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## Note from the editor

Dear reader,

When I analyzed the content of the *Newsletter* over all years I noticed not only a remarkable deficit of papers devoted to the substantive links with the contemporary economic theory but also an absence of papers on relations between economic sociology and marketing research although markets have been acknowledged as a main sociological object so many years ago.

When doing research on market relationships I started to come across these papers increasingly often and saw a lot of substantive overlap. Use of categories of 'relational exchange' and/or 'embedded exchange' may serve as a good example. I realized that there were a large number of relevant marketing research papers which were unknown to economic sociologists despite an important paradigm shift in marketing research from promotional to relationship aspects.

It is remarkable that the term "relationship marketing" was formally introduced in the beginning of the 1980s (Berry, 1983). Distinction between transactional and relational exchanges was also drawn into the core of marketing research at that time which coincided with the years when new economic sociology developed its major research programme based on the concept of social embeddedness for the next decades.

It was not accidental given two disciplines had some common sources of inspiration in the contractual theory of Ian Macneil (1980) and critical evaluation of the transaction cost approach of Oliver Williamson (1994). But having some common roots, economic sociology and marketing research took different paths. And even dealing with similar subjects, today they rarely trespass disciplinary boundaries in an explicit way. Instead, they do many things in parallel. It is true that marketing scholars have borrowed some categories from sociology, including the notion of embeddedness from Mark Granovetter, but mutual exchange of ideas is very limited.

Sociologists claim to study relationships. It has been announced that sociology of markets comes first and foremost in the form of a relational sociology (Fourcade 2007). However, we should admit that marketing scholars have

been more active so far in studying many relational aspects of the market exchange.

I believe that marketing research with its traditional 'distributive bias' and focus upon exchange and marketing channels could be complementary in some important elements to the economic sociology that still has a certain 'production bias'. Keeping it in mind, I would like to use this issue for presenting at least some relevant ideas of relationship marketing and to build some bridges between this perspective and economic sociology.

For this reason, we publish a review of relationship marketing studies presented by Jagdish Sheth, Atul Parvatiyar, and Mona Sinha and aimed at introducing the main insights of relationship marketing for economic sociologists. They provide basic definitions and explain a fundamental shift in the dominant paradigm and orientation of marketing from manipulation the customers to long-lasting collaborative relationships. The authors trace the origins of the relationship marketing school of thought and relevant practice. A process model of relationship marketing is described and major research directions of relationship marketing are pointed out. You might be a bit disappointed when in this very comprehensive and highly professional review of studies in relationships marketing you will find virtually no reference to sociological research although many topics would be familiar to sociologists and relevant for sociology of markets.

This relevance is demonstrated in the following review of Zoya Kotelnikova. She points to some common theoretical roots of the new economic sociology and relationships marketing. The author describes many common research interests they have including their focus on relational aspects of the market exchange viewed as ongoing process accompanied by formation of long-lasting ties between exchange partners; active use of the network approach; studying motivation of the market participants; stressing the importance of communication and information exchange. Thus, in spite of many substantive differences, the proponents of economic sociology and relationship marketing might have many reasons to pay closer attention to what is being done by their neighbors.

There is one more related issue which is largely neglected by economic sociologists focusing more on production and since recently on financial markets. That is the organization of retail market. It is remarkable that there was only one paper on the sociology of retailing in the *Newsletter* during all these years despite the fact that retail trade is one of the largest and most dynamic industries that transforms the global economy nowadays. To fill this gap we took an interview with Professor Gary Hamilton who recently published, with his colleagues, a very stimulating volume *The Market Makers* (Hamilton, Petrovich, Senauer, 2011).

In his interview, Hamilton provides an alternative explanation of the Asian miracle of the end of the 20th century. He argues that export-led industrialization in South-East Asia was not so much a product of the “developmental state” but a result of global retailers’ impact on Asian contract manufacturing. He describes the main developments of the retail revolution(s) and effect of introduction of lean retailing on transformation of the global economy. Hamilton claims a necessity for sociology to avoid a production bias and see through the lens of exchange how the real markets work. He emphasizes the importance of research on the social factors relating to consumption and

on the link between final consumption and the organization of intermediate demand generated by the big buyers.

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# The Conceptual Foundations of Relationship Marketing: Review and Synthesis

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In the current era of intense competition and demanding customers, relationship Marketing has attracted the expanded attention of scholars and practitioners. Marketing scholars are studying the nature and scope of relationship Marketing and developing conceptualizations regarding the value of collaborative relationships between buyers and sellers as well as relationships between different Marketing actors, including suppliers, competitors, distributors and internal functions in creating and delivering customer value. Many scholars with interests in various sub-disciplines of Marketing, such as channels, services Marketing, business-to-business Marketing, advertising, and so forth, are actively engaged in studying and exploring the conceptual foundations of relationship Marketing.

However, the conceptual foundations of relationship Marketing are not fully developed as yet. The current growth in the field of relationship Marketing is somewhat similar to what we experienced in the early stages of the development of the discipline of consumer behavior. There is a growing interest in the subject matter and many explorations are underway to finding its conceptual foundations. In the floodgate of knowledge, such diverse perspectives are required for understanding this growing phenomenon. Each exploration offers a per-

spective that should help in further conceptualization of the discipline of relationship Marketing. As Sheth (1996) observed for a discipline to emerge, it is necessary to build conceptual foundations and develop theory that will provide purpose and explanation for the phenomenon. This is how consumer behavior grew to become a discipline and now enjoys a central position in Marketing knowledge. We expect relationship Marketing to undergo a similar growth pattern and soon become a discipline into itself.

The purpose of this paper is to provide a synthesis of existing knowledge on relationship Marketing by integrating diverse explorations. In the following section, we discuss what is relationship Marketing, examine its various perspectives, and offer a definition of relationship Marketing. Subsequently, we trace the paradigmatic shifts in the evolution of Marketing theory that have led to the emergence of a relationship Marketing school of thought. We also identify the forces impacting the Marketing environment in recent years leading to the rapid development of relationship Marketing practices. A typology of relationship Marketing programs is presented to provide a parsimonious view of the domain of relationship Marketing practices. We then describe a process model of relationship Marketing to better delineate the challenges of relationship formation, its governance, its performance evaluation, and its evolution. Finally, we examine the domain of current relationship Marketing research and the issues it needs to address in the future.

## What is Relationship Marketing?

Before we begin to examine the theoretical foundations of relationship Marketing, it will be useful to define what the term relationship Marketing means. As Nevin (1995) points out, the term *relationship Marketing* has been used to reflect a variety of themes and perspectives. Some of these themes offer a narrow functional Marketing perspective while others offer a perspective that is broad and somewhat paradigmatic in approach and orientation.

### Narrow versus Broad Views of Relationship Marketing

One narrow perspective of relationship Marketing is database Marketing emphasizing the promotional aspects of Marketing linked to database efforts (Bickert, 1992). Another narrow, yet relevant, viewpoint is to consider relationship Marketing only as customer retention in which a variety of afterMarketing tactics is used for customer bonding or staying in touch after the sale is made (Vavra, 1991). A more popular approach with recent application of information technology is to focus on individual or one-to-one relationship with customers that integrates database knowledge with a long-term customer retention and growth strategy and is also termed as Customer Relationship Management (CRM) (Peppers, Rogers, 1993, 2004). Thus, Shani and Chalasani define relationship Marketing as "an integrated effort to identify, maintain, and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value-added contacts over a long period of time" (Shani, Chalasani, 1992: 44). Jackson applies the individual account concept in industrial markets to define relationship Marketing as "Marketing oriented toward strong, lasting relationships with individual accounts" (Jackson, 1985: 2). In other business contexts, Doyle and Roth (1992), O'Neal (1989), and Paul (1988) have proposed similar definitions of relationship Marketing.

McKenna (1991) professes a more strategic view of relationship Marketing by putting the customer first and shifting the role of Marketing from manipulating the customer (telling and selling) to genuine customer involvement (communicating and sharing the knowledge). Berry, in somewhat broader terms, also has a strategic viewpoint about relationship Marketing. He stresses that attracting new customers should be viewed only as an intermediate step in the Marketing process. Developing a closer relationship with these customers and turning them into loyal ones are equally important aspects of Marketing. Thus, he defined relationship Marketing as "attracting, maintaining, and – in multi-service organizations – enhancing customer relationships" (Berry, 1983:25).

Berry's notion of relationship Marketing resembles that of other scholars studying services Marketing, such as Gronroos (1983), Gummesson (1987), and Levitt (1981).

Although each one of them is espousing the value of interactions in Marketing and its consequent impact on customer relationships, Gronroos (1990) and Gummesson (1987) take a broader perspective and advocate that customer relationships ought to be the focus and dominant paradigm of Marketing. For example, Gronroos states: "Marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises" (Gronroos, 1990: 138). The implication of Gronroos' definition is that customer relationships is the *raison d'être* of the firm and Marketing should be devoted to building and enhancing such relationships.

