in former state, in relatively unfavorable conditions of autonomous socialism so these characteristics reflect to their present status and features. We can find many proofs of struggle for marketing and attachment to the developed world in the attempts to introduce the term marketing in everyday use and by checking the names of the university subject from commercial and market business to marketing. History of Croatian marketing is very convenient and useful for understanding of necessary turn even in marketing. In former state marketing developed mostly in Croatia and main bearers of marketing ideas were known university professors, group BOR or ROB (Rocco, Obraz, Bazala) and their very active marketing colleagues. Under their scientific guidance and in limited circumstances marketing in Croatia, as philosophy and practice, went through almost all phases of marketing development, reaching the level of scientific discipline based on demonstrated foundations

Bards of Croatian marketing, Rocco (1994), Obraz (1984, 1977), Bazala (1973), Sudar (1979), to mention only the most senior and prominent, funded marketing as scientific discipline in Croatia and raised generations of “marketers”, significant scientists and practitioners. Marketing ideas in Croatia, however had hard difficulty breaking through the barriers of the old administrative national and economic systems. Before marketing as legal term in everyday practice even emerged, consistent theoretical struggle took place with goals of production, then sale and, at the end, marketing business. Marketing thought in Croatia accompanied the development of marketing as scientific discipline in the world, from business marketing, marketing in non-profit organizations, offer and exchange of valuable products with others. Similarly to other nations and institutions marketing management in Croatia ultimately was viewed as a process of planning and realization of certain marketing conceptions an through price creation, promotion, distribution of ideas, goods and services to achieve level of exchange that fits goals of an individual, organization and society as a whole. Already in this approach we can find roots of new marketing

- (1) analysis of the chain of values i.e. systematic gathering and use of data (in the data base form) regarding planning, usage and control of the resources; side-to-side analysis which compares historic and present data both on enterprise and product level; enterprise and competition data;
- (2) resource equilibrium estimate, more on the enterprise level than in some special areas of the use of resources;
- (3) resource equilibrium estimate and;
- (4) identification of key strategic emission, especially analysis of strategic strengths and weaknesses and distinctive enterprise competence.

Interest in the competence of an enterprise grows constantly, reaching its peak in the 1990s. According to this, in every strategic action enterprises should preserve and improve these unique competence that differentiate the enterprise from its competitors and choose new opportunities that will maximize use of these human resources enabling in this way the realization of competitive advantage. Prahalad and Hamel (1990) have taken a step forward and they don't see corporation as competence portfolio but as the portfolio of tasks and business units. In short terms, competitiveness of an enterprise is derived from the price/attribute ratio of the existing product's performance. However, in terms when great number of enterprises achieves high standards of product costs and their quality, this price/attribute ratio of a performance of existing products is becoming more and more relevant. Real source of enterprise advantage should be the ability of management to, through competence, consolidate the technologies used by enterprises as well as production skills, strengthening of individual business units to help them adjust to the changed conditions faster and more completely. As such, competence should represent core of the strategy on the corporate level. Enterprise will operate successfully in long terms only if it is organized as hierarchy of bearing competence, products and market-oriented business units. According to this approach, management of an enterprise in most cases will get closer to the goal given in this way if they introduce the regime of full decentralization and if the business units become independent. This can be achieved by addition of the values through the strategic architecture that controls the competence acquisition process (see also Boisot et al 1996).

#### *Homeland Marketing Concept*

New circumstances and globalizatio will continue to exert pressures on Croatia, which will require further changes. In order to achieve significant improvements and achievements it is necessary to introduce a new and complete marketing concept, based on the new approach (unique regarding homeland), new ethical paradigm (meeting everyone's needs), accompanied by reasonable and acceptable to those that have entrepreneurial spirit (investment capitalization). Inaugurating the homeland marketing term, the author has dedicated his attention to the problems of economic subjects, presenting "the golden rules of homeland marketing", deduced from known positive marketing

There are only few countries in the world, even countries in transition, who have failed, to the same extent Croatia did to use its own human resource, its education and expert knowledge of the labor force.

**DISCOVERING CORE STRENGTHS AND PROPER PRACTICES** is the connection to our roots, basis of strategic strength and competitive advantage. Bearing competence is important for the future potential development. Hungary and Croatia, for example, should not have the same attitude towards shipping and naval industry. Unfortunately, some people in Croatia have not yet realized this.

**MARKETING INOVATION** is the principle that defines the general desire to coordinate achievements with desires and needs of the environment, as partners, whose relationships are long-term.

**MANAGEMENT AS PRACTICE** is the principle based on learning, which enables intelligent behavior, precise and correct answers to the challenges and changes. Management should especially try to overcome an imperial view of its own function and train itself for the partnership in business within the enterprise and outside it. That process of learning is not the process of non-critical copying of other people's experiences into our circumstances.

**QUALITY IS FREE**, is the principle that it is a permanent effort to achieve quality, since it, on a long run, results in profit. Quality is not related only to products, services and the preservation of the environment, but to synergistic action regarding quality of living, health of the people etc. (cf. Baldrige criteria and measures for quality).

**INVESTMENT CAPITALISATION** is the principle that deals with the reasonable and acceptable stimulate to the entrepreneurial ones, for their results and risks. This does not imply the relation between the highest and the lowest income (600:1) achieved in the United States this year. That practice would be totally impossible and absurd in Croatian circumstances, opposite to the European ethical principles, principle of people as resource and the basic understanding of homeland marketing.

Homeland marketing continues on the social marketing concept.

Social marketing concept claims that the goal of an organization is the determination of needs, desires and fields of interest and conveying the desired fulfillment in a way that is more efficient and successful compared to the efforts of the competition, but in specific manner which protects or increase the income of the consumers and society.

The aforementioned factors are illustrated below.

consumers and long-term social prosperity, reconciling profits of the company, satisfaction of desires and the need for the implementation of all aspects and phases of marketing approach in the successful Croatia, and those are: interests of the consumers and public interest in social, economic and in their development aspect. Since the function of social marketing is defined in that way, one step forward in the notion of marketing raised to the level of homeland, real with its problems, weaknesses, chances and possibilities, liberated from daily deviations, as a complex social process, I call this marketing homeland marketing, which finds its place in all homeland essential elements, and primarily in the homeland mission, its role and place in the closer and further future. This vertical alignment in the elaborated concept enables complete illumination of the path we are taking. The State and its departments, considering the strong influence and the ownership over Croatian resources, have to comprehend homeland marketing concept if they want, which we don't doubt at all, to give their contribution to the long-term success of the Homeland. Entering the third millennium, marketing with these ethical principles and approach will be the driving spirit of those who will successfully move forward, together with other successful communities of the world.

Homeland marketing, in brief, is based on essential and certain scientific socio-economic notions, successful and acknowledged practice as imperative ethical principles. Homeland marketing understood and put in practice in that way, as macromarketing would give full contribution to the democracy and social and economic development and overcoming of the anti-marketing atmosphere in Croatia.

Marketing management and marketing relations, according to the opinion of the author, are the head and tail of the same coin. Both Croatia and its marketing, in the 21<sup>st</sup> century seek and need changes, both in their appearance and in their content. This relates to investment in human resources, and especially in their knowledge and motivation. This approach should be especially emphasized when it comes to the micro and macro aspects of the problem. One of the most important prerequisites for this is the implementation of the homeland marketing idea as a concept that includes marketing behavior on the enterprise level and homeland level, as well as cognition and efficient practice of all the factors that this refers to. It is not enough only to understand, but to permanently study homeland marketing as well, which derives and corresponds to the problems of the real life environment. If we do not attend to these issues, successful transition implementation, on both enterprise and State level, will not be possible.

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**Quality of Life Competitive Papers**



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## The Impact of Government Preferences on Income Inequality in Central European Countries

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*The main purpose of the research was to investigate to what extent the changes in income sources have affected income inequality under different government preferences in selected countries advanced in the economic reforms: i.e., the Czech Republic, Hungary and Poland. The findings pointed out that the contribution of capital incomes to an increase in income inequality in the particular income groups has been affected by a type of privatization. The impact of wages and salaries on inequality has reflected government policy with regard to inflation. The results clearly revealed the different opinions on a role of taxes and transfers in lowering income inequality. The method of analyzing the effect of small changes in income sources on the inequality of income distribution was used in the research. The analysis of the effect of marginal changes in income sources on inequality was based on the (Gini) income elasticity.*

### Introduction

Reforms in transition countries are usually evaluated in an economic perspective. It is important, however, to see them in the context of social changes. Income inequality resulted from the transition process is dangerous for the sustainability of economic reforms. The economic recovery reduces inequality only in later stages of transition (see, Coricelli 1997, p.512). People can be dissatisfied with reforms even when output grows and unemployment declines. Pressure groups can arise and try to slow down the process of reform.

At the beginning of 90s Central European countries experienced a common shock caused by the collapse of the communistic regimes. A common decision to transform a central planning economy to a market economy resulted in the emergence of a private sector, liberalization of prices and wage-setting, and possibilities to profit from open borders. The new tax system introduced in each of CECs had to be compatible with future EU membership. This meant that a standard corporation tax, a personal tax and social security taxes have replaced enterprise taxes as well as value added taxes (VAT) have replaced turnover taxes. The common aspects of the transition process have caused changes in income sources. The incidence of the effects of these changes on income inequality has been influenced by government preferences among CECs.

When economic reforms were introduced in the Czech Republic and Hungary at the beginning of 90s, the great emphasis was laid on protecting those with low incomes. In the Czech Republic most social benefits (pensions and family allowances) were valorized several times; low wages rose due the establishment of a minimum wage; and within limits determined by the government, the average wage has risen considerably, (see Vecernik 1997).

## Poland

1992	1993	1994	1995	1996	1997
20	20	21	21	21	20
30	30	33	33	33	32
40	40	45	45	45	44

## The Czech Republic

1993	1994	1995	1995	1996	1997
		January- July	August-December		
15	15	15	15	15	15
20	20	20	20	20	20
25	25	25	25	25	25
32	32	32	32	32	32
40	40	40	40	40	40
47	44	43			

Source: Ministry of Finance (the Czech Republic, Poland, Hungary)

Improvements in a transfer system have been made in each transition country. In Hungary, starting from 1995, the cash social transfer system was modified to include the application of an income cap on family allowances and greater emphasis on social assistance, (see Andorka and Speder, 1997). In the Czech Republic the reforms have aimed at reducing the cost of benefit payments by applying means-testing approach and concentrating transfers on low income families. Since 1995 both the level and entitlement to benefits have depended on the officially defined subsistence minimum.

## Objectives and Research Hypotheses

The main purpose of the research was to investigate to what extent the changes in income sources have affected income inequality under different government preferences in selected countries advanced in the economic reforms: i.e. the Czech Republic, Hungary and Poland.

The following hypotheses were tested to give the answer to this question:

1. Increased wage differentials have been an important determinant of increasing inequality but over time the gap between private and state sector wages should narrow, resulting in a decline in the importance of this factor.
2. Incomes from self-employment and entrepreneurial activity in a private sector have introduced more inequality.
3. Capital incomes have contributed substantially to the growth in inequality.
4. Possibilities to profit from open borders and second job have caused earnings dispersion.
5. Farmer incomes and pensions have had small impact on an increase in inequality.
6. Taxes have been progressive; i.e. they have reduced income inequality.

be calculated using the following formula, (see Lerman and Yitzhaki, 1994, p.409):

$$G_y(\nu) = \{-\nu \text{cov}(y, [1 - F_y(y)]^{\nu-1})\} / \mu_y \quad \nu > 1$$

where:

- $G_y(\nu)$  - the extended Gini coefficient of total income  $y$ ,
- $\mu_y$  - mean income,
- $F_y(y)$  - the cumulative distribution of  $y$ ,
- $\nu > 1$  - constant representing inequality aversion.

The parameter  $\nu$  is determined by the researcher and lets reflect a relative preference for equality. As  $\nu$  goes from 1 to infinity the extended Gini index places increasing relative weight on inequality at the bottom part of the income distribution. If  $\nu$  is closed to 1, the extended Gini represents indifference to inequality. If  $\nu$  goes to infinity, the extended Gini represents a desire to maximize the income of the poorest in society. If  $\nu = 2$ , the extended Gini represents the ordinary Gini coefficient, when inequality at the middle of the income distribution is mainly taken into account.

The analysis of the effect of marginal changes in income sources on inequality relies on the (Gini) income elasticity. The first step of the method is the source decomposition of the Gini coefficient,  $G_y$ , (derived in Lerman and Yitzhaki 1985). The effect of a particular income source on the Gini coefficient for total after-tax income,  $G_y$ , can be presented as a following function, see (Lerman and Yitzhaki, 1994, p.405):

$$G_y = \sum G_i R_i S_i$$

where:

- $G_i$  - the Gini (or extended Gini) coefficient of income source  $i$ ;
- $R_i$  - the Gini correlation between income source  $i$  and the cumulative distribution of after-tax income
- $S_i$  - the share of income source  $i$  in after-tax income: if income source  $i$  is a tax, then  $S_i < 0$ .

The term  $R_i G_i / G_y$  can be interpreted as the income elasticity of source  $i$ . The income elasticity is the percentage change in an income source associated with a 1% change in after-tax income.

The income elasticity is applied for analyzing the impact of marginal changes in income components on income inequality measured by the extended Gini coefficient. The interpretation is as follows:

- for an income source :

If the elasticity of income source  $i > 1$  , it means that an increase in this source raises significantly income inequality.

**Table 2. Extended Gini Coefficient**

The Czech Republic	Gini parameter $\nu =$			
	1.5	2	4	6
1994	0.136	0.209	0.336	0.388
1997	0.133	0.202	0.315	0.359

Poland	Gini parameter $\nu =$			
	1.5	2	4	6
1994	0.215	0.313	0.479	0.552
1997	0.225	0.324	0.488	0.558

Hungary	Gini parameter $\nu =$			
	1.5	2	4	6

Source: The author's calculations

Focusing on the Visegrad countries, income inequality between 1994 and 1997 changed to narrow extent (Table 3). In general, there was a small decline in income inequality in the Czech Republic but the more significant decline, the more the impact on the poor was stressed. In Poland inequality increased, however, the changes were also small. There was a tendency, the lower increase in inequality, the greater emphasis on the poor. In 1997 in Hungary inequality was on the level close to Poland but only when the impact on the poorer was stressed. The regular Gini coefficient ( $\nu = 2$ ) was lower.

**Table 3. Difference Between the Gini Coefficients in 1997 and 1994**

$\nu =$	1.5	2	4	6
The Czech Republic	- 0.003	- 0.007	- 0.021	- 0.029
Poland	0.010	0.011	0.009	0.006

Source: The author's calculation

### *Wages and Salaries*

The first hypothesis concerns the impact of changes in wages on income inequality.

1. *Increased wage differentials have been an important determinant of increasing inequality but over time the gap between private and state sector wages should narrow, resulting in the decline in the importance of this factor.*

**Table 5. Average Monthly Per Capita Disposable Income of Households in % of Total Income in Poland, 1985 - 1997**

Source of income	1985	1990	1991	1992	1993	1994	1995	1996	1997
Income from hired work	82.5	82.7	80.3	82.1	76.3	44.5	44.3	45.3	46.4
Income from private farm or agricultural plot	2.7	2.6	2.0	1.7	1.6	10.7	11.3	10.2	8.6
Income from self-employment	-	-	-	-	0.8	6.8	6.9	6.8	8.2
Social benefits	13.8	13.7	25.3	15.3	14.6	32.2	32.6	32.1	31.4
of which retirement pay and pensions	-	-	-	-	7.1	25.6	26.6	26.3	26.8
<b>Other income</b>	-	-	-	-	6.7	5.8	4.9	5.6	5.4

Source: Rocznik Statystyczny GUS

#### *Self-employment Income*

The second hypothesis considers the effect of self-employment on inequality.

- Incomes from self-employment and entrepreneurial activity in a private sector have introduced more inequality.*

The income elasticities are expected to be higher than 1. Such the elasticity values confirm that self-employment incomes have increased inequality. The results both for the Czech Republic and Poland point at the importance of this income source as a factor contributing to inequality (see Table 6). However, it seems that the importance of self-employment incomes is becoming greater in the Czech Republic and tends to lower in Poland. The elasticities for Hungary are close to 1 and even lower than one, (Table 5). It is rather a surprise. The further study is required to comment upon these findings.

**Table 6. Elasticities of Income from Self-Employment and Entrepreneurial Income with Respect to After-Tax Income**

The Czech Republic	Gini parameter, $v =$			
	1.5	2	4	6
1994	1.563	1.497	1.346	1.066
1997	1.556	1.571	1.509	1.422

Hungary 1997	Gini parameter, $\nu =$			
	1.5	2	4	6
Dividends from company with legal entity	4.064	3.299	2.153	1.829
Dividends from company without legal entity	2.943	2.510	1.795	1.653

Source: The author's calculation

#### *Incomes from Abroad and Second Job*

Unfortunately, the data needed to test the fourth hypothesis were available only for Hungary. In the case of second job and incomes from abroad the elasticities are also significantly higher than one (see Table 8).

