of many-to-one mapping raised in the previous paper. Rather than making a choice among several stochastic models, Zufryden develops a composite stochastic model by combining the properties of brand choice and purchase incidence phenomena at both the individual consumer and the aggregate market behavior levels. However, the uniqueness of Zufryden's model is the incorporation of any explanatory variables relevant to a market situation through the use of a Logit Model formulation within the structure of a first-order Markov process which underlies his composite stochastic model. The integration of prediction with explanation, purchase incidence with brand choice behavior, and individual customer with aggregate market behavior in a single model is a remarkable accomplishment. It is, therefore, very likely that the Zufryden model will become a benchmark in the history of stochastic models of brand choice behavior.

I hope this volume will demonstrate to the marketing scholars that the objective of Research in Marketing is to publish original research publications which are substantive enough to be treated as minimonographs. It offers an avenue for those scholars who feel that scholarly journals are too restrictive with respect to length and editorial expressions.

PARADIGMS FOR MARKETING THEORY*

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When one reads much of the current marketing literature, and even the popular press, it sometimes appears that marketing is attempting to encompass all of social science and that most of the institutions in our society are looking to marketing for their survival (McGinnis, 1969; Simon, 1968; Farley and Leavitt, 1971; Kotler and Zaltman, 1971; Mindak and Bybee, 1971; Zaltman and Vertinsky, 1971; Zikmund and Stanton, 1971; El Ansary and Kramer, 1974; White, 1973; Kotler, 1975; Gaedeke, 1977). Business institutions have long used marketing techniques, in addition to the marketing of their goods, in their public relations and financial relations activities. But use and misuse of marketing techniques have implications for business institutions and for society as a whole which need to be identified and evaluated. Thus, a discussion on the definition of marketing is more than a game for teachers of marketing to play with one
another. It is a discussion of concern to business executives who depend on conventional marketing systems for their continued good health.

In this paper, it is necessary to begin with a definition of marketing in order to focus on the development of frameworks for the discipline of marketing that we suggest are useful in the construction of marketing theory. This introduction is not intended as a comprehensive review of the development of marketing thought or typology of marketing theory. Rather, it is intended only as an introduction to paradigms useful in marketing with special attention given to two of these: the general systems paradigm and the social exchange paradigm. The constructs of a new (or more accurately, newly structured) marketing paradigm—the Systems/Exchange Paradigm—are then defined. Finally, the specifications of the limits of the discipline of marketing are offered.

The paper then turns to a discussion of the social exchange paradigm and uses this paradigm to sharpen understanding of the ongoing debate over the universality of marketing. The third section of the paper uses four examples to show how the new Systems/Exchange Paradigm can limit the definition of the discipline of marketing. The fourth section then "exercises" the new paradigm by outlining its application to some problem areas for which marketers are almost uniquely equipped to provide solutions.

I. WHAT IS MARKETING?

The definition of marketing suggested here is similar to that which has been popular among a large number of scholars for over a decade (Ohio State University Marketing Staff, 1965; Sweeney, 1972). The italicized words are those discussed in more detail.

Marketing is the process in a society by which individuals or public and private organizations identify the needs and wants of their respective clients, design and develop the products, services, and ideas to satisfy these needs and wants, communicate information about them, distribute them, and exchange them so as to create value for the parties involved.

The definition says marketing is a process. The study of that process is called the discipline of marketing. "Discipline" is preferable to science, because our study involves more than the use of the scientific method to explain and classify observable phenomena. It also involves problem-solving. The discipline is more appropriately classified as a technical art that has its foundation in the social sciences. For a discussion of the marketing as a science controversy, see Hunt (1976). The discipline contains a number of paradigms, and each paradigm draws on a number of theories. Thus, marketing is clearly not a single theory. The theories in the discipline are applied so as to become the operating technologies of practitioners engaged in the process.

Bagozzi (1976) defines a paradigm as stating what a discipline should study, what questions it should ask, and what rules should be followed in interpreting the answers obtained. As such, paradigms are the foundations of theory. They suggest units of analysis, constructs, and similar necessary elements of a calculus of theory in a discipline. However, they fall short of advancing propositions, axioms, lawlike generalizations, and testable hypotheses. Paradigms are not theories. The task is to determine which paradigms will lead to useful theories.

Our purpose here is: (1) to offer a suggestion as to what the discipline of marketing should study, (2) to do so by use of the social exchange paradigm, and (3) to suggest a new paradigm that is offered as being the central paradigm for the discipline of marketing. Six paradigms are frequently used by marketing scholars:

1. the microeconomics paradigm,
2. the persuasion/attitude change paradigm,
3. the conflict resolution paradigm,
4. the general systems paradigm,
5. the functionalist paradigm, and
6. the social exchange paradigm.

The microeconomic paradigm looks at an abstraction of a market, usually pure competition in a one-level structure. It tells us to study resource allocation by asking questions about supply, demand, transaction efficiency, and levels of information. The reason most often given by marketers for rejecting this paradigm is its excessive abstraction, not that it fails to ask the right questions. This may be an unwarranted criticism, for many operational theories do emanate from the abstract microeconomic model. Two quickly come to mind: theories that have been incorporated into what most of us would consider core marketing theory today. One of these is the group of theories dealing with small group competitive rivalry: monopolistic competition and oligopoly theory. The second is the group of models dealing with place theory and interregional marketing.

The persuasion/attitude change paradigm focuses on one aspect of the process of marketing—the information and persuasion required by one actor to achieve a desired behavior from another. It draws heavily on the theories of social psychology. Thus, for example, analysis is the individual or small group. Stidsen and Schutte (1972) serve to represent this paradigm by suggesting that marketing focus on the communications which enable consumers and producers to significantly influence each other's goal attainment. This limited, though important, view of the process takes it out of consideration as the basic paradigm of the discipline of marketing.

The conflict resolution paradigm is a paradigm whose theories largely have been captured by other paradigms. As explained by Levy and Zaltman (1975), in sociology, political science, and social psychology, a large literature grew
out of an effort in the 1950s to resolve conflicts in society without another world war. Much of this work is at the societal or macro level and focuses on the process of conflict emergence and resolution in a society. The constructs of this macro approach to conflict resolution remain somewhat disorderly. At least five approaches to social control of conflict have been identified: exchange, persuasion, authority, moral code, and tradition. Modern societies use all five, as we shall see, though the emphasis here is on exchange.2

On the other hand, applying constructs such as power, structure, and coalitions at the micro level has produced contributions to two other paradigms listed here: the social exchange paradigm and the microeconomic paradigm. Exchange transactions contain inherent conflict. The contributions of conflict constructs in exchange transactions are discussed here, and by virtually all marketers, as a part of the exchange paradigm. The second contribution is game theory. Microeconomics has been the major beneficiary of this theory. Oligopoly theory, for example, has developed not through extension of traditional economic theory but through constructs received from game theory (Telser, 1972; Friedman, 1977). Conflict resolution, its psychological theories, and its game theory have been identified here as a separate paradigm because there is evidence that it may yet have applications distinct from those now embodied in microeconomic theory and exchange theory (Rapoport, 1974).

The general systems paradigm focuses on the interrelationships between institutions in a system. We will argue that the systems paradigm is a necessary prerequisite to others used in marketing. The discipline must limit in some way the types of systems studied or the types of exchanges considered. Theory development using the systems paradigm (as with any paradigm) must begin by specifying the units of analysis, the constructs, the variables, and a set of generalizable and testable propositions. The unit of analysis is the item or group whose activities are studied. In marketing we often consider as the unit of analysis individuals, families, and organizations. Constructs are fundamental concepts that one uses in thinking about and analyzing an area. It is usually multidimensional and cannot be described by only a single measure. Brand loyalty, innovation, and riskiness are examples of constructs used in marketing. Variables are the unidimensional parts of a construct that we would like to (and often can) measure. Propositions specify the relationships between constructs. In marketing we attempt to specify the extent to which the risk aversion or innovativeness of an individual influences his or her loyalty for a particular brand.

Now, with regard to the general systems paradigm, one begins to build theory about a particular system with the following constructs. First, the definition of a system is a set of regularly interacting groups coordinated in such a way as to form a unified whole and organized so as to accomplish a set of goals. The goals of the system are stated in terms of optimum states of some objective functions, for example, Pratian optimum. Second, five constructs are required to specify the system:

1. the goals of the system,
2. the environment and constraints within which the system exists,
3. the resources of these units,
4. the functions these units perform,
5. the management and control mechanism for the system (Churchman, 1968).

Variables are required to measure performance, measure resources, measure functional flows, measure controls, and measure environmental influences. The units of analysis are the components that comprise the system.

