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THE CHANGING ROLE OF MARKETING IN THE CORPORATION

Frederick E. Webster, Jr.

For the past two decades, some subtle changes in the concept and practice of marketing *have been fundamentally reshaping the field. Many of these changes have been initiated by industry, in the form of new organizational types, without explicit concern for their underlying theoretical explanation or justification. On the academic side, prophetic voices have been speaking (Arndt 1979, 1981, 1983; Thorelli 1986; Van de Ven 1976; Williamson 1975) but seldom heard because, representing several different disciplines, they did not sing as a chorus. More basically, perhaps, few listeners were ready to hear the message or to do the intellectual work necessary to pull the several themes together. Like the Peruvian Indians who thought the sails of the Spanish invaders on the horizon were some phenomenon of the weather and did nothing to prepare themselves for attack (Handy 1990), marketers may ignore some important information in their environment simply because it is not consistent with their past experience.*

The purpose of this article is to outline both the intellectual and the pragmatic roots of changes that are occurring in marketing, *especially* marketing *management, as a body of knowledge, theory, and practice and to suggest the need for a new paradigm of the* marketing *function within the firm. First, the origins of the* marketing *management framework, the generally accepted paradigm of the* marketing *discipline for the past three decades, are considered. Then shifting managerial practice is examined, especially the dissolution of hierarchical bureaucratic structures in favor of networks of buyer-seller relationships and strategic alliances. Within those new forms of organization, the* changing role *of marketing is discussed and a reconceptualization of* marketing *as a field of study and practice is outlined.*

Marketing as a Social and Economic Process

It is sobering to recall that the study of *marketing* did not always have a managerial focus. The early roots of *marketing* as an area of academic study can be found, beginning around 1910, in Midwestern American land grant universities, where a strong involvement with the farm sector created a concern for agricultural markets and the processes by which products were brought to market and prices determined. The analysis was centered around commodities and the institutions involved in moving them from farm, forest, sea, mine, and factory to industrial processors, users, and consumers. Within this tradition, three separate schools evolved that focused on the commodities themselves, on the *marketing* institutions through which products were brought to market, especially brokers, wholesalers, and retailers in their many forms and variations (Breyer 1934; Duddy and Revzan 1953), and finally on the functions performed by these institutions (McGarry 1950; Weld 1917). All of these approaches tended to be descriptive rather than normative, with the functional being the most analytical and leading to the development of a conceptual framework for the *marketing* discipline (Barters 1962; Rathmell 1965).

These early approaches to the study of *marketing* are interesting because of the relative absence of a managerial orientation. Marketing was seen as a set of social and economic processes rather than as a set of managerial activities and responsibilities. The institutional and functional emphasis began to change in 1948, when the American *Marketing* Association (1948, p. 210) defined *marketing* as:

The performance of business activities directed toward, and incident to, the flow of goods and services from producer to consumer or user.

This definition, modified only very slightly in 1960, represented an important shift of emphasis. Though it grew out of the functional view, it defined *marketing* functions as business activities rather than as social or economic processes. The managerial approach brought relevance and realism to the study of *marketing*, with an emphasis on problem solving, planning, implementation, and control in a competitive marketplace.

Marketing Management

The managerial approach to the study of *marketing* evolved in the 1950s and 1960s. Several textbooks using a marketing management perspective appeared during this period (Alderson 1957; Davis 1961. Howard 1957; Kotler 1967; McCarthy 1960). These early managerial authors defined *marketing* management as a decision-making or problem-solving process and relied on analytical frameworks from economics, psychology, sociology, and statistics. The first *marketing* casebook, incorporating a managerial framework by definition, had emerged from of the Harvard Business School very early (Copeland 1920), but without any descriptive material or analytical framework to accompany the cases. *Marketing* management became a widely accepted business function, growing out of a more traditional sales management approach, with an emphasis on product planning and development, pricing, promotion, and distribution. *Marketing* research gained prominence in management practice as a vehicle for aligning the firm's productive capabilities with the needs of the marketplace. The articulation of the *marketing* concept in the mid to late 1950s posited that *marketing* was the principal function of the firm (along with innovation) because the main purpose of any business was to create a satisfied customer (Drucker 1954; Levitt 1960; McKitterick 1957). Profit was not the objective; it was the reward for creating a satisfied customer.

The managerial focus was not readily accepted by everyone in academic circles, nor was the *marketing* concept completely adopted by industry (McNamara 1972; McGee and Spiro 1988; Webster 1988). In academia, the functionalists and institutionalists held their ground well into the 1960s, stressing the value of understanding *marketing* institutions and functions and viewing *marketing* from a broader economic and societal perspective. Over the previous 50 years, a substantial body of theory and empirical knowledge had been developed and mature *marketing* scholars felt compelled to defend and protect it. The argument against the managerial point of view centered on its inability to consider the broader social and economic functions and issues associated with *marketing*, beyond the level of the firm. For example, the Beckman and Davidson (1962) text, built around a functionalist perspective, and the most widely used text in the field at the time, was promoted as follows: "Balanced treatment of the development and the present status of our *marketing* system; Conveys a broad understanding of the complete *marketing* process, its essential economic functions, and the institutions performing them; Strengthens the social and economic coverage of *marketing* in all its significant implications; Proper emphasis accorded to the managerial viewpoint" (advertisement, Journal of *Marketing*, April 1962, p. 130). It is the last phrase, "proper emphasis," that implies the criticism that the managerial approach, by itself, is incomplete.