**Table 8. Elasticities of Income from Second Job with Respect to After-Tax Income**

Hungary 1997	Gini parameter, $\nu =$			
	1.5	2	4	6
	3.169	2.656	1.868	1.613

#### **Elasticities of Income from Abroad With Respect to After-Tax Income**

Hungary 1997	Gini parameter, $\nu =$			
	1.5	2	4	6
Salaries	3.148	2.584	1.908	1.696
other income	1.723	2.001	2.067	1.831

Source: The author's calculations

What was the contribution of farmer income and pensions to an increase in inequality? This problem was tested in the next hypothesis:

*5. Farmer incomes and pensions have had small impact on an increase in inequality.*

#### *Farmer Income*

The findings seem not to confirm this opinion univocally (Table 9). For the Czech Republic the elasticities were becoming significantly lower than one in 1997 while in 1994 they were higher than one. It means that during the first years

Hungary	Gini parameter, $w =$			
	1.5	2	4	6
1997	0.575	0.739	1.037	1.123

Source: The author's calculations

The results show the similar situation for Poland and Hungary. The income elasticities of pensions are positive and a little higher than 1 only if the poor are stressed (Table 10). It means that pensions, as the source of income, had the small impact on an increase in inequality, although the pension system has been very generous in Poland (Tables 11 and 12).

For the Czech Republic the elasticities of pensions look like the elasticities of a transfer which is a very well-targeted policy instrument, not like the elasticities of income source. The elasticities of pensions are strongly negative. Taking into account that the average pension was equal only 47% of the average wage, (Table 11), the Czech pension system can be evaluated as very effective in lowering inequality. Pensions are not taxed in the Czech Republic and they have been valorized several times. Garner and Terrell (1998), using Gini decomposition analysis for 1989 and 1993 also found that the protection of pensioners' incomes was particularly effective in the Czech Republic.

**Table 11. The Ratio of the Average Pension to the Average Economy-Wide Wage (Gross)**

	Czech Republic	Poland	Hungary
1994	47.1%	72.7%	37%
1997	47.0%	69.6%	34%

Source: The author's calculations based on the national Yearbooks

**Table 12. The Dependency Ratio**

	Pensioners as percentage of employed		
	Czech Republic	Poland	Hungary
1994	51.1%	79.8%	76.5%
1997	49.8%	78.8%	83.2%

Source: The author's calculation based on the national Yearbooks

### *Personal Income Tax*

The sixth hypothesis examines the progressivity of income taxes.

#### *6. Taxes have been progressive, i.e. they have reduced income inequality.*

The findings for the Czech Republic and Hungary point out univocally the strong progressivity of income taxes. They reduced income inequality. For example, taking into account only the regular Gini, in 1997 in the Czech Republic the 1% increase in after-tax income was associated with the 2.2 %

benefit to an average wage shows that the unemployment benefit system was more generous in the Czech Republic than in Poland (Table 15).

**Table 15. The Ratio of Unemployment Benefits to the Average Gross Economy-Wide Wage**

	Czech Republic	Poland
1994	26.2%	13.6%
1997	23.7%	13.4%

Source: The author's calculations based on the national Yearbooks

Unemployment benefits tend to have lower income elasticity than other transfers because they only compensate for lost earnings. The reforms of the transfers systems, introduced in each country, considerably improve a use of this transfer, in terms of income inequality.

In 1994 in the Czech Republic there was a quite big difference in reducing inequality by unemployment benefits, dependent of how much one is concerned with poverty. The less significant the impact on lowering inequality, the more one is interested in low income groups (that is, the bigger  $v$ ), Table 16. This rather strange tendency disappeared in 1997 when the impact of unemployment benefits on inequality became almost independent of a relative preference for equality but still the absolute values of elasticities were less than 1.

In 1997 also in Hungary elasticities of unemployment benefits do not differ considerably for the different values of the Gini parameter,  $v$ , and they are less than 1 in their absolute values (Table 16).

Both in the Czech Republic and in Hungary unemployment benefits were not a very efficient instrument smoothing income inequality.

Elasticities of unemployment benefits point at a considerable progress in a use of this transfer in Poland (Table 16). In 1997 unemployment benefits became a well-targeted instrument when the lower income groups are more stressed in the Gini coefficient (elasticities  $< -1$  for  $v=4$  and  $v=6$ ). Moreover, taking into account that in Poland the ratio of unemployment benefits to the average wage was considerably lower, comparing to the Czech Republic (Table 15), improvement in supplying this benefit in 1997 is getting more significant.

**Table 16. Elasticities of Unemployment Benefits with Respect to After-Tax Income**

The Czech Republic	Gini parameter, $v =$			
	1.5	2	4	6
1994	-0.807	-0.764	-0.456	-0.144
1997	-0.619	-0.614	-0.596	-0.660



**Table 18. Elasticities of Family Size with Respect to After-Tax Income**

The Czech Republic	Gini parameter, $v =$			
	1.5	2	4	6
1994	0.027	0.102	0.104	0.163
1997	- 0.059	- 0.027	0.018	0.029
Poland	Gini parameter, $v =$			
	1.5	2	4	6
1994	- 0.220	- 0.262	- 0.340	- 0.367
1997	- 0.229	- 0.278	- 0.370	- 0.407
Hungary	Gini parameter, $v =$			
	1.5	2	4	6
1997	- 0.229	- 0.269	- 0.361	- 0.398

Source: The author's calculations

### Summary

In general, income inequality did not change substantially between 1994 and 1997, however, in the same period inequality increased in Poland while it declined in the Czech Republic. The level of inequality was the highest in Poland, lower in Hungary and significantly lower in the Czech Republic. Income components influenced income inequality to different extent depending on government preferences.

1. The greatest contribution to an increase in inequality had capital incomes and incomes from second job as well as from abroad. A type of privatization has affected the extent to what capital incomes have influenced income inequality in the particular income groups. Privatization based on vouchers, like in the Czech Republic, has resulted in the similar effects of capital incomes on inequality along the income distribution.
2. Wages and salaries were the following important factor, except Poland. The impact of wages and salaries on inequality reflects government policy with regard to inflation. At the beginning of the transition process, inflation was relatively low in the Czech Republic and Hungary, therefore the governments could accept the considerable increase in the average wage. In Poland, where policy was aimed at lowering inflation wages and salaries had only the small impact on inequality.
3. Incomes from self-employment were on the third position in Poland while in the Czech Republic this income source was the fourth cause of inequality increase.
4. The opinion on the impact of farmer income is not univocal. In the Czech Republic this source was the important factor only in 1994 and in Poland

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decisions designed to maximize acquisition utility, i.e., maximize consumer satisfaction with the shopping experience and the purchase of an economic good.

- Marketing to maximize consumer well being through *possession of economic goods*. This type of marketing involves manufacturers of economic goods making product, pricing, distribution, and promotion decisions that maximize possession utility, i.e., maximize consumer satisfaction with the ownership of an economic good.
- Marketing to maximize consumer well being through the *consumption of economic goods*. This type of marketing involves manufacturers of economic goods making product decisions that maximizes consumption utility, i.e., maximizes consumer satisfaction with the use of an economic good.
- Marketing to maximize consumer well being through the *maintenance of economic goods*. This type of marketing involves manufacturers making decisions to enhance the durability of their offerings and/or to service, maintain, or repair their offerings. These marketing decisions are made to maximize maintenance utility, i.e., maximize consumer satisfaction with the longevity and continued performance of an economic good.
- Marketing to maximize consumer well being through the *disposition of economic goods*. This type of marketing involves manufacturers making product and/or distribution decisions that can facilitate an environmentally safe disposal of their offerings. This type of marketing also involves retail institutions and service establishments making decisions to dispose of economic goods in ways that maximize disposition utility, i.e., consumer satisfaction with the disposal of an economic good.

### **The Consumer Well-Being Measure**

Our consumer well-being measure is based on Sirgy's (in press) conceptualization. In this section, we will describe the various dimensions of consumer well being (based on Sirgy's conceptualization) and how we operationalized each dimension.

#### **Acquisition Satisfaction**

This construct involves a multi-attribute composite index. Specifically, the index involves the average of satisfaction scores with specific aspects of the shopping environment in the local area. The mathematical formulation of this multi-attribute composite index can be represented as follows:

1. House or condominium
2. Consumer electronics (CD player, TV, VCR, computers, etc.)
3. Furniture and/or appliances
4. Private transportation (cars, trucks, motorcycles, and bicycles)
5. Clothing, accessories, and jewelry
6. Savings and investments

The  $SP_i$  component is measured as follows:

*“If you own any of the following items, please indicate the extent to which you are satisfied/dissatisfied with possessing or owning them. Note that a person might like owning something—a classic car or a piece of property—even though they never use it. Or they might be pleased both to own and to use the thing. On these items, indicate only how you feel about owning the item, not how you feel about using or consuming it. Respond only to the items you own.”*

Each of these six items (representing the six material possession categories) is measured on a 7-point scale varying from “wonderful” (7) “good” (6), “satisfactory” (5), “neutral” (4), “Unsatisfactory” (3), “bad” (2), “awful” (1), and “no opinion.” Here again, the last category is treated as a missing value.

### **Consumption Satisfaction**

This construct involves a multi-attribute composite index. Specifically, the index involved the satisfaction with consumption of specific categories of material goods, which in turn are averaged across all categories. The mathematical formulation of this multi-attribute composite index can be represented as follows:

$$OCS = (\sum SC_i) / 11$$

where

OCS = overall consumption satisfaction

$SC_i$  = satisfaction with consumption of a specific category of material goods (i) in which there are 11 categories of product/service consumption. These are:

1. Health care services (doctors, dentists, optometrists, etc.)
2. Banking/insurance services
3. Personal care services (barbers, hair dressers, manicurists, etc.)
4. Restaurants
5. Food and grocery items
6. Consumer electronics (CD player, TV, VCR, computers, etc.)

1. The quality of the service provided by most repair organizations
2. The skill of the people who do the repairs
3. The availability of services when you need them
4. The price the repair organizations usually charge for their services
5. The speed of service or promptness of most repair organizations
6. The honesty of the people who do the repairs
7. The range of choices available when picking a repair service
8. The level of appropriateness to your questions or complaints
9. The accuracy of price estimates given before the service is provided

The SRS<sub>ii</sub> component is measured as follows:

*“Please indicate how satisfied or dissatisfied you are with the repair services available to you? Examples of repair organizations would include car garages, plumbing services, electricians, appliance and shoe repair shops, etc. How do you feel about the following aspects of repair services available to you?”*

Each of these items in relation to the nine specific aspects of repair services is measured on a 7-point scale varying from “wonderful” (7) “good” (6), “satisfactory” (5), “neutral” (4), “Unsatisfactory” (3), “bad” (2), “awful” (1), and “no opinion.”

Satisfaction With Materials and Services for Do-It-Yourself Repairs.

This sub-construct involves a multi-attribute composite index. Specifically, the index measures the satisfaction with specific aspects of materials and services for do-it-yourself repairs, averaged across all aspects. The mathematical formulation of this multi-attribute composite index can be represented as follows:

$$OSDIY = (\sum SDIY_i) / 8$$

Where

OSDIY = overall satisfaction w/do-it-yourself repairs

SDIY<sub>ii</sub> = satisfaction with specific aspect (i) of materials and services for do-it-yourself repairs in which there are 8 specific aspects of do-it-yourself repairs. These are:

1. Price of replacement parts and tools
2. Quality of advice or assistance provided by retailers, friends, or others in the community
3. The completeness and intelligibility of owner’s manuals or assembly instructions

The SD<sub>ii</sub> component was measured as follows:

“For various reasons, people may be more or less happy with the disposability of a product. If you use any of the following products, please indicate the extent to which you are satisfied/dissatisfied with the product class when you dispose of the product or its package. Respond only to items that you use.”

Seven items followed representing the seven categories of disposed products. Responses to those items are captured on the previously discussed 7-point wonderful/awful scale.

### **Testing the Predictive (Nomological) Validity of the Consumer Well-Being Measure**

Quality-of-life (QOL) researchers have long recognized that psychological space is multidimensional, not unidimensional, because every person has multiple life domains. That psychological space stores memories related to specific kinds of experiences and affect. Thus, a person may have a psychological life domain in relation to education, family, health, job, friends, romantic relationships, etc. In other words, the psychological world of a person is divided into life domains, and within each life domain the person has certain beliefs that are value laden. The life domain which is the focus of this study is the consumer domain. In the QOL literature, the concept of *life satisfaction* is a well-accepted social indicator of QOL. A number of QOL studies have shown that life satisfaction can be explained and predicted from the various satisfactions one experiences from the different life domains. For example, people may feel satisfied with life as a direct function of their satisfaction with their health, job, family, friends, community, material possessions, etc. Note that satisfaction with consumer dimensions (acquisition, possession, consumption, maintenance, and disposition) is only one source of overall life satisfaction.

Specifically, the hierarchy model postulates that overall life satisfaction is determined by satisfaction with major life domains. The affect within a life domain spills over *vertically* to the most superordinate domain (life in general), thus determining life satisfaction. Most multiattribute attitude models use the same logic in predicting and explaining attitude. For example, most marketing researchers are familiar with brand attitude formulations. That is, a consumer's attitude toward a product, such as a car, is a direct function of consumer's evaluations of the various attributes of the car (moderated by the belief strength associated with each attribute). Satisfaction researchers have used the same logic to conceptualize the determinants of consumer satisfaction. Evaluation of each attribute is viewed as satisfaction, and overall life satisfaction is conceptualized to be determined by satisfaction with each life domain (job, family, personal health, leisure, material possessions, and so forth).

Each student received a questionnaire, the first page of which contained the following instructions:

“Thank you for participating in this research. The major purpose of this study is to explore how consumers are satisfied or dissatisfied with shopping in their communities, the material possessions they own, their consumption experiences in general, the way they maintain and repair the products they own, and the way they dispose of these products. Please remember that there is no right or wrong answers.”

The survey instrument contained the consumer well-being measure, the life satisfaction measure, and measures capturing satisfaction in other life domains. The life satisfaction measure we used was a single-item Delighted-Terrible (D-T) scale. Subjects were asked “How do you feel about you life as a whole?” The D-T scale contained the following response categories: “delighted” (coded as 7), “pleased” (6), “mostly satisfied” (5), “mixed feelings” (4), “mostly dissatisfied” (3), “unhappy” (2), and “terrible” (1). The D-T measure is a well-established measure of subjective well being. Satisfaction with other life domains such as job, family, finances, health, education, friends, leisure, neighborhood, and community was measured using the following single-item measures. Subjects were asked, “How do you feel about the areas of your life that are listed below? Indicate whether you feel good or bad about each area of your life.”

1. Your job situation
2. Your family situation
3. Your financial situation
4. Your health
5. Your education
6. Your friends and associates
7. Your leisure life
8. Your neighborhood
9. Your community
10. Your spiritual life
11. The taxes you pay
12. Your environment (quality of air, water, land)
13. Your political/economic freedom and independence
14. Your housing situation
15. Your cultural life
16. Your social status

Responses to these items were measured using single-item Delighted-Terrible (D-T) scales similar to the one used to measure life satisfaction. The D-T scale has been extensively used in quality-of-life research to measure domain-specific satisfaction as well as overall life satisfaction.

Spiritual sat.	.275***	.064*	.090*	.064*	.070
Sat. w/taxes	.260***	.017	.012	.011	.020
Sat. w/environment	.409***	-.001	.083*	.002	.024
Sat. w/political situation	.387***	.022	.026	.021	.010
Housing sat.	.381***	-.020	-.015	-.015	-.047
Sat. w/cultural life	.450***	.075**	.111**	.072**	.081**
Sat. w/social life	.432***	-.006	.085*	-.012	.010
<u>Consumer well being</u>	.633***		.373***		.674***
Sat. w/acquisitions	.604***		.125***		.136***
Sat. w/possessions	.819***		.490***		.493***
Sat. w/consumption	.661***		.216***		.204***
Sat. w/repair services	.187**		-.069**		
Sat. w/do-it-yourself	.210**		-.016		
Sat. w/disposition	.323***		.065		
R-square	.797	.613	.792	.759	
Adjusted R-sq.	.780	.589	.777	.744	
Overall F-value	47.202***	25.169***	54.264***	50.658***	
df	22, 265	17, 270	19, 271	17, 273	

NOTE: \*p < .10; \*\*p < .05; \*\*\*p < .01

Since the theory dictates that consumer well being is made up of the *totality* of six consumer satisfaction dimensions, we computed a consumer well-being score for each respondent by summing the satisfaction scores pertaining to the six dimensions of consumer well being. Then, we regressed life satisfaction scores against the composite consumer well being while partialing out the effects of satisfaction with major life domains. We expected that the nomological validity of the consumer well-being measure would be fully supported if two conditions were met. These are:

1. The composite consumer well-being variable would account for a significant portion of the variance in life satisfaction scores (while partialing out the effects of the other variables, namely satisfaction with major life domains). The results of this test indicate that the composite consumer well-being variable accounted for a significant portion of the variance in life satisfaction (Beta = .373,  $p = .000$ —shown under Model 2 of Table 1). Therefore, we conclude that this condition was met.
2. There is no significant difference in the percentage of variance accounted for by the regression model in which consumer well-being is a composite variable (Model 2 in Table 1) and the full model in which all six dimensions of consumer well being are individually measured (see Model 1 in Table 1). The R-square of Model 1 is .797, whereas the R-square of Model 2 is .613. An F-test of the difference between these two R-squares indicated that Model 2 accounts for a significantly lower portion of the variance in life satisfaction than Model 1 (F-value = 49.85;  $df = 5, 275$ ;  $p < .01$ ). Therefore, we conclude



five proposed dimensions of consumer well being. Based on these results public policy recommendations can be developed to further regulate marketing behavior to maximize consumer well being.