The functionalist paradigm employs many theories, but all are concerned with decision-making regarding the functions performed by institutions within society. Our thesis is that a functional approach would require some systems specification before beginning analysis of the quality of decision-making within functions. Alderson has taken a parallel position with regard to the functionalist paradigm.

Functionalism stresses the whole system and undertakes to interpret the parts in terms of how they serve the system. Some writers who are actually advocates of functionalism prefer to speak of the holistic approach because of emphasis on the system as a whole... (Alderson, 1957, p. 16).

The writer has characterized his theoretical position as functionalist and has accepted the implied commitment to the total systems approach (Alderson, in Cox, Alderson, and Shapiro, 1964, p. 105).

Alderson saw himself as a functionalist because he wanted to sharpen the distinction between descriptive and normative theory. He attempted to build normative theory by focusing on the functions performed within the systems he studied. Nicosia's (1962) analysis of Alderson's functionalism will serve to review much of the history and interpretation of the systems approach to marketing. His analysis closes with a challenge that we face here with regard to the social exchange paradigm: "the challenge facing the student of marketing is that of operationalizing the conceptual schemata suggested by functionalism—that is, of translating them into empirical research instruments" (p. 413). We believe the descriptive-normative distinction does not need to be made here. The foundations for theory discussed here are useful in either kind of research.

The social exchange paradigm focuses on the phenomenon of exchange between social actors or institutions regardless of the functions being performed or the institutions involved. Special attention is given in the next section of this essay to this paradigm. The paradigm is flexible and has a smaller set of constructs than one might expect. One needs as elemental constructs:

- the goods being exchanged ('good' as used here is not restricted to a product);
- the value, utility, or reward associated with the goods (values can be estab-
lished by learning or reinforcement. Values can be personal as well as market established. They can change through time and are subject to diminishing marginal utility. Negative values are often called costs. Opportunity costs and sunk costs need to be considered.

- a transaction;
- at least two actors.

However, it is our contention that before one can fruitfully employ the exchange theory paradigm to build marketing theory, the systems paradigm would dictate the necessity to specify what marketing system one was studying and what exchanges within that system are studied as marketing exchanges. In conventional products marketing, for example, buying and selling institutions are closely linked and somewhat interdependent. These institutions receive inputs from other institutions and generate outputs which are transmitted to other institutions. People within these institutions apply marketing technologies in the performance of this function. In economic systems, the inputs and outputs that flow through these institutions are goods which have measured economic value; the institutions transform them in order to alter their value; inputs are obtained in factor markets; and outputs are allocated in goods markets. This is too restrictive for our discipline. Marketing is concerned with the exchange of values between institutions beyond economic institutions—for example, churches—and also concerned with goods not counted as economic wealth—for example, prestige. However, the view advanced here is that with this broad view, the specification of the systems paradigm must precede employment of the social exchange theory paradigm. Before building theory with the social exchange framework, one needs to specify the units of analysis and all of the constructs of both the systems and social exchange paradigms.

Consistent with this thesis, a combined Systems/Exchange Paradigm is now introduced. This paradigm is a combination of the constructs of the two paradigms. The result appears in Table I. This new paradigm is offered as the basic paradigm of the discipline of marketing. This list of constructs will be used in later sections of this paper in order to show their usefulness in the analysis of marketing problems. Note that the list is equally useful in building both descriptive and normative theory.

The question is, how many elements in the definition of marketing above need to be present for the exchanges between institutions to be called "marketing"? One view is that it is marketing if any marketing technology is applied. For example, the state police department becomes a marketing institution when they promote safe driving, and hence, in this context, the state police and drivers constitute a marketing system. The more restrictive view is that a marketing system applies only to economic activity that contains all of the elements in the definition above and that must perform all of the functions listed there (Kotler, 1972). Thus, when the products and services are economic resources, the institutions are households and business organizations, and the institutions are linked by free markets, analyses of such systems are comfortable for a marketeer. When these conditions are relaxed, either in terms of the institutions or the transfer process, the discipline is weakened in its ability to model the system accurately, to predict behavior and performance of the system, or to recommend control mechanisms.

The view advanced here and argued in the following sections is somewhere between these two poles. I believe that to be marketing, we must restrict the type of exchanges considered to those that:

1. include some degree of freedom for the traders to make a decision to trade or not to trade,
2. include the existence of some good that will provide utility,
3. include a trust that both parties will complete the exchange, and
4. consider systems in which resource allocation is the primary purpose.

This essay does not dispute the famous remark by Karl Popper that disciplines are distinguished by historical precedent and administrative convenience, while what man is about is the study of problems that "cut right across the borders of any subject matter or discipline" (Popper, 1963). If a marketing technology can be applied to solve a problem in driver safety, then it should be applied, and marketing theorists should be proud that it has been applied. It is not necessary for driver education to be a marketing process.

However, in the development of theory, the marketing discipline is well advised to stick to problem situations where all of the elements of the marketing process are present. (W. T. Tucker, 1974, p. 33, has made a similar point, as has
the author (Carman, 1973)). This distinction is important because it is the application of some marketing concepts with an inaccurate systemic description that is at the heart of many of the problems raised here. Social exchange theory is a useful vehicle to use in explaining why I feel this distinction between technology, process, and discipline is so important. The next section considers this paradigm in more detail.

II. SOCIAL EXCHANGE THEORY

Social exchange theory, as a formal theory with that name, belongs to the discipline of sociology. However, it is much more multidisciplinary than that. Historic and present developments also can be found in psychology (Thibaut and Kelley, 1959) and anthropology (Levi-Strauss, 1969). Much in exchange theory appears to be economic theory, but economists (with a few exceptions, such as John R. Commons) have not been eager to claim it or attempt to fit general exchange theory into theories of market exchange. In contrast, the concept of an exchange transaction is a vital ingredient of marketing. Kotler says a transaction is the core concept of marketing—that "how transactions are created, stimulated, facilitated, and solved...is the generic concept of marketing" (Kotler, 1972, p. 49). Alderson (1965, p. 22) suggests that the transaction—the focus of the negotiation which leads to exchange—is one of two basic "units of action" of a marketing system. He goes on (pp. 83-86) to begin a formal analysis of transactions called the "Law of Exchange." Yet, the progress to date in building a general theory of social exchange has not been rapid or all that successful. If such a general theory is developed, it will contribute to all of social science, not marketing, psychology, sociology, or anthropology alone. For "exchange theory" is more of a frame of reference for the study of how "goods" (anything of value) move through a society (Emerson, 1976).

It may be useful to describe the differences in perspective between disciplines in a bit more detail. The anthropologist is interested in studying primitive societies with an eye toward understanding the evolution of these to complex societies. As far back as 1919 and 1922, anthropologists had defined one of the problems that concern us today. Sir James C. Frazer (1919) concluded, from the study of the exchange of women in the Old Testament and among Australian aboriginals, that (1) all exchange derived from simple economic exchange, (2) institutions developed to support economic exchange, and (3) institutions permitted the development of more complex exchange. However, a few years later, another anthropologist (Malinowski, 1922) discovered a form of rather complex gift exchange, also in the Western Pacific, that appeared to have no economic significance at all. This debate on whether the initial, primitive motivation is the act of exchanging or the economic survival need to exchange goods wages today in anthropology, with intensity similar to the debate in marketing (Levi-Strauss, 1965). We will return to it in this essay.

Paradigms for Marketing Theory

The writings on exchange in sociology have been criticized as being so general as to be tautological (Emerson, 1976, pp. 341-343). On the other hand, the paradigm's simple structure permits one to use the framework from the perspective of dyadic social psychology (Thibaut and Kelley, 1959), operant psychology (Homans, 1961), or economic decision theory (Telser, 1972). Here we are concerned with how to use it to help build a unified theory of marketing. The work to date suggests that an understanding of complex exchange requires detailed analysis of social, economic, and legal institutions, as well as psychology and social mores. For us it is necessary to specify the types of exchanges, institutions, and functions with which marketing will be concerned. It may be necessary to limit the environments or rules governing the exchange or the functions being performed if we are: (1) to make contributions to a general theory of social exchange; (2) to gain insights that are not so general as to be trite; (3) to study necessary nonexchange topics, such as product management, production economies, and strategic planning; and (4) to be able to solve real problems.

This part of the paper will attempt to determine if any of the general system constructs listed earlier will restrict just which exchanges are marketing exchanges. We begin with consideration of four dimensions of the social exchange paradigm: (1) economic exchange vs. all social exchange, (2) free exchange vs. command exchange, (3) large group market exchange vs. bilateral negotiation, and (4) restricted exchange vs. indirect exchange. See Ekeh (1974) for another view on these points.

