An Institutional Environmental Approach to the Development of Marketing Channels

John C. Cox

Ouachita Baptist University
410 Ouachita Street
Arkadelphia, Arkansas 71998
870-245-5292
870-245-5061(FAX)
coxj@obu.edu

ABSTRACT

The development of structural models of marketing channels is a common marketing practice. As marketing intelligence and technology evolve it becomes increasingly difficult to effectively model channel behavior. A comprehensive framework to aid marketers in their efforts to achieve a cohesive body of knowledge addressing this process is not evident in the literature. Grewal and Dharwadkar (2002) have proposed an institutional environmental model of marketing channel relationships that represents a potential solution to this problem.

INTRODUCTION

A comprehensive framework to aid marketers in their efforts to achieve a cohesive body of knowledge addressing the design and structure of marketing channels is not evident in the literature. Marketing channel studies have primarily taken a transactional or a relational approach as alternatives to developing structural process models, Styles (2003). Transactional boundary processes of exchange between firms are governed by contract theory. Aspects of interfirm exchange that contracts cannot deal with efficiently are addressed through relational perspectives, Seshadri (2004). Structural models based upon transactional and relational foundations abound in the literature but appear to be inconsistent and highly fragmented absent a common conceptualization, Zablah (2004). Zablah points out that the marketing channel is an organic entity consisting of a "profit-maximizing portfolio of customer relationships" leveraging market intelligence and technology. Thus, the channel structure is inherently probalilistic as opposed to deterministic in nature. Sheth (2003) observed that the burdens of time and commitment make it impractical for buyers and sellers to enter into only long-lasting relationships. Conditions of managerial decision making under uncertainty and the probabilistic nature of channel structure have received scant attention in the literature, Ouwersloot (2004).

THE INSTITUTIONAL ENVIRONMENT

The Grewal and Dharwadkar model (2002**)** proposes a conceptual approach that imposes an institutional environmental framework upon the marketing channel relationship. [The following discussion is based upon Grewal and Dharwadkar, 2002, pp.85-89]. The model focuses upon on three institutional processes; 1) regulating, 2) validating, and 3) habitualizing and relies upon a comprehensive framework involving the primacy of 1) regulatory institutions, 2) normative institutions, and 3) cognitive institutions. It is particularly appropriate to application within a global multi-national environment. Each of the three domains involve processes that use different mechanisms to impact channel actions and behavior. The processes of regulating involve laws and rules of governments at all levels designed to oversee the activities of channel members. The primary mechanisms used by regulatory institutions are imposition and inducements which influence channel structures and processes. Authorization (acceptance) and acquisition (adoption) of practices accomplish validation. Organized associations emerge and establish standards that facilitate industry-wide implementation. Habitualizing takes the form of repetitive action that can be readily reproduced. Imprinting and bypassing are the two primary processes associated with habitualizing. Habitualized practices can be powerful forces that cause channel structures and processes to remain unchanged over time even in the face of rational adaptations based on economic efficiencies. Both industry and cultural environmental norms are active in shaping channel structure. Bypassing occurs when cultural or industry expectations substitute for channel structure and processes. See figure 1.

Institutional Environment

Processes of Regulating: The evident interactions with regulatory institutions that exist to ensure stability, order, and continuity of societies and social welfare.

- **Legitimacy concern:** pragmatic
- **Mechanisms**
    1. Imposition (P_1)
    2. Inducements (P_2)

Processes of Validating: The midrange processes that represent the interaction with normative institutions and give rise to standards for socially acceptable behaviors.

- **Legitimacy concern:** procedural
- **Mechanisms**
    1. Authorization (P_3)
    2. Acquisition (P_4)

Processes of Habitualizing: The invisible, base-level institutional processes that give rise to cognitive institutions, wherein repeated actions become cast into a pattern, which are reproduced with minimal effort and recognized as that particular pattern.

- **Legitimacy concern:** cognitive
- **Mechanisms**
    1. Imprinting (P_5)
    2. Bypassing (P_6)

Internal Political Economy

Internal Economic Structures: The type of transactional form used in the channel.

- Level of channel integration (P_2)

Internal Economic Processes: Nature of decision making among channel constitutents.

- Centralization, formalization, and participation in channel decision making (P_3)

Internal Sociopolitical Structures: Nature of power dependence relationship among channel members.

- Process/ output control (P_4)
- Use of Power (P_6)

Internal Sociopolitical Processes: Dominant channel sentiments.