The analytical frameworks of the new managerial approach were drawn from economics, behavioral science, and quantitative methods. The incorporation of the behavioral and quantitative sciences gave important legitimacy to *marketing* as a separate academic discipline Such frameworks were consistent with the very strong thrust of the 1960s toward more rigorous approaches in management education, encouraged by two very influential foundation studies (Gordon and Howell 1959; Pierson 1959). These studies advocated education based on a rigorous, analytical approach to decision making as opposed to a descriptive, institutional approach which, it was argued, should be held to "an irreducible minimum"

(Gordon and Howell 1959, p. 187). The managerial perspective became the dominant point of view in *marketing* texts and journals, supported by management science and the behavioral sciences.

Marketing as an Optimization Problem

Scholars on the leading edge of *marketing* responded with enthusiasm to the call for greater analytical rigor. At the root of most of the new managerial texts and the evolving research literature of *marketing* science was the basic microeconomic paradigm, with its emphasis on profit maximization (Anderson 1982). The basic units of analysis were transactions in a competitive market and fully integrated firms controlling virtually all of the factors of production (Arndt 1979; Thorelli 1986). Market transactions connected the firm with its customers and with other firms (Johnston and Lawrence 1988).

Analysis for *marketing* management focused on demand (revenues), costs, and profitability and the use of traditional economic analysis to find the point at which marginal cost equals marginal revenue and profit is maximized. Behavioral science models were used primarily to structure problem definition, helping the market researcher to define the questions that are worth asking and to identify important variables and the relationships among them (Messy and Webster 1964). Statistical analysis was used to manipulate the data to test the strength of the hypothesized relationships or to look for relationships in the data that had not been hypothesized directly.

The application of formal, rigorous analytical techniques to *marketing* problems required specialists of various kinds. *Marketing* departments typically included functional specialists in sales, advertising and promotion, distribution, and *marketing* research, and perhaps managers of customer service, *marketing* personnel, and pricing. Early organizational pioneers of professional *marketing* departments included the consumer packaged goods companies with brand management systems, such as Procter & Gamble, Colgate-Palmolive, General Foods, General Mills, and Gillette. In other companies, the *marketing* professionals were concentrated at the corporate staff level in departments of market research and operations research or management science. Examples of the latter include General Electric, IBM, and RCA. Large, full-service advertising agencies built strong research departments to support their national advertiser account relationships. Other large firms, such as Anheuser-Busch and General Electric, also entered into research partnerships with university-based consulting organizations.

Such specialized and sophisticated professional *marketing* expertise fit well into the strategy, structure, and culture of large, divisionalized, hierarchical organizations.

The Large, Bureaucratic, Hierarchical Organization

When we think of *marketing* management, we think of large, divisionalized, functional organizations--the kind depicted by the boxes and lines of an organization chart. The large, bureaucratic, hierarchical organization, almost always a *corporation* in legal terms, was the engine of economic activity in this country for more than a century (Miles and Snow 1984). It was characterized by multiple layers of management, functional specialization, integrated operations, and clear distinctions between line and staff responsibilities. It had a pyramid shape with increasingly fewer and more highly paid people from the bottom to the top.

The larger the firm, the more activities it could undertake by itself and the fewer it needed to obtain by contracting with firms and individuals outside the organization. The logic of economies of scale equated efficiency with size. The epitome of the fully integrated firm was the Ford Motor Company, and most notably its River Rouge plant, which produced a single, standardized product, the Model A. Ford-owned lake steamships docked at one end of the plant with coal and iron ore (from Ford's own mines) and complete automobiles and tractors came out at the other end. Molten iron from the blast furnaces was carried by ladles directly to molds for parts, bypassing the costly pig iron step. Waste gases from the blast furnaces became fuel for the power plant boilers, as did the sawdust and shavings from the body plant. Gases from the coking ovens provided process heat for heat-treatment and paint ovens (Ford 1922, p. 151-153). Elsewhere, Ford owned sheep farms for producing wool, a rubber plantation in Brazil, and its own railroad to connect its facilities in the Detroit region (Womack, Jones, and Roos 1991, p. 39). Integration required large size. Large size begat low cost.