A. Economic Exchange vs. All Social Exchange

Under this dimension is considered the definition of "products, services, and ideas." Must they be economic goods or can they be economic neutrals? Actually, marketing has already made a considerable contribution to the resolution of this question. The writers in other social sciences worry more than marketers about restrictions to an economic man and goods with established market values. However, sociologists writing in social exchange are at least as explicit on the similarities and differences as are marketers (Chavannes, 1963, Homans, 1958, Knox, 1963, Belshaw, 1965, Blau, 1968). I hope it is not too optimistic of me to believe that most of us can agree that marketing applies to any exchange of goods (in the broad sense) that leads to an increase in the utility of at least one of the actors (with no loss in utility to the other). I suggest that things and activities that create utility are scarce social resources. Marketing is concerned with their allocation—not just the allocation of scarce resources with established economic value. Put more sharply, I believe marketing is concerned with resource allocation, but I define resources more broadly than would most economists.

Blau (1964, pp. 91-113) makes the distinction in another way, one that I find not very useful in making the difference before us. He believes that it is a clear obligation to reciprocate at a specific exchange rate that separates economic
exchange from social exchange. Although this adds unnecessary legal, institutional trappings to our problem at this point, this issue is one that needs to be discussed. We shall return to it in later sections.

It is useful to consider some examples to see how far we can push these ideas. That is, on the basis of the good involved, can one meaningfully distinguish between economic and other social exchange transactions? The individual who gives anonymously to a charity gives up a classic economic asset and receives what? A good conscience? A feeling of fighting the welfare state? An excuse for not giving to other charities? Relief from the fund raiser? All are possible sources of utility. Although none has a market value that will increase national income, it is theoretically possible to measure their value through shadow prices. Note, also, that the output of this charity is not exchanged directly for the input. The charity is an institution that performs a particular type of resource redistribution function through generalized exchange. The institutional arrangements are important for a complete understanding of the process.

It is here that we reach one possible limit to the definition of marketing. If you do not agree with extending marketing to include this example, you have narrowed marketing. If you do agree, then you conclude that marketing cannot be narrowed by reference to the "things" that are exchanged. To narrow marketing, we must look to the other dimensions.

B. Free Exchange vs. Command Exchange

Exchanges create time, place, and possession utility and psychological or social utility that lead to the reallocation of scarce resources. Most writers in social exchange theory in all disciplines and all those cited here assume exchanges taken place as a result of free decisions by the actors. Ignorance, lack of information, deceit, or coercion may influence the rates of exchange, but at least bounded individual freedom is inherent in the definition of the exchange. Thus theft, robbery, and begging are excluded. These are not exchange and not marketing.

Is there some necessary set of ingredients of freedom for marketing to take place? Certainly not the profit motive. Other utilities can be created. Enough freedom for marketing to take place can remain, even when some restrictions are placed on private ownership. COMSAT, AMTRAK, the U.S. Postal Service, and the Federal National Mortgage Association, among others, are all quasi-public corporations, some of which are expected to provide a return to their private investors. All are active participants in the economic market system. Neither private ownership nor the profit motive seem essential characteristics for an institution to employ marketing. The discipline can adequately deal with nonprofit and with public institutions as long as their goals and measures of performance are adequately defined and measured. Notice that these are constructs from the general systems paradigm. They help us define a marketing exchange. They teach us to focus on goals, measures of performance, and functions—not on whether payoffs are returns to entrepreneurs. Paul C. Roberts (1971) and others have attempted to build models of resource allocation through planning authorities that parallel market transactions. The differences always focus on distinctions in incentives (goals) and the signals concerning performance. However, the basic unit of analysis remains the exchange transaction.

However, some concept of freedom to exchange seems to be required for a marketing exchange transaction to take place. We must assume two or more actors (traders), each possessing the use right to goods, including the potential to provide service, who may exchange among themselves in a mutually agreeable way. Telser (1972) goes on, in his definition of economic exchange, to add, "Each has a preference describing the terms at which he is willing to change his holdings. No one is forced to trade and all are free to make contracts with anyone at mutually acceptable terms" (p. xiv). This definition is a simple statement of Kotler's first three axioms in his generic concept of marketing (Kotler, 1972). He takes a functionalist point of view with his fourth axiom which says that marketing is concerned with the study of how to alter the "mutually acceptable terms." In any case, these definitions do require freedom to exchange but do not require narrow definitions of private property, a price system, or a profit motive.

Now, marketers—for comparative purposes—may study resource allocation by command-based methods, where there is no freedom to set the terms of trade. We do this very naturally because our functionalist and systems paradigms come to the fore. Socialist and communist societies use political command systems to allocate scarce resources. Marketers are interested in these functions, and they therefore study the institutions and systems through which resource allocation takes place. They do comparative analyses on the relative efficiency of different systems. They attempt to design mixed systems.

But note, command-based systems do not usually completely do away with either private property, a price system, or the freedom to make some transaction decision in a market environment. The modern communist economy does not ignore the price system and free transactions. It merely attempts to regulate the allocation of scarce economic resources by controlling production (supply) and then controlling price (the rates of exchange) so as to attempt to bring market demand into equilibrium with that supply (Gogol, 1970, pp. 76-88). This latter case might be thought of as a "quasi-market" since buyers may have the freedom not to exchange.

Belshaw (1965, p. 117) points out that in all systems, from command to free market, the system depends on the establishment and recognition by the people of a legitimate source of authority to coordinate the system. It may be the family, the organization, the corporation, or the state. Once this authority is accepted, considerable individual freedom can be exercised in exchange transactions. It is only when it is not accepted that we have a police state and no freedom.
The marketing paradigms are concerned with the design of systems for exchange, given some source of authority that to some extent limits individual freedom. Political mechanisms for resource allocation are mechanisms that can take from the individual considerable freedom to make exchange transactions. More will be said about political processes below. What I want to emphasize here is that marketers cannot give up being functionalists. We cannot give up studying the institutions that hold the legitimate authority to engage in exchange. We cannot give up studying the system linkages that exist between these institutions. We should not narrow marketing by giving up the functionalist, institutionalist, and systemic paradigms. It is appropriate for marketing to study a system in which some exchanges of resources are true market exchanges, some are free exchanges but at exchange rates set by a government authority, and some resource transfers are by force.

C. Market Structure

The point is that something of the structure of the system and the functions performed in that system need to be identified to meaningfully apply social exchange concepts to marketing. Marketing and economics have developed many schema for classifying the structure of exchanges. A basic construct in the industrial organization field of economics is market structure, and most authorities in that field would begin all analyses with an analysis of competitive structure. In this section, brief comment will be made about only two elements in this list: the number of buyers and sellers and their relative power.

Marketing exchanges cover a continuum of structures with regard to the number of buyers and sellers from competitive markets at one pole to bilateral monopoly at the other. The nature of the exchange at these two poles is very different. At the one end, buyers and sellers are completely powerless. The power is in the invisible hand of the market. At the other end, an analysis of the exchange depends completely on consideration of the relative power of the two actors in the negotiation. Thus, the concept of relative power is a necessary part of the marketing paradigms, but it would surely be incorrect to define marketing as a discipline studying power relationships in society.

D. Restricted Exchange vs. Indirect Exchange

The structure of the exchange relationships and the importance of this structure on social exchange theory is a topic that confuses anthropologists and sociologists, as well as marketers. There is not quite a standard terminology. I hope that we can develop standard terminology in marketing. It is necessary to distinguish at least three types of exchange structure: restricted, generalized, and indirect. The first is straightforward, the second confusing, and the third controversial. Diagrams of these structures are shown in Figure 1.