Morgan and Hunt (1994), draw upon the distinction made between transactional exchanges and relational exchanges by Dwyer, Schurr, and Oh (1987), to propose a more inclusive definition of relationship Marketing. According to Morgan and Hunt (1994): "*Relationship Marketing refers to all Marketing activities directed toward establishing, developing, and maintaining successful relationships.*" Such a broadened definition has come under attack by some scholars. Peterson declared Morgan and Hunt's definition guilty of an error of commission and states that if their "*definition is true, then relationship Marketing and Marketing are redundant terms and one is unnecessary and should be stricken from the literature because having both only leads to confusion*" (Peterson, 1995: 279). Other scholars who believe that relationship Marketing is distinctly different from prevailing transactional orientation of Marketing may contest such an extreme viewpoint.

### Relationship Marketing versus Marketing Relationships

An interesting question is raised by El-Ansary (1997) as to what is the difference between "Marketing relationships" and "relationship Marketing"? Certainly Marketing relationships have existed and have been the topic of discussion for a long time. But what distinguishes it from relationship Marketing is its nature and specificity. Marketing relationships could take any form, including adversarial relationships, rivalry relationships, affiliation relationships, independent or dependent relationships, etc. However, relationship Marketing is not concerned with all aspects of Marketing relationships. The core theme of all relationship Marketing perspectives and

definitions is its focus on collaborative relationship between the firm and its customers, and/or other Marketing actors. Dwyer, Schurr, and Oh (1987) have characterized such cooperative relationships as being interdependent and long-term orientated rather than being concerned with short-term discrete transactions. The long-term orientation is often emphasized because it is believed that Marketing actors will not engage in opportunistic behavior if they have a long-term orientation and that such relationships will be anchored on mutual gains and cooperation (Ganesan, 1994).

Thus, the term relationship Marketing and Marketing relationships are not synonymous. Relationship Marketing describes a specific Marketing approach that is a subset or a specific focus of Marketing. However, given the rate at which practitioners and scholars are embracing the core beliefs of relationship Marketing for directing Marketing practice and research, it has the potential to become the dominant paradigm and orientation of Marketing. As such, Kotler (1990), Parvatiyar and Sheth (1997), Webster (1992) and others have described the emergence of relationship Marketing as a paradigm shift in Marketing approach and orientation. In fact, Sheth, Gardner and Garrett (1988) observe that the emphasis on relationships as opposed to transaction based exchanges is very likely to redefine the domain of Marketing.

### **De-limiting the Domain of Relationship Marketing**

For an emerging discipline, it is important to develop an acceptable definition that encompasses all facets of the phenomenon and also effectively de-limits the domain so as to allow focused understanding and growth of knowledge in the discipline. Although Morgan and Hunt's definition focuses on the relational aspects of Marketing, it is criticized for being too broad and inclusive. They include buyer partnerships, supplier partnerships, internal partnerships, and lateral partnerships within the purview of relationship Marketing. Many of these partnerships are construed as being outside the domain of Marketing and hence faces the risk of diluting the value and contribution of the Marketing discipline in directing relationship Marketing practice and research or theory development (Peterson, 1995).

Therefore, Sheth (1996) suggested that we limit the domain of relationship Marketing to only those collaborative Marketing actions that are focused on serving the needs of customers. That would be consistent with Mar-

keting's customer focus and understanding that made the discipline prominent. Other aspects of organizational relationships, such as supplier relationships, internal relationships, and lateral relationships are aspects being directly attended to by such disciplines as purchasing and logistics management, human resources management, and strategic management. Therefore, relationship Marketing has the greatest potential for becoming a discipline and developing its own theory if it de-limits its domain to the firm-customer aspect of the relationship. Of course, to achieve a mutually beneficial relationship with customers, the firm may have to collaborate with its suppliers, competitors, consociates, and internal divisions. The study of such relationships is a valid domain of relationship Marketing as long as it is studied in the context of how it enhances or facilitates customer relationships.

### **Towards a Definition of Relationship Marketing**

An important aspect of the definitions by Berry, Gronroos, and Morgan and Hunt is that they all recognize the process aspects of relationship development and maintenance. A set of generic processes of relationship initiation, relationship maintenance and relationship termination is also identified by Heide (1994). His definition claims that the objective of relationship Marketing is to establish, develop, and maintain successful relational exchanges. Wilson (1995) develops a similar process model of buyer-seller cooperative and partnering relationships by integrating conceptual and empirical researches conducted in this field. Thus, a process view of relationship Marketing currently prevails the literature and indicates that the Marketing practice and research needs to be directed to the different stages of the relationship Marketing process.

In addition to the process view, there is general acceptance that relationship Marketing is concerned with collaborative relationships between the firm and its customers. Such collaborative relationships are more than a standard buyer-seller relationship, yet short of a joint venture type relationship. They are formed between the firm and one or many of its customers, including end-consumers, distributors or channel members, and business-to-business customers. Also, a prevailing axiom of relationship Marketing is that collaborative relationships with customers lead to greater market value creation and that such value will benefit both parties engaged in the relationship. Creation and enhancement of mutual

economic, social and psychological value is thus the purpose of relationship Marketing. Hence, we define:

*Relationship Marketing is the ongoing process of engaging in collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic, social and psychological value, profitably.*

There are three underlying dimensions of relationship formation suggested by the above definition: purpose, parties, and programs. We will use these three dimensions to illustrate a process model of relationship Marketing. Before we present this process model, let us examine the antecedents to the emergence of relationship Marketing theory and practice.

### **The Emergence of Relationship Marketing School of Thought**

As is widely known, the discipline of Marketing grew out of economics, and the growth was motivated by a lack of interest among economists in the details of market behavior and functions of middlemen (Bartels, 1976, Sheth, Gardener, Garrett, 1988). Marketing's early bias for distribution activities is evident as the first Marketing courses (at Michigan and Ohio) were focused on effectively performing the distributive task (Bartels, 1976). Early Marketing thinking centered on efficiency of Marketing channels (Cherrington, 1920; Shaw, 1912; Weld, 1916, 1917). Later the institutional Marketing thinkers, because of their grounding in institutional economic theory, viewed the phenomena of value determination as fundamentally linked to exchange (Alderson, 1954; Duddy, Revzan, 1947). Although institutional thought of Marketing was later modified by the organizational dynamics viewpoint and Marketing thinking was influenced by other social sciences, exchange remained the central tenet of Marketing (Alderson, 1965; Bagozzi, 1974, 1978, 1979; Kotler, 1972).

### **Shift from Distribution Functions to Understanding Consumer Behavior**

The demise of the distributive theory of Marketing began after World War II as Marketing focus began to shift from distributive functions to other aspects of Marketing. With the advent of market research, producers, in an attempt to influence end consumers, began to direct and control the distributors regarding merchandising, sales promotion, pricing, etc. Thus repeat purchase and

brand loyalty gained prominence in the Marketing literature (Barton, 1946; Churchill, 1942; Howard, Sheth, 1969; Sheth, 1973; Womer, 1944). Also, market segmentation and targeting were developed as tools for Marketing planning. Thus the Marketing concept evolved and consumer, not distributor, became the focus of Marketing attention (Kotler, 1972). And producers, in order to gain control over the channels of distribution, adopted administered vertical Marketing systems (McCammon, 1965). These vertical Marketing systems, such as franchising and exclusive distribution rights permitted marketers to extend their representation beyond their own corporate limits (Little 1970). However, Marketing orientation was still transactional as its success was measured in such transactional terms as sales volume and market share. Only in the 80s, marketers began to emphasize customer satisfaction measures to ensure that they were not purely evaluated on the basis of transactional aspects of Marketing and that sale was not considered as the culmination of all Marketing efforts.

### **Early Relationship Marketing Ideas**

Although Berry (1983) formally introduced the term relationship Marketing into the literature, several ideas of relationship Marketing emerged much before then. For example, McGarry (1950, 1951, 1953, and 1958) included six activities in his formal list of Marketing functions: contactual function, propaganda function, merchandising function, physical distribution function, pricing function, and termination function. Of these, the contactual function falling within the main task of Marketing reflected McGarry's relational orientation and his emphasis on developing cooperation and mutual interdependency among Marketing actors. For example, he suggested that:

Contactual function is the building of a structure for cooperative action;

- Focus on the long-run welfare of business and continuous business relationship;
- Develop an attitude of mutual interdependence;
- Provide a two-way line of communication and a linkage of their interests;
- Cost of dealing with continuous contact is much less than casual contacts; by selling only to regular and con-



sistent customers costs can be reduced by 10-20% (Schwartz 1963).