- Relational norm of solidarity (P_1)
- Opportunism (P_5)

Source: Grewal and Dharwadkar (2002)

Figure 1: Institutional environment and marketing channels

The Role of The Marketing Channel

The role of the marketing channel is to adjust discrepancies between supply and demand in the marketplace. The basic tension in the market requires a balance between the buyers' demand for ever quicker response times on the one hand versus suppliers' desire for cost minimization on the other hand (Coughlan, 2001, p.7). The increasing sophistication of the market place including the ability to transform inventory into information increases the interdependency of channel relationships. A mature relationship between channel partners involves close, routinized cooperation between companies customized to each channel relationship. The classic distinctions between channel members are much less meaningful (Coughlan, 2001, p.16) and the boundaries are increasingly blurred. It is appropriate to note the literature exhibits some confusion in distinguishing between marketing channels and supply chains. The retailer's supply chain is the manufacturer's marketing channel. Thus, organizations planning the same "process" from different perspectives render harmonization problematic.

Markets are becoming more technologically sophisticated, competition is more intense, and buyers are more demanding. Marketers need to appreciate the importance of each aspect of the institutional environment to the development of marketing processes. For example, Japan has a culture that tends to emphasize the relational aspects of marketing systems over transactional aspects. Consequently, Japan, which has a very relational culture, has difficulty evolving an "economically" efficient transaction based retail market even though global examples of systems such as Wal-Mart abound. Historical imprinting of relational processes has produced a habitualized structure that is difficult to overcome. By-passing occurs and internal sociopolitical structures and processes prevent transactional focused practices from disseminating past the validating and regulating stages of development. Similar comparisons can be made across other cultures. Channel structures are likely to evolve from a focus on all three institutional environmental legitimacy concerns simultaneously with varying emphasis and impact upon internal channel economic and sociopolitical structures and processes.

Marketing literature had focused upon the relational aspects of marketing channels since the early 1980s. Recently empirical studies have begun to question the fundamental assumption that relational marketing has value across all markets and over time Pillai (2003), Gilliland (2003), Reinartz (2000) and Narayandas (2005). Proctor & Gamble has 102,000 employees in eighty countries and markets nearly 300 brands with a goal of ensuring that products are always available at all distribution centers as well as retail outlets, Wisner (2005). In a resource environment characterized by scarce resources it is impossible to allocate the resources necessary to develop relational aspects within all channels. The principal relational issues to be decided will be to try to determine who should get or control which information and for which purpose, Lawrence (2005). Zablah's concept of a profit maximizing portfolio of customer relationships seems applicable. Given the probabilistic nature of demand, a company would likely evolve channel structures that are highly relational within its core set of customer relationships. Customer relationships that are more marginal would likely be more transaction focused.

The Institutional Environment and Channel Evolution

Activities within the marketing channel (supply chain) such as MRP, JIT, ERP, DRP, and Electronic Commerce have been primarily transactional based at the time of introduction. Successful implementation on an industry or economy wide scale has always been accompanied by integration of the relational aspects of the activity into the marketing framework. Implementation begins with base-level habitualizing processes that focus upon transactional issues. If initial success is achieved at this level, then the normative processes associated with validation begin to evolve. This step is necessary for dissemination of the evolving marketing practice from the firm level to the industry and/or the economy level. Normative institutions such as trade associations and professional organizations use the anecdotal successes established at the habitualizing level to develop standards for socially acceptable behaviors. At the final level, regulatory institutions incorporate systemic practices by either impositions or inducements designed to insure economic and social stability and order within the system.

The widespread use of the Universal Product Code (UPC Code) illustrates the full cycle of this process. The UPC began as a base-level effort to improve transactional efficiencies in individual marketing systems. Visible success on the part of significant firms led to adoption of the practice by other firms. As the use became more widespread, a need to standardize the process materialized. In order for process efficiency to be realized within the marketing channel, the information format and content of the UPC code had to be standardized across firm and industry boundaries to enable a single code scanner to read the UPC code regardless of product, manufacturer, industry, or market. Integration of evolving marketing practices such as RFID (radio frequency identification) into channel cohesiveness is dependent upon the ability to integrate both the relational and transactional aspects of the activity across domain boundaries. Emergence of a process champion such as Wal-Mart can speed up institutionalization, Boyle (2003).