Figure 1. A Classification of Exchange Structures

A. Restricted Exchange

\[ A \leftrightarrow B \]

B. Generalized Exchange

1. Chain Generalized

\[ A \rightarrow B \rightarrow C \rightarrow A \]

2. Net Generalized

\[ A \leftrightarrow A \]

\[ C \leftrightarrow B \leftrightarrow A \]

\[ B \leftrightarrow C \]

C. Indirect Exchange

\[ A \leftrightarrow B \leftrightarrow C \leftrightarrow A \]

D.1. Restricted Exchange. Restricted exchange is a two-party relationship in which A gives to B an exchange for B giving to A. We can expand the actors here to be organizations and not simply real people. There must be a quid pro quo in such relationships, and an attempt to maintain equality is evident. The parties expect that something of value is exchanged for something of similar value. It is well established in marketing that the exchange need not be face to face. Only an implicit meeting of minds is required. All dyadic market structure exchanges are of this type.
From here on, the going gets tougher. If ABC promotes a particular television program to be presented at 10:00 p.m. on Tuesday evenings, is there a transaction and is this marketing? It seems to fill all of the other requirements: there is an attempt to alter the demand structure through conception, promotion, distribution, and facilitation. What is the exchange? The viewer is giving up the opportunity to spend his time in some other way in order to watch the program. There is an exchange, but the values exchanged are not recorded in monetary terms. They are not easy to value, but the task is not impossible. The opportunity cost to the individual could be estimated. If his alternative was to watch another network, the cost is probably quite small. If it were to engage in his occupation at a rate of $10 per hour, the cost is relatively large. The value of the network is also estimable in terms of the effect on audience and hence advertising revenue. This value per individual is quite small. To sum up, the advertising of a television program may be marketing, but the value of the transaction is difficult to determine and may involve an opportunity cost.

D.2. Generalized Exchange. This is an exchange situation involving at least three actors and a one-way giving. That is, A gives to B who gives to C who gives to A. The distinction is that A and B do not appear to engage in even a simple restricted exchange transaction. A receives from C, not from B. Bagozzi (1975) provides a modern marketing example of this type of exchange. Ekeh (1974) divides generalized exchange into two types.

He would call what I have just described "chain generalized exchange." He would then define "net generalized exchange" as the situation of neighboring farmers in barn building or harvesting. All members of the group give collectively of their energy to build one neighbor’s barn, knowing that at some time the receiver will reciprocate. Emerson (1976) points out that such exchanges are simply primitive examples of recognition of production theory. That is, there is a more value added by working together than by the sum of all farmers working separately. He calls such a situation "productive exchange." This term is consistent with the notion that self-production may be an alternative to exchange. Robinson Crusoe constructed shelter because there was no innkeeper with whom he could exchange.

What makes the farmer example unique is that there is no employer. In formal production processes, the laborer exchanges his or her energy for a wage. In the farmer examples, one needs to appreciate the requirement for trust among the actors. There must be a quid pro quo. It is that an actor gives because he believes he will receive at some time from someone. The trust is the quid pro quo. There is a meeting of the minds. It is this that is central to my definition of an exchange. It is interesting and significant that generalized exchange does not require an elaborate institution structure. It has been found in primitive societies (Malinowski, 1922). Although the rates of exchange may not be well established,
this system is understood through an analysis of marketing exchanges. This analysis could be pushed to an analysis of why and how the system changed after 1300, but here we will move on to the knights.

The knights were specialists in fighting rather than farming. They swore allegiance to the lord in return for a comfortable life. This private army was necessary because the king could not provide a mobile army to protect against attacking bands and there was no labor market in which to buy a mercenary army. Again transaction costs were lower and productivity higher with a grant of tenure to knights. This exchange was acceptable to all because defense is the classic example of a public good. An army big enough to protect the lord will also protect others in the castle. Therefore, lord and serf alike were satisfied with tenure to the knights. The knights are added to this digression because we must soon face the question of when exchanges for public goods are marketing and when they are not. Public goods require an institutional structure in which exchanges become indirect. In this case, serfs exchange with lords, lords exchange with knights, knights protect serfs.3

D.3. Indirect Exchange. What is indirect exchange? It is a circular chain of restricted exchanges between three or more actors in a closed system. In other words, it will be circular and closed. As shown in Figure 1, A exchanges with B; B exchanges with C; C exchanges with A. Each exchange is a reciprocal, two-way transaction. Bagozzi uses an example involving a consumer exchanging with a bookseller, who exchanges with an advertising agency, who exchanges with a television station, who exchanges with the consumer. The *quid pro quo* exists in each exchange.

Indirect exchange results directly from the addition of social, economic, and legal institutions to the system. A key point to an understanding of why this structure is central to the controversy over the definition of marketing is that in indirect exchange we are dealing with a system of restricted exchanges. The system arises because of the institutional framework of the society. To understand the exchange system, one must understand the institutional framework. Levi-Strauss places great emphasis on this point. Sociologists, generally, emphasize the point that social theories should not be reducible to psychological theories of individual behavior (Turner, 1974, pp. 253–257). Similarly, in marketing our analysis must consider systemic functions and institutions and not simply dyadic exchanges. It is this kind of exchange system that we call “the process of marketing.” It is a process of exchanges that has developed out of the specialization of labor supported by economic and legal institutions.

It is not indirect exchange that bothers me when we attempt to limit our definition of the discipline of marketing. Rather, what bothers me is the point at which we close the system of exchange and institutions. We consider this question next.

III. LIMITS ON THE DEFINITION OF MARKETING

This review of social exchange theory has helped to determine the necessary ingredients for an exchange to be a marketing exchange. We have said that the discipline of marketing should study the process of marketing as defined at the beginning of this essay and that the ingredients of the exchange must include: some degree of freedom for the traders to make a decision to trade or not to trade, the existence of some good that will provide utility, and a trust that both parties will complete the exchange.

Unfortunately, these elements do not quite do a complete job for us. Some limits on institutions and functions must also exist. Institutions and functions are a part of the general systems paradigm. Thus, the concept of the Systems/Exchange Paradigm was introduced. Four examples will be offered in this section in order to demonstrate how the new paradigm limits the scope of marketing to considerably less than suggested by the social exchange paradigm. These four are *gift exchange, religion, marriage, and politics.* If these do not define the limits of marketing for you, they will at least define the grey areas.

Is gift exchange marketing? At the very least, it is necessary to distinguish between two types of gifts: true gifts and prestation gifts.

Prestations are gifts that create a clearly recognized obligation (Mauss, 1954). That is, the obligation to reciprocate is recognized and accepted. Many business gifts are of this type. Some primitive societies that had little concept of accumulating property seem to have used prestation systems as a means of accumulating wealth in the form of obligations. The *quid pro quo* clearly existed.

A true gift is a voluntary transfer without expectation or receipt of an equivalent. Blau (1964, p. 89) and many marketers would be concerned that, since only an intrinsic good feeling is received in return, there is no exchange. One could take that position. However, gifts could be considered like the charity example earlier. The giver of the gift gives up an economic asset and receives in return a good feeling from having given. “Do good and lend, not hoping for any return, and your reward shall be great” (Luke 6:35). It may not be necessary to receive a gift in return. There has been a reallocation of resources. The obligation in heaven causes it to approach prestation status. Is this marketing? Probably not if the resource allocations are minor. But that is not true at, say Christmas. Gifts are important to the economy and to marketers. Belk (1976) has studied gift selection using the social exchange paradigm.

Church marketing is only a bit different. The church is interested in your giving of your time, energy, support, and the internalizing of a particular set of religious beliefs that it hopes will alter your future behavior. Your utility is increased by the prospect of having your soul saved and by membership in a social organization. As a social organization, the church in societies with freedom not to worship would certainly be engaged in marketing. One could argue, I
think, that the maintenance of moral standards and the saving of souls are not functions that are related in any way to resource allocation and should therefore be excluded from marketing. When the legitimate authority is God's, we are no longer studying marketing. Thus, the church ends up being marketing in some functions but not in others.

Marriage pushes us a bit farther in a similar direction. A great deal of marketing technology may go on in a marriage. Further, exchanges do take place. The exchange theory framework is useful in analysis of exchanges between lovers. What is missing is that the function of marriage in a society has very little to do with resource allocation. Its biological and sociological functions are basic, important, and unique. Now, anthropologists studying exchange have often used women for marriage as an example of a scarce resource being exchanged. Marketing may be involved at the stage of finding the woman. But after the marriage ceremony, the institution and its functions are not marketing.

Politics as marketing is, for me, the most elusive concept of all. To begin with, we may use political processes to elect those who have the power to command the allocation of resources. I suggest that the resource allocation is marketing but the election is not. Before I describe why, let us return to generalized exchange. Assume that C (citizen) gives to L (legislator), who gives to B (bureaucrat), who gives to C. Isn't this generalized exchange? My answer is no, because more than trust is involved. Political processes are different because an election vote is not a true giving and because the giver, C, gives up personal freedom to someone else with legitimate power. I would argue that political processes are not marketing processes because: (1) the giving is not a true exchange transaction, (2) individual freedom is given up, and (3) the functions and institutions are quite different from marketing paradigms. I would close the marketing system to exclude politics (as well as marriage and religion). It is appropriate that the discipline of political science studies these problems.

It may be useful to look at the democratic process a bit more closely. Here, as in marriage, the function of the institution is not principally resource allocation but governance of the group. Also, as in marriage, democracy involves giving up some amount of individual freedom for the good of the community.