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maintenance, Locus of Control could be considered a key element in regards to the willingness of individuals to accept that role in the new health system. The purpose of this paper is to present and test a model that uses locus of control as a starting point in the process. Locus of control then affects their knowledge of health, which in turn drives healthy behaviors, thus leading to better personal health. In turn, personal health affects their overall quality of life assessment (overall life satisfaction).

### Conceptual Model

Our proposed conceptual model is contained in Figure 1. The theoretical logic used in the links of this particular model and by researchers in this area (e.g., Rahtz, Sirgy, Meadow 1989) is grounded in QOL theory (Andrews and Withey 1976; Campbell, Converse, and Rodgers 1976; Meadow 1988). The basic premise is that life satisfaction is functionally related to satisfaction with all of life's domains and sub-domains. That is, life satisfaction is influenced by lower levels of life concerns. Thus, the greater the satisfaction with such concerns as personal health, the greater the satisfaction with life in general.

The affect within a life domain *spills over* vertically to the most superordinate domain (life in general), thus determining life satisfaction. Satisfaction with a given life domain is determined by satisfaction with life conditions and concerns making up that domain. For example, satisfaction with personal health (life domain) is determined by their perceived control (locus of control) over their health, which leads to certain healthy behaviors (e.g., eat nutritiously, exercise regularly, and so forth).

A person's evaluation of these factors can be viewed as satisfaction/dissatisfaction with life conditions or concerns *within* the life domain of personal health. The extent to which satisfaction within a subdomain affects satisfaction of a superordinate domain in the hierarchy of psychological domains has been referred to in the QOL literature (e.g., Diener 1984) as the *bottom-up spillover effect*.

As shown in this model, we are hypothesizing several spillover relationships. First, a person's sense of responsibility over their own health is hypothesized to have a direct relationship with the amount of health knowledge a person will acquire. In other words, those people that believe their actions directly impact their health condition will be more likely to search out and retain health-related knowledge. Alternatively, people who believe that *others* have greater influence over their health will be less likely to pursue, acquire and retain health-related knowledge. This can be viewed as primarily because they will not have the motivation to pursue such knowledge. Next, health knowledge should be positively related to health behavior. The more a person knows about maintaining good health, the more likely they are to follow healthy behaviors. People with less knowledge may be motivated to pursue a healthy lifestyle, but without adequate knowledge may not know which behavior to pursue. It naturally follows that those that report performing healthy behaviors will also be

“personal competence” is more predictive of health behavior. In other words, the more likely a person feels that he/she can follow a healthy lifestyle, and this lifestyle will lead to better health, the more likely he/she is to follow a healthy lifestyle. In short, a person needs to have a sense of control or feel a sense of responsibility for one’s own health in order to want to perform the actions that will lead to better health.

Additionally, several studies using the Protection Motivation Model have found that people will be more likely to follow a certain behavior when they believe that performing that behavior will lead to a desired outcome, such as better health (Block and Keller 1995; Eppright, Tanner, and Hunt 1994; Rogers 1983; Tanner, Hunt and Eppright 1991). Therefore, we can conclude that when consumers feel responsible for their health, they will be motivated to follow the behavior that will lead to good health.

Now the questions becomes what actions do these motivated consumers perform to achieve good health? Moorman and Matulich (1993) shed some insight into this question. First, they distinguish between two types of health behaviors—health information acquisition behaviors and health maintenance behaviors (e. g. eating healthy foods, avoiding unhealthy foods, exercise, minimize/eliminate alcohol and tobacco, minimize stress). In their study, they found that people follow certain behaviors when they are motivated and have the ability to perform them. Specifically, they found that motivated consumers were more likely to perform health information acquisition behaviors. In other words, motivated consumers were more inclined to search out and acquire knowledge than non-motivated consumers. If we assume that consumers who searching and acquiring information is a necessary step to achieving knowledge, then we can predict that:

H1: People who feel more responsible for their own health will be likely to have more health-related knowledge than people who feel less responsible for their own health.

Alternatively, those individuals that feel that their health is out of their control, and is determined by others, such doctors, will be less motivated to seek out and acquire health-related knowledge, since they believe that it does not have a direct impact on their health condition. Therefore,

H2: People who believe that others are more responsible for their health will be likely to have less health-related knowledge than people who feel others are less responsible for their health.

### *Knowledge and Health Behavior*

According to Punj and Staelin (1983) there are two different types of knowledge, and it is important to differentiate between the two. The first type, experiential prior knowledge (EPK) is based on prior experiences. As

H6: The practice of healthy behaviors will mediate the effects of health knowledge on perceived health.

### *Health and General Life Satisfaction*

A large number of studies have been conducted to examine the role that personal health plays on an individual's general life satisfaction as a direct influencer, and as a mediator and moderator of other domains influences. Rahtz, Sirgy, and Meadow (1989) explored the effects of personal health on the relationship between community health care satisfaction and life satisfaction. The study revealed a stronger relationship between community health care satisfaction and life satisfaction when personal health is perceived as poor (as compared to good). Sirgy *et al.*(1991) conducted a follow-up study to further assess the relationship and personal health satisfaction was found to relate to life satisfaction directly and independently of community health care satisfaction. Sirgy, Hansen, and Littlefield (1994) demonstrated that hospital satisfaction affects life satisfaction through community health care satisfaction and personal health satisfaction. These results, in total, give strength to the argument that personal health satisfaction plays a major role in defining ones personal life satisfaction as well as influencing assessments of other health related domains.

H7: People who perceive themselves as healthy will be more likely to be satisfied with their life.

H8: Perceived health will mediate the effects of health behaviors on general life satisfaction.

### **Method**

The study here uses data that was part of a larger study on health care system performance measurement. That entire study was conducted in three phases. Phase One consisted of personal interviews with community health care providers to identify the types of health care programs that were available in the community. From these interviews, and the literature, the initial survey instrument was developed.

In Phase Two, the survey instrument was pre-tested as a mail survey sent to 250 community members. 147 of those surveys were returned and analyzed. The instrument used in the current study was a slightly modified version of the survey instrument sent out to the 250 community members. The instrument used in the current study was again pre-tested on a small sample of 8 women from the population in a controlled setting. Discussions following the administration of the instrument were used to adjust final wording and layout. The revised instrument was then mailed to 5000 individuals in a three county area of the Mid-Atlantic region of the United States. One thousand, one hundred and

**Table 1 Results of the Analysis**

Hyp. Test	DV's → IV's ↓	Know	Behavior	Health	Satlife
H1	OwnResp	.059 (t=2.003) (p<.0001)			
H2	Control	-.149 (t=-4.957) (p<.0001)			
H3	Know		.260 (t=8.461) (p<.0001)		
H4	OwnResp		.074 (t=2.461) (p<.014)		
H4	Control		-.010 (t=-1.472) (ns)		
H4	Know		.261 (t=8.439) (p<.0001)		
	OwnResp		.063 (t=2.173) (p<.030)		
H5	Behavior			.346 (t=11.922) (p<.0001)	
H6	Know			.161 (t=5.143) (p<.0001)	
H6	Behavior			.322 (t=10.676) (p<.0001)	
	Know			.077 (t=2.507) (p<.012)	
H7	Health				.572 (t=21.114) (p<.0001)
H8	Behavior				.264 (t=8.489) (p<.0001)
H8	Health				.545 (t=18.925) (p<.0001)
	Behavior				.075 (t=2.633) (p<.009)

*Knowledge.*

As shown in Table 1, people tend to report more health knowledge when they feel that they are responsible for their own health. In addition, those that feel that others primarily determine their health report to have less health knowledge. These findings support both Hypothesis 1 and 2.

*Behavior*

Our model and hypotheses predicted that people who are more knowledgeable tend to undertake healthy behaviors. Knowledge was predicted to have a direct impact on behavior, as well as mediating the relationship between the two health control variables (Ownresp and Control) and Behavior. As Table 1 shows, Knowledge does have a significant positive relationship with Behavior. In addition, Knowledge also partially mediates the effect of OwnResp on Behavior (This is shown by the decrease in the standardized beta from .074 to .063).

Finally, the results here suggest that in order to produce healthy behaviors, health care administrators and public policy officials must focus first on convincing people that what they do (what they can do) has a direct impact on their health. For individuals who are classified as external control oriented Locus of Control people, all the promos in the world directed at consequences of behavior (e.g., Aids, lung disease, etc.) will not have much impact on those non-healthy behaviors. It is argued here that in situations of high external control there must be a redirection of promotions and advertising which first and foremost addresses the control issue in regards to that given segment of the population.

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**Appendix A: Construct and Item Descriptives**

Variable Name	Question(s) from Survey	Range	Mean	Standard Deviation	Variance	Notes
Ownresp	My health is no one's responsibility but my own.	1-5	2.6059	1.1451	1.311	1=strongly agree, 5=strongly disagree
Control	Control = average of the following survey questions:					
	The average person can do very little to control the cost of their personal health care.	1-5	2.73	1.35	1.821	1=strongly agree, 5=strongly disagree
	I feel like what happens to my personal health is mostly influenced by the actions of the doctors, and the health care system.	1-5	2.99	1.19	1.419	
	My personal health is mostly controlled by the people who are involved in or with medical care.	1-5	3.16	1.13	1.271	Standardized $\alpha$ = .7316
	People like myself have very little chance of serving our personal interests when they conflict with those of the health care institutions.	1-5	2.81	1.07	1.151	
	SCALE	1-5	2.922	.8877	.788	
Know	Average of the following three questions:  How much knowledge about general diseases.	1-5	2.48	.82	.672	1=a great deal, 5=none

Variable Name	Question(s) from Survey	Range	Mean	Standard Deviation	Variance	Notes
	In general, would you say your current physical health is:	1-4	2.06	.73	.538	Standardized $\alpha$ = .7938
	In general, would you say your current mental health is:	1-4	1.66	.64	.410	
	SCALE	1-4	1.888	.5858	.343	
Satlife	Average of the following questions:					1=strongly agree, 5=strongly disagree  Standardized $\alpha$ = .9163
	I am generally happy with my life. Do you agree?	1-5	1.82	.76	.577	
	I feel I lead a meaningful and fulfilling life. Do you agree?	1-5	1.88	.82	.668	
	Although I have my ups and downs, generally I feel good about my life. Do you agree?	1-5	1.76	.75	.557	
	SCALE	1-5	1.8176	.7170	.514	



**Competition and Markets Competitive  
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## Power and Marketing

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*The article is intended to show that marketing, as the spearhead of firms' development in the markets, is the privileged "visible hand" of managers, which aim to fight and beat competition in order to gain market domination. But competition is total, not only in commercial markets but also in financial and employment ones. The more open the economy, the more firms and individuals are induced to struggle for market power, and a political analysis, based on the study of players' respective powers, proves useful to understand how firms can manage balanced powers between their main stakeholders, and to point out some regrettable consequences resulting at the macro-marketing level.*

### Introduction

In the history of marketing thought, the term "political economy paradigm" has been used in reference to an alternative way of interpreting managerial practices, and more specifically marketing. Although it has not been used frequently, and has certainly not led to emulation amongst researchers (Bagozzi 1979, Arndt, 1983, Flipo, 1986), it would seem that the current evolution in firm's marketing practices has led to increased interest in the subject. Furthermore, the additional clarity obtained by using this kind of interpretation justifies this original point of view when debating the evolution of the world economy, of which marketing is obviously, in terms of classic or recent developments of market economy, the management spearhead.

Here we may look at the various points of view which result from the changes in marketing practices over the past fifteen to twenty years. It is well-known that the early eighties marked the beginning of the great movement of progressive market deregulation, triggered by a multi-national political will, directed at creating much higher consumption levels for the whole population; as a result, consumer "power" has increased, based on different factors: a growing purchasing power, a better level of information, fast growing demands and levels of expectations, and a power of selection among a huge variety of offers. These facts represent a considerable challenge for firms, particularly for their marketing departments. This paper seeks to look at the way in which firms have coped with such a challenge and also to raise justified questions about the future. Care has been taken (and this is the original contribution of the approach) to represent as accurately as possible the real situation in today's firms, seen from the customary "marketing landscape", as well as from "behind the scenes", because power cannot be easily directly analyzed.

According to social sciences, power is defined as the individual or corporate capability to influence other stake-holders in the social or economic competitive arena (competition entails inevitably struggle for market power).

science that has existed for little more than a century. It is of course Max Weber who was one of the forerunners (Weber 1964), underlining the fact that the structure and evolution of human societies were greatly influenced by those in legitimate power (individuals and organizations), and that the sources of legitimacy (that is to say accepted by those who are subject to it) are numerous: political, religious, traditional, etc. He himself defined the word power in the most simple way, that is to say the capacity of an individual or an organization to make someone else (another individual or group) do something he would not have done if this power had not been exerted. Closer to us, Bertrand Russell (1938) then, in organizational practices, French and Raven (1959) define six categories of power, based on reward, coercion, reference, legitimacy, expertise or the holding of information. Even closer, Michel Crozier and Erhard Friedberg (1977) made us take a further step towards the universe of organizations with their concept of "actor strategy". The latter is based on an analysis of situations of power with a general objective of fighting to conquer or to defend the latter. A new generalization appeared with Pierre Bourdieu, who analyses human behavior in society as being essentially power struggles in different fields of human activity, particularly the economic field (1997). Let us not forget that important philosophers other than Montesquieu dealt with power before sociologists, the most famous being Machiavelli (16<sup>th</sup> century), then Thomas Hobbes (17<sup>th</sup>-18<sup>th</sup> centuries) whose philosophy was as follows: "Both human nature and political issues are based on a thirst for power, which can be defined as vanity or desire for distinction, the desire to be number one on the one hand, like the desire to possess everything which is necessary for life on the other hand." In the twentieth century, another philosopher, Michel Foucault is even more explicit concerning the relationship between strategy and power: "... power is not an institution, it is not something with which certain individuals are endowed: it is the name we give to a complex strategic situation in a given society" (1977, p.213).

All these approaches, some of which we see have only been recognized recently, have actually removed the devilish aspect from the word power: by breaking away from a concept which is limited to its conflictual dimension, that is to say a relationship based on strength or moral violence, such approaches have recognized the practical use for action and the conceptual interest in research. Nevertheless, the taboo is likely to persist for a long time since although this conflictual dimension is just part of the concept today, it is nonetheless still present. Moreover, the good use of power continues to imply above all that one does not talk about it. This is without a doubt due to the fact that, as Montesquieu also said, "it is an eternal experience that every man who has power is led to abuse it".

We can consider four forms of power which can be applied to an economic market: the "co-operative" side of social behavior, under the heading "persuasion," is a question of power of attraction and manipulation ; the "conflictual" side, under the heading "coercion", involves forms of subordination and moral violence.

existence of human needs directed to new products as principal justification of marketing in developed countries.

But is this myth still relevant nowadays? Today everything converges towards, on the contrary, the presentation of markets which are essentially driven by productive forces, notably new technologies, which give an increasingly quick rhythm of offer renewal and innovation: this is even recognized by American authors, notably Tedlow (1990). Marketing has therefore a double role in this alternative perspective: first of all to constantly develop innovation, and notably bring to the fore the characteristics of new products which are able to seduce consumers; secondly to integrate such novelty into an imaginary, though credible society, making it seem "necessary". The most common strategy to maintain an existing product is nothing but a variation of the former, since it can either be defensive towards the innovation of competitors, or, more often, it cultivates partial innovation, or a repositioning of the product, so as to adapt to the change in the competitive context. The principle of the definition of new products is generally far simpler in industrial marketing, since the technico-economic rationality (cost/performance ratio) is the best way to prove the superiority of a new product (Salle and Silvestre 1992). When marketing consumer goods and services, on the other hand, the presuppositions of the superiority of an innovation depend on characteristics which are much more uncertain given the complex nature of society's imaginary structure. Fortunately for marketing specialists, a great deal of other private or even public social powers have come together to support their claims, notably experts, the media, university professors, various institutes. The latter are consequently the target of lobbying, a marketing tool which is constantly developing in firms.

We can of course justify the use of power in marketing as being a simple response to the increase in consumer power, which is obvious to everyone. But doesn't the extensive range of scientific marketing tools, which is not of course accessible to the latter, eloquently show the extraordinary asymmetry of the means which are used? It is precisely these tools, which are increasingly sophisticated, which allow marketing specialists to embrace all the different registers of power, which we shall now discuss.