Large, hierarchical, integrated corporate structures were the dominant organization form as the managerial approach to *marketing* developed in the 1950s and 1960s, and firms created *marketing* departments, often as extensions of the old sales department. Such large organizations moved deliberately, which is to say slowly, and only after careful analysis of all available data and options for action. The standard microeconomic profit maximization paradigm of *marketing* management fit well in this analytical culture. Responsible *marketing* management called for careful problem definition, followed by the development and evaluation of multiple decision alternatives, from which a course of action would ultimately be chosen that had the highest probability, based on the analysis, of maximizing profitability.

When the world was *changing* more slowly than it is today, such caution was wise in terms of preserving valuable assets that had been committed to clearly defined tasks, especially when those assets were huge production facilities designed for maximum economies of scale in the manufacture of highly standardized products. The task of the *marketing* function was first to develop a thorough understanding of the marketplace to ensure that the firm was producing goods and services required and desired by the consumer. With an optimal product mix in place, the *marketing* function (through its sales, advertising, promotion, and distribution subfunctions) was responsible for generating demand for these standardized products, for creating consumer preference through mass and personal communications, and for managing the channel of distribution through which products flowed to the consumer. Sound *marketing* research and analysis provided support for conducting these activities most efficiently and effectively, for testing alternative courses of action in each and every area.

Marketing as a management function tended to be centralized at the corporate level well into the 1970s. *Marketing* organizations were often multitiered, with more experienced senior managers reviewing and coordinating the work of junior staff and relating *marketing* to other functions of the business, especially through the budgeting and financial reporting process. Corporate centralization allowed the development of specialized expertise and afforded economies of scale in the purchase of *marketing* services such as market research, advertising, and sales promotion. It also permitted tighter control of *marketing* efforts for individual brands and of sales efforts across the entire national market. This arrangement began to change in the late 1970s and into the 1980s as the concept of the strategic business unit (SBU) gained widespread favor and corporate managements pushed operating decisions, and profit and loss responsibility, out to the operating business units. Though marketing became a more decentralized function in many large companies, it is not clear that the result was always heightened *marketing* effectiveness.

The larger the organization, the larger the number of managers, analysts, and planners who were not directly involved in making or selling products. The burden of administrative costs, mostly in the form of salaries for these middle layers of management, became an increasing handicap in the competitive races that shaped up in the global marketplace of the 1970s and 1980s. More and more organizations found it necessary to downsize and delayer, some through their own initiative and many more through threatened or actual acquisition and restructuring by new owners whose vision was not clouded by the continuity of experience. Global competition resulted in increasingly better product performance at lower cost to the customer. Rapid advances in telecommunications, transportation, and information processing broadened the choice set of both industrial buyers and consumers to the point that a product's country of origin was relatively unimportant and geographic distance was seldom a barrier, especially in areas where non-

American producers had superior reputations for quality, service, and value. In most American industries, companies had little choice but to reduce costs through reorganization and restructuring of assets, as well as through technological improvements in products and manufacturing processes.

The Organizational Response

During the 1980s, new forms of business organization became prominent features of the economic landscape. Even before the forces of global competition became clearly visible, there was a trend toward more flexible organization forms, forms that are difficult to capture with a traditional organization chart (Miles and Snow 1984, 1986; Powell 1990; Thorelli 1986). The new organizations emphasized partnerships between firms; multiple types of ownership and partnering within the organization (divisions, wholly owned subsidiaries, licensees, franchisees, joint ventures, etc.); teamwork among members of the organization, often with team members from two or more cooperating firms; sharing of responsibility for developing converging and overlapping technologies; and often less emphasis on formal contracting and managerial reporting, evaluation, and control systems. The best visual image of these organizations may be a wheel instead of a pyramid, where the spokes are "knowledge links" between a core organization at the hub and strategic partners around the rim (Badaracco 1991). These forms were pioneered in such industries as heavy construction, fashion, weapon systems contracting, and computers, where markets often span geographic boundaries, technology is complex, products change quickly, and doing everything yourself is impossible. Such organizations today are found in businesses as diverse as glass, chemicals, hospital supplies, book publishing, and tourism.

These confederations of specialists are called by many names including "networks" (Miles and Snow 1986; Thorelli 1986), "value-adding partnerships" (Johnston and Lawrence 1988), "alliances" (Ohmae 1989), and "shamrocks" (Handy 1990). All are characterized by flexibility, specialization, and an emphasis on relationship management instead of market transactions. They depend on administrative processes but they are not hierarchies (Thorelli 1986); they engage in transactions within ongoing relationships and they depend on negotiation, rather than market-based processes, as a principal basis for conducting business and determining prices, though market forces almost always influence and shape negotiation. The purpose of these new organization forms is to respond quickly and flexibly to accelerating change in technology, competition, and customer preferences.