McGarry's work has not been widely publicized and his relational ideas did not lead to the same flurry of interest caused by Wroe Alderson's (1965) focus on inter- and intrachannel cooperation. Although the distributive theory of Marketing does not anymore enjoy the central position in Marketing, interest in channel cooperation has been sustained for the last three decades, and many relationship Marketing scholars have emerged from the tradition of channel cooperation research (Anderson, Narus, 1990; Stern, El-Ansary, 1992; Weitz, Jap, 1995). They have contributed significantly to the development of relationship Marketing knowledge and have been most forthcoming in applying various theoretical ideas from other disciplines such as economics, law, political science, and sociology. These are discussed in more detail in other sections of this chapter.

Two influential writings in the 60s and 70s provided an impetus to relationship Marketing thinking, particularly in the business-to-business context. First, Adler (1966) observed the symbiotic relationships between firms that were not linked by the traditional marketer-intermediary relationships. Later, Vardarajan (1986), and Vardarajan and Rajarathnam (1986), examined other manifestations of symbiotic relationships in Marketing.

The second impetus was provided by Johan Arndt (1979) who noted the tendency of firms engaged in business-to-business Marketing to develop long-lasting relationships with their key customers and their key suppliers rather than focusing on discrete exchanges, and termed this phenomenon "domesticated markets." The impacts of these works spread across two continents. In USA, several scholars began examining long-term inter-organizational relationships in business-to-business markets, while in Europe, the Industrial Marketing and Purchasing (IMP) Group laid emphasis on business relationships and networks (e.g., Anderson, Hakansson and Johanson, 1994; Dwyer, Schurr, Oh 1987; Hakansson, 1982; Halen, Johanson, Seyed-Mohamed, 1991; Jackson, 1985).

The Nordic School approach to services Marketing was also relationship-oriented from its birth in the 1970s (Gronroos, Gummesson, 1985). This school believes that for effective Marketing and delivery of services, companies need to practice *internal Marketing* and involve the

entire organization in developing relationships with their customers (Gronroos, 1981). Except for the greater emphasis being placed on achieving Marketing paradigm shift by the Nordic School, its approach is similar to relationship Marketing ideas put forth by services Marketing scholars in the United States (Berry 1983, 1995; Berry, Parsuraman, 1991; Bitner, 1995; Czepiel, 1990). To a certain degree, recent scholars from the Nordic Schools have tried to integrate the network approach popular among Scandinavian and European schools with service relationship issues (Holmlund, 1996).

As relationship Marketing grew in the 1980s and 1990s, several perspectives emerged. One perspective of integrating quality, logistics, customer services, and Marketing is found in the works of Christopher, Payne, and Ballantyne (1992) and in the works of Crosby, Evans, and Cowles (1987). Another approach of studying partnering relationships and alliances as forms of relationship Marketing are observed in the works of Morgan and Hunt (1994), Heide (1994), and Vardarajan and Cunningham (1995). Similarly, conceptual and empirical papers have appeared on relationship-oriented communication strategies (Mohr, Nevin, 1990; Owen, 1984; Schultz, Tannenbaum, Lauterborn, 1992); supply chain integration (Christopher, 1994; Payne et. al., 1994); legal aspects of relationship Marketing (Gundlach, Murphy, 1993); and consumer motivations for engaging in relationship Marketing (Sheth, Parvatiyar, 1995a).

## The Emergence of Relationship Marketing Practice

As observed by Sheth and Parvatiyar (1995b), relationship Marketing has historical antecedents going back into the pre-industrial era. Much of it was due to direct interaction between producers of agricultural products and their consumers. Similarly, artisans often developed customized products for each customer. Such direct interaction led to relational bonding between the producer and the consumer. It was only after industrial era's mass production society and the advent of middlemen that there were less frequent interactions between producers and consumers leading to transactions oriented Marketing. The production and consumption functions got separated leading to Marketing functions being performed by the middlemen. And middlemen are in general oriented towards economic aspects of buying since the largest cost is often the cost of goods sold.



In recent years however, several factors have contributed to the rapid development and evolution of relationship Marketing. These include the growing de-intermediation process in many industries due to the advent of sophisticated computer and telecommunication technologies that allow producers to directly interact with end-customers. For example, in many industries such as airlines, banks, insurance, computer program software, or household appliances and even consumables, the de-intermediation process is fast changing the nature of Marketing and consequently making relationship Marketing more popular. Databases and direct Marketing tools give them the means to individualize their Marketing efforts. As a result, producers do not need those functions formerly performed by the middlemen. Even consumers are willing to undertake some of the responsibilities of direct ordering, personal merchandising, and product use related services with little help from the producers. The recent success of on-line banking, on-line investment programs by Charles Schwab and others, as well as direct selling of books, automobiles, insurance, etc., on the Internet, all attest to the growing consumer interest in maintaining direct relationship with marketers.

The de-intermediation process and consequent prevalence of relationship Marketing is also due to the growth of the service economy. Since services are typically produced and delivered by the same institution, it minimizes the role of the middlemen. A greater emotional bond between the service provider and the service user also develops the need for maintaining and enhancing the relationship. It is, therefore, not difficult to see that relationship Marketing is very important for scholars and practitioners of services Marketing (Berry, Parsuraman, 1991; Bitner, 1995; Crosby, Stephens, 1987; Crosby, et al., 1990; Gronroos, 1995).

Another force driving the adoption of relationship Marketing has been the total quality movement. When companies embraced Total Quality Management (TQM) philosophy to improve quality and reduce costs, it became necessary to involve suppliers and customers in implementing the program at all levels of the value chain. This needed close working relationships with customers, suppliers, and other members of the Marketing infrastructure. Thus, several companies, such as IBM, Ford and Toyota, formed partnering relationships with suppliers and customers to practice TQM. Other programs such as Just-in-time (JIT) supply and material-resource planning (MRP) also made the use of interde-

pendent relationships between suppliers and customers (Frazier, Spekman, O'Neal, 1988).

With the advent of the digital technology and complex products, systems selling approach became common. This approach emphasized the integration of parts, supplies, and the sale of services along with the individual capital equipment. Customers liked the idea of systems integration, and sellers were able to sell augmented products and services to customers. The popularity of system integration began to extend to consumer packaged goods, as well as services (Shapiro, Posner, 1979). At the same time, some companies started to insist upon new purchasing approaches such as national contracts and master purchasing agreements, forcing major vendors to develop key account management programs (Shapiro, Moriarty, 1980). These measures created intimacy and cooperation in the buyer-seller relationships. Instead of purchasing a product or service, customers were more interested in buying a relationship with a vendor. The key (or national) account management program designates account managers and account teams that assess the customer's needs and then husband the selling company's resources for the customer's benefit. Such programs have led to the foundation of strategic partnering relationship programs within the domain of relationship Marketing (Anderson, Narus, 1991; Shapiro, 1988).

Similarly, in the current era of hyper-competition, marketers are forced to be more concerned with customer retention and loyalty (Dick, Basu, 1994; Reichheld, 1996). Several studies have indicated, retaining customers is less expensive and perhaps a more sustainable competitive advantage than acquiring new ones, (Rosenberg, Czepiel, 1984), and some current research has been focused on quantifying the economic benefits of retention (e.g. Pfeifer, Farris, 2004). An added benefit is that relationship Marketing insulates marketers from service failures (Priluck, 2003).

Also, customer expectations have rapidly changed over the last two decades. Fueled by new technology and growing availability of advanced product features and services, customer expectations are changing almost on a daily basis. Consumers are less willing to make compromises or trade-off in product and service quality. In the world of ever changing customer expectations, collaborative relationships with customers seem to be the most prudent way to keep track of their changing expect-

tations and appropriately influencing it (Sheth, Sisodia, 1995). Companies are increasingly collaborating with customers on Marketing, sales and support processes. For example, Procter and Gamble set up P&G Advisors for new product development and Cisco Systems created their Networking Professional Connection Program to get users to troubleshoot for support problems (Sawhney, 2002).

Technological forces are also shaping the practice of relationship Marketing. CRM software automates and integrates Marketing activities such as segmentation, targeting, product development, sales, service, order management, market research, and analytics, to focus on customer acquisition, customer retention and profitability (Rigby et al., 2002). CRM tools now include social software which at 5% of the CRM market in 2011 totaled to \$820 million worldwide (Rao, 2011). However, implementation challenges such as lack of critical inputs such as user acceptance, senior management engagement, strategic focus, resources, and focused change management (Saini, Grewal, Johnson, 2010; Bohling et al., 2006), have brought the process of CRM (Reinartz et al 2004) and the role of information processes in CRM (Jayachandran et al., 2005) under greater scrutiny. CRM is undoubtedly changing the course and definition of relationship Marketing, and eventually RM may likely transform into CRM with hybrid relationship Marketing programs ranging from relational to transactional, and include the outsourcing of Marketing exchanges and customer interactions (Sheth, 2002). The challenge is to keep CRM focused on relational needs rather than just profitability (Fournier, Avery, 2011).