Adherence to the standards comes from market forces and regulatory agencies that use the code to measure economic activity for oversight purposes. Standardization is essential to the functionality of supply chains and marketing channels. Standardization is difficult to achieve due to internal and external resistance. Competitive issues, resistance to changing behaviors, and the fact that metrics are frequently not tracked the same at different levels in the channel make it difficult for suppliers and customers to understand needs at other levels in the channel.

Summary and Conclusions

It is appropriate to investigate the relationship and relevance of channel practices to each domain and at the domain boundaries. In-depth research into all areas of the relationship could shed light on why progress in certain practices has been slow or why certain channel structures seem to work well in some cultures but not in others. Historically inquiry has focused upon the transactional context of marketing systems. The current focus seems to be shifting from transactional to relational interactions in marketing systems. Some question the extent to which transactional marketing is still relevant in contemporary practice [Coviello, 2002]. While it seems clear that some marketing practices may be destined to become historical artifacts in relation to current market reality (for example, distribution channels in the music industry), not all transactional based marketing systems are inappropriate. Marketing systems are inherently both relational and transactional. Grewal and Dharwadkar provide a holistic framework for an integrated study of both the transactional and relational concepts of marketing channels. Integration of evolving marketing activities such as RFID into channel cohesiveness is dependent upon the ability to integrate both the relational and transactional aspects of the activity across domain boundaries in the marketing channel and within the institutional environment. Emergence of a process champion such as Wal-Mart for a particular marketing practice such as RFID can speed up the process of institutionalization. Relational and transactional standards and norms must evolve into validated acceptance and adoption for the practices to become widespread. The Grewal and Dharwadkar model provides a prescriptive framework for furthering this process.

REFERENCES

Boyle, Matthew (2003). Wal-mart Keeps the Change. Fortune, (November 10), 46

Couglhan, Anne T., Anderson, Erin, Stern, Louis W. and El-Ansary, Adel I. (2001). Marketing Channels, 6ed. Upper Saddle River: Prentice-Hall, Inc.

Coviello, Nicole E., Brodie, Roderick J., Danaher, Peter J. and Johnston, Wesley J. (2002). How Firms Relate to Their Markets: An Empirical Examination of Contemporary Marketing Practices. The Journal of Marketing 66(3), 33-46

Gilliland, David I. (2004). Designing Channel Incentives to Overcome Reseller Rejection. Industrial Marketing Management 33(2), 87-95

Pillai, Kishore Gopalakrishna and Sharma, Arun. (2003). Mature Relationships: Why Does Relational Orientation Turn into Transactional Orientation? Industrial Marketing Management 32(8), 643-651

Grewal, Rajdeep and Dharwadkar, Ravi. (2002). The Role of the Institutional Environment in Marketing Channels. The Journal of Marketing 66(3), 82-97

Lawrence, Barry F., Jennings, Daniel F. and Reynolds, Brian E. (2005). ERP in Distribution. Ohio: Southwestern

Narayandas, Das and Rangan, V. Kasturi. (2005) Building and Sustaining Buyer-Seller Relationships in Mature Industrial Markets. The Journal of Marketing 68(3), 63-77

Ouwersloot, Hans, Lemmink, Jos and de Ruyter, Ko. (2004). Moving Beyond Intuition—Managing Allocation Decisions in Relationship Marketing in Business-to-Business Markets. Industrial Marketing Management 33(8), 701-710

Reinartz, Werner J. and Kumar, V. (2000) On the Profitability of Long-Life Customers in a Non Contractural Setting: An Empirical Investigation and Implications for Marketing. The Journal of Marketing 64(4), 17-35

Seshadri, Sudhi and Mishra, Randhir (2004). Relationship Marketing and Contract Theory. Industrial Marketing Management 33(6), 513-526

Sheth, Jagdish N. and Shah, Reshma H. (2003). Till Death do us Part… But Not Always: Six Antecedents to a Customer's Relational Preferences in Buyer-Seller Exchanges. Industrial Marketing Management 32(8), 627-631

Styles, Chris and Ambler, Tim. (2003). The Coexistence of Transaction and Relational Marketing: Insights From the Chinese Business Context. Industrial Marketing Management 32(8), 633-642

Wisner, Joel D., Leong, G. Keong and Tan, Keah-Choon. (2005). Principles of Supply Chain Management: A Balanced Approach. Ohio: Southwestern

Zablah, Alex R., Bellenger, Danny N. and Johnston, Wesley J. (2004). An Evaluation of Divergent Perspectives on Customer Relationship Management: Towards a Common Understanding of an Emerging Phenomenon. Industrial Marketing Management 33(6), 475-489