Types of Relationships and Alliances

There is no strong consensus at the present time about the terminology and typology for describing the new organization forms. However, some important distinctions among types of relationships and alliances are necessary before we can consider the *role* of *marketing* within them. We can think of a continuum from pure transactions at one end to fully integrated hierarchical firms at the other end (Figure 1). As we move along this continuum, we see that firms use more administrative and bureaucratic control and less market control in the pursuit of economic efficiency. One step away from pure transactions is repeated transactions between buyer and seller. The next step is a long-term relationship that is still adversarial and depends heavily on market control. Then comes a real partnership, in which each partner approaches total dependence on the other in a particular area of activity and mutual trust replaces the adversarial assumptions. Prices are now determined by negotiation, subject to some market pressures, rather than by the market itself. The next step is strategic alliances, which are defined by the formation of a new entity such as a product development team, a research project, or a manufacturing facility, to which both parties commit resources and which serves clear strategic purposes for both. Joint ventures, resulting in the formation of a new firm, are the epitome of strategic alliances. Like their parents, joint ventures are fully integrated firms with their own capital structures, something that other forms of strategic alliance lack. Network organizations are the corporate structures that result from multiple relationships, partnerships, and strategic alliances.

We can now consider how the *role* of the *marketing* function changes in the focal firm as we move along the continuum from transactions to network organizations.

Markets and Transactions

The starting point of this analysis is a transaction between two economic actors in the competitive marketplace. In a pure market form of economic organization, all activity is conducted as a set of discrete, market-based transactions and virtually all necessary information is contained in the price of the product that is exchanged. The *marketing* job is simply to find buyers.

In the traditional microeconomic profit-maximization paradigm, the firm engages in market transactions as necessary to secure the resources (labor, capital, raw materials, etc.) it requires for the production of the goods and services it sells in the competitive marketplace. Each transaction is essentially independent of all other transactions, guided solely by the price mechanism of the free, competitive market as the firm seeks to buy at the lowest available price.

In addition to the costs associated with the price paid, however, there are costs associated with the transaction itself, what Coase (1937,p. 390) called the "cost of using the price mechanism." These costs include the costs of discovering what the relevant prices are, of negotiating and contracting, and of monitoring supplier performance, including quality and quantity of goods delivered. For Coase, the problem was to explain why, given these "*marketing* costs" (as he called them, p. 394, not "transactions costs," the phrase we use today), the firm did not internalize virtually all exchanges of value rather than depending on the competitive market. Coase proposed that the reason is that costs are also associated with internal performance of value-creation activities, including decreasing returns to the entrepreneurial function and misallocation of resources to activities in which the firm is incapable of creating value to the same extent as a specialist. It is worth noting that this suggestion, stated in an article published in 1937, is very similar to the notion of "distinctive competency" that appeared in the strategy literature more than 50 years later (Prahalad and Hamel 1990).

Pure transactions are rare, though they mark the beginning of the continuum for thinking about types of relationships and alliances and provide a useful starting point for theoretical analysis. In fact, throughout the 1970s, the *marketing* literature emphasized transactions as a central construct and the basic unit of analysis for the *marketing* discipline (Bagozzi 1975). Some authors even advocated a definition of a transaction that included any exchange of value between two parties, thus broadening the concept of *marketing* to include virtually all human interaction (Kotler and Levy 1969). A pure transaction is a one-time exchange of value between two parties with no prior or subsequent interaction. Price, established in the competitive marketplace, contains all of the information necessary for both parties to conclude the exchange. In a pure transaction, there is no brand name, no recognition of the customer by the seller, no credit extension, no preference, no loyalty, and no differentiation of one producer's output from that of another.

Most transactions in fact take place in the context of ongoing relationships between marketers and customers. Nonetheless, there has been a long-standing and clear tendency for *marketing* practice and theory to focus on the sale, the single event of a transaction, as the objective of *marketing* activity and the dependent variable for analysis. This emphasis on single transactions fits well with the profit-maximization paradigm and the related analytical techniques of optimization. There is no need to consider people or social processes when the units of analysis are products, prices, costs, firms, and transactions.

Repeated Transactions -- The Precursors of a Relationship

One step along the continuum from a pure transaction is the repeated, frequent purchase of branded consumer packaged goods and some industrial components, maintenance, and operating supplies. In the *marketing* of such products, advertising and sales promotion are key activities and each brand spends aggressively to try to win the customer's preference, loyalty, and repeat purchase. *Marketing's role* is to guide product differentiation and to create preference and loyalty that will earn higher prices and profits. Direct contact between customers and the marketer is unlikely. The sale is the end result of the *marketing* process and, though repeat purchases are important to the economics of advertising and sales promotion activity, there is no meaningful, ongoing relationship between company and customer. Even here, however, the presence of brand loyalty and repeat purchase means we have moved beyond a pure transaction. The rudiments of trust and credibility are present, which can be the foundations of a relationship. Consumers simply find it easier and more convenient to shop in the same store and to buy a familiar brand, thus minimizing the time and effort needed to obtain and process information about different alternatives. Consumers can negotiate more favorable terms of sale from a vendor who is attracted to the possibility of future transactions with them. Relationships make transactions more cost efficient.