When I give up a vote, what do I receive in exchange? A promise, perhaps. If elected, the candidate hopefully will spend my taxes in a way I prefer. Rathmell calls this a "nonvoluntary exchange" (Rathmell, 1974, pp. 31-32). However, if this is an exchange at all, it is an exchange with a far more complex set of functions than the exchanges defined above.

Consider now a public agency promoting some social idea—like not smoking. There is no exchange transaction with consumers. There may be generalized exchange from the congressional committee responsible for funding the agency, from constituencies and lobbying groups such as tobacco interests to the congressional committee, and a vote from the public in the districts of the congressman on the committee. The agency, the lobbyists, and the congressmen may use marketing technologies. However, the functions here are not just concerned with resource allocation, and the political processes involved are far different from marketing processes.

The overlap between these two systems in our modern society is substantial. It is desirable to study the intersections between the two. A relatively new journal, Public Choice, was begun in 1966 largely because there exists sufficient general interest—political scientists with economic interest and economists with political science interests—to make a journal on the subject viable. However, scholars in these disciplines would not have defined the problem as one concerned with the definition of marketing. They see the distinction as one of alternative methods of resource allocation—by a market mechanism or by political mechanisms. They would say that "marketing" is concerned only with resource allocation through a system of free markets.

It is appropriate to study these alternative processes for resource allocation and to study systems which involve some mixture of both, just as we do in command-based exchange systems. Marketers can make a contribution to this process as long as we appreciate the differences in the systems involved. To be a productive discipline, we must not make marketing so general that it cannot produce useful knowledge. I have argued here that to be marketing, the exchanges must contain the ingredients of freedom, goods, and trust. I have also argued that the goals, functions, and institutions of the system must have resource allocation as their primary purpose. Politics fails to meet the freedom requirement. Marriage and religion fail to meet the resource allocation requirement.

IV. UNIQUE OPPORTUNITIES FOR STUDY WITHIN MARKETING

The limits just discussed should not suggest a narrow focus for marketing. Indeed, the purpose of this discussion of limits was to provide a background against which to develop some areas where marketing can use the Systems/Exchange Paradigm to increase our understanding of other areas of human endeavor. There is no shortage of work for us to do. Four areas are developed more fully. There are certainly many others. 4

In this discussion, an attempt will be made to provide some examples of the usefulness of the list of fundamental constructs of the Systems/Exchange Paradigm provided in Table 1.

A. Vertically Integrated and Quasi-Integrated Systems

The merger wave of the past three decades has forced economists to analyze the social consequences of vertical mergers and integration in distribution systems. The commonly cited advantages of integration to the firm are market
foreclosure, cost savings resulting from coordination of production and marketing activities at two levels of the channel, the heightening of barriers to entry, the potential for price discrimination, and the existence of excess profits at another level in the channel. The public policy debate in recent years has brought these arguments rather clearly into focus (Crandell, 1968; Bork, 1969; Needham, 1969; Vernon and Graham, 1971; Posner, 1972). We will not review the analysis here.

Marketing scholars have made less of a contribution to this analysis than have economists. Marketers have made more of a contribution in studying the efficiency of alternative structures of physical facilities (establishments) rather than the vertical structure of institutions (Bucklin, 1966, 1970). The concern of this work is design of efficient total vertical distribution systems without concern for ownership of particular establishments or profit maximization of particular firms in the system. This work employs static microeconomic theory and the total cost approach of logistics to provide a basic analytic approach. The analysis concerns itself with the number and location in space of establishments and with the functions they perform and the flow of goods, title, and information through them.

This line of development could fruitfully be extended by shifting the focus from optimum establishment structure to optimum institutional structure. The research question is, given a particular vertical distribution system and objective function, what institutional and exchange structure is optimal? One finds hints on how to answer this question in marketing, organization theory, and economic theory. The proposition advanced here is that the Systems/Exchange Paradigm presented in Table I is a rich and useful framework to answer such questions. To support this proposition, we will refer to the work of Mayer Zald (1970) (an organization theorist), Oliver Williamson (1971, 1975) (an economist), and Louis Stern (a marketer). All implicitly are using at least a part of the Systems/Exchange Paradigm.

Zald suggests a framework most like the one suggested here, but he is not working on precisely the question defined above. He has suggested an integrating framework for analyzing institutional performance that has eight dimensions:

- goal structure (our No. 1 in Table I)
- incentive systems (similar to our No. 3)
- succession system (a part of our No. 4)
- power structure (our No. 5)
- demand structure (our No. 5 for buyers)
- technology and production structure (similar to our No. 10)
- information system (our No. 11)
- allocation rules (our No. 12)

A marketer would feel very comfortable working within this framework.

Power has not historically been a major construct for marketers. Yet a research tradition is emerging concerned with the analysis of the power structure among institutions in the same vertical marketing channel. Louis W. Stern and his students have been a major force behind this thrust (Rosenberg and Stern, 1971; El Ansary and Stern, 1972). While much more validation remains to be done, they have moved far down the road from definitions and conceptualizations of power to identification of the dimensions of power, to construction of measures of these dimensions, and to empirical testing of the measures (Bucklin, 1970, pp. 75-91). Working independently, Wilkinson (1974) has also contributed to this effort.

While not recognizing either the systems paradigm or the social exchange paradigm, Oliver Williamson comes closest to utilizing all of the Systems/Exchange Paradigm proposed here. He advances the idea that "it is transactions rather than technology that underlie the interesting issues of microeconomic organization" (1971, p. 253). His approach focuses on the transactional details of recurrent contracting under alternative modes of organization. In other words, he is interested in the effect the type of linkage between institutions (our No. 7) has on the social performance of a vertical channel system. In particular, he is interested in contrasting market coordination with coordination through other control techniques. In fact, the relationship of the work of Zald and Williamson to the Systems/Exchange Paradigm is much more fundamental than thus far indicated. Firms—all firms, not just vertically integrated ones—are the primary institutions for economic activity simply because of transactions costs (Posner, 1972, pp. 176-178). A producer could use fully negotiated transactions to buy the services of labor, the services of machines, materials, etc. The result would be very high transactions costs. Instead, routinized employment agreements and long-term contracts are used. The limit on this form of institutional organization is one of control. Thus, the systems design question is, when does an institution become so big that it is preferable to use market transactions to allocate resources rather than administrative directives within an institution? Williamson does not attempt to give a definitive answer to this question, but he does attempt to provide a way of looking at the question. To describe this work, we will use our framework rather than his.

**No. 1. Goals of the system.** Williamson has long been interested in identification of the appropriate objective function for a firm. He has concluded that most forms of profit maximization give very similar results. This led him to recognize that in all situations, the goals of different units within a vertically integrated system are going to be more in congruence than the goals of independent institutions within a channel. Thus, integrated organizations ought to work in harmony more easily than independent ones.

**No. 2. Environmental constraints.** Do the antitrust laws concerning vertical integration promote the most efficient vertical channel structures? Williamson’s analysis certainly raises some doubts. These doubts are concerned not with the extreme examples of monopoly power through integration but with our faltering efforts to arrive at appropriate policies regarding exclusive dealing and forms of quasi-integration like franchising.

**No. 4. Internal control systems.** Williamson uses six concepts to define
ways that integrated hierarchies increase efficiency. Two of these concern the institution's internal control system. One he calls *bounded rationality*, extended rational decision-making through "specialization of decision making and economizing on communication expense" (Williamson, 1975, p. 257). In other words, there is economy in administrative decisions as to what information not to process as well as economy in processing what is internalized. The second he calls *opportunism*, control techniques that curb small-numbers opportunistic suboptimization.

No. 5. Relative power. Williamson attempts to analyze the relative efficiency of integrated vs. market channels, where the intermediate channels are structured as bilateral oligopoly or monopoly and are consequently subject to market failure. He suggests that integrated channels may be preferable. In an intermediate market with a small number of buyers and sellers, price and quantity are determined through bargaining rather than large group competition. The results of such bargaining need not yield a socially desirable bargain, a complete contract which provides a procedure for handling every contingency in an efficient manner, or a desirable distribution of risk within the channel. Marketers should certainly be able to contribute to an analysis of this problem.

No. 10. Transaction costs. Two other of Williamson's six ways that integrated hierarchies increase efficiency deal with transaction costs. First, integration "permits small-numbers bargaining indeterminacies to be resolved by fiat" (Williamson, 1975, p. 275). Second, "as compared with market modes of exchange, hierarchy provides for some purposes at least, a less calculative exchange atmosphere" (p. 258).