## 2. The power of manipulation

It would seem that it is time to forget the simplistic, or even hypocritical, approaches to marketing, which consist in considering the customer as an end in its own right. Nevertheless we are aware that this myth still exists even today. In this way, Kotler claimed in *Principles of Marketing* (1996 edition, p.7) "The most basic concept underlying marketing is that of human needs (...) These needs are not invented by marketers, they are a basic part of the human make-up". This introductory sentence is therefore doubly false, given what has just been discussed in the previous section. But that does not mean that his book on marketing principles is not pertinent, since right from the first chapters the author quickly forgets this statement and returns to "serious issues". He uses examples when exposing the principles of strategy (p. 380): "A segment is less attractive if it already contains many strong or aggressive competitors (...) The relative power

reign of a kind of “big brother” (the mythical “character” of George Orwell is more and more frequently cited by journalists), which aims to facilitate the development of sales strategies which are precise and individual, even for products and services sold to a mass-market. In the perspective of “asymmetry of means of power”, mentioned earlier, we can also add all of the means of video cameras or of simple customer observation, which are used without the customer knowing.

In the service industries, techno-economic industrial rationality, which is instituted in the image of McDonald's by many service providers, actually pushes the consumer to think like the provider. It has the power both to make the consumer do some of the work without any compensation, and to create in his mind an expected service which is as close as possible to the service quality the provider is able and willing to produce, according to the principle mentioned earlier (perceived value >> created economic value) (Ritzer 1996). The pressure exerted by the pursuit of short-term profit pushes firms to reduce the value created, in order to widen this gap, and marketing specialists are of course expected to maintain perceived value. They are therefore deliberately put in a situation of maximum commercial or technical risk. In France, the recent wreck of the supertanker “Erika” was largely commented as an event triggered by the search by the companies, in every managerial situation, of the lowest costs (here, of transportation).

The evolution of pricing practices is of course due to the fact that today's consumers constantly seek low prices without necessarily paying attention to the value actually produced. Generally speaking, we notice that pricing practices are becoming increasingly sophisticated; low prices and margins (discount) attract customers more than ever, but these are compensated for in the global plan of action : the very precise demand simulations for each segment allow this (example of the famous “yield management” in mass-market service activities). We could also speak about the great development of promotions and sales, which have never seemed as ambiguous in the mind of the beneficiary as they do today, or the deliberate resemblance between brands in order to confuse the consumer (Kapferer and Thoenig 1992). This does not mean that all traps work as well as they used to, but rather that consumers know that trade cannot exist without such traps ; there is, however, a great difference between those which are accepted and those which are rejected , and it is this threshold which is changing. This is why methods of manipulation are becoming also increasingly sophisticated : for example there was (and there still is of course) classical advertising for which one paid. Then came what is known as « hosting », a form of advertising which draws less attention to the fact that it is an advertisement. Finally today we have “documentaries”, which look nothing like advertising and which are obtained by either lobby or connections, or even better, by becoming a shareholder or the owner of the medium!

### 3. The power of subordination

Let's recall that at the beginning of this first part this third category of power was classed as “conflictual”, unlike the two former categories which were

-a power of manipulation, based, for example, on the elaborate computer monitoring of customer behavior, without the latter knowing.

- lastly, a power of subordination, based on the set-up of exit barriers like in the case of Monsanto, above-mentioned.

It is nevertheless true that market deregulation has led to laws which make situations whereby the customer is captive increasingly difficult, like in the field of insurance for example. This therefore leads to increasingly sophisticated methods, a shift from what is explicit to what is implicit, from the simple but concrete contract, to very elaborate strategies. However, firms very rarely abandon the kinds of power that deregulation was attempting to abolish. This opinion may seem excessive, but it is shared by researchers such as Fournier, Dobscha and Mick (1998), who, by using the provocative title, "Preventing the Premature Death of Relationship Marketing", show that, on the whole, practices of manipulation and subordination have so far supplanted the real interest in the customer, and that the latter feels resentment towards marketing professionals.

## **Part Two: Marketing and the Macro-Economic Evolution of Markets**

It is unquestionable that the marketing function is the first to be affected by continual market deregulation, organized over the past twenty years under the influence of neo-liberal principles. Deregulation means giving more freedom to undertake, to conquer or defend oneself, in a word, stimulate competition in the greatest interests of the consumer. All of this follows the perspective supported by the firm's marketing function ; consequently, the latter is developing at the same rate as market deregulation itself. However, the more we deregulate, the more we realize that on the one hand, this leads to strong reactions which go against the objectives of deregulation, and that on the other hand, on a macro-economic level, either the newly created wealth is no greater than former wealth, or it only benefits a carefully selected minority. These facts are generally common knowledge. We are going to attempt to put them back into the perspective of the management of market powers, by showing the impact of deregulation policies on marketing practices. We will present successively the evolution of competitive practices and of those of segmentation, which are obviously central to marketing strategies.

### *Anticompetitive Behavior in Firms.*

On most deregulated markets, the effect desired by neo-liberal politicians is produced: an increase in competition which is more aggressive, automatic reduction of prices, therefore a better position for buyers, who do not hesitate to use or even abuse the situation. For example, numerous service activities have witnessed constant difficulties in maintaining the firms' profit margins over the past ten years (temporary work, banking, air transport, catering, property insurance, building contractors, etc.,). In order to overcome this continual threat on profit margins, top managers have taken action in various

empirical studies which they have carried out lead them to the following conclusion : the results of deregulation strongly depend on the politically induced barriers set up by the firms which are already on the market. The word *political* suggests the idea of power and social or economic control ; the barrier in these circumstances is therefore of that kind, that is to say the power used by dominating firms, who react quickly to the intrusion of new competitors, using the most classic strategic methods that powerful firms can use (massive development of customer loyalty, drastic reinforcement of the "entry ticket", greater development of economies of scale, etc.). Attempts at using power of subordination are obviously not inexistant, like the example of Deutsche Telekom at the beginning of 1998 which, following the deregulation of the German market, established and charged for "exit tickets", or in other words, charged for the disloyalty of those customers who simply believed that this deregulation was achieved at their benefit. Besides, it would seem that these defense strategies are efficient, since British Telecom still holds no less than 70% of the British market, 14 years after its opening to competition. In his book on the telecommunications industry, Pierre Musso (1997, p.18) states the following fact: "we had 160 national monopolies and we're going to end up with a world oligopoly of 5 or 6 coalitions".

To come back to the example presented by Bengtsson, Marrell and Baldwin, in the two cases studied, not only have the macro-economic goals not been achieved (development of competition, generalized drop in prices), but our three authors also bring to the fore certain negative effects. The first of these is that the drop in prices, which is true for certain segments, is so great that it becomes, paradoxically, a barrier in itself : the investment that the new competitor would have to make is not compatible in the long run with this pressure on the prices ; the second negative effect will be dealt with in the following paragraph, on the new forms of segmentation.

#### *The New Forms of Segmentation or "Elite Marketing"*

The second negative effect is therefore the appearance of a new phenomenon of segmentation, then of targeting, which weakens the general coverage of the national market of the services concerned: in fact, in order to improve their financial situation, the firms maintain high prices where competition is weak, that is to say in geographical areas which are neglected by new competitors who lack logistic resources. The example is interesting since it can be generalized through many observations : the outcome of deregulation is often that it is the customers with the highest purchasing power (inhabitants of big cities particularly) who are the first or even the only ones to benefit from the drop in prices. The others content themselves with watching the great battles of competition from a distance. The recent privatization of European telecom companies was not an exception to this rule. Furthermore, it is obvious that as far as services are concerned, the complexity of prices, which is the result of the complexity of the services offered and of taking into account the complexity of

### *The Firm Seen As a Political System: Direct Marketing Implications*

Here it is a question of looking once again at the firm itself as a political system (Flipo 1984). This concept is a way of understanding the way it works, something which was developed to a certain extent during the sixties and seventies (Cyert and March 1970, Crozier and Friedberg 1977, etc.). It is a holistic vision of the firm which has developed considerably over the past twenty years, particularly during the nineties. This brings to the fore the complex interaction of relationships and influence, and therefore of powers, between the firm and its environment, even when the latter is apparently distant. To apply this representation to today's firms, we might say that it is even more relevant nowadays, since the greater the freedom, the more political behavior is encouraged. This theoretical reminder aims to demonstrate the changes in the behavior of managers since the beginning of the nineties, when dealing with the balance of power in the company. We have to admit that the "era when marketing was the firm's priority" is long gone, if ever it were more than a simple intention in the past (see above, Part One, 2.2); firms now attach less importance to commercial aspects and more importance to the shareholders, even though firms have recently been officially "customer-orientated". We could come back once again to an important point in this evolution, namely the economy's greatly increased productivity, to underline the fact that it is the power of an important part of the firm which is reduced : that of the employees. The latter have not only decreased in number whilst production has increased, but they also have to face a massive increase in competition for labor due to the record level of world unemployment and the use of foreign labor, which is less powerful and thus cheaper. Such general "downsizing" has always been decided in the name of sacrosanct competitiveness, which is itself the logical consequence of market deregulation ; this could suggest that it is all in the interests of the customer, since it is he who selects the best competitors. Unemployment may be tackled, like in the U.S. in recent months ; but the job environments, as seen by the employees, are in average less attractive than during previous decades (wages, flexibility,...)

The recent appearance of the concept of corporate governance reflects the rising power of shareholders, and the idea that the firm has no other goal than to make profit. Customer satisfaction, and the role of job provider, are considered as mere technical processes which are dealt with by executives who simply use a specific know-how. In concrete terms, it is a question of making as much profit as possible in as little time as possible (Belletante 1995). This has three implications for the marketing function : first of all, the pursuit of a maximum market share, since strategic analysis models have long shown that there is a correlation between market share and rate of profitability (thus the creation of market oligopolies). Second, this explains why "relationship marketing" plays more on the powers of manipulation and subordination than on the power of attraction (as this can be more profitable in the short term). Finally, the means of



### *Societal Marketing for a Corporate Citizenship?*

The changes, which were described earlier, obviously have a very negative effect on the image of the firm; whereas the latter had vastly improved during the eighties in France, the results of the latest European public opinion polls are very worrying. The survey carried out by the weekly magazine "L'Usine Nouvelle" in its issue dated 30 April 1998 is an example. The magazine underlined just one point on which Europeans agreed: "There is a strong feeling everywhere that the population has paid the price of competitiveness", notably amongst the French, according to Philippe Méchet, the managing director of SOFRES, who carried out this survey: "They are affected by the blatant contradiction between the persistence of unemployment and the promises of economic growth, of an explosion of the stock market". It is not surprising that it is the Germans who have the worst image of the firm (no less than 70% opinions were negative), since it is in Germany that the "political" consensus of the firm is (or was) the strongest.

How are things going to change during the first years of the twenty-first century? The statements made earlier about the evolution of markets during the nineties do not foreshadow future evolution, like a trend that we simply have to maintain. It is above all democratic society, which cultivates the equilibrium of powers and counterpowers. The strong evolution in favor of shareholders which we described earlier can only lead to reactions which aim to correct this general imbalance in the future: any other hypothesis would naturally fit into another political or social context. Today's dominant economic theories only apply because of a power of persuasion which is wisely organized in the political, scientific, economic and media spheres. This phenomenon is not really new: it was already true in other political systems which were well-known in the 20<sup>th</sup> century, although at the time it was called propaganda. We can even go back to the Middle Ages in France: the dominant power at the time was that of the Church which, as we know, was fiercely fighting against theological heresy. Historians have shown that this was less to safeguard the purity of beliefs than to maintain the legitimacy of their power over society, the link between the two being very strong (Sot, Boudet and Guerreau-Jalabert 1997). Today, of course, methods have changed : in order to establish their power, dominant thinking sets strategies which marketing would approve of, as their goal is to persuade a mass of customers (the citizens) that the proposed ideology is the best (or even the only one possible), and that it should simply be accepted ; but, if the power of attraction of the economy is linked to the power of attraction developed by marketing new and/or abundant products, we may worry that it is more a kind of power of manipulation or subordination for growing fringes of society. Manipulation consists mainly of imposing the belief that the consumer, whoever he may be, benefits from economic deregulation and the spread of a global economy. Subordination, on the other hand, concerns those who are socially excluded and who are totally dependent on the community, and also those who

become a casino where profits are further and further away from the true wealth produced by the economy.

The assertion of the role of power in the economy is of course offset by those who claim that, on the contrary, all of this is pretense, since market laws are made so that if each individual does his work well, then everyone will emerge as a winner, or will at least have the same chance to do so. If this claim is true, it is, nevertheless, strange that the increasingly pronounced deregulation movement over the past twenty or thirty years has led to such ambient pessimism, such a convergence of reactions from both organizations and individuals, and to be honest, as many disappointing results and negative effects. The latter were not of course intentional in the beginning, but were apparently well accepted when they occurred. What could explain these contradictions today? One looks to deregulation to encourage competition, and the result is that the latter decreases; through deregulation one hopes for emulation, an opening for economic adventure, and in reality most economic actors are above all looking for security, a form of reinvented protectionism, notably thanks to capitalistic accumulation.

As for marketing, which is, let's remember, the spearhead of firms' market policies, two negative effects have been mentioned: on the one hand, the progressive and surreptitious replacement of techniques based on the power of attraction by those which rely on customer manipulation and subordination, by making methods increasingly sophisticated to keep up with the changes in their behavior ; on the other hand, the role played by marketing, through new ways of targeting, in the creation and the development of exclusion.

Of course, the author of this article does not aim to scientifically prove the issues that are raised, since there are many judgments, which are based on personal values. But if the theses that are presented here gain the support of certain readers, and above all lead to significant discussion, the author will consider that he has achieved his goal. Trust in one's fellow men and freedom of action will always remain two of the most precious human qualities; we must fight to maintain them in the long run.

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(Table 1). The hidden or informal economy is an aspect of distribution systems not covered by this paper. This is a topic which requires a paper of its own.

This paper is based on statistical information, previously published studies of the distribution systems of Eastern Europe and primary information from 95 semi-structured interviews conducted with retail buyers, wholesale buyers and industry experts during the summer of 1997. The main purpose of the interviews was to study retail and wholesale buying behavior for food products in Eastern Europe (see Esbjerg and Skytte 1999). However, questions concerning distribution channels were also asked. The sampling procedure employed can best be described as purposive, as attempts were made to reflect the diversity of Eastern European retail and wholesale institutions in the selection of respondents.

The remainder of this paper is structured as follows. First, the political economy framework, which this paper is based upon is discussed. Second, the role of distribution in economies is discussed. Then, the macro and task environments of distribution systems, the institutional structure of retailing and wholesaling and internal political economies of distribution systems in Eastern Europe are analyzed. Finally, some conclusions are offered and areas for future research are suggested.

**Table 1. General Economic Indicators (1997)**

	Czech Republic	Hungary	Poland	Estonia	Latvia	Lithuania
Area (sq. km)	78,703	93,030	312,683	45,226	64,100	65,200
Population ('000)	10,298	10,232	38,615	1,437	2,421	3,617
Population density (people per sq. km)	131	110	117	32	38	55
GDP (USD million)	52,035	45,725	135,659	4,682	5,527	9,585
GDP per capita (USD)	5,053	4,468	3,513	3,259	2,283	2,650

Sources: Central Intelligence Agency (1997), World Bank (1999).

### The Political Economy Paradigm

Twenty years ago, Stern and Reve (1980) criticized the disjointed state of distribution channel theory and research, arguing that a unifying framework for the analysis of distributions was needed. They proposed the political economy approach as a general framework for the study of distribution channels. According to Stern and Reve (1980, p. 53), "*the political economy approach views a social system [e.g., a distribution channel] as comprising interacting sets of major economic and socio-political forces which affect collective behavior and performance*". Although the political economy framework has primarily been applied to the study of individual distribution channels, Goldman (1991) in his study of Japan's distribution system demonstrated that it is also useful for analyzing total distribution systems. The political economy paradigm is a general framework. Researchers are free to place their own working hypotheses in the

western retailers (Fulop 1991; McGoldrick and Holden 1993). The introduction of new institutional forms would suggest that inter-institutional conflict should be rife.

The stakeholders of a channel system might band together to form networks in order to counter the threat to their position posed by new institutional forms and new entrants. A phenomenon, that has been labeled 'interest domination' by Dahab, Gentry and Sohi (1996), who have specifically proposed the concept of interest domination as a framework for exploring channel evolution in the transforming countries of Central and Eastern Europe. "*Interest domination is the control of distribution channels in a specific country or geographical area, or both, by an isolated group of economic actors*" (Dahab et al. 1996, p. 9). Whether a small, exclusive group of economic actors is able to control channel evolution is, among other things, dependent on the organizational and physical characteristics of distribution channels, the degree of interaction with the rest of society, the ability of the group to provide its members with access to resources, the availability of resource alternatives, alternative legal and regulatory frameworks governing transactions and the groups' ability to control public policy (Dahab et al. 1996). According to Dahab et al. (1996), the distribution channels of Eastern Europe exhibit many of the characteristics conducive to interest domination.