The importance of relationships in *marketing* is more clearly seen in industrial markets, though it is now also better understood in consumer markets as resellers have gained increased power and as information technology has put individual consumers in more direct contact with resellers and manufacturers. Interactive databases are making relational *marketing* a reality for consumer goods. For products such as consumer durable goods, whose benefits are derived over a long period of time rather than being consumed in a single use and for which after-sale service is often required, there is an ongoing relationship with the customer, though responsibility for the relationship is often an issue and a source of conflict between customer, reseller, and manufacturer.

As an historical footnote, Henry Ford never had any doubt on this question. He wrote, "When one of my cars breaks down I know I am to blame" (Ford 1922, p. 67) and "A manufacturer is not through with his customer when a sale is completed. He has then only started with his customer. In the case of an automobile the sale of the machine is only something in the nature of an introduction" (p. 41). Likewise, L. L. Bean's original promise to his customers 80 years ago, what he called his Golden Rule, is now held up as a standard for others to follow:

Everything we sell is backed by a 100% guarantee. We do not want you to have anything from L. L. Bean that is not completely satisfactory. Return anything you buy from us at any time for any reason if it proves otherwise.

These quotations help to underscore the fact that relationship *marketing* is not new in management thinking. However, there appears to have been a fairly long period of time when it was not a top priority for most companies, and it was not part of the basic conceptual structure of the field as an academic discipline.

Long-Term Relationships

In industrial markets, buyer-seller relationships have typically involved relatively long-term contractual commitments, but even here the relationship was often arm's-length and adversarial, pitting the customer against the vendor in a battle focused on low price. It was common practice for a buyer to maintain a list of qualified vendors who would be invited to submit bids for a particular procurement on a product with specifications drawn in a way to attract maximum competition (Corey 1978; Spekman 1988).

The importance of managing these buyer-seller relationships as strategic assets began to be recognized in the *marketing* literature of the 1980s (Jackson 1985; Webster 1984). Jackson proposed that industrial marketers characterize firms as either transaction or relationship customers and scale the commitment of resources accordingly. In these longer term buyer-seller relationships, prices are an outcome of a negotiation process based on mutual dependence, not determined solely by market forces, and quality, delivery, and technical support become more important. Competitive forces in the global marketplace of the 1980s forced many firms to move significantly along the continuum from arm's-length relationships with vendors and customers to much stronger partnerships characterized by much greater interdependence. In traditional manufacturing businesses such as those in the automobile industry, the world was *changing* so fast that the standard ways of doing business were passé.

In the 1980s, the automobile industry became the bellwether for new forms of relationship with industrial suppliers (Womack, Jones, and Roos 1991), and it is instructive to look briefly at the auto business specifically. Ford's River Rouge plant was an exception to the way the industry organized production. Ford got into trouble soon after the plant was opened as Alfred Sloan's General Motors began to offer consumers a much wider range of models, colors, and features, and the Model A fell from favor with customers. GM depended heavily on other vendors, including its own wholly owned but independent subsidiaries such as Harrison Radiator, AC Spark Plug, and Saginaw Steering (Womack, Jones, and Roos

1991, p. 138-139), for almost 70% of the value of production. The automobile manufacturers for decades had depended on thousands of vendors, with many vendors for each item, in a system that was fundamentally and intentionally adversarial. Relationships were short-term. Suppliers were adversaries for their customers, competing for an "unfair" share of the economic value created by the use of their products in the customer's manufacturing process. They fought over price. Competition among vendors, through systems of competitive bidding around extremely tight product specifications, was the method by which vendor greed and opportunism were controlled. The largest share of the business usually went to the vendor with the lowest price, though several others were given smaller shares to keep them involved, to keep pressure on the low price supplier, and to provide alternative sources of supply in the event of delivery or quality problems. Incoming inspection was the key step in quality control and reject rates tended to be high.

Mutual, Total-Dependence Buyer-Seller Partnerships

Global competitors saw an opportunity in all of this. The Japanese manufacturers, in particular, striving to compete in the North American market thousands of miles from home, had learned a valuable lesson: quality does not just sell better, it also costs less. Designing products for manufacturability as well as performance and doing it right the first time costs less than detecting and removing defects later. Quality and low cost depend heavily on a system of strategic partnerships with a small number of vendors that are incorporated in the early stages of product development, a pattern of cooperation virtually unknown in the adversarial sourcing systems of the U.S. manufacturers (Womack, Jones, and Roos 1991). Japanese kanban or just-in-time systems provided a new model for American manufacturers: reliance on one or a few vendors for a particular part who promise to deliver 100% usable product, usually in quantities just sufficient for one eight-hour production shift, on an incredibly tight schedule whereby trucks must arrive within a very few minutes of the programmed time. Higher quality and lower inventory costs and other related costs resulted from total reliance on a network of sole-source vendors in a system of total interdependence (Frazier, Spekman, and O'Neal 1988).