No. 11. The level of information available. Williamson suggests two ways that hierarchies can deal with information or its absence better than autonomous agents (1975, p. 257). One is by coordinating contingency plans so as to more efficiently absorb uncertainty. The other he calls *information impactedness*. Essentially, the concept is one that information is shared more efficiently within organizations than between organizations.

Williamson deals with all of the constructs in the Systems/Exchange Paradigm. Described here were only those where he feels his analysis has resulted in unique contributions. He has demonstrated, I believe, that those of us trained in marketing can carry this line of analysis much farther. Might it not be more appropriate for marketing scholars to work on problems involving true marketing exchanges than to apply our efforts to the marketing of political candidates?

B. Regulation of Monopoly, Externalities, and Quasi-Public Goods

One alternative method of resource allocation in situations where competition is doomed to failure is regulation. While regulation or public enterprise is not a popular choice if choice exists, often it does not. A free market for allocation of a public good, for example, fire protection, is doomed to failure because direct bargaining regarding an indivisible output among users must result in unanimous agreement among these users. Such exchange transactions, which involve multilateral bargains, require prohibitive transaction costs, high enforcement costs, and usually "free riders," those that get the service and pay nothing (Samuelson, 1954). In fact, many goods have a degree of "publicness" in them. There may be a very large class of quasi-public goods (Evans, 1970). The analysis of efficiency in the allocation of such goods always focuses first on the efficiency of transactions and then on the wealth distribution effects.

The situation of regulated monopoly is slightly different. Here the good may be entirely private but economies of scale in production lead to a public choice to have a monopolistic producer selling in a market where price, quality, output, and terms of sale are regulated by government in an attempt to replace competition as the allocation mechanism. Modern governments also have the power to enforce their terms of trade. There are transaction costs of regulation too. They can on occasion be extremely costly. In smaller countries, monopoly profits may be preferred to regulation because the transaction costs are lower and the wealth redistributions that result are not all that different from those brought about by the taxes required to pay the regulators.

In regulated monopoly, there may be another cost. There is no reason to suppose that the regulator can replace a competitive market in allocation of the good. Thus in deciding whether to regulate, it is never sufficient to demonstrate that, without intervention, the market would operate imperfectly. One needs to compare the actual workings of the market with the prospective operation under regulation. This is clearly a very difficult task, but the Systems/Exchange Paradigm provides a guide to the analysis of regulated monopolies. Here the regulators and their political supervisors need to be treated as explicit institutions within the system. Transactions between regulators and regulated firm, between politicians and firm, and between regulators and politicians all need to be explicitly modeled. Such exchange transactions are marketing transactions and worthy of our attention. Medical care is an example of a delivery system in which some of the institutions are pleading for free enterprise and others are pleading for regulation. The medical care delivery system problem cries out for more detailed analysis using the Systems/Exchange Paradigm.

But we are getting a bit ahead of ourselves. It is worthwhile to return to a particular form of quasi-public good, those private goods that create external bards, and go into a bit more detail. Again our purpose is to emphasize that while these are problems of social policy or welfare economics, the analysis at least begins with a marketing analysis of transaction costs, for which the Systems/Exchange Paradigm is a chief framework.

The usual welfare economics approach to externalities, say smoke pollution from a factory that provides jobs and useful products to the community, was to make the factory owners liable for the damage caused by the smoke or to tax the
factory owner for an amount sufficient to let the government clean up the damage or to exclude the factory from the community. Ronald H. Coase (1960) did a careful economic analysis of the exchange transactions in this system and arrived at what has become known as the "Coase theorem." The theorem states that, with zero transaction costs and no wealth or income effects, the allocative results are invariant under changes in property rights. Regardless of the initial assignment of property rights, free exchange will result in efficient resource allocation under the restrictive assumptions of the theorem. No penalty for external pollution is required. In other words, government regulation or restrictions on property rights may not be the best solution.

The problem is the two restrictive assumptions. Since the wealth effect is of less interest here, it will be disposed of first. Even with zero transaction costs, wealth will be redistributed. Just how depends on the initial distribution of property and whether the good being exchanged is a major proportion of the wealth of one actor. These redistributions are not developed here.

In order to determine outcomes and relax the zero transaction costs assumption, one must investigate construct No. 9 (assignment of values), construct No. 10 (transaction costs), and construct No. 12 (the rules of exchange) of our paradigm. The usual assumption is that if the externality affects a very large number of people, regulation will have lower costs than individual lawsuits or negotiated settlements between the polluter and the community. All solutions have costs. A lawsuit is a transaction cost designed to exchange the factory owner’s money for the bad (smoke) received by a neighbor. The law profession and the courts are aware of the rising costs of regulation and settlement by suit. They also realize that the solutions they render are resource allocation decisions that could be made (save for wealth effects) in the marketplace. Marketers need to be carefully recording these transaction costs under various alternative arrangements if we are to contribute to the solution of what is, at its root, a marketing problem.

Certainly, some progress has been made, but generally not by marketers. Buchanan (1973), for example, has attempted to be more specific about the number of "bad-givers" and "bad-receivers" required for regulation to be preferable to private negotiations between the parties. Here we will stray from both his typology of situations and his analysis. Thus, any errors are those of the author and not Buchanan’s. The typology, shown in Figure 2, is constructed by dividing the number of givers and receivers in a manner similar to a standard classification of market structures.

Buchanan also considers the case of whether bad-givers (polluters) have the right to pollute or whether the bad-givers have no rights to pollute and must exchange with the bad-receivers in order to gain these rights. This extension is necessary to consider that part of the Coase theorem dealing with whether differences in the initial assignments of property rights make any difference. It turns out that important differences can exist in cases IV, VII, and VIII. These differences are described in the discussion below, but the complexity of another dimension to the diagram in Figure 2 has been omitted.

The solutions of the nine situations shown are similar but not identical to those for finding the equilibrium price in market exchange. Situation I is like bilateral monopoly. An efficient allocation results through bargaining, transaction costs are low, and the Coase theorem holds even with transaction costs. Situations II and V are going to have solutions similar to situation I. Receivers will always form coalitions, for they have no reason not to do so. Transaction costs will differ very little from those in bilateral monopoly. An example would be an association of condominium unit owners who are negotiating with a single neighbor over some form of pollution.

Situation IV is one in which the outcome may depend on the initial assignment of rights. If the bad-givers do not have the right to pollute, they will be forced to negotiate with the one bad-receiver. They are very likely to do so through a coalition. The nuclear power industry dealing with a single state government is one example. Another would be residents of an island who dump raw sewage into a stream that flows downstream onto a single large ranch. The solution would be similar to that for situations II and V. On the other hand, if the bad-givers had the initial right to pollute, they are less likely to form a coalition. The one bad-receiver would have to bargain individually with each bad-giver for a price to cause the bad-givers not to pollute. Transaction costs will be greater and the solution more difficult to predict without knowing more about the situation and parties involved.

![Figure 2. Typology of Externality Structures](image-url)
In situation III, the bad-giver clearly has the power, regardless of initial assignment of rights. This is a classic case for regulation. However, notice that today a class action suit would accomplish the same result without regulation. Transaction costs would be greater but, again, may not be prohibitive. The Sierra Club vs. the Disney Mineral King development is an interesting example here. Disney actually obtained the right to pollute from the U.S. Forest Service. The bad-receivers used an existing coalition to fight the development. Transaction costs were very high but perhaps less than under alternative arrangements.

Situation VI is a very interesting case. It is typical of oligopolistic heavy industry with pollution problems—steel, chemicals, wood pulp. The bad-givers will always want to deal as individuals and will attempt to divide buyers so as to demand high prices not to pollute if they hold the right and pay low prices if they do not hold the right. Regulation would appear to be a more efficient procedure than individual transactions.

Buchanan analyzes situation VII. The solution depends on the assignment of initial rights. If they lay with the bad-givers, the one receiver will have to negotiate separate agreements with each bad-giver or vacate his property. Since transaction costs are likely to be high, the latter course is likely. If the initial rights lay with the one bad-receiver, he can extract a monopoly price from bad-givers. Transaction costs may be low, but the result may not be the allocatively efficient one.

I can arrive at no general theoretical solution for situation VIII. The situation appears to be like that in bilateral oligopoly. Both givers and receivers realize the interdependencies of the situation. General solutions require knowing specific information about the characteristics and even personalities of the actors (No. 4), the initial assignment of rights, resources, and relative power (No. 5), the nature of the externality (No. 8), the value assignment process (No. 9), transaction costs (No. 10), the information available to actors (No. 11), and the rules governing exchanges (No. 12). Transaction costs in this structure are likely to be great and regulators very subjective to corruption.