#### *The Environment of Distribution Systems*

The environment in which distribution channels are embedded influences channel structure and is being influenced itself by channel structure and operation (Dixon and Wilkinson 1986). The environment imposes constraints and presents opportunities to organizations (Zald 1970). Achrol, Reve and Stern (1983) extended the political economy framework to cover the environment of distribution channels, dividing the environment surrounding channels of distribution into a primary task environment (i.e., immediate suppliers and customers), a secondary task environment (i.e., the suppliers of immediate suppliers, customers of immediate customers as well as direct and potential competitors, regulatory agents and interest aggregators) and a macro environment (i.e., general social, economic, political and technological forces influencing the primary and secondary task environments). The primary and secondary task environments can be divided into: (1) an input sector, consisting of all direct and indirect suppliers of the channel; (2) an output sector, encompassing all direct and indirect customers of the channel; (3) a competitive sector, consisting of actual and potential competitors of the channel; and (4) a regulatory sector, consisting of, e.g., government agencies, trade associations and special interest groups.

Many elements of the environment of distribution systems in Eastern Europe have changed over the last decade; not least economic conditions. The shift from central planning to market economics represents a dramatic reorganization of the economic systems of Eastern Europe. The shift has had and

see longer channels and more stores, then concentration and vertical integration of their distribution systems and fewer, but larger stores.

Arndt (1972) used the concept of temporal lags to explain differences in retail structure. He found that temporal lags in economic development accounted for differences in the retail structure of culturally similar countries (Norway and Sweden). It has been noted that the distribution systems of Eastern Europe resemble those of Western Europe in the 1950s and 1960s (Henry and Voltaire 1995; Mueller and Broderick 1995; Seitz 1992). One might therefore see a repetition of the retail developments of the West in the Eastern European countries, at least in the countries most similar to Western Europe culturally. The concepts of 'westernization' and 'marketization' proposed by Lascu et al. (1996) might be helpful for predicting whether developments similar to the West will occur. Lascu et al. (1996, p. 28) define a country's level of westernization as "*the country's proximity to the West and the duration and extent of its openness to Western influence, cultural or otherwise*". Marketization, on the other hand, reflects "*a set of institutional and cultural requirements for the operation of effective private markets*" (Lascu et al. 1996, p. 28). Lascu et al. (1996) used these two dimensions to segment the countries of Eastern Europe into different clusters. Their analysis suggests that the Central European countries – i.e., the Czech Republic, Hungary and Poland – are the ones most similar to the West and therefore most likely to develop in a similar way. On the other hand, Lascu et al. (1996) consider the Baltic states – i.e., Estonia, Latvia and Lithuania – to be least like the West because they exhibit low levels of marketization and are among the Eastern European countries that are least westernized. Differences in 'marketization' and 'westernization' can also help explain to which extent many of the characteristics conducive to interest domination affects channel evolution in various countries (Dahab et al. 1996; Lascu, Manrai and Manrai 1996). Theory suggests that interest domination should be weaker in countries displaying higher levels of westernization and marketization. The classification of Lascu et al. (1996) suggests that the Central European countries should exhibit lower levels of interest domination due to higher levels of westernization and marketization than the three Baltic countries.

### **The Role of the Distributive Trades in Economies**

The distributive trades are of central importance in modern market economies, where the processes of production and consumption have been separated (Bucklin 1972). In bridging the gap between production and consumption, retailing and wholesaling improve the efficiency of the exchange process, adjust the discrepancy of assortment, provide the routinization of transactions and facilitate the search process (Alderson 1954). According to the theory of distribution channel structure developed by Bucklin (1966; 1972), the structure of retailing and wholesaling in market economies depends on consumer demand for service outputs. Bucklin (1966; 1972) specifies four generic service outputs from distribution channels: (1) market decentralization; (2) lot size; (3)

*environment*". Nevertheless, because of the fundamental and far-reaching changes that have occurred over the past decade in the macro environment of distribution systems in Eastern Europe as democratic, parliamentary republics dedicated to establishing market economies have replaced communist regimes and central planning and because focus in this paper is on distribution systems rather than individual channel dyads, some of the economic changes in the macro environment most pertinent to the distribution systems of Eastern Europe will be considered separately in this section.

In the transformation of the discredited central planning system, the countries of Eastern Europe have pursued a common goal; the establishment of market economies based on the notion of private property (Earle, Frydman and Rapaczynski 1993). Four elements are considered central to the transition from central planning to a market economy (van Brabant 1993): (1) macroeconomic stabilization, (2) liberalization of domestic and foreign markets, (3) privatization of state-owned assets and (4) institution building. Because of their different histories under communism, the countries of Eastern Europe have followed different paths to transition (Earle et al. 1993). Progress on a general level on these four elements will be considered very briefly in this section, focusing on the consequences of economic transition for retailing and wholesaling.

#### *Macroeconomic Stabilization*

If substantial imbalances characterize the starting environment of transition, the first objective of governing the transition is to stabilize economic conditions in order to reduce uncertainty (van Brabant 1993). Under communism prices were determined centrally and generally bore only a very approximate relation to scarcity values as many prices were kept at levels where there was excess demand (Clague 1992). During the last years of communism, a 'monetary overhang' was created in some Eastern European countries, among these Poland and the Soviet Union, as the weakened communist governments were unable to restrain wage demands; with prices and the amount of goods constant, this led to suppressed inflation (van Selm 1997). The starting conditions for the transition from central planning to a market economy was thus characterized by substantial imbalances in several countries. As a consequence, when Estonia, Latvia, Lithuania and Poland liberalized prices, this resulted in rampant inflation. Tight fiscal and monetary policies have subsequently brought inflation under control. In the Czech Republic and Hungary, communist governments had retained tighter control over fiscal policy and inflation was less dramatic in these countries. Nevertheless, inflation remains a major cause of concern in several countries.

retail sector in Poland (Tamowicz 1993): An estimated 70% of small-scale retail and service outlets had been privatized by early 1991 (Thomas 1992). Nationalistic sentiments played an important role in privatization programs in Estonia and Latvia, where privatization schemes were designed to favor the titular populations over the Russian-speaking minorities (Mygind 1997). Throughout Eastern Europe privatization of retailing has been swift, with state-owned enterprises now playing only a negligible role in retailing.

### *Institution Building*

For market economies to be able to function in Eastern Europe, a new set of rules has to be established. van Brabant (1993, p. 77) sees institution building as "*erecting the framework within which market-based economic decisions, including by new private agents, can be taken and political choices voiced in a transparent, predictable, reliable, and comparatively inexpensive manner*". Among the activities involved in institution building are setting up the legal infrastructure for the private sector, devising a system of taxation for the new private sector, devising the rules for the new financial sector and determining ownership rights to existing real property (Clague 1992). Discussing in detail the legal and regulatory infrastructure of the various countries is beyond the scope of this paper. It suffices to note that all six countries have made considerable progress towards establishing a legal and regulatory infrastructure suited for a market economy. This, however, is a laborious process not yet completed.

## **The Task Environment of Distribution Systems in Eastern Europe**

### *Primary Production and Food Industry*

Agriculture is potentially rich and plays a significant, if declining, role in Eastern European economies. The transition process has had severe consequences for agricultural output, which has declined significantly during the 1990s, most notably in Latvia. The most significant challenge faced by agriculture has been the privatization of previously state owned farms and farmland. The privatization process has been handled differently in the various countries but in general has led to a fragmented farm structure characterized by a few large estates and an enormous number of small, family-owned farms. The fisheries sector is important in Poland, Estonia, Latvia and Lithuania, while for obvious, geographic reasons it is negligible the Czech Republic and Hungary. Until 1990 Poland, Estonia, Latvia and Lithuania had significant high sea fishing fleets, but catches have since fallen significantly. Fishing has refocused and is now, with the exception of Poland, to a much larger extent based in the Baltic Sea. The food industry is important in all of the countries studied, being responsible for between 20-40% of value added by industry. The food industry is characterized by outmoded production equipment, significant excess capacity due to the decline in agricultural production and the amount of fish landed.



concepts from their operations elsewhere (Schur and Fischer 1996). Thus, one reason for Western retailers to expand into less structurally developed markets like the markets of Eastern Europe is that they provide the retailer with an opportunity to gain competitive advantage over local retailers through the transfer of management skills (Myers and Alexander 1997). Myers and Alexander (1997) studied Western European food retailers' evaluations of Eastern European markets and compared them with their evaluations of other European and global markets<sup>32</sup>. They found that relative evaluations of Eastern European markets were related to the physical location of the domestic operations and hence the geographical proximity of the Western retailer to these markets.

Whereas retailers in Western Europe operate in concentrated markets, distribution systems in Eastern Europe are still very fragmented (see below). The majority of retail and wholesale enterprises are small; e.g., most retail enterprises operate only one or two stores, while there are few national wholesalers (DTI 1998). As discussed earlier, Davies and Whitehead (1995) argue that because of economies of scale and scope in retailing, there is a tendency for retailers to grow and for concentration in retailing to increase with economic development. Indeed, evidence suggests that retailing in Eastern Europe is becoming increasingly concentrated. This is a trend that is likely to continue in the foreseeable future.

Retail development in Eastern Europe has so far mainly been focused around larger urban areas (Retail Intelligence 1999). The developments of foreign retailers in Estonia and Latvia are concentrated around the respective capitals, which play dominant roles in the local retail industries. Unlike the other two Baltic countries, retailing in Lithuania is not dominated by the capital, Vilnius. Because of limited availability of commercial selling space in urban areas, many retailers have chosen to build new stores outside town centers.

### *Distribution Regulation*

The ability of retailers to exploit a marketplace is often constrained by various forms of legislation, which limit economies of scope and scale in retailing (Davies and Whitehead 1995). Although the regulatory frameworks governing retailing are not yet entirely in place in Eastern Europe, to different extents this is also the case in the countries covered by this study. In particular, there appear to be constraints on opening stores. A license is required to open a store and sell goods in Hungary, while there are controls on opening large outlets in Poland (DTI 1998). On the other hand, Estonia has no specific retailing laws and the regulatory framework, such as it is, exists in the form scattered government decisions that are vague and not enforced (EIU 1997). Regarding trading hours, there are few or no restrictions on stores in Eastern Europe. In the

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<sup>32</sup> The Eastern European markets covered by this study were the Czech Republic, Hungary, Poland and Russia.

This is particularly true of the Czech Republic, which has almost thirty stores for every 1,000 inhabitants. In contrast, there are only three stores for every 1,000 Estonians. There are also differences in retail structures within the two regions, e.g. between the Czech Republic and Poland or between Estonia and Lithuania. Central Europe also has relatively more food stores than the Baltic countries, with the Czech Republic having the largest number of food stores and Estonia the lowest (Table 2). With more than half of all stores being food stores, the proportion of total retail stores accounted for by food stores is higher in the Czech Republic and Estonia than in the other countries. The proportion of food stores to the total number of stores appears to have been relatively stable, although there have been minor deviations from the general pattern. In Estonia, the number of food stores has not increased as rapidly as overall store numbers whereas the number food stores in Latvia and Lithuania has outstripped growth in overall store numbers. The majority of stores in Eastern Europe are very small in terms of sales area (Table 3), confirming the observations of previous researchers (McGoldrick and Holden 1993; Seitz 1992). The large differences between the retail structures of Central Europe and the Baltic republics and within the two regions both reflect different histories under communism and differences in stage of economic development.

**Table 2. Retail Structure**

	Retailing overall			Food retailing		
	Number of retail stores	Number of stores per 1,000 persons	Number of stores per 10 sq. km	Number of food retail stores	Number of food stores per 1,000 persons	Number of food stores per 10 sq. km
Czech Republic (1997)	298,500	29.0	37.9	168,600	15.4	21.4
Hungary (1996)	181,510	17.7	19.5	59,743	5.8	6.4
Poland (1997)	424,362	11.0	13.6	166,624	4.3	5.3
Estonia (1996)	4,386	3.1	1.0	2,180	1.5	0.5
Latvia (1997)	10,080	4.1	1.6	3,947	1.6	0.6
Lithuania (1997)	18,275	5.1	2.8	6,253	1.7	1.0

Sources: Corporate Intelligence on Retailing (1998), DTI (1998), Euromonitor (1999), Retail Intelligence (1999), Statistical Department of Lithuania (1997, 1998), Statistical Office of Estonia (1998) and own calculations.

In nominal terms, retail turnover (not shown) in Eastern Europe has increased throughout the 1990s. However, only in Poland has retail turnover in real terms increased consistently throughout the decade. In the other countries, retail turnover declined in real terms at the beginning of the decade before

Joint-stock	582	.	887	.	.	.
Partnerships	1,220	.	109,420	.	.	.
Limited by shares	.	167	.	.	.	.
Without legal status	.	17,324	.	.	.	.
Non-resident legal or natural persons	.	.	.	.	34	.
Other ownership forms	33,408	1,453	4	.	438	.
All forms of ownership	242,194	147,280	925,392 <sup>3</sup>	4,518	9,545	19,421

Sources: Central Statistical Bureau of Latvia (1997), Eurostat (1997), Statistical Department of Lithuania (1997).

Notes: <sup>1</sup> Please note that the numbers in this table are not comparable to the numbers in, e.g., Table 2, because they are for retail enterprises, not outlets (except for Latvia and Lithuania). Differences can to some extent be explained by enterprises involved in non-store retailing. <sup>2</sup> Numbers are for stores. <sup>3</sup> The extremely high number for Poland is due to a different source.

### *Retail Formats*

Modern retail formats are increasing in importance (see e.g., Euromonitor 1996a, 1996b, 1997). However, although the relative importance of different retail formats is beginning to change, retailing in Eastern Europe continues to be dominated by traditional retail formats, i.e. general and specialty stores (Euromonitor 1996, 1997; Retail Intelligence 1999). Modern retail formats like supermarkets were not unknown under communism, but they were only few in number (Seitz 1992). Liberalization and the entry of foreign retailers have accelerated the spread of supermarkets. Foreign retailers have also introduced new retail formats like discounters and hypermarkets. In addition, there has been a trend towards development of shopping centers on the outskirts of towns. Such developments are frequently initiated by hypermarket operators (DTI 1998). Although new formats provide a broader range of products and higher levels of service, surveys show that consumers prefer to shop in small, traditional neighborhood shops (DTI 1998). In connection with this, it must be noted that limited car ownership and generally low incomes prevent many consumers from traveling to shops.

Market places have historically played an important role in food retailing in Eastern Europe. Although their importance is diminishing, market places remain popular and continue to play an important role in Eastern European retailing because of lower prices (sometimes due to the illicit origin of the goods being sold) than available in stores (Eurostat 1997). Because much of the turnover on market places goes unreported, it is difficult to estimate the exact share of retail sales that go through non-store retailing.

### *Retail Concentration*

Prior to the transition to market, retailing in Eastern European countries was heavily concentrated and dominated by a few state-owned and co-operative retailers. Privatization has since put most of retailing in private ownership. Privatization and liberalization initially led to a fragmented retail structure with many small retail enterprises. A process of concentration has since begun, although retail concentration in Eastern Europe is still far from the level known in many Western European countries. In 1997/98 the top five Czech retailers had a market share of 38 percent, whereas in Poland the market share of the top ten retailers was 13 percent (Retail Intelligence 1999).

### *The Institutional Structure of Wholesaling*

Only little information is available regarding the structure of wholesaling in Eastern Europe. In general, an absence of a wholesale industry was evident at the beginning of the decade due to the collapse of previous state channels and because new private wholesalers were slow to emerge. At the beginning of the decade, wholesalers offered only few services and made little effort to find buyers, retailers had to come to them. Wholesaling in Eastern Europe is fragmented, poorly organized and inefficient (Corporate Intelligence on Retailing 1995, DTI 1998). There are few national wholesalers. Wholesaling is therefore typically carried out in co-operation between national, regional and local wholesalers. This adds links to the supply chain (cf. Sharma and Dominguez 1992). Other reasons for the inefficiency of wholesaling is lack of warehousing facilities and the large number of small independent retailers (DTI 1998). Because of the inefficiency of wholesaling, large retailers often perform wholesale functions like operating warehouses. On the other hand, many wholesalers sell directly to consumers.

There are large differences between the institutional structures of wholesaling among the six countries (Table 5). As was the case with regards to the relative number of retail stores, Central Europe has more wholesale enterprises relative to population than Latvia and Lithuania, two of the Baltic republics. Estonia, on the other hand, seems to be something of a special case. It actually appears to have more wholesale enterprises than retail stores. The number of wholesale enterprises relative to retail stores is also high in Poland.

**Table 5. Wholesale Structure**

	Czech Republic (1997)	Hungary (1994)	Poland (1994)	Estonia (1994)	Latvia (1995)	Lithuania (1996)
Number of wholesale enterprises	55,816	44,813	236,330	6,806	2,499	2,791
Number of wholesale enterprises per 1,000 persons	5.4	4.4	6.1	4.2	1.0	1.3

the importance and role of personal relations, stressing instead the business-like nature of buyer-seller relations, others attributed at least some importance to personal relations, pointing out that personal relations play an important role in the creation of trust between exchange partners, thus helping the business side of relations. A few respondents stressed that although personal relations were unimportant during the initial selection of suppliers, they became very important once a supplier had been listed. Our interviews with retailers and wholesalers indicate that personal relations are least important for doing business in Poland and most important in the Czech Republic and Hungary, with the Baltic countries somewhere in the middle. However, there are only few indications of personal relations being a critical antecedent to doing business. Retailers and wholesalers in Eastern Europe let business motives guide their choice of suppliers.

Because some retailers and wholesalers have been cheated by their suppliers in the past, trust is a key word in the distribution systems of Eastern Europe. Retailers and wholesalers throughout Eastern Europe want to do business with effective, honest and reliable suppliers. In relation with the creation of trust, retailers also value dealing with the same sales person on a continuous basis and lament frequent sales person change.

#### *Channel Control and Allocation of Channel Functions*

In contrast to Western Europe, distribution systems in Eastern Europe are characterized by high levels of fragmentation. Because Eastern European retail organizations tend to be small, many retailers do not have the resources necessary to deal directly with food manufacturers and therefore frequently buy food products through wholesalers. This is particularly widespread practice with regards to the buying of imported food products. There are few national wholesalers. The majority of wholesalers are small and operate on a local or regional scale. Establishing national distribution therefore often entails building a network of wholesalers. So, although wholesalers primarily buy food products from food producers there are also wholesalers buying food products from other middlemen; e.g., other wholesalers, agents or importers.

The majority of retail chains in Eastern Europe have central buying functions, with only a small minority of retail chains in Eastern Europe making buying decisions solely at the outlet level. There is, however, a substantial minority of retail chains that make decisions regarding purchases of food products both centrally and locally, at the level of individual outlets. Buying is more centralized in the Central European countries, particular in the Czech Republic and Hungary, than in the three Baltic republics.

Eastern European retail chains are often too small to warrant the investments needed in conjunction with the introduction of private labels. Therefore, retailer private labels are not in widespread use yet, although many retailers plan to introduce them once they grow large enough. Because the majority of retailers sell only manufacturers' brands or no-name products, they do not have to take into consideration the relative positioning of own labels and

the supplier's interest in engaging in a long-term relationship with suppliers (Skytte and Blunch 1998).

Retailers and wholesalers in Eastern Europe prefer to do business with their suppliers using formal contracts rather than informal understandings. Most contracts with suppliers run for a year at a time, although contracts with shorter or longer duration are also in use.

#### *Are Distribution Systems in Eastern Europe Traditional or Modern?*

In his study, Goldman (1991) developed a classification of retail systems based on level of modernity. The classification of retail systems as either traditional or modern is based on evaluation of the nature of retail formats and the nature of internal political economy of distribution systems. Using traditional or modern categories, these two dimensions produce four retail system types (Figure 1). First, both institutional formats and internal political economy can be traditional. This is typically the case in LDCs. Second, modern retail formats might exist within a traditional internal political economy, which Goldman (1991) found to be the case with Japan's distribution system. This type is termed constrained-modern. Third, traditional retail formats may continue to exist within a modern internal political economy (traditional-modern). Finally, both institutional formats and the internal political economy of retail systems can be modern, as is often the case in highly developed countries. The retail system of any given country may consist of one or a combination of these types (Goldman 1991).

Under communism, the retail systems of Eastern Europe could be classified as traditional, as both retail formats and the internal political economy of distribution systems could be characterized as traditional. Because of the transition from central planning to market, classifying the retail systems of Eastern Europe is not so clear cut as it used to be. The retail systems of Eastern Europe appear to be characterized by a combination of the traditional, traditional-modern and modern types (Figure 1). Many traditional stores continue to exist and are particularly important in rural areas. For the most part, these stores have to survive in a modern internal political economy, as the transition process has disrupted old relationship patterns, forcing retailers to find new suppliers. However, personal networks continue to play a role, albeit a limited one. Facing the traditional retailers are the modern institutional formats that have been introduced and play increasingly dominant roles. These formats are typically operated by retail chains, often foreign-owned, that place emphasis on business-like relationships with suppliers rather than personal relationships. The retail chains are becoming more powerful relative to suppliers and are increasingly able to dictate terms of sale to suppliers.

opening hours and limitations on the establishment of new supermarkets (Waters 1999).

### **Conclusions**

This study analyzed the institutional structure and political economy of food distribution systems in six Eastern European countries. The overall conclusion that can be reached based on the present study is that, in the transition from central planning to market economies, the distribution systems of Eastern Europe have changed fundamentally and continue to evolve in order to adapt to ever changing macro and task environments.

The distributive trades were among the first sectors to be privatized and liberalized following the collapse of communism. Liberalization and privatization heralded a transformation of distribution systems. The past decade has seen a large increase in the number of stores in Eastern Europe, the vast majority of which are privately owned. Today, the state plays only a minor role in retailing and wholesaling in Eastern Europe. The majority of stores continue to be small traditional formats, like e.g. general stores, but with the introduction and spread of modern formats like supermarkets, hypermarkets and discounters, average store size is beginning to increase. The entry of foreign retailers into the markets of Eastern Europe has been an important force behind the spread of modern retail formats. Foreign retailers today play dominant roles in most Eastern European markets. Retailing in Eastern Europe remains fragmented by Western European standards, but a process of concentration has begun as retail chains strive to achieve for economies of scale and scope (cf. Davies and Whitehead 1995). These developments are general. However, there are also important differences between the institutional structures of food distribution systems of the individual countries and regions of Eastern Europe. For instance, the relative number of stores is higher in Central Europe than in the Baltic republics. In addition, foreign retailers have been more active in Central Europe because these countries are generally considered more attractive markets.

The internal political economies of distribution systems in Eastern Europe are increasingly modern, although traditional elements continue to exist. An existing personal relationship between buyer and seller may thus sometimes be an antecedent to doing business. Overall "interest domination" does not seem to be a major problem. However, personal relationships between buyer and seller are important in the distribution systems of Eastern Europe because they help the business side of trading relations by fostering trust between actors.

### **Areas for Future Research**

This study contributes to the understanding of distribution systems in Eastern Europe by considering both the institutional structure and political economy of distribution systems. However, there are many issues related to food distribution systems in Eastern Europe still in need of consideration. First, this

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## **Cross-Cultural and Home-Country Perspectives of IPR Infringement: Counterfeiting's Role in Consumer Search\***

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*Intellectual Property Rights (IPR) violations in the form of counterfeiting and brand piracy continue to be a challenge for marketers around the globe. With hopes to shed light on this challenge, we investigate brand/product counterfeiting from a consumer search perspective. As the quality of counterfeits improves, it is becoming more difficult for the consumer to identify them. Interviews with more than 100 international students attending Australian universities yield a picture of the role of face and taste in decisions to purchase (or not) counterfeits. We conclude with a discussion of the some policy implications*

### **Introduction**

A fundamental pillar of “fair”<sup>33</sup> competition is the belief that one’s brands or other forms of intellectual property rights (IPR) should be protected in the marketplace. The plethora of brand-pirates who produce and sell fake products, and the massive number of global consumers who drive this market, suggest that many players in the marketplace think otherwise (cf. Gutterman and Anderson 1997; Jain 1996; Mittelstaedt and Mittelstaedt 1997; Shultz and Saporito 1996). Globally, the sales of counterfeit products are estimated to be about \$299 billion (Chakraborty et al. 1997). The International Chamber of Commerce estimates counterfeit products account for 8% of world trade (Freedman 1999). Though currently a topic of keen global interest, this phenomenon is not new. Consider that counterfeit paintings became so common in late Ming China that only one in ten paintings was estimated to be genuine (Clunas 1991, p. 114).

Close scrutiny of today’s brand piracy environment seems to indicate a somewhat universal theme that some “other” countries of origin are associated with counterfeits. For example, Dahab et al. (1997) reports an Albanian informant who concluded that clothing from Turkey is always poor quality and that most Turkish products are counterfeit. The role of counterfeits can be enormous in developing economies. A 1995 survey of domestic alcoholic beverages in Albania found that more than 90% of the beverages were adulterated and falsely labeled (Luxner 1996). Similarly, licensed jewelry store-

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<sup>33</sup> We hasten to add that the interpretation of the word fair, in global markets, is very much a source of debate (cf. Nill and Shultz 1997)

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## **The Identification of Counterfeits and Other Emergent Themes**

By reviewing the text of the interviews, emergent themes were gleaned (e.g., Lincoln and Guba 1985). Though the many vignettes shared here might be categorized as less than “thick descriptions,” collectively they provide rather vivid portrayals of consumer perceptions vis-à-vis counterfeit items and the intriguing relationships among counterfeiters, willful consumers of counterfeit items, and some mechanisms to circumvent or to protect IPR. What follows is a discussion of those themes and some interpretation.

The sale of a “branded” good at a disproportionately large “knock-off” price is perhaps the most certain indicator that the product is counterfeit. After all, who would expect to find a \$10 Rolex watch, a \$5 Swiss Army knife, or a \$3 bottle of Napoleon Brandy? The interviews indicated that most informants relied on non-product cues to indicate whether an item was authentic or not. Specifically, the two most prominent cues were where the item was located and its price.

### *Sales Outlet*

The location of the seller was a major cue as to the authenticity of the item.

If I know where the product has been bought from, I can make a reasonable guess as to whether it's real or not. But if I do not know where it's come from, sometimes it's hard to tell the difference.  
[South African]

The key cue appears to be the type of retail format in which the item is purchased, with more sophisticated formats such as department stores and boutiques carrying the real thing.

I have no ability in judging what is genuine and what is not. I have the belief that products from department stores are genuine and products from elsewhere other than boutiques are pirated.  
[Malaysian]

An indication to the quality of a product will be the source from where the product is purchased. In general, the product quality is not determined by simply looking at it but rather the context in which it is being sold. For example, selling branded goods in a hawker center seems to raise doubts. [Malaysian]

Counterfeits are not sold in prestigious shops, rather in markets and stalls. [Singaporean]

Certainly extreme perceptions exist across countries as to the prevalence of counterfeiting (and across subcultures within countries). At one extreme is the “everything is fake” perception.

The clothing everywhere is fake. I will not buy any article of clothing in Brunei as it generally appears fake, and I know the quality is lower. [Brunei]

In Jakarta, most markets are filled with counterfeit stalls; there is rarely a genuine article available. [Indonesian]

At the other extreme, the New Zealand informant and many Australian students reacting to their informants’ reports claimed that there were no counterfeits in their countries. We would suggest that most Americans similarly expect branded goods to be genuine. However, two of the three US informants noted the existence of counterfeit clothing in the US, one in some detail.

In the US, you can get counterfeits on the streets. Jeans are the largest items on the streets in Seattle, almost always being sold out of the back of vans or at a street vendor’s. [American]

Here again, “where” is mainly indicated by informal street markets. However, one informant said that she encountered counterfeits in the affluent Kensington area in London.

Overall, it appears that the proliferation of counterfeits does vary across countries, and that fixed-store formats are strongly associated with the authenticity of the brand. While some have criticized Western manufacturers for “blindly” following Western notions of distribution, the use of more upscale department stores and boutiques would seem to be critical to establishing brand equity. A “channel mapping” approach focusing on how the majority of consumers purchase in a developing country and subsequently distributing through those channels might well do great harm to brand image.

On the other hand, the “upscale”emic no doubt varies across countries. The K-Mart (now Tesco) in Bratislava in the early 1990s was relatively more “upscale” than many mall anchor stores in urban US at the same point in time. Similarly, the WalMart stores in Sao Paulo were relatively much more upscale than their US counterparts.

### *Price*

The \$10 Rolex is seemingly a strong cue that the item is not authentic. To some informants, the pricing context was very clear; either the item was priced “correctly” or it was substantially (ridiculously, even) below that.

The best indicator to judge the quality of the counterfeits would be price. Many consumers would not mind paying for it if the quality is good and it is value for money. [Singaporean]

Higher income earners assume that the more they pay for an item, the more genuine it is. [Brunei]

Many are willing to pay for better quality counterfeit products. This is especially true for products such as sunglasses and clothing. Most are wise in the sense that they will buy the product due to its cheap price and brand names are not important. There is a growing trend that teenagers are beginning to favor products that are not branded but low-price and similar in pattern. This is also the strategy Jeans West has applied for its new line of khaki pants. [Malaysian]

Some informants even indicated that price was a very weak cue in their cultures.

Consumers purchase these counterfeit products, sometimes even unknowingly (they think it's original). They are usually of high quality, at times higher quality than originals, and priced below the original's price tag. As it is almost impossible to tell the difference between counterfeits and originals, all consumers tend to buy the counterfeits when available on the market, simply because they are cheaper, and every rational consumer wants to increase his utility per dollar spent. [Italian]

Counterfeits are priced slightly lower than genuine ones – price is not a cue for being fake. [PRC]

Counterfeiting is such a common practice in Indonesia. Most consumer goods, ranging from clothes, cosmetics, cigarettes, and much more, have its counterfeit products. First thing we recognize from counterfeit product is the price. Even for famous products, although the counterfeit's price is still high, it has differences with the real one. If we look closely, the stitches or pirated design are quite different from the real one. It is hard to identify the differences, but for people who are used to encountering the real one, they will realize the difference immediately. [Indonesian]

Other informants indicated that they would have trouble distinguishing between the original and fake brands if counterfeits were sold at similar prices.

Where one finds the item is a cue [for a counterfeit], and if the prices are greatly differed. I must admit, though, that if I didn't have

### *Quality/Performance*

Some informants indicated that they believed that they could identify counterfeit items even if the location of purchase and price cues were not clear indicators.

It has become more and more difficult to distinguish between a real item from a counterfeit one. There are many times when people have been fooled, by just looking at the item, without being told the actual price. However, in most cases, counterfeit items can be spotted quite effortlessly. For that matter, I seem to be able to identify them, at least most of the time. [Singaporean]

Locals consider the items to be genuine, but a higher income earner can walk into such a store and can identify the products as being counterfeit. [Brunei]

The interesting thing is that brand consciousness is a trait among a significant proportion of Singaporeans and, as such, they are mostly able to pick out a counterfeit from a real product. [Singaporean]

Counterfeits are mainly clothing and footwear. They tend to be of comparable quality to the originals, but always distinguishable at closer inspection. [Italian]

When pressed to discuss how they judged "quality," many informants did not provide a great deal of insight. Some evaluated the quality after the fact, as they noted the performance of the product after purchase.

Nike or Reebok shoes. The style is exactly the same as the authentic Nike or Reebok shoes. When we only look at it, we cannot distinguish between the authentic and counterfeit products. The only things that can distinguish are the price and the quality [performance]. The price is half of the authentic ones and sometimes less than half. Moreover, the quality [performance] is not as good as the authentic ones. For instance, we can wear the Nike or Reebok shoes for 2-3 years, but the counterfeit ones we can only wear for 1-1.5 years. [Indonesian]

With regards to poor quality stitching, the judgment of the brand quality could be found in the time factor. Often counterfeit goods would be worn off after a few washings but the genuine product would have a much longer period of durability. [Brunei]

brand names, the use of obviously cheaper materials, and altered logos would seem to be easy to catch.

A consumer would have to study the stitching in their Lacoste shirt or do chemical tests on their perfume in order to determine which one is real. I find that often it is impossible to differentiate between the two products unless the mistake is obvious such as a Nike shirt carrying a cross instead of a check or a Rolex watch spelt Dolex. [Egyptian]

In the case of kid's clothing, the manufacturer's tag sometimes doesn't match up with the character depicted. For instance, a Bart Simpson's t-shirt not bearing the 20th Century Fox Corporation tag. Another way in the identification of counterfeit clothing could be seen in the spelling such as a Chanel t-shirt having the spelling of Chanell. Counterfeit clothes often have blurred colors or mismatched labeling, poor quality stitching and inconsistent coloring. [Brunei]

Clothing sometimes has spelling mistakes like Valentine rather than Valentino. Watches do not have special engraving on them, unlike the original. [Malaysian]

For low quality counterfeit products it so easy to identify. Besides the place they sell the products, the pronunciation of the products are also different from the real one, for example OAKLEY clothes brand, written as OKLEY for the counterfeits. [Indonesian]

I can recognize these counterfeit goods upon inspection since they are usually made of low-grade materials. Moreover, the labeling and brand names are usually slightly different from the genuine products. For instance, real branded wallets are usually made of genuine leather while counterfeit wallets are usually made of PVC leather. [Malaysian]

Real Calvin Klein goods are labeled as such. The counterfeit goods swap the E and the I in the label. To tourists that do not realize this they may be fooled into thinking they have bought the genuine article. [Indonesian]

The logos and the tags are usually different from the original; e.g. Polo Ralph Lauren counterfeit polo t-shirts usually have one leg missing compared to the original. [Singaporean]

In Taiwan Nike cap counterfeits can be easily identified by the rows of stitching around the rim of the cap, by the durability, and type of material used. [Taiwan]

The clothing is rougher and not as soft. [Singaporean]

Counterfeit Emporio Armani jeans has more than eight small buttons and the cutting is different. [Malaysian]

A counterfeit Bennetton shirt can be distinguished from an original brand through its needlework. Sometimes, they can be identified through the material used to make them. [Malaysian]

He used his watch as an example. The brand logo was glued on and you could see the glue on the counterfeit while an original would be made better. [Malaysian]

The only way to tell the original Tag Heuer from its counterfeit is to weigh them. The original Tag Heuer is much heavier than the counterfeit. [Malaysian]

Nike imitation shirts are available on the street for very low prices, but they feel different. At the end of the word Nike, in the real ones the "E" goes slightly over the tick. In the counterfeit ones it is above. However such a slight difference can be seen only by someone who knows quite a lot about a product. [Indonesian]

From my experiences, counterfeit products are usually of a lower quality with logos lacking minor details or with slight amendments. Take for example, Prada handbags. The counterfeit ones usually comes with logos that are not as well defined as the originals, or with certain minor details missing though they are not easily noticeable to someone who is unfamiliar with the brand. [PRC]

It is possible to detect the piracy goods. For instance, material used to make a particular product (e.g. handbags) can be different in terms of quality. More specific details like the brand's logo must be symmetrical to each other at all angles and whether this product is truly designed by a particular brand designer, only loyal or brand conscious customers can pick out these differences from a counterfeit product. [Singaporean]

Famous designer brands like Armani, Prada, Gucci, Nike and Reebok have all been copied to the slightest details and one can



It has come to the stage that people are able to identify the different degrees of counterfeit products. The more fashion and status-oriented of course will buy only those of higher quality and refined imitation from overseas when compared to those available cheaply at local weekend markets. In Hong Kong, for example, one now has the choice of buying different grades of counterfeit goods for different products. [Singaporean]

In fact, some informants (see earlier quotes) perceive that counterfeits can be of even higher quality than the authentic items. One case in point is pirated software, which may be available in counterfeit form long before it can be purchased through legitimate channels.

For as little as RM\$10 (about US\$3.00), one can purchase a full version of Microsoft Windows 98, as well as many of the latest software that may not even be available in legal market yet. [Malaysian]

Counterfeit may be actually better. They provide more value for the money. For example, there are more songs in a compilation CD. [Singaporean]

In Malaysia, the authentic ones may not even match the quality of the fake one. [Malaysian]

Singapore is a very materialistic country where people are judged solely on what they drive and wear. This has led to many Singaporeans buying counterfeit goods so that it is very hard to tell a counterfeit shirt from an original unless you look at the label which is the reason why a lot of money is spent on counterfeit goods by the residents. On the streets, a typical Singaporean will not care if the clothes look good or not as long as the right designer brand is on the garment. Singapore's culture has therefore allowed counterfeits to play a significant role in their way of life. [Singaporean]

As indicated several times previously, the quality of counterfeits seems to be improving at a fairly rapid pace, making the ability (and possibly the need) to distinguish counterfeits less important.

Tourists to Bali bring back many counterfeits. Every year when somebody comes back with a batch of these fake items, I notice that the quality of the items is improving and the brand labels are beginning to look more real. [Australian]

Consumers are wise in judging which is counterfeit by the packaging and the method in which the products are displayed. Tags on clothing will be the easiest to determine quality. [Brunei]

One obvious form of identification is the product's labeling. [Singaporean]

The CDs have different covers from the original ones. The package of the product may be an indication of quality as imitation products are often packaged more cheaply than superior goods. [Malaysian]

Pirated computer software, CDs and VCDs can also be identified since the originals will have a license on the back of its cover. [Malaysian]

With counterfeit CDs, there are no lyrics provided. [Singaporean]

The cover of the counterfeit VCD is not as durable as the original one. Further, the picture on the counterfeit VCD is very blurred and mostly in black and white. [Malaysian]

### **Willingness to Seek Counterfeits – A Question of Taste and Face**

Many informants indicated strong willingness to purchase counterfeits, while others were adamant that they would never do so knowingly. Our interpretations are that subtle issues of taste and “face” can help to explain the very different reactions to the phenomenon of counterfeiting.

Given the points raised earlier in the paper, it is clear that many informants were impressed with the quality of the counterfeits, especially when compared to the low price at which they could be obtained.

The differences in quality between counterfeits and the real goods is decreasing as counterfeiters gain technology that can be used to replicate the goods better. [Australian]

Counterfeiting is a way of life. You can tell counterfeit by the price, but the goods are still usable and are of an average quality. [Malaysian]

In some way counterfeiting can benefit some people. With good-quality counterfeit products more widely available in the market, people who previously could not afford ‘branded’ products can now purchase the counterfeit at a much cheaper price. Famous

Other reasons exist for desiring counterfeits beyond a positive value-for-price determination. For example, one informant noted that one could use the counterfeit item freely without worry about it being damaged.

The counterfeit provides confidence. Consumers feel much more 'relaxed and comfortable,' it is knowing that they can lose or 'damage' the bag without hesitation. That is, since it is a counterfeit, it doesn't really matter greatly if something happens to it—it is not the original. [Korean]

Other informants stated that counterfeits made product trial very inexpensive, allowing more adventuresome consumption. In fact, one could try various products and then buy the authentic one should the counterfeit one be enjoyed greatly.

If you want to collect CDs or VCDs, you buy the cheap pirated one first and then, if you like it, buy the original. [Malaysian]

Sometimes, the goods are so cheap that they do not see it as counterfeits but just another product to buy and use. Once it's broken or ruined, they will replace it (plates, VCDs). [Malaysian]

Among other informants there was a negative reaction to the speed with which fashions fall out of favor, thus making counterfeits a relatively cheap way to stay current.

Frequently the product is not expected to be used for a long period of time. For example, in terms of counterfeit accessories such as bags, the fashions change so frequently and the price is sufficiently negligent that it is seen as OK to buy numerous counterfeits. [French]

One final explanation for the willingness to purchase counterfeits is novelty. Just owning something counterfeit is somewhat differentiating. To some extent, this may be the mirror image of the allure of U.S. products in transition economics.

She proudly claimed that from her Versace sunglasses to Nike sneakers, none of them bears a genuine label. [Malaysian]

Singaporeans often rave about trying cheap counterfeits from Hong Kong, Thailand, Taiwan, and Malaysia. [Singaporean]

I believe that many Australians actually pride themselves on owning fake products. Some like to show them off as a symbol of a

some sensitive Hong Kongers still differentiate between real and 'unreal' bags. Therefore, for branded bags, most Hong Kongers still prefer to buy the real branded ones if they can afford it. [Hong Kong]

The greatest value is hence placed on the prestige that comes with the brand, and no amount of quality reproduction can displace that. [Singaporean]

This is because branded products are purchased overseas and traveling is also a status symbol. Otherwise, branded goods are not very highly valued. The use of counterfeit products for public necessities or luxuries is frowned upon; i.e., imitation.[Romanian]

While I know certain products like clothing and watches are fake, it is more for rough and in-house wear only. But when it comes to important occasions like weddings or Chinese New Year, only the real things (originals) will do. [Malaysian]

I would never buy counterfeit fashion goods because I would not want to be 'exposed' by friends. I would rather pay for the genuine products. However, purchases of counterfeit software and compact diskettes are acceptable as long as they are reasonable quality. [Malaysian]

Consumers in Singapore would not risk being discovered wearing or using counterfeit fashion goods. Counterfeit VCD and software are more acceptable than fashion goods because VCD and software are private goods that are not exposed to public scrutiny. [Singaporean]

As a consumer, I tend to be more image conscious and I would not buy counterfeit goods as I do not want to have a bad image in the eyes of others. [Singaporean]

At the same time, given the difficulty in evaluating counterfeits by just looking at them and the importance of having the right brand, owning counterfeits is also seen by some informants as a source of face.

People who purchase imitation products are more image conscious than quality conscious, so logos play an important point. [Singaporean]

Since it is generally hard to differentiate a counterfeit product from a real one, there is no harm owning one. Singaporeans are

friends, who probably also own counterfeit products. As this is a part of common group behavior, it could be classified as being sub-culture linked. Members of the sub-culture make no attempt to disguise the fact that they own a counterfeit from other members, and have no remorse (or ethical dilemmas) as to the appropriateness of supporting an illegal industry. Those of a higher social standing, relative to the consumers described above, being wealthier and more affluent would under no circumstances purchase a counterfeit product, or at least make it known that it is counterfeit. Doing so, could give an impression of belonging to the sub-culture of counterfeit product consumers, which has a lower social standing in the community. [Italian]

The rich buy the original and the not-so-rich buy the fake. Who can really tell, unless you examine it closely. [Korean]

Those working are more able to afford to buy the real ones, and it is the younger generation like the students who are more likely to be the ones buying counterfeits. [Singaporean]

Further, many informants claimed that locals did not buy the counterfeits, rather it was tourists who did.

Who buys? – not Arabs but tourists. US soldiers during the Gulf War. [Egyptian]

Both Caucasians and Asian tourists enjoy shopping and buying counterfeit products when they visit Thailand. [Thai]

Many counterfeit products are available to the consumer, By far the majority of purchases of these goods were by the many tourists. [Singaporean]

I think it is mainly tourists who buy counterfeits in Malaysia. [Malaysian]

I do not disagree that there are counterfeit models in the market, but see that they were more for the tourists who sometimes couldn't see the point in paying such a high price for quality and style (as Italians do). [Italian]

Counterfeit clothing (CK and Levi jeans) is available at tourist sites in Kuala Lumpur. Their target market is tourists and lower-class people. [Malaysian]

Ralph Lauren) – ever lost a sale to this sort of activity...No one would be fooled” (*The Straits Times* 1999). On the other hand, evidence suggests that the quality of some counterfeits can approach or even match that of the authentic items, making the cost of search much higher. “Taste” issues may make the benefit worth the cost.

Our findings indicate that there may be a middle ground here, where counterfeits allow consumers to try a low-grade version with the intent of purchasing the authentic item if the trial is successful. Informants from developed countries acknowledged that counterfeiting exists there, but only in street markets. A certain degree of insulation from such activities was obvious. As E-commerce grows though, the developed world may see vastly increased numbers of counterfeits circulating. Some marketers have questioned why fixed-format retailers would compete against themselves by creating Websites. This paper indicates an obvious reason: the store’s equity will assure the buyer of obtaining an authentic item, whereas skepticism will exist for lower-priced competitors.

Another insight from our findings is the mirror-image of a point raised frequently by Belk (1999) and others, the willingness of people in transition economies to pay disproportionate parts of their income for symbolic Western products. There is evidence that well-resourced tourists also seek to acquire symbolism, but in the form of obviously counterfeit goods. The novelty and the tangible symbol of one’s travel experiences merit more investigation, especially given tourism’s role as the largest industry in the world.

A final insight is one that contradicts the guidelines of most international marketing textbooks, that consumers in developing countries are extremely price conscious and that the price for one’s product should be kept as low as possible. Our findings indicate that a very low-priced Western good may be seen as a counterfeit, rather than as a good buy. If there is a degree of brand equity involved, we would admonish the manufacturer to distribute the product to “upscale” stores (again, this emic may vary greatly across cultures) and avoid being extremely competitive in terms of price. An extension of this implication is that manufacturers may want to be very careful when introducing a modified product into a market flooded with fakes, as it may well be seen as a counterfeit. Care needs to be made that those subtle cues used to judge authenticity are still evident in the modified product.

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## **Retail-Sale Internationalization: A Generator of Development**

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*This paper discusses the (quantitative and qualitative) indicators of retail-trade capacity development in the Republic of Croatia. Expressed are also some conclusions dealing with their backwardness in comparison with other EU countries. According to the business activities' expansion of some retail-trade companies in other countries, the requirements and possibilities of retail-trade internationalization in the Republic of Croatia are evaluated pursuant to the retail-trade saturation analysis and market potentials in the Republic of Croatia. Also discussed are some positive and negative internationalization effects in other countries; according to these results, the requirements of Croatian retail-trade internationalization can be further expounded and evaluated. Furthermore, provided is an evaluation of some possibilities and requirements dealing with the business-activity expansion of Croatian retail-trade companies, i.e., with some possible business-cooperation forms with regard to the retail-trade companies in these countries. The expansion of global retailers in other countries different from the country of their origin may positively influence not only upon the development of retail sale but also upon the development of production and consumption in these countries. Additionally, the corresponding ideas of a new comprehension of marketing in a society are also transferred through internationalization.*

### **Introduction**

We will try to evaluate the needs of retail-trade internationalization in the Republic of Croatia based upon a comparison of its capacity-development indices (both quantitatively and qualitatively) with that of the EU countries, whereas the retail-trade internationalization possibilities in the Republic of Croatia will be judged based upon the retail-trade saturation indices and the market-potential indices. We will indicate the needs and expansion possibilities of Croatian retail-trade companies in other countries based upon the potentials possessed by Croatian retail-trade companies. Analyzing the positive and negative retail-trade internationalization effects in other countries, we might establish a directive for development of retail-trade internationalization in the Republic of Croatia.

backwardness in the achieved developmental level with regard to the retail trade in other countries. The retail-trade development as well as development of other activities should be observed in light of an increasing interlace of international economic fluxes.

The development of retail-trade capacities in a national economy will be quantitatively analyzed on the basis of following indices:

- a) number of inhabitants per store;
- b) number of stores per 1 km<sup>2</sup> of total area of a country;
- c) sale area (in m<sup>2</sup>) per inhabitant.

The sale area per inhabitant, i.e., the average store size, might be also regarded as the trade-service quality indices.

Qualitatively, the retail-trade structure indices (see Mason/Mayer 1990, p. 5) are taken as the retail-trade development indices. For the sake of our analysis, we have chosen a comparison of countries with regard to the main characteristics of their distribution system: the average number of employees per one retail-trade company and number of companies per 1,000 inhabitants.

We will provide for the comparisons of concentration degree as the indices of the retail-trade company's quality, for only the large-sized companies and/or cooperative creations signify the possibilities to apply the state-of-the-art technical-technological achievements although they still do not reflect the real retail-trade quality in a country by themselves. The business systems of the kind may be expanded to other countries. On the other hand, the independent and non-corporate retail traders fall back technically and technologically.

The retail-trade saturation index is calculated with regard to merchandise groups (Tietz 1993a, p. 216f). As we do not dispose of the data pertaining to the sale areas with regard to merchandise groups, we will calculate the overall retail-trade turnover per 1 m<sup>2</sup> of the sale area. That is an index of the sale-area productivity and its utilization. Of course, the better sale-area utilization may denote a lower trade-service level.

The retail-trade saturation index as well as the regional purchasing-power index is used in the choice of stores' macro location. A country with a higher retail-trade saturation index provides for more possibilities for the expansion of sale areas as a higher retail-store turnover per a sale-area unit may signify a weaker competition and greater chances for an increase in a retail-store turnover on the new sale areas.

The regional purchasing-power index (see Tietz 1993a, p. 216) will be calculated from the following formula:

$$\text{regional purchasing-power index} = \frac{\text{retail-trade turnover share}}{\text{number of inhabitants' share}}$$

An index higher than 1 also denotes a higher development of retail trade of a country or a region with regard to the country- or regional-group average.



one country to the other. Moreover, on the basis of retail companies' international management studies conducted, the managerial dimensions could have been analyzed from the aspects of structure, system, and culture (see Anderer, 1997). Thus, retail internationalization pertains not only to a know-how and business-concept transfer but also to the transfer of culture, i.e., to a cultural management. In the cultural management, one should differentiate the instruments (top-force transfer, visits, company-related culture forms) and processes (transfer of a company-related culture to the foreign companies).

#### *Chosen Indices Comparison*

Table 1 shows the number of stores in certain EU countries and in the Republic of Croatia and number of inhabitants per a store and number of stores per 1 km<sup>2</sup> of the total area of a country.

**Table 1. Number of Stores in Certain EU Countries**

Country	Year	Number of stores in 000	Number of inhabitants in 000	Number of inhabitants per store	Area in 000 km <sup>2</sup>	Number of stores per 1 km <sup>2</sup>
Denmark	1991	51.2 <sup>1</sup>	5,197	101	43	1.2
FRG	1993	487.3 <sup>2</sup>	81,338	167	357	1.4
Italy	1993	897.8 <sup>3</sup>	57,139	65	301	3.0
France	1992	414.6 <sup>4</sup>	57,779	139	544	0.8
Croatia	1995	34.0 <sup>5</sup>	4,776	140	57	0.6

Source: (a) Retailing in the European Economic Area 1996, *Eurostat*, European Communities, 1997;  
 (b) Retailing in the European Economic Area 1993, *Eurostat*, Brussels, 1994, pp. 9, 24, and 27;  
 (c) SLJH 1996, p. 315;  
 (d) Mjesečna statistička izvješća Državnog zavoda za statistiku Republike Hrvatske, Zagreb, No. 12/1993, p. 56 and No. 12/1996, p. 17;  
 (e) SGH 1991, pp. 430 – 53;  
 (f) SLJH 1992, pp. 464 – 67.

Notes: <sup>1</sup> Location stores <sup>2</sup> Without gas stations and motor salons but including mail services and ambulant stores <sup>3</sup> Location stores including travel-sale stores <sup>4</sup> Including offices, centers, and depots <sup>5</sup> An authorial estimation based upon a survey in certain cities (see Segetlija, Z. and Maja Lamza-Maronić (1997), *Pokazatelji razvijenosti trgovine na malo u Republici Hrvatskoj*, *Suvremena trgovina*, 22 (3), p. 82, footnote 31).

Pursuant to the official statistical data (Priopćenje 1999), at the end of 1998 there were 22,332 stores in the Republic of Croatia, what would suggest that the ratio in the Republic of Croatia would be 214 inhabitants per a store. Nonetheless, on the basis of a field survey conducted in 1997 and 1998 by the Osijek School of Economics' students, we have established the official statistics

The retail-trade quality in the Republic of Croatia was analyzed based upon a comparison of the main distribution-system characteristics in certain European countries and in the Republic of Croatia (Table 3).

**Table 3. Main Characteristics of Distribution System in Some European Countries**

Country	Number of retail-trade companies per 1,000 inhabitants	Number of employees per company	Year
Austria	8.4	7.7	1997
FRG	5.1	10.5	1997
France	10.9	4.4	1997
Norway	13.1	5.5	1997
Finland	9.4	4.1	1997
Portugal	17.8	3.4	1997
Italy	20.9	2.3	1997
Slovenia	11.8	4.7	1997
Croatia	3.8	4.3	1998

Source: (a) "Handel in den mitteleuropäischen Ländern und der EU," <http://www.europa.eu.int/en/comm/eurostat/compres/de/9499/6409499d.htm> of October 14, 1999;  
 (b) SLJH 1998, p. 582;  
 (c) SLJH 1995, p. 111;  
 (d) Trgovina u 1998., Priopćenje Državnog zavoda za statistiku Republike Hrvatske, Zagreb, June 17, 1999, pp. 2f.

Note: *The number of companies and the number of retail-trade employees in the Republic of Croatia have been obtained based upon the data of December 31, 1998 pursuant to Trgovina u 1998., Priopćenje Državnog zavoda za statistiku Republike Hrvatske, Zagreb, June 17, 1999, Tables 2 and 3. The real number of companies and the number of retail-trade employees of the Republic of Croatia could possibly be slightly greater than these statistically encompassed figures.*

The Republic of Croatia has the specific characteristics of an undeveloped distribution structure for it has a relatively small number of retail companies, in average classified as smaller, in relation to its number of inhabitants.

If we are to connect the data on the number of stores (34,000) (pursuant to the sources in Tables 1 and 3) and the number of retail-trade companies (18,500), one may observe that in the Republic of Croatia the retail chains have not been specially developed. A retail chain implies "a firm that consists of multiple retail units under common ownership and usually has some centralization of decision-making in defining and implementing its strategy" (Levy/Weitz, 1995, p. G-17).

internationalization for the sake of rationalization of the existent large-area stores. In that respect, franchising is especially significant because it is connected with the market-performance globalization of an individualized store type.

It is visible from Table 5 that the retail-trade share of the Republic of Croatia in an imagined region is lower than its share in region's population figures, thus pointing out the unused market potential. The per capita retail-trade turnover in the Republic of Croatia is lower than the observed region's average, amounting only up to 35 % of that average (The average amounts up to 4.04 thousand ECU's, and 1.37 thousand ECU's are realized in the Republic of Croatia.). This is conditioned not only by a lower purchasing-power level in the Republic of Croatia but also by the drain from the Republic of Croatia to the neighboring countries: Hungary, Austria, Italy, Slovenia and the like. The estimation of the Croatian Chamber of Commerce tells that in 1996 the shopping tourists and smugglers have entered in the Republic of Croatia the merchandise in the worth of HRK 40 billion (Vjesnik of March 29 – 31, 1997). Moreover, one should also mention hereby the so-called informal economy, whose share in the overall Republic of Croatia's 1995 trade estimationally amounts up to 83.9 % with regard to the statistically processed trade.<sup>36</sup>

Similarly, the number of unregistered laborers ("moonlighters") almost exceeds the number of contractual employees (Suvremena trgovina 1998, p. 103).

**Table 5. Regional Purchasing Power Indices for a Selected Country Group**

Country	Turnover* in billions of ECU's	%	Number of inhabitants in 000	%	Regional purchasing-power index	Year
Austria	38	10.8	8,015	9.2	1.18	1993
Switzerland	50	14.3	6,969	8.0	1.79	1991
Italy	230	65.6	57,139	65.9	1.00	1990
Portugal	26	7.4	9,888	11.4	0.65	1993
Croatia	6.5***	1.9	4,770	5.5	0.35	1990
Total	350.5	100.0	86,781	100.0	1.00	

Source: (a) Retailing in the European Economic Area 1996, *Eurostat*, European Communities, 1997, p. 5 and 16;  
 (b) SLJH 1996, p. 315;  
 (c) Mjesečno statističko izvješće *Državnog zavoda za statistiku Republike Hrvatske*, No. 12/1993, p. 56 and No. 12/1996, p. 17;  
 (d) SGH 1991, pp. 430 – 53.

Notes: \* Without VAT. For the Republic of Croatia, 15 % on the realized turnover was taken as VAT.

<sup>36</sup> Data obtained from the Zagreb-based Public Finances Institute (Institut za javne financije), qtd. in: Anić/Vouk, 2000, p. 48.

The regional purchasing-power indices especially manifest the backwardness of the Republic of Croatia with regard to the parallel countries. The reason therefore is an insufficient development of its retail trade.

The openness of the Croatian economy as well as the purchasing-power drain from the Republic of Croatia to neighboring countries necessitates the consideration of needs and possibilities of a quicker internationalization of Croatian retail trade. On the other hand, however, the large Croatian retail-trade companies should be expended with their successful business conceptions also to other less developed countries.

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## **Putting Entrepreneurship Back into the Franchisee Realm: A Macromarketing Issue**

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*This paper examines the recent emergence of multi-unit franchising as a macro phenomenon from the franchisee perspective. It provides a conceptual comparison of the two prevalent domestic types of multi-unit franchising in the U.S., area development and sequential multi-unit franchising. The suggestions provided in this paper focus on the philosophical distinction of these two categories of aspiring franchise owners. It is argued that sequential multi-unit operators have more of an entrepreneurial motivation than area developers, who were labeled "investors". It is suggested that from a macromarketing perspective a clear need exists for marketing researchers to understand the emergence of such important and pervasive marketing institutions as franchise businesses, and this paper is considered a step in this direction.*

### **Introduction**

Franchising, despite its considerable worldwide growth in the past few decades, remains a topic of relatively slight interest to marketing scholars. Although the growth of this institution has brought great change to the marketing systems for many goods and services, the typical textbook treats franchising as a particular form of channel governance – even though when most people think of franchising it is of fast food restaurants, especially McDonalds, that are more like licensed factories than retailer distributors of the franchisor's goods. Scholars in other fields have focused on the larger social implications of franchising, especially its obvious control mechanisms that produce system-wide sameness of operation. Ritzer (1995), a sociologist, views this phenomenon with alarm, decrying the "McDonaldization" of the world which he sees leading to reduced quality and increased "blandness." By contrast, Watson (1999) and his anthropologist colleagues argue that observable social benefits have come from the extension of McDonald's into developing Asian economies and that firm's adaptation to those environments.

What has gone largely unexamined, except by a few marketing scholars, is the question "Why does the phenomenon of franchising exist and persist?" In the United States there are over 4,000 franchise systems; each has grown to its present size, whatever that may be, from a single unit. Many others have failed to survive. Thus, in one sense, the story of the growth of franchising is the story of the successes of a number of very small businesses grown large, and the question becomes, "Why do so many enterprising people choose this particular form of business organization?"

franchise is the prime and model example) is populated with multi-unit franchisees” (Kaufmann & Dant 1996, pp. 346-347).

Two types of multi-unit franchising have been identified by Kaufmann and Dant (1996) and Kaufmann and Kim (1993, 1995) as the prevalent domestic forms, area development franchising and sequential multi-unit franchising.

In area development franchising, the franchisee enters a contractual *obligation* to open a specified number of outlets in a specified period of time. In sequential multi-unit franchising, the franchisor grants the franchisee the *right* to open additional outlets, with each subsequent unit being governed by a separate franchise contract. Kaufmann (1992) notes that this is the most common domestic form of franchising. Both types encourage the creation of “mini-chains”. Area developers receive territorial exclusivity, which seems to have contributed to their particular growth rate due to conflict prevention (Kaufmann and Kim 1993, 1995; Zeller, Achabal, and Brown 1980). In some cases (particularly in area development), mini-chains extend across entire states, encompassing hundreds of outlets (Kaufmann 1988; Bodipo-Memba and Lee 1997). For example, the franchisee quoted later in this paper operates 34 units (in four states) of a well-known franchise restaurant system. As a comparison, Bond’s Franchising Guide (1998) provides figures that put the median size of *entire* franchise systems at 64 outlets.

Research on franchising in general has been severely constrained over the past decade due to a lack of systematic gathering and dissemination of statistical data. This development received its most severe setback after 1988, when the U.S. Department of Commerce discontinued the publication of its yearly report entitled “Franchising in the Economy” (Lafontaine 1995). Although a continuation of the document was attempted by the International Franchise Association (IFA) in 1990 and 1992 (International Franchise Association 1990, 1992), it has ceased to exist. For quite some time now, reliable and comprehensive statistics on the state of the art of the franchising industry have been gathered only sporadically, often only through systematic research efforts of franchising scholars.

### **Why Franchising – Franchisor and Franchisee Perspectives**

Explanations for the existence of franchising from the *franchisor* perspective have been discussed since McDonald’s started its enormous franchising push in the 1960s, and can be categorized into two broad and competing views. The first of these explanation attempts focuses on *franchising as a cheap source of capital for retail expansion* (Oxenfeldt and Kelly 1968/69). This argument has been shown to be conceptually flawed (Ruhin 1978); unless franchisees are almost completely risk-indifferent, the franchisor’s greater geographic diversification would always lead to a lower cost of capital for the fully integrated franchisor than for a system that depends on the franchisee as its source of capital (Peterson and Mittelstaedt, 1983). On the other hand, empirical studies have indicated that franchisors believe the argument (e.g., Combs and

largely controlled by the franchisor, (b) in which goodwill and the associated economic rent belong to the franchisor by contract, (c) which cannot be easily liquidated nor, in some instances, passed on to heirs, and (d) for which there are many investment alternatives (e.g., securities, real estate)? Hence, multi-unit franchising does not present itself as a clearly superior choice compared to its alternatives, but is chosen frequently despite its apparent drawbacks.

### **Why Multi-Unit Franchising?**

During the 1980s and early 1990s numerous corporations in the U.S. were forced to downsize, resulting in the receipt of “golden parachutes” (or at least “silver” ones) for many executives. This trend coincided with the widespread movement towards “outsourcing” and “spin-offs” across industries. These events created opportunities for many of the released executives to establish their own businesses as independent as well as franchise entrepreneurs, not just domestically, but increasingly on a global scale. The approach taken in this paper attempts to examine multi-unit franchisees from a conceptual standpoint. It is attempted to provide a response to the following suggestion: Perhaps different “philosophical” orientations exist among the two dominant types of multi-unit franchisees that account for the different structural arrangements emerging. That is, while some multi-unit franchisees might consider themselves as “entrepreneurs”, others might think of themselves more as “investors”. Area developers will be contrasted to sequential multi-unit franchisees for the purpose of extracting differences between these two types of multi-unit franchisees with regards to entrepreneurship.

### **“Investors” or “Entrepreneurs”**

Although sequential multi-unit franchisees and area developers seem equivalent in structure, the process which has led there is different. The underlying premise of traditional franchising research has been normative decision theory, the economic rationale that evaluations of the status quo should not vary depending on the sequence of events leading to the current situation (e.g., Oliver 1980). Gourville and Soman (1998), Kahneman and Tversky (1979), Ross and Simonson (1992), and Thaler (1985) show that events precipitating the status quo do matter in decision making. It is argued here that franchisees’ perceptions before they enter into a franchising agreement do matter in the process of deciding for one franchisee type versus another. In the context of this paper, it is proposed that the cognitive as well as the affective state of mind of the franchisee impacts the decision to become one type of franchisee versus another.

The franchising literature has borrowed from fields such as entrepreneurship (Knight 1984) and psychology (Felstead 1991; Mescon and Montanari 1981) to suggest various reasons for entering into the franchise business from the single-unit perspective. These franchisees often vehemently deny that their franchise engagement is based on the monetary earning potential.

Consequently, an “investment motivation” is defined here as the extent to which a potential franchisee expects reaping a return as the primary reason for her/his engagement.

A sequential multi-unit franchisee, in contrast, expands on the basis of emerging market opportunities paired with sufficient earnings which allow such a step. As a new opportunity to expand opens up, a sequential multi-unit franchisee will decide on a case by case basis whether to take advantage of it or not. Livesay (1982, p. 12) calls an individual who “perceives a market opportunity and assembles the assets necessary to exploit it” an “entrepreneur”.

Entrepreneurship research has been plagued by definitional quandaries for decades, focusing on various attitudinal as well as behavioral characteristics. Research definitions of entrepreneurs have focused on new venture creation (e.g., Begley and Boyd 1987), small business ownership (e.g., Masters and Meier 1988), or growth aspirations (e.g., Carland, Hoy, Boulton, and Carland 1984). This multitude of definitional attempts has complicated the accurate assessment of who an entrepreneur is, and what distinguishes an entrepreneur from a non-entrepreneur. As suggested earlier, the focus here is on the extraction of differences between two different types of multi-unit franchisees, so that the focus of discernment of relevant entrepreneurial traits will be on those salient characteristics which distinguish an entrepreneurial type of motivation from an investment type of motivation.

McClelland’s (1961) seminal work maintains that a strong “achievement motive” is what tends to drive individuals to become entrepreneurs. Extending this notion, Palmer (1970/71) points out that entrepreneurs do not tend to work harder because of financial incentives, but that it is their intrinsic motivation which drives them. This notion finds support by Sutton (1954), Davids (1963), and more recently Welsh and White (1981), who emphasize a desire for responsibility as a key trait of entrepreneurs. Michaels et al. (1988) further explored the intrinsic motivation notion, and empirically tested Miller’s (1967) “alienation from work” construct. Alienation from work is defined as the degree to which an employee works only for external rewards rather than for any inherent value the work might have. Lodahl and Kejner (1965) developed the construct of job involvement, which they defined as the degree to which an employee is involved in and committed to the work s/he does. “Job involvement” now appears as the inversion of “alienation from work”, since the focus of both constructs is on the intrinsic motivation of the individual’s work, hence providing an analogous focus to the intrinsic motivation of the entrepreneur.

In addition, as mentioned earlier, the entrepreneurship literature often describes the motivation of entrepreneurs to come from a desire for “emotional fulfillment”, which is defined for the purpose of this study as the affective enjoyment stemming from a long-held desire to become an entrepreneur. To own one’s own business, and to be one’s own boss, appear for many entrepreneurs as life-long dreams, which finally become fulfilled through the opening of their own enterprise. Peterson and Dant (1990, p. 47) describe this enthusiasm as the “excitement of running one’s own business”. Cherkasky (1996, p. 5) notes that



accelerated growth, their number of outlets naturally appears to become larger than the one of sequential multi-unit franchisees.

It is suggested here that these prevalent motives now drive aspiring franchisees to become area developers and sequential multi-unit operators, respectively. Compared to area development franchisees, it is suggested here that sequential multi-unit franchisees report that, at the time they entered the franchise system, they anticipated higher degrees of job involvement and emotional fulfillment. On the other hand, compared to sequential multi-unit franchisees, area development franchisees are expected to report that, at the time they entered the franchise system, they had a higher investment motivation.

### **Conclusion and Recommendations**

This paper has attempted to examine the recent emergence of multi-unit franchising as a macro phenomenon from the franchisee perspective. It provides a conceptual comparison of the two prevalent domestic types of multi-unit franchising in the U.S., area development and sequential multi-unit franchising. The suggestions provided in this paper focus on the philosophical distinction of these two categories of aspiring franchise owners. It was argued that sequential multi-unit operators have more of an entrepreneurial motivation than area developers, who were labeled "investors".

In the future, research in this area needs to provide empirical insights into the suggested relationships. Such efforts need to combine qualitative efforts in order to gain a better comprehension of multi-unit franchisee motivations, with quantitative measures to explore the salience and distribution of the phenomenon of a "driving philosophy" among franchisees.

Research on the franchisee perspective has been constrained in the past by the cautiousness and even overzealousness of franchisees for fear of disclosing potentially confidential information pertaining to the agreement with the franchisor. Further, most empirical research on franchisees, and on franchising in general, was system-specific, i.e., it was restricted to the operation of one particular franchise system (Kaufmann 1988; Kaufmann and Lafontaine 1994). Future research in this area needs to address these issues in an effort to enhance the generalizability of findings across system boundaries, while convincing franchisee respondents of the value that their contributions might provide to a deeper understanding of their respective motivations. It seems that such a study could be conducted, for example, in the fast-food industry, which has not only served as a sample for most of the published research on franchising, but also seems to provide the required variance of ownership patterns to compare area developers and sequential operators. The frequent use of the fast-food industry in the franchising realm ought to prove valuable, as new findings could be validated in the face of prior studies. Considering the recent rise in prominence of entrepreneurship related research across business disciplines, the exploration of the emergence of such pervasive marketing

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