Firms in the American automobile industry studied their Japanese competitors and attempted to incorporate the lessons learned in their management of procurement and relationships with vendors. The rest of America began to learn from what was happening in the automobile industry, as well as in telecommunications, computers, office equipment, and other fields. American marketers began to see the necessity of moving away from a focus on the individual sale, the transaction as a conquest, and toward an understanding of the need to develop long-term, mutually supportive relationships with their customers. Many of America's premier industrial firms such as GE, IBM, DuPont, Monsanto, and Honeywell restructured themselves around the fundamental concept of strategic customer partnerships with customers such as American Airlines, Ford, Milliken, Procter & Gamble, and the federal government.

Another Japanese institution, the keiretsu, provides yet another model that is shaping the new American organizational landscape (Gerlach 1987). Kanban systems depend on the close relationship of suppliers and subcontractors within the keiretsu. In many respects, the keiretsu are the predecessors of the networks and alliances now emerging in the Western world (not to mention the obvious fact that many alliance partners are, in fact, Japanese firms). The keiretsu are complex groupings of firms with interlinked ownership and trading relationships. They are neither formal organizations with clearly defined hierarchical structures nor impersonal, decentralized markets. They are bound together in long-term relationships based on reciprocity. The trading partners may hold small ownership positions in one another, but primarily to symbolize the long-term commitment of the relationship rather than strictly for financial gain. A key outcome of this arrangement is great stability in these long-term relationships. Such stability contributes to a sharing of information among the companies and promotes aggressive, long-term growth policies (Gerlach 1987). The experience of Japanese managers with keiretsu and similar forms of interfirm cooperation is a major reason for their greater skill and comfort level in the management of strategic alliances in comparison with American managers (Montgomery and Weiss 1991).

Strategic Alliances

In some cases, the partnership between a supplier and its customer takes the form of an entirely new venture, a true strategic alliance. One of the essential features of a true strategic alliance is that it is intended to move each of the partners toward the achievement of some long-term, strategic, goal. This strategic objective is one distinguishing feature that separates strategic alliances from previous forms of interfirm cooperation. According to Devlin and Bleakley (1988,p. 18), "Strategic alliances take place in the context of a company's long-term strategic plan and seek to improve or dramatically change a company's competitive position." This definition of strategic alliances, with its emphasis on improving a firm's competitive position, supports the notion that they are an important *marketing* phenomenon. Another important characteristic of strategic alliances is shared objectives and a commitment of resources by both parties.

There are multiple types of strategic alliances; virtually all are within the theoretical domain of *marketing* as they involve partnerships with customers or resellers or with real or potential competitors for the development of new technology, new products, and new markets. Some are new ventures formed between vendors and customers to ensure a smooth flow of raw materials, components, or services into the customers' manufacturing operations. Others are formed between potential competitors in order to cooperate in the development of related or convergent technologies, in the development of a new product or class of products, or in the development of a new market. Some alliances are formed between manufacturers and resellers. All strategic alliances are collaborations among partners involving the commitment of capital and management resources with the objective of enhancing the partners' competitive positions. Strategic alliances are much closer to the hierarchy end of the transactions (market)-hierarchy continuum, but they stop short of internalizing the functions within the firm itself. Instead, they create a separate entity to be managed by bureaucratic and administrative controls.

Joint Ventures

Joint ventures, as the term is used here, are only one kind of strategic alliance, though the terms are often used interchangeably. The unique feature of a joint venture is that a new firm is created, with its own capital structure, as well as the sharing of other resources. Joint ventures are typically established to exist in perpetuity, though the founding partners may subsequently change their ownership participation. other types of strategic alliances, such as a product development project, have a finite life by definition. In fact, this finiteness with its inherent flexibility is one of the advantages of strategic alliances in comparison with more traditional organization forms. Interestingly, the joint venture soon faces all of the problems of its parent firms in terms of creating multiple partnerships and alliances and determining its core competence and its unique positioning in the value chain between vendors and customers.

Networks

Networks are the complex, multifaceted organization structures that result from multiple strategic alliances, usually combined with other forms of organization including divisions, subsidiaries, and value-added resellers. (Some authors have mistakenly used the terms "strategic alliances" and "networks" interchangeably.) The alliances are the individual agreements and collaborations between partners, such as Ford and Mazda in the creation of the new Escort and Explorer automobiles or General Motors and Toyota in the formation of the NUMMI joint venture. General Motors, though still a classic example of a traditional, hierarchical, bureaucratic, multidivisional organization and currently in the throes of a major downsizing (Taylor 1992), is evolving toward a network organization with multiple joint-venture partners including global competitors Toyota, Daewoo, Volvo, Suzuki, and Isuzu, as well as a host of strategic partnerships with vendors. Ford likewise has a large number of partnerships and alliances and is evolving into a network organization.

The basic characteristic of a network organization is confederation, a loose and flexible coalition guided from a hub where the key functions include development and management of the alliances themselves, coordination of financial resources and technology, definition and management of core competence and strategy, developing relationships with customers, and managing information resources that bind the network. In the context of the network organization, *marketing* is the function responsible for keeping all of the partners focused on the customer and informed about competitor product offerings and *changing* customer needs and expectations.