Situation IX is also discussed by Buchanan. An equilibrium-like allocatively inefficient position is likely regardless of who holds the initial rights. For a single bad-receiver, there is little incentive to enter negotiations with a single bad-giver. Nothing will be gained. Small group coalitions are not likely to be productive for similar reasons. Bargaining coalitions of a size sufficient to insure gains to potential members are difficult and costly to form. An example of this situation is occupational health and safety. As long as workers are disorganized, employers do not even bother to collude in order to not provide safe work places. If employers are forced by the state to pay for workman's compensation, they will do some risk pooling and provide the safety devices required to minimize the cost of insurance premiums plus safety expenditures. The first viable bad-receiver coalition is the union which, with government enabling legislation, is able to bargain collectively for improved working conditions. The power of the union sanction may force the employers into coalitions. The transactions costs of such coalitions are not insignificant but are tolerable as long as unions perform other functions except negotiating over health and safety. Is more government intervention required? Recent legislation in the United States would indicate that many people believe it is. Will regulation be cost effective in this area? Will it create undesirable allocative inefficiencies? These are empirical questions that the Systems/Exchange Paradigm will help to answer.

Jerome Rothenberg (1970) has suggested another approach to situation IX that he calls generic congestion. It arises from congestion through use of public goods such as a public beach. The users of the beach both create and receive the bad. Of course, others may receive the bad, for example, water pollution from the beach, and not all the public chooses to participate. The process is still allocatively inefficient, but now the whole user group loses by their self-imposed interaction. The study of exchanges between congesters may well prove fruitful in this case.

Regulation of monopoly and oligopoly, regulation of externalities, regulation of resources in short supply such as energy, and regulation of health and safety have all been areas of increasing government activity in recent years. Yet, economists, marketers, and activists like Ralph Nader and Louis Kohlmeier have all been very critical of the independent regulatory agencies (Kohlmeier, 1969). These events and others have spilled renewed popularity for the study of regulation by economists, political scientists, and sociologists (Kahn, 1970/71). The Bell Journal of Economics, which first appeared in 1970, continues to offer promise, and certainly reflects interest, of new breakthroughs in the theory of regulation. But what about marketers? The study of regulated monopoly as a technique of resource allocation is clearly within the province of the discipline, but few articles on the subject have appeared in our literature in recent years. Marketers have concentrated their attention more on the regulation of competition, for example, deception in advertising, than on the regulation of monopoly or quasi-public goods.

C. Marketing Exchanges by Not-for-Profit Institutions

A separate but similar topic of concern for marketers involves marketing in a number of rather diverse markets in which the seller is a quasi-public or cleemosynary institution. We include in this group the Postal Service, foundations, charities, hospitals, and educational institutions. Such institutions control large quantities of societal resources and it is not at all clear that either market or political processes work to cause such institutions to allocate their resources efficiently, relative to some societal welfare or preference function.

Many such institutions derive major proportions of their revenue in a fashion that does not meet a market test. For example, universities receive a substantial portion of their income from sources other than tuition. Medical care demanders frequently have their care paid for by "third parties." Pondy has suggested that
the objective function of such institutions may be "maximizing discretionary resources" (Pondy, 1970), that is, maximizing their discretion to allocate resources independent of the desires of their sources of revenue.

Marketing scholars have studied the marketing problems of such organizations, but much more attention needs to be given to studying the relative effectiveness of alternative control mechanisms over resource allocation in quasi-public institutions (Tullock, 1966; F. K. Levy, 1968; Garrison, 1972).

An analysis of such exchange situations using the Systems/Exchange Paradigm (Table 1) for a foundation or charity is presented now in order to demonstrate how the paradigm may be used. One would begin by defining the system within which the foundation or charity was operating. This task is not likely to be an easy one. A foundation or a charity is likely to be operating in a research system, a medical care system, a social service system, or an educational system. As such, it attempts, within the system, to conduct or support activities that others in the system are not supporting. Some such organizations may avoid being associated exclusively with a particular system. Assume here we are considering a medically-related organization like the Easter Seal Society for Crippled Children and Adults. Their system concerns a research system for physical and sensory disabilities and a medical care system for rehabilitation of crippled persons. In this system are special education public and private schools, physicians, proprietary hospitals, community hospitals, and social welfare agencies of local, state, and federal government. A listing of the institutions involved in such a system is not an easy undertaking.

1. It should be easier to specify the goals of the system—to make independent and near-normal living possible for those with physical and sensory handicaps.

2. The specification of relevant environmental factors again is not easy but also not impossible. The environmental factors would include: (a) health events such as rubella epidemics and trends in the incidence of stroke; (b) innovations in treatment of crippling disabilities; (c) changes in third party, including government, payment for rehabilitation services. An appreciation of these factors is necessary for an understanding of transaction behavior.

3. The control mechanism for the system largely is through the demand for such services and the availability of funds either from government, patients, or charitable giving. Again this is a complex system because most demand is not created by those who receive the services. Thus, an institution in the system seeks to remain healthy by identifying market segments who need its services and by increasing the flow of funds coming to it. This is precisely why Pondy's maximizing discretionary resource is a logical objective function for an institution. With a strong inflow of discretionary funds, an institution like Easter Seal has the ability to shift its services to those where there is the greatest demand.

4. As indicated above, the identification, description, and internal structure of the institutions in a system for providing rehabilitation services is difficult and very important in order to understand the exchange transactions taking place.

Government agencies have objective functions that are political; most medical providers in the system are profit maximizers; hospitals have survival goals; the eleemosynary institutions want to maximize discretionary resources. In conventional marketing systems we seldom have such disparity in institutional goals. Yet we know these disparities are very important in analyzing exchange transactions.

5. In systems with such diffuse institutions, the resources and relative power of these institutions is likely to be very different. In our example, government sources probably have the greatest financial resources and sometimes have the power of law to alter transactions in a particular way. The physician institutions have the power of their profession to refer their patients as they see fit. One would be lost in an analysis of exchange transactions in such a system if these vast differences in the nature and extent of power were not understood.

6. Similarly, while all institutions provide some rehabilitation functions, the functions performed by the various providers differ widely. Physicians uniquely provide drug therapies, general medical care, and referral services; special education institutions uniquely provide education services; other institutions provide unique social services. In analyzing transactions between client and provider and between providers, it is necessary to consider this different mix of functions performed. With regard to marketing functions, all institutions should be providing them, but the methods used are likely to be very different for the government agency, the for-profit physician, and the charitable institution such as Easter Seal.

7. Much less is known about the linkages between such institutions than is true for conventional commercial marketing channels. Our work in this field indicated that one must do primary data collection in order to specify all the linkages that exist between actors.

8. What is exchanged? At this step we can at last begin an analysis of exchange transactions. It is important here to emphasize the need to study transactions not only between Easter Seal and its clients but between client and other providers and between Easter Seal and other providers. Since all are interdependent in the system, analysis of exchanges between just two actors is not sufficient to understand the transaction from either a descriptive or normative point of view. An interesting aspect of the exchange between Easter Seal and its clients is that some clients receive services free of charge. That is, a client who is not covered by public or private insurance and has no funds can still receive services from the charitable institution. What then does the client exchange? Presumably a credit for Easter Seal as a charitable organization.

9. How does Easter Seal value such charity patients vis-à-vis those that have private insurance or those on Medicaid or Medicare? How does the charity patient value services received for a zero money price vis-à-vis those received at a positive money price? Do patients value their time or delivery costs for charitable services differently than for services provided by government or private
providers? How does the existence of insurance influence these valuations? Little attention has been given to these questions and they are questions that lend themselves to analysis by marketers employing the exchange theory paradigm.

10. Transaction cost functions in health care delivery is a subject of great interest to the author. I believe this is another situation where the important problems concern transactions (marketing) rather than technology or manpower supply. Rehabilitation services provide an example of why I hold this hypothesis. Consider, for example, a stroke victim at the time of discharge from the hospital. He or she relies on the physician to advise on physical and speech therapy. The physician is not well equipped to answer this question. The social service department at the hospital should have answers but may not have a clear idea of what services are available that are convenient for the patient. Also, the hospital may offer some of these services so the advice may not be unbiased. The patient and family have no way of shopping for rehabilitation services. To be paid by insurance, the services must be ordered by a physician. Thus, transaction costs tend to be high.

11. Concomitantly, the level of information is low. A normative marketing problem would be to develop ways to increase the level of information held by providers and available to clients.

12. The problems of the rules of exchange here have been discussed by others (Shortell, 1972; Harris, 1977). The patient is in strife, under a number of pressures, and cannot be expected to know about specialized health care services in advance. Providers collude and make side payments for referrals. Physicians fix prices through the use of relative value schedules. The government and the insurance companies attempt to alter delivery patterns and control costs by establishing rules or changing price schedules. We know that altering prices does change provider behavior. How does this behavior affect a charitable organization like Easter Seal? This analysis remains to be done.

In this example, we have not tried to answer questions but to raise them. Again, this example was intended to demonstrate that (1) the systems analysis paradigm is necessary for application of the general exchange paradigm, and (2) the Systems/Exchange Paradigm is useful in the analysis of a broad spectrum of marketing problems.

D. Some Problems of Freedom and the Right to be Informed

We have argued that at least limited rights of free, voluntary exchange are an essential part of the discipline of marketing. We have implied but not made explicit that this freedom to exchange is among the limited property use rights that are really a necessary rather than a sufficient condition for the discipline too. These rights need to be transferable if we are to have exchanges. Without private property, there would be no incentive to save and, like the Polynesians, we would live from what goods the gods made available for the cost of collection. It is this ability to hold, accumulate, and exchange property that leads us to efficiently husband resources. Thus, North and Thomas (1973) argue that it was the establishment of clear and unambiguous property rights that led to the rapid development of the Low Countries and England during 1500 to 1700 and led France and Spain to stagnate during that period. In a society where government places more and more restrictions on our use of property, do these incentives still exist? An answer to this question requires that we focus more on the systems elements of our paradigm (Nos. 2 and 3) than on the transaction elements.

However, the inability to obtain the information required to exchange effectively might also be viewed as a constraint on our freedom to exchange property. Information levels of traders is construct No. 11 in our paradigm. Whether one is negotiating in bilateral monopoly or dealing in a nearly competitive market, the actors must have information on goods and prices. By definition, competitive markets provide clear information on the exchange rates that are available to prospective buyers and sellers. These traders are free to trade at prevailing prices as they see fit. Price and the availability of price and quality information are central not only for efficiency but for protecting the freedom of the traders. However, the asymmetry of information problem is well-known in most markets today. Much of the current consumer movement is concerned with protecting the rights of consumers to have adequate and accurate price and quality information about the increasing number and complexity of alternatives available to the marketplace.

But in political resource allocation, where revenues are taxes, and in public goods, where revenues are purposely separated from outputs, buyers are not clear as to what alternative uses of resources are possible, have little control (or only after a considerable lag) over the quality of these outputs, and have very little control over their cost. The payoff of an output from one of these organizations is often diffused so broadly through the society that the individual is likely to have trouble evaluating the payoff for himself. In short, the "buyer" may not know what alternatives exist, have little information on the impact of these alternatives, and is not free to veto the alternative chosen anyway.

Put more sharply, we have very little definitive theory on the effectiveness of information flows and social control in nonmarket resource allocation. The politician would counter that the social cruelty of the free market systems has also not been studied carefully enough. For example, after spending seventy years building a society that is completely dependent on cheap energy, doesn’t the market violate personal freedoms by raising the price of gasoline by a factor of three? Thus, many politicians actively resist letting the price system do its job. They might argue that the long use of cheap energy creates a kind of property or use right much the way that continued use of a path over private property can create a use right. An analysis of this issue would involve a comparison of control mechanisms and of limitations on freedom between free exchange and command exchange and on the wealth redistribution effects of unregulated
energy prices. Such a comparison is partially within the discipline of marketing as it was defined earlier in this essay. Levy and Zaltman (1975) provide an excellent beginning for this work by focusing on the relative efficiency of conflict resolution under differing channel structures, competitive structures, and political allocation systems.

V. SUMMARY

This paper has suggested that the question of a narrow or broad definition of marketing is probably not as important as is the impact that the definition has on the research which marketers undertake. As a framework for the development of theory in the discipline of marketing, a Systems/Exchange Paradigm was introduced. This paradigm is viewed as a companion to the systems/functionalist paradigm (that Alderson would have simply called "functionalist") of marketing. These two, which are closely related, appear to be sufficient for organizing all normative and descriptive theory in the discipline.

With regard to closing the systems defined as the discipline of marketing, an analysis of gifts, marriage, religion, and politics led to the generalization that marketing exchanges: (1) should be conducted for the primary purpose of resource allocation; (2) require ingredients of freedom and trust for the parties; (3) exist in an environment with sufficient property rights for the parties to exchange use rights. 'Resources' here include a very broad category of 'goods.' By these criteria, politics, marriage, and religion were excluded from our discipline.

As a way of suggesting the usefulness of the Systems/Exchange Paradigm, it was used to outline analyses of four neglected areas of research in marketing. The first of these concerns the optimal design of vertical channels of distribution. The point is made that the choice between market allocation of resources and administrative allocation of resources is one of the fundamental questions of economic organization. The Systems/Exchange Paradigm helps us to see that what marketers view as one important question of their discipline is in reality a central question of societal organization.

The second area for research discussed concerns the question of when government regulation is superior to market exchange in situations of public goods, legalized monopolies, externalities, very scarce resources, and health and safety. The Coase theorem on the social costs of dealing with externalities is extended in this section.

The third area for research concerned marketing exchanges by not-for-profit institutions. In this section, an analysis of exchanges by a charity was outlined using the Systems/Exchange Paradigm. The last problem area suggested concerned the impact that restraints on property rights and information asymmetry have on the ability and willingness of actors to engage in exchanges and the impact of these problems on allocative efficiency. This problem area is concerned with a unit of analysis that is more likely to be the individual than was true of the other examples.

Paradigms for Marketing Theory

The range of these problems is broad. The definitions of the process of marketing and the discipline of marketing as defined here are broad. While government social intervention programs were largely excluded from marketing, the many interesting problems of mixed economies using market and political processes for resource allocation were certainly not excluded. However, our testing of the limits of the discipline does suggest that marketing is concerned with the resource allocation functions of the society. When the primary function of a societal process is other than resource allocation, we have stepped beyond marketing.

FOOTNOTES

*This essay represents an evolving of my conscious thinking on this subject that began in 1970 or 1971. A conference on social marketing in Urbana in December 1972 catalyzed this thought process. Some of these ideas appeared in 1973 (Carman, 1973). Many people have contributed to the ideas contained here. Most of them appear in the references. Among those not listed here are David A. Revzan and Robert M. March.

1. In this spirit, all of the standard comprehensive books on marketing theory are excluded from the references and are not reviewed.

2. Charles E. Lindblom's (1977) important new book on political-economic systems provides an excellent example of how the paradigms developed here can be used either for analysis of marketing or of political economy.

3. Jagdish Sheth has pointed out that the Hindu traditional story of the origin of the caste system describes four similar functions: the teachers who were divine and received gifts; the fighters who protected treasure and assured good government; the agricultural workers with the power of work; the laborers who served the other three. Although the true historic roots of the system include racial, social, religious, and political functions as well, it is important to note the existence of complex generalized exchanges in this system that date from ancient times.

4. Bagozzi (1978) is attempting to extend the work of Thibaut and Kelley to harmonize more directly with utility theory. Thibaut and Kelley start with psychological concepts, build upward to the dyad, and then, using exchange theory, build upward to the small group. Bagozzi is attempting to work with exchanges between dyads or small groups in understanding marketplace behavior. Economic theory does not deal well with small group exchanges. These are problems that fall naturally into the realm of marketing and problems where the exchange theory framework can be of use.

5. It may be useful here to distinguish between allocative (or social) efficiency and transaction (or technical) efficiency. Allocative efficiency is perfect when the value of the marginal product of a resource is equal in all of its uses. That is, the marginal revenue product of the resource in all its uses is equal to its price. Transaction efficiency refers to the cost of accomplishing the transaction. It is maximum when the cost of the transaction is minimum. In the whole economy, a technically efficient system would result in using administrative allocations within organizations and market allocations in such combination that the costs of making all allocations would be a minimum.

REFERENCES


A MODEL-BASED METHODOLOGY FOR ASSESSING MARKET RESPONSE FOR NEW INDUSTRIAL PRODUCTS

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ABSTRACT

Industrial marketers face the difficult problem of developing product designs and associated communication strategies for new products aimed at heterogeneous audiences. This paper details the structure of an operational model of industrial response to marketing strategy. Four submodels make up this structure—an awareness model, a feasibility model, an individual evaluation model, and a group interaction model. Methods of structuring and calibrating these submodels are discussed, as are the associated measurements. The use of the new methodology to develop industrial marketing strategy—including product design and positioning trade-offs as well as communication program development—are reviewed. The