Given the vast amount of information on the Internet and the easy availability of peer to peer advice at websites such as Amazon and Edmunds, customers may well expect that the step after collaboration should be customer advocacy i.e., companies providing customers with open, honest and complete information for finding products even if the offerings are from competitors (Urban, 2004). For example, Progressive Auto Insurance provides rates of competitors to make it easier for customers shopping for insurance. Thus, instead of tactical use of CRM for promotions, such companies leverage CRM for understanding and advocating customers' needs to enhance customer relationships by winning trust, loyalty and even purchases.

On the supply side, it pays more to develop closer relationships with a few suppliers than to develop more vendors (Hayes et. al., 1988; Spekman, 1988). In addition, several marketers are also concerned with keeping customers for life, rather than making a one-time sale (Cannie, Caplin, 1991). In a recent study, Naidu, et. al. (1998) found that relationship Marketing intensity increased in hospitals facing a higher degree of competitive intensity. Further, as many large, internationally oriented companies are trying to become global by integrating their worldwide operations, they are seeking collaborative solutions for global operations from their vendors instead of merely engaging in transactional activities with them. Such customer needs make it imperative for marketers interested in the business of global companies to adopt relationship Marketing programs, particularly global account management programs (GAM) (Yip, 1996). Conceptually similar to national account management programs, GAMs are more complex as they are global in scope. Managing customer relationships around the world calls for external and internal partnering activities, including partnering across a firm's worldwide organization.

## A Process Model of Relationship Marketing

Several scholars studying buyer-seller relationships have proposed relationship development process models (Boryst, Jemison, 1989; Dwyer, Schurr, Oh 1987; Evans, Laskin, 1994; Wilson, 1995). Building on that work and anchored to our definition of relationship Marketing as a process of engaging in collaborative relationship with customers, we develop a four-stage process model for relationship Marketing. The broad model suggests that the relationship-Marketing process comprises the following four sub-processes: formation; management and governance; performance evaluation; and relationship evolution or enhancement. Figure 1 is the generic model and figure 2 depicts the important components in greater detail (see appendix).

### The Formation Process of Relationship Marketing

The relationship Marketing process comprises distinct stages such as the core interaction, planned communication that provides opportunity for meaningful dialog, and the creation of customer value as an outcome of relationship Marketing (Gronroos, 2004). Forming a

collaborative relationship with an individual customer or a group of customers involves three important decision areas – defining the purpose (or objective) engagement; selecting parties (or customer partners); and developing programs (or relational activity schemes).

### **Relationship Marketing Purpose**

The overall purpose of relationship Marketing is to improve Marketing productivity and enhance mutual value for the parties involved in the relationship. Relationship Marketing has the potential to improve Marketing productivity and create mutual values by increasing Marketing effectiveness and/or improving Marketing efficiencies (Sheth, Parvatiyar, 1995a; Sheth, Sisodia, 1995). By seeking and achieving strategic Marketing goals, such as entering a new market, developing a new product or technology, serving new or expanded needs of customers, redefining the company's competitive playing field, etc. Marketing effectiveness could be enhanced. Similarly, by seeking and achieving operational goals, such as reduction of distribution costs, streamlining order processing and inventory management, reducing the burden of excessive customer acquisition costs, etc., firms could achieve greater Marketing efficiencies. Thus, stating objectives and defining the purpose of relationship Marketing helps clarify the nature of relationship Marketing programs and activities that ought to be performed by the partners. Defining the purpose would also help in identifying suitable relationship partners who have the necessary expectations and capabilities to fulfill mutual goals. It will further help in evaluating relationship Marketing performance by comparing results achieved against objectives. These objectives could be specified as financial goals, Marketing goals, strategic goals, operational goals, and general goals.

Similarly, in the mass-market context, consumers expect to fulfill their goals related to efficiencies and effectiveness in their purchase and consumption behavior. Sheth and Parvatiyar (1995a) contend that consumers are motivated to engage in relational behavior because of the psychological and sociological benefits associated with reduction in choice decisions. In addition, to their natural inclination of reducing choices, consumers are motivated to seek the rewards and associated benefits offered by relationship Marketing programs of companies.

Relational Parties Customer selection (or parties with whom to engage in collaborative relationships) is another

important decision in the formation stage. Even though a company may serve all customer types, few have the necessary resources and commitment to establish relationship Marketing programs for all. Therefore, in the initial phase, a company has to decide which customer type and specific customers or customer segments will be the focus of their relationship Marketing efforts. Subsequently, when the company gains experience and achieve successful results, the scope of relationship Marketing activities is expanded to include other customers into the program or engage in additional programs (Shah, 1997). However, not all customers want to develop relationships with companies. Customer relationship importance, relationship characteristics (Ward, Dagger, 2007), type of relationship Marketing tactics, and perceived relationship investment (De Wulf, Schroeder, Iacobucci, 2001), influence firm-customer relationships.

Although customer selection is an important decision in achieving relationship Marketing goals, not all companies have a formalized process of selecting customers. Some follow intuitive judgmental approach of senior managers in selecting customers, and others partner with those customers who demand so. Yet other companies have formalized processes of selecting relational customers through extensive research and evaluation along chosen criteria. The criteria for customer selection vary according to company goals and policies. These range from a single criterion such as life time value of the customer to multiple criteria including several variables such as customer's commitment, resourcefulness, and management values. New technologies enable companies to use customer data to build customized and profitable databases of select customers who can be provided preferential treatments that enhance relationship commitment, purchases, share-of-customer, word of mouth and customer feedback. However, this can create controversies since many customers would be left out of the program (Russell, Suh, Morgan, 2007).

### **Relationship Marketing Programs**

A careful review of literature and observation of corporate practices suggest that there are three types of relationship Marketing programs: continuity Marketing, one-to-one Marketing, and partnering programs. These take different forms depending on whether they are meant for end-consumers, distributor customers, or business-to-business customers. Table 1 (see appendix) presents various types of relationship Marketing programs preva-

lent among different types of customers. Obviously, Marketing practitioners in search of new creative ideas develop many variations and combinations of these programs to build a closer and mutually beneficial relationship with their customers.

*Continuity Marketing programs.* Given the growing concern to retain customers as well as emerging knowledge about customer retention economics have led many companies to develop continuity Marketing programs that are aimed at both retaining customers and increasing their loyalty (Bhattacharya, 1998; Payne, 1995). For consumers in mass markets, these programs usually take the shape of membership and loyalty card programs where consumers are often rewarded for their membership and loyalty relationships with the marketers (Raphel, 1995; Richards, 1995). These rewards may range from privileged services to points for upgrades, discounts, and cross-purchased items. For distributor customers, continuity Marketing programs are in the form of continuous replenishment programs ranging anywhere from just in-time inventory management programs to efficient consumer response initiatives that include electronic order processing and material resource planning (Law, Ooten 1993; Persutti, 1992). In business-to-business markets, these may be in the form of preferred customer programs or in special sourcing arrangements including single sourcing, dual sourcing, and network sourcing, as well as just-in-time sourcing arrangements (Hines, 1995; Postula, Little, 1992). The basic premise of continuity Marketing programs is to retain customers and increase loyalty through long-term special services that has a potential to increase mutual value through learning about each other (Schultz, 1995). However, Malthouse and Blattberg (2005) find that the past profitability of customers may not accurately reflect their future profitability.

*One-to-one Marketing.* One-to-one or individual Marketing approach is based on the concept of account-based Marketing. Such a program is aimed at meeting and satisfying each customer's need uniquely and individually (Peppers, Rogers, 1995). What was once a concept only prevalent in business-to-business Marketing is now implemented in the mass market and distributor customer contexts. In the mass market, individualized information on customers is now possible at low costs due to the rapid development in information technology and due to the availability of scalable data warehouses and data mining products. By using on-line information and data-

bases on individual customer interactions, marketers aim to fulfill the unique needs of each mass market customer. Information on individual customers is utilized to develop frequency Marketing, interactive Marketing, and afterMarketing programs in order to develop relationships with high yielding customers (File, Mack, Prince, 1995; Pruden, 1995). Effectively and efficiently creating, disseminating and utilizing knowledge for creating value for customers requires a relationship climate and culture within the organization (Tzokas, Saren, 2004).

For distributor customers these individual Marketing programs take the shape of customer business development. For example, Procter and Gamble has established a customer team to analyze and propose ways in which Wal-Mart's business could be developed. Thus, by bringing to bear their domain specific knowledge from across many markets, Procter & Gamble is able to offer expert advice and resources to help build the business of its distributor customer. Such a relationship requires collaborative action and an interest in mutual value creation. In the context of business-to-business markets, individual Marketing has been in place for quite sometime. Known as key account management (KAM) program, marketers appoint customer teams to husband the company resources according to individual customer needs. Often times such programs require extensive resource allocation and joint planning with customers. Key account management programs implemented for multi-location domestic customers usually take the shape of national account management programs, and for customers with global operations it becomes global account management programs.

*Partnering programs.* The third type of relationship Marketing programs is partnering relationships between customers and marketers to serve end user needs. In the mass markets, two types of partnering programs are most common: co-branding and affinity partnering (Teagno, 1995). In co-branding, two marketers combine their resources and skills to offer advanced products and services to mass market customers (Marx, 1994). For example, Delta Airlines and American Express have co-branded the Sky Miles Credit Card for gains to consumers as well as to the partnering organizations. Affinity partnering program is similar to co-branding except that the marketers do not create a new brand but rather use endorsement strategies. Usually affinity-partnering programs try to take advantage of customer memberships in one group for cross-selling other products and ser-

vices. For example, Intel transformed from a brand that few end-consumers had heard of to a brand that signaled high quality, with its "Intel Inside" campaign in which it partnered with over 300 computer manufacturers (McKee, 2009).

In the case of distributor customers, logistics partnering and collaborative Marketing efforts are how partnering programs are implemented. In such partnerships, the marketer and the distributor customers cooperate and collaborate to manage inventory and supply logistics and sometimes engage in joint Marketing efforts. For business to business customers, partnering programs involving codesign, co-development and co-Marketing activities are not uncommon today (Mitchell, Singh, 1996; Young, Gilbert, McIntyre, 1996).

*1. Management and Governance Process.* Once relationship Marketing program is developed and rolled out, the program as well as the individual relationships must be managed and governed. For mass-market customers, the degree to which there is symmetry or asymmetry in the primary responsibility of whether the customer or the program sponsoring company will be managing the relationship, varies with the size of the market. However, for programs directed at distributors and business customers, the management of the relationship requires the involvement of both parties. The degree to which these governance responsibilities are shared or managed independently will depend on the perception of norms of governance processes among relational partners given the nature of their relationship Marketing program and the purpose of engaging in the relationship. Not all relationships are or should be managed alike, however, several researchers have suggested appropriate governance norms for different hybrid relationships (Borys, Jemison, 1989; Heide, 1994; Sheth, Parvatiyar, 1992).

Whether management and governance responsibilities are independently or jointly undertaken by relational partners, several issues must be addressed. These include decisions regarding *role specification, communication, common bonds, planning process, process alignment, employee motivation and monitoring procedures*. Role specification relates to determining the role of partners in fulfilling the relationship Marketing tasks as well as the role of specific individuals or teams in managing the relationships and related activities (Heide, 1994). The greater the scope of the relationship Marketing program and associated tasks, and the more complex is the com-

position of the relationship management team, the more critical is the role specification decision for the partnering firms. Role specification also helps in clarifying the nature of resources and empowerment needed by individuals or teams charged with the responsibility of managing relationships with customers.

Communication with customer partners is a necessary process of relationship Marketing. It helps in relationship development, fosters trust, and provides the information and knowledge needed to undertake collaborative activities of relationship Marketing. In many ways it is the lifeblood of relationship Marketing. By establishing proper communication channels for sharing information with customers, a company can enhance their relationship with them. In addition to communicating with customers, it is also essential to establish intra-company communication particularly among all concerned individuals and corporate functions that directly play a role in managing the relationship with a specific customer or a customer group.

Although communication with customer partners helps foster relationship bonds, conscious efforts for creating common bonds will have a more sustaining impact on the relationship. In business to business relationships, social bonds are created through interactions, however with mass-market customers frequent face-to-face interactions are uneconomical. Thus, marketers create common bonds through symbolic relationships, endorsements, affinity groups, membership benefits or by creating on-line communities. Consumers are increasingly relying on tweets, blog posts and online forums and consulting sites like Tripadvisor to evaluate companies, communicate with them, and give as well as receive feedback about products and services (Hipperson, 2010). Thus, consumers can form two-way human-like relationships with companies and their brands with social media (O'Brien, 2011). Whatever is the chosen mode, creating value bonding, reputation bonding and structural bonding are useful processes of institutionalizing relationships with customers (Sheth, 1994).

Another important aspect of relationship governance is the process of planning and the degree to which customers need to be involved in the planning process. Involving customers in the planning process would ensure their support in plan implementation and achievement of planned goals. All customers are not willing to participate in the planning process nor is it possible to

involve all of them for relationship Marketing programs for the mass market. However, for managing and collaborative relationship with large customers, their involvement in the planning process is desirable and sometimes necessary.

Executives are sometimes unaware, or they choose to initially ignore, the nature of mis-alignment in operating processes between their company and customer partners, leading to problems in relationship Marketing implementation. Several aspects of the operating processes need to be aligned depending on the nature and scope of the relationship. For example, operating alignment will be needed for processing, accounting and budgeting processes, payment methods, information systems, and merchandising practices.

Several human resource decisions are also important in creating the right climate for managing relationship Marketing. Training employees to interact with customers, to work in teams, and manage relationship expectations are important. So is the issue of creating the right motivation through incentives, rewards, and recognition systems towards building stronger relationship bonds and customer commitment. Although institutionalizing the relationship is desirable for the long-term benefit of the company, personal relationships are nevertheless formed and have an impact on the institutional relationship. Thus proper training and motivation of employees to professionally handle customer relationships are needed. Finally, proper monitoring processes are needed to safeguard against failure and manage conflicts in relationships. Such monitoring processes include periodic evaluation of goals and results, initiating changes in relationship structure, design or governance process if needed, creating a system for discussing problems and resolving conflicts. Good monitoring procedures help avoid relationship destabilization and creation of power asymmetries. They also help in keeping the relationship Marketing program on track by evaluating the proper alignment of goals, results and resources.

Overall, the governance process helps in maintenance, development, and execution aspects of relationship Marketing. It also helps in strengthening the relationship among relational partners and if the process is satisfactorily implemented it ensures the continuation and enhancement of relationship with customers. Relationship satisfaction for involved parties would include governance process satisfaction in addition to satisfaction from

the results achieved in the relationship (Parvatiyar, Biong, Wathne, 1998).

*2. Performance Evaluation Process.* Periodic assessment of results in relationship Marketing is needed to evaluate if programs are meeting expectations and if they are sustainable in the long run. Performance evaluation also helps in making corrective action in terms of relationship governance or in modifying relationship Marketing objectives and program features. Without proper performance metrics to evaluate relationship Marketing efforts, it would be hard to make objective decisions regarding continuation, modification, or termination of relationship Marketing programs. Developing performance metrics is always a challenging activity as most firms are inclined to use existing Marketing measures to evaluate relationship Marketing. However, many existing Marketing measures, such as market share and total volume of sales may not be appropriate in the context of relationship Marketing. Even when more relationship Marketing oriented measures are selected, they cannot be applied uniformly across all relationship Marketing programs particularly when the purpose of each relationship Marketing program is different from the other. For example, if the purpose of a particular relationship Marketing effort is to enhance distribution efficiencies by reducing overall distribution cost, measuring impact of the program on revenue growth and share of customer's business may not be appropriate. In this case, the program must be evaluated based on its impact on reducing distribution costs and other metrics that is aligned with those objectives. By harmonizing the objectives and performance measures, one would expect to see a more goal directed managerial action by those involved in managing the relationship.

For measuring relationship Marketing performance, a balanced scorecard that combines a variety of measures based on the defined purpose of each relationship Marketing program (or each collaborative relationship) is recommended (Kaplan, Norton, 1992). In other words, the performance evaluation metrics for each relationship or relationship Marketing program should mirror the set of defined objectives for the program. However, some global measures of the impact of relationship Marketing effort of the company are also possible. Srivastava, et. al. (1998) recently developed a model to suggest the asset value of collaborative relationships of the firm. If collaborative relationship with customers is treated as an intangible asset of the firm, its economic value-add can be

assessed using discounted future cash flow estimates. Gummesson (2004) notes the importance not only of gauging the Return on Relationships – the long term net financial value of an organization's relationships, but also of overhauling the accounting systems to reflect the value of such relational investments. Recently, Reichheld has created the Net Promoter Score, a loyalty metric that uses likelihood of customers recommendation (see <http://www.netpromoter.com>). In some ways, the value of relationships is similar to the concept of brand equity of the firm and hence many scholars have alluded to the term relationship equity (Bharadwaj, 1994; Peterson, 1995). Although a well-accepted model for measuring relationship equity is not available in the literature as yet, companies are trying to estimate its value particularly for measuring the intangible assets of the firm. Similar efforts are made in the academic community especially by V. Kumar (e.g. Kumar, Ramani, Bohling, 2004; Kumar, Rajan, 2009) and his Center for Customer Brand Equity at Georgia State University.

Another global measure used by firms to monitor relationship Marketing performance is the measurement of relationship satisfaction. Similar to the measurement of customer satisfaction, which is now widely applied in many companies, relationship satisfaction measurement would help in knowing to what extent relational partners are satisfied with their current collaborative relationships. Unlike customer satisfaction measures that are applied to measure satisfaction on one side of the dyad, relationship satisfaction measures apply on both sides of the dyad. Both the customer and the Marketing firm have to perform in order to produce the results in a collaborative relationship and hence each party's relationship satisfaction should be measured (Biong, Parvatiyar, Wathne, 1996). By measuring relationship satisfaction, one could estimate the propensity of either party's inclination to continue or terminate the relationship. Such propensity could also be indirectly measured by measuring customer loyalty (Reichheld, Sasser, 1990). When relationship satisfaction or loyalty measurement scales are designed based on its antecedents, it could provide rich information on their determinants and thereby help companies identify those managerial actions that are likely to improve relationship satisfaction and/or loyalty.

*3. Evolution Process of Relationship Marketing.* Individual relationships and relationship Marketing programs are likely to undergo evolution as they mature. Some evolu-

tion paths may be pre-planned, while others would naturally evolve. In any case, several decisions have to be made by the partners involved about the evolution of relationship Marketing programs. These include decisions regarding the continuation, termination, enhancement, and modifications of the relationship engagement. Several factors could cause the precipitation of any of these decisions. Amongst them relationship performance and relationship satisfaction (including relationship process satisfaction) are likely to have the greatest impact on the evolution of the relationship Marketing programs. When performance is satisfactory, partners would be motivated to continue or enhance their relationship Marketing program (Shah, 1997; Shamdashani, Sheth, 1995). When performance does not meet expectations, partners may consider terminating or modifying the relationship. However, extraneous factors also impact these decisions. For example, when companies are acquired, merged or divested, many relationships and relationship Marketing programs undergo changes. Also, when senior corporate executives and senior leaders in the company move, relationship Marketing programs undergo changes. Finally, there are many collaborative relationships that are terminated because they had planned endings. For companies that can chart out their relationship evolution cycle and state the contingencies for making evolutionary decisions, relationship Marketing programs would be more systematic.

## Relationship Marketing Research Directions

Wilson (1995) classified relationship Marketing research directions into three levels: concept level, model level, and process research. At the concept level, he indicated the need to improve concept definitions and its operationalization. Concept level research relates to identifying, defining and measuring constructs that are either successful predictors or useful measures of relationship performance. Several scholars and researchers have recently enriched our literature with relevant relationship Marketing concepts and constructs. These include such constructs as trust, commitment, interdependence, interactions, shared values, power imbalance, adaptation, and mutual satisfaction. (Doney, Cannon, 1997; Gundlach, Cadotte, 1994; Kumar, Scheer, Steenkamp, 1995; Lusch, Brown, 1996; Morgan, Hunt, 1994; Smith, Barclay, 1997). Other constructs explored have been



consumer's relationship proneness and product category involvement (De Wulf, Schroeder, Iacobucci, 2001).

At the model level, scholars are interested in presenting integrative ideas to explain how relationships develop. Several integrative models have recently begun to emerge providing us a richer insight into how relationships work and what impact relationship Marketing decisions have. The IMP Interaction model (Hakansson, 1982) was based upon insights obtained on more than 300 industrial Marketing relationships. By identifying the interactions among actors, the IMP model traces the nature and sources of relationship development. The IMP model and its research approach have become a tradition for many scholarly research endeavors in Europe over the past 25 years. The network model (Anderson, Johansson and Hakansson 1994; Iacobucci and Hopkins 1992) uses the social network theory to trace how relationships are developed among multiple actors and how relationship ties are strengthened through networks. Bagozzi (1995) makes a case for more conceptual models to understand the nature of group influence on relationship Marketing.

A more evolutionary approach of integrative models is to look at the process flow of relationship formation and development. Anderson and Narus (1991) and Dwyer, Schurr and Oh (1987) along with numerous other scholars have contributed towards our understanding of the relationship process model. By looking at the stages of the relationship development process, one could identify which constructs would actively impact the outcome considerations at that stage and which of them would have latent influences (Wilson, 1995). The process model of relationship formation, relationship governance, relationship performance, and relationship evolution described in the previous section is an attempt to add to this stream of knowledge development on relationship Marketing.

For practitioners, process level research provides useful guidelines in developing and managing successful relationship Marketing programs and activities. Some research has now started to appear in the Marketing literature on relationship Marketing partner selection (Schijns, Schroder, 1996; Stump, Heide, 1996). Mahajan and Srivastava (1992) recommended the use of conjoint analysis techniques for partner selection decisions in alliance type relationships. Dorsch et. al. (1998) propose a framework of partner selection based on the evalua-

tion of customers' perception of relationship quality with their vendors. At the program level, key account management programs and strategic partnering have been examined in several research studies (Aulakh, Kotabe, Sahay, 1997; Nason, Melnyk, Wolter, Olsen, 1997; Wong, 1998). Similarly, within the context of channel relationships and buyer seller relationships, several studies have been conducted on relationship governance process (Biong, Selnes, 1995; Heide, 1994; Lusch, Brown, 1996). Also, research on relationship performance is beginning to appear in the literature. Kalwani and Narayandas (1995) examined the impact of long-term relationships among small firms on their financial performance. Similarly, Naidu et al. (1998) examine the impact of relationship Marketing programs on the performance of hospitals. Srivastava, et al. (1998) examine the economic value of relationship Marketing assets. However, not much research is reported on relationship enhancement processes and relationship evolution. Although studies relating to the development of relationship Marketing objectives are still lacking, the conceptual model on customer expectations presented by Sheth and Mittal (1996) could provide the foundation for research in this area. Overall, we expect future research efforts to be directed towards the process aspects of relationship Marketing.

Additionally, technology's impact on relationship Marketing merits further examination. Rust and Chung (2006) argue that the impact of technology on Marketing necessitates research in areas such as privacy and customization, dynamic market intervention models in CRM, infinite product assortments, and personalized pricing. The social network of value creation, called Social CRM, (Clodagh, 2011) is an area to explore dynamic interactions in brand communities (Merz, He, Vargo, 2009). In leveraging technology, companies must be mindful of balancing companies' needs for data versus consumers need for privacy (c.f., Schoenbachler, Gordon, 2002; Peltier, Milne, Phelps, 2009), in view of public outrage over privacy concerns that is likely to lead to legislation. This could dramatically change the ways of conducting business in the U.S where until now privacy has been more of a 'privilege' rather than a 'right' as it is in Europe. While in Europe consumers have just gained the 'Right to Be Forgotten' (Rosen, 2012), in the U.S far less stringent measures such as the 'Do-Not-Call Registry' have been implemented so far. Thus, greater research on technology's impact on relationship Marketing is needed.

## The Domain of Relationship Marketing Research

Several areas and sub-disciplines of Marketing have been the focus of relationship Marketing research in recent years. These include issues related to channel relationships (Robicheaux, Coleman, 1994; El-Ansary, 1997; Weitz, Jap, 1995); business-to-business Marketing (Dwyer, Schurr, Oh, 1987; Hallen, Johanson, Seyed-Mohamed, 1991; Keep, Hollander, Dickinson, 1998; Wilson, 1995); sales management (Boorum, Goolsby, Ramsey, 1998; Smith, Barclay, 1997); services Marketing (Berry, 1983 & 1995; Crosby, Stephens, 1987; Crosby, Evans, Cowles, 1990; Gronroos, 1995; Gwinner, Gremler, Bitner, 1998); and consumer Marketing (Gruen, 1995; Kahn, 1998; Sheth, Parvatiyar, 1995a; Simonin, Ruth, 1998). Marketing scholars interested in strategic Marketing have studied the alliance and strategic partnering aspects of relationship Marketing (Bucklin, Sengupta, 1993; Sheth, Parvatiyar, 1992; Vardarajan, Cunningham, 1995). Gundlach and Murphy (1993) provided us a framework on public policy implications of relationship Marketing. In the context of international Marketing, relationship Marketing concepts and models are used in the study of global account management programs (Yip, Madsen, 1996), export channel cooperation (Bello, Gilliland, 1997), and international alliances (Yigang, Tse, 1996).

Convergence of relationship Marketing with some other paradigms in Marketing is also taking place. These include database Marketing (Shani, Chalasani, 1992; Schijns, Schroder, 1996), integrated Marketing communications (Duncan, Moriarty, 1998; Schultz et al., 1993; Zhinkan, et al., 1996), logistics, and supply-chain integration (Fawcett, et al., 1997; Christopher, 1994). Some of these are applied as tools and work processes in relationship Marketing practice. Figure 3 (see appendix) illustrates the tools and work processes applied in relationship Marketing. As more and more companies use these processes and other practical aspects such as total quality management, process reengineering, mass customization, electronic data interchange (EDI), value enhancement, activity based costing, cross functional teams, etc. we are likely to see more and more convergence of these and related paradigm with relationship Marketing.

A number of theoretical perspectives developed in economics, law, and social psychology are being applied in

relationship Marketing. These include transactions cost analysis (Mudambi, Mudambi, 1995; Noordeweir, John, Nevin, 1990; Stump, Heide, 1996), agency theory (Mishra, Heide, Cort, 1998), relational contracting (Dwyer, Schurr, Oh, 1987; Lusch, Brown, 1996), social exchange theory (Hallen, Johanson, Seyed-Mohamed, 1991; Heide, 1994), network theory (Achrol, 1997; Walker, 1997), game theory (Rao, Reddy, 1995), interorganizational exchange behavior (Rinehart, Page, 1992), power dependency (Gundlach, Cadotte, 1994; Kumar, Scheer, Steenkamp, 1995), and interpersonal relations (Iacobucci, Ostrom, 1996). More recently, resource allocation and resource dependency perspectives (Lohtia, 1997; Vardarajan, Cunningham, 1995), and classical psychological and consumer behavior theories have been used to explain why companies and consumers engage in relationship Marketing (Iacobucci, Zerillo, 1997; Kahn, 1998; Sheth, Parvatiyar, 1995a; Simonin, Ruth, 1998). Each of these studies has enriched the field of relationship Marketing. As we move forward, we expect to see more integrative approaches to studying relationship Marketing, as well as a greater degree of involvement of scholars from almost all sub-disciplines of Marketing. Its appeal is global, as Marketing scholars from around the world are interested in the study of the phenomenon, particularly in Europe, Australia, and Asia in addition to North America.

## Conclusion

The domain of relationship Marketing extends into many areas of Marketing and strategic decisions. Its recent prominence is facilitated by the convergence of several other paradigms of Marketing and by corporate initiatives that are developed around the theme of collaboration of organizational units and its stakeholders, including customers. Relationship Marketing began as a conceptually narrow phenomenon of Marketing; however, as the phenomenon of cooperation and collaboration with customers has become the dominant paradigm of Marketing practice and research, relationship Marketing is emerging as a predominant perspective in Marketing.

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Appendix

Table 1: Types of Relationship Marketing Programs

Program Type	Individual Consumers	Distributors/ Retailers	Institutional Buyers (B-to-B)
Continuity marketing	Loyalty programs	Continuous replenishment & ECR programs	Special supply arrangements (e.g., JIT, MRP)
Individual marketing	Data warehousing & data mining	Customer business development	Key account management
Co-marketing/ partnering	Co-branding	Cooperative marketing	Joint marketing & co-development

Figure 1: Relationship Marketing Process Framework

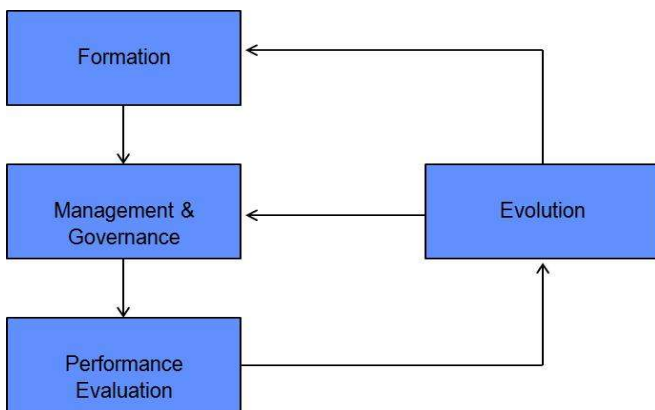


Figure 2: Formation, Governance and Evaluation Model of Relationship Marketing

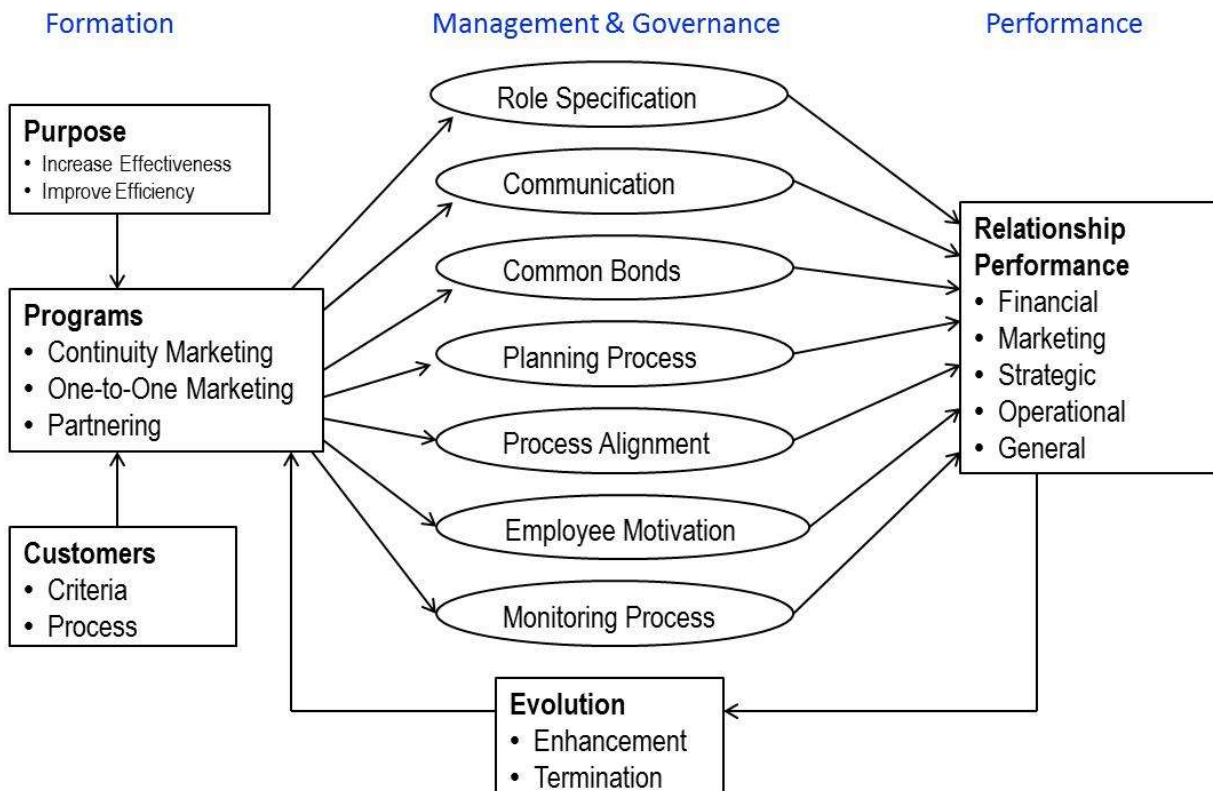
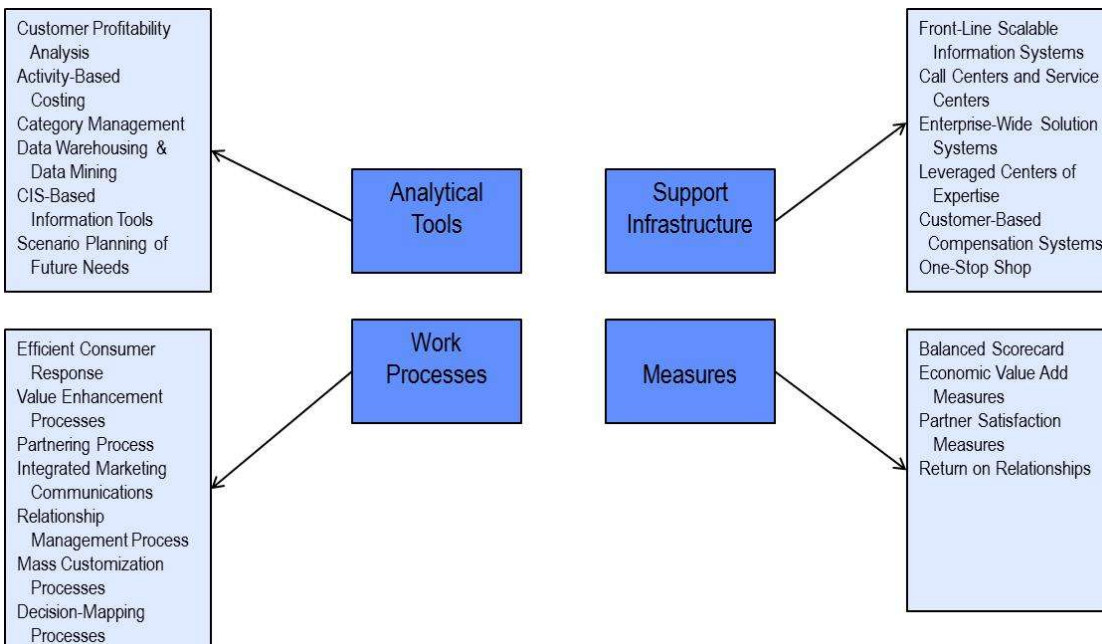


Figure 3: Tools and Work Processes Applied in Relationship Marketing



# New Economic Sociology and Relationship Marketing: Parallel Development

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This brief review continues a tradition of the *European Electronic Newsletter "Economic Sociology"* to introduce related disciplines to economic sociologists (Aspers, Darr, Kohl, 2007; Aspers, Kohl, Roine, Wichard, 2008; Aspers, Kohl, Power, 2008). This paper suggests a sociological insight into relationship marketing. The paper of Jagdish N. Sheth, Atul Parvatiyar, and Mona Sinha, who explore conceptual foundations and new research developments related to relationship marketing, is employed as a point of departure. Our review aims to demonstrate numerous interconnections between the new economic sociology and the flourishing discipline of marketing.

## Common backgrounds

New economic sociology and relationship marketing can be viewed as peers. Both of them emerged in the early 1980s. The term "relationship marketing" was formally coined by Leonard Berry in 1983 (Berry, 1983), whereas the birth of new economic sociology occurred at the same time. The name "new economic sociology" was introduced in 1985 when the most cited sociological article, "Economic Action and Social Structure: The Problem of Embeddedness" by Mark Granovetter was published (Swedberg, 1997).

The emergence of relationship marketing and new economic sociology during the same period is not accidental but is derived from certain premises. First, the inclinations of economists toward math modeling and formal logical constructions provided a fertile breeding ground for related fields that included business and administration sciences, economic geography, economic anthropology, and economic sociology. These alternative perspectives studied economic institutions and processes as substantive phenomena in a variety of divergent forms that could not be confined to the universal models of mainstream econom-

ics. Second, national economies have changed dramatically since the end of the 20th century. The "wild" market was gradually being "domesticated" and was transformed from competitive and free to regulated and closed (Arndt, 1979). In such regulated markets, transactions are conducted in the framework of long-term relationships, and the identity of exchange partners is important. Furthermore, in many industries, the growing de-intermediation process and the significant shift in power balance from manufacturers to large trade companies emphasized the importance of buyer-seller relationships (Dwyer, Schurr, Oh, 1987; Weitz, Jap, 1995; Petrovic, Hamilton, 2011).

This shared understanding of a necessity to study the relational aspect of market exchanges undoubtedly contributed to the promotion of relationship marketing and new economic sociology as academic disciplines.

It is important to know that relationship marketing and new economic sociology also have some common theoretical roots. For example, the notion of "relational exchange," which is popular in relationship marketing, originates from the sociology of law and contractual relationships (Macaulay, 1963; Macneil, 1980), which was inspired by Durkheimian sociology and economic anthropology (Malinowsky, 2005; Sahlins 1974). Such concepts as "power relations" and "exchange relations" are based on social exchange theory (e.g., Homans, 1958; Blau, 2009; Emerson, 1962, 1976; Cook, 1977; Molm, 2003) that is also rooted in economic anthropology and behavioral psychology. All of these concepts are certainly related to new economic sociology, although the latter covers a much wider range of intellectual traditions (Smelser, Swedberg, 1994).

The paper that is published in this issue by Jagdish N. Sheth, Atul Parvatiyar, and Mona Sinha reveals dramatic changes in the marketing research. During the second half of the 20th century, the focus of this research shifted from distributive functions to other aspects, and the customer became a central figure to whom the efforts and energy of other exchange parties were devoted. Additionally, brand loyalty and consumer retention were viewed as major points of concern for the commercial world (Boorstin,

2002: 230). The next step in the evolution of marketing research involved a transition from the idea of partner manipulation to obtain individual benefits toward the construction of symmetrical relationships aimed at obtaining mutual gains. Thus, over time, marketing increasingly began to focus on exchange relationships, and this new focus would bring it closer to the propositions and ideas of new economic sociology.

In his celebrated paper *New Economic Sociology: What Has Been Accomplished, What Is Ahead?* Richard Swedberg refers to some contenders in the race to fill the gap created by "mainstream economics' failure to do research on economic institutions and processes" (Swedberg, 1997: 161–162). This list includes transactional cost analysis, game theory, agency theory, new economic sociology, the sociology of rational choice, and socio-economics. Remarkably, marketing research is not included in the list. Meanwhile, in their paper, Jagdish N. Sheth, Atul Parvatiyar, and Mona Sinha indicate that similar theoretical perspectives are being applied in relationship marketing: transactional cost theory, agency theory, relational contracting, social exchange theory, network theory, game theory, and interorganizational exchange behavior. However, their paper does not contain any sociological references. Despite their common intellectual roots, these two disciplines are disconnected and exist in parallel worlds.

### Multiple forms of market exchange

It is critically important for marketing scholars to reject assumptions regarding the universality of economic exchanges. These scholars have further developed this idea, which is rooted in economic anthropology. It is widely accepted that market exchange per se can take many forms, such as just-in-time relational exchanges (Frazier, Speckman, O'Neal, 1988), hierarchical managerial transactions, recurrent contractual transactions (Ring, Van De Ven, 1992), contractual exchanges (Gundlach, Murphy, 1993), hybrid forms of exchange (Lefaix-Durand, Kozak, 2009), and embedded exchanges (Grayson, 1996). However, transactional exchanges vs. relational exchanges<sup>1</sup> are presented as key opposing forms that constitute a type of continuum in which all possible intermediary forms of market exchanges can be placed between two extremes (Lefaix-Durand, Kozak, 2009). There is a significant amount of marketing literature demonstrating the great variety of market exchange relations. Similar ideas can be found in new economic sociology, but their representation is rather

modest. For example, Wayne Baker and his co-authors present a typology of market orientations by dividing them into transactional and relationship orientations (Baker, 1990; Baker, Faulkner, Fisher, 1998). Brian Uzzi distinguishes between two elementary forms of exchange, including arm's length and embedded relations (Uzzi, 1996).

Hybrid forms of exchange present another popular topic in two streams of literature. Remarkably, both marketing scholars and economic sociologists devote a significant amount of attention to relationship exchanges and tend to ignore or undervalue transactional exchanges. As Wayne Baker notes, "various studies have documented the mixed forms closer to hierarchy... much less is known about the mixed forms closer to a market pole..." (Baker, 1990: 595). Meanwhile, transactional exchanges exist in real practice though in marginal forms. A frequently cited example is "buying gasoline for cash at a busy self-service station in a strange town" (Macneil, 1980: 13). This ignorance of transactional exchanges supports the "hostile world" argument, which implies a principal opposition of economic and social spheres (Zelizer, 2005) when transactional exchange tends to be associated with a theoretical construct of an "ideal" market as presented in standard textbooks on microeconomics and relational exchange is linked to the concepts of social exchange.

### Market exchange as a long-term process

An additionally important aspect of relationship marketing is that market exchange is conceptualized as a long-term process that begins with signing a contract and ends after the completion of all liabilities. The stability of market relations is treated as a guarantee that economic actors avoid risks of opportunism and malfeasance. Market exchanges are treated as ongoing processes that are divided into different stages and phases (i.e., initiation, continuation, and termination). In addition, from the relationship marketing perspective, a market exchange is conceptualized as a multidimensional concept (Dwyer, Shurr, Oh, 1987). Marketing scholars identify a number of diverse parameters and dimensions of market exchange, including future projection, communication, mechanisms of conflict resolution, cooperation, power, transferability, and specificity.

Some authors often reduce relational market exchanges to a narrow range of aspects. The key features of relational exchanges are as follows: a) continuation, b) reoccurrence and intensive communication, c) the fulfillment of ele-

ments that cannot be enforced and guaranteed by third parties, d) exclusive ties (close, specific and concentrated), and e) partnership and equity. However, continuation is often prioritized as a proxy for relational exchange within frameworks of relationship marketing. Moreover, this issue is also highly relevant for economic sociology. For example, according to James Coleman, it is the duration of a relationship that demarcates social actions and transactions from the classical model of a perfect market (Coleman, 1990: 91). Richard Emerson argues that a difference that separates social from economic exchange theory “stems from the conceptual units of analysis employed – longitudinal exchange relations versus ahistorical individual decisions” (Emerson, 1976: 350). Let us recall that this approach is rooted in the anthropological tradition, in which time plays a key role in arrangements of ceremonial exchange (Malinowsky, 2005; Moss, 2005; Sahlins, 1974).

In his seminal paper on embeddedness, Mark Granovetter also emphasizes that the role of temporal factors could not be overstated because interpersonal relations have a certain history, and the peculiarities of social structures result from processes over time (Granovetter, 1