James Houghton, Chairman of Corning, Incorporated, for example, describes his company as a network with alliances as a key part of its structure (Houghton 1989). At the hub of the wheel (Figure 2) is a set of functional specialties such as contract negotiation, legal services, and financial coordination that provide the linkages that bind together technology, shared values, and shared resources. The center is also responsible for establishing priorities and managing the linkages that define the network; information management is a central strategic function and information technology has been a key facilitator of these new organizational forms. Another key responsibility of the center is to define, develop, and maintain the core competencies that are at the heart of the firm's ability to compete successfully in the global marketplace (Prahalad and Hamel 1990). In fact, one of the key core competencies of a network organization may be the ability to design, manage, and control strategic partnerships with customers, vendors, distributors, and others.

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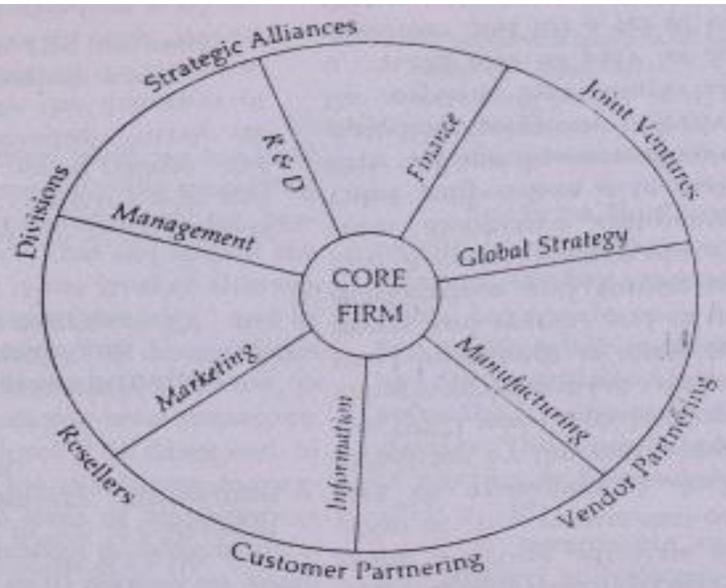

Figure 8-2
Network Organizations

There is an interesting paradox here: in the move toward strategic alliances, even the largest firms become more focused and specialized in their core activities. They realize that there is an increasingly smaller set of activities that represent true distinctive competence on their part. The trick is to avoid trying to do everything, especially the things they cannot do well, and to find other firms that also need a partner that can do the things the large firm does best. Strategic alliances become a primary tool in developing the firm's core competence and competitive advantage.

Instead of vertical integration being the preferred model, the network paradigm is built around the assumption that small is better, that each part or process or function should be the responsibility of a specialized, independent entity, efficiently organized and managed, that has world class competence. Across the board--for all factors of production including parts and subassemblies, services such as transportation and maintenance, and professional *marketing* services such as *marketing* research, some selling functions, and most distribution functions--the bias has shifted from "make" to "buy," from ownership to partnership, from fixed cost to variable cost, but in the context of stable, long-term relationships. A firm must define ever more narrowly those core competencies to which it will devote scarce resources in order to develop new knowledge and skills. For all other areas, it must depend on strategic partners who have placed their own focused bets in the game of becoming world class competitors.

IBM is another example of a firm that is reinventing itself as a network organization. As one of the first steps in this direction, the personal computer was designed over a long weekend by an IBM management taskforce gathered informally at a Florida retreat. Actual manufacturing relied on a network of hardware and software suppliers for all components. Besides the design work, IBM's own contribution to the manufacturing process was an assembly plant and several minutes of assembly and testing time per machine. Gradually, some of the vendor partnerships and alliances were terminated as IBM brought some manufacturing activities back into the firm. Subsequently, IBM committed itself to "open architecture," making IBM's technology widely available to all software writers who wanted to develop applications programs, in recognition of the fact that not even IBM had the resources necessary to do the job of writing software for thousands of distinct applications segments. (Some observers have argued that open architecture and reliance on outside vendors meant that IBM itself no longer had any distinctive competitive advantage of its own.) Most recently, IBM has announced a major strategic alliance with Apple Computer and a substantial downsizing and restructuring into a set of more autonomous, independent businesses (Carey and Coy 1991). A key strategic issue for IBM management is to define the set of skills and resources that represent the distinctive competencies of IBM per se and a set of technical and strategic challenges and opportunities that require the scope and scale of an IBM.

To sum up, there is a clear evolution away from arm's-length transactions and traditional hierarchical, bureaucratic forms of organization toward more flexible types of partnerships, alliances, and networks. Within these new types of organizations, traditional ways of organizing the *marketing* function and of thinking about the purpose of *marketing* activity must be reexamined, with focus on long-term customer relationships, partnerships, and strategic alliances.

At the Business (SBU) Level: Market Segmentation and Targeting, Positioning the Product, and Deciding When and How to Partner

At the business unit or SBU level, the key strategy question is how to compete in the firm's chosen businesses. This level of competitive strategy is developed by managers in the individual business units. Business strategy is based on a more detailed and careful analysis of customers and competitors and of the firm's resources and skills for competing in specific market segments (Day and Wensley 1988). The key outcomes of this planning process are market segmentation, market targeting, and positioning in the target segments. A trend of the last decade was to delegate more of the strategic planning process from corporate headquarters out to the individual business units, helping to clarify the distinction between corporate and business-level strategy. These planning activities were historically associated with *marketing* strategy at the corporate level in hierarchical organizations. Clearly, in network organizations, these responsibilities devolve to the business unit level. In fact, at the SBU level, the distinction between *marketing* and strategic planning can become blurred; in some firms these functions are likely to be performed by the same people.

In network organizations, *marketing* managers at the business unit level also have a new responsibility for deciding which *marketing* functions and activities are to be purchased in the market, which are to be performed by strategic partners, and which are to be performed internally. This responsibility applies to the whole range of professional services (*marketing* research, telemarketing, advertising, sales promotion, package design, etc.) as well as to suppliers of raw materials, components, and subassemblies and to resellers. When is a vendor merely a vendor and when is it a strategic partner committed to a mutually dependent long-term relationship in delivering solutions to customer problems? Similar questions must be asked about channel members. In a customer-oriented company, committed to the *marketing* concept at the corporate level, *marketing* management at the business unit level has a critical *role* in guiding the analysis that leads to answers to these questions. In all cases, the answer will be that which enables the business to deliver superior value to customers in comparison with its competitors. It is the unique characteristic of network organizations that these questions are asked and that the organization form--transaction versus relationships versus hierarchy--remains flexible, depending on what the market requires. In this sense, network work organizations are by definition "market-driven" and represent a maturation of the *marketing* concept.

Conclusion

Marketing is responsible for more than the sale, and its responsibilities differ depending on the level of organization and strategy. It is the management function responsible for making sure that every aspect of the business is focused on delivering superior value to customers in the competitive marketplace. The business is increasingly likely to be a network of strategic partnerships among designers, technology providers, manufacturers, distributors, and information specialists. The business will be defined by its customers, not its products or factories or offices. This is a critical point: in network organizations, it is the ongoing relationship with a set of customers that represents the most important business asset. *Marketing* as a distinct management function will be responsible for being expert on the customer and keeping the rest of the network organization informed about the customer. At the corporate and business unit levels, *marketing* may merge with strategic planning or, more generally, the strategy development function, with shared responsibility for information management, environmental scanning, and coordination of the network activities.

There has been a shift from a transactions to a relationship focus. Customers become partners and the firm must make long-term commitments to maintaining those relationships with quality, service, and innovation (Anderson and Narus 1991). Given the increased importance of long-term, strategic relationships with both customers and vendors, organizations must place increased emphasis on relationship management skills. As these skills reside in people, rather than organization structures or *roles* or tasks, key *marketing* personnel who have these skills will become increasingly valuable as business assets (Thorelli 1986). These skills may define the core competence of some organizations as links between their vendors and customers in the value chain. This common focus on customer value and relationship management may result in much stronger coordination of the procurement, sales, and *marketing* functions in a manner analogous to the merchandising function in retailing firms. Such coordination would be consistent with the two major trends of elimination of boundaries between management functions within organizations and a blurring of the boundaries between the firm and its market environment. In a world of strategic partnerships, it is not uncommon for a partner to be simultaneously customer, competitor, and vendor, as well as partner. Consequently, it is difficult to keep the traditional management functions distinct in dealing with strategic partners.

Impersonal, mass communications, especially media advertising, are becoming less effective, whereas personal, targeted, special purpose communications have become more important. This change is reflected in the decline of the traditional advertising business--independent advertising agencies developing ads and placing them in broadcast and print media. In their place have emerged global communication companies, international networks of specialists and integrated *marketing* communications mega-agencies working with their multinational clients on specific projects.

Distributors must be treated as strategic partners (Anderson and Narus 1990), linked to the manufacturing firm with sophisticated telecommunications and data-processing systems that afford seamless integration of manufacturing, distribution, and *marketing* activities throughout the network. Consumer marketers continue to shift resources toward the trade and away from the consumer per se, and traditional selling functions for the field sales organization are evolving toward a broader definition of responsibilities for relationship management, assisted by interactive information management capability.

The implementation of market-driven strategy will require skills in designing, developing, managing, and controlling strategic alliances with partners of all kinds, and keeping them all focused on the ever-*changing* customer in the global marketplace. The core firm will be defined by its end-use markets and its knowledge base, as well as its technical competence, not by its factories and its office buildings. Customer focus, market segmentation, targeting, and positioning, assisted by information technology, will be the flexible bonds that hold the whole thing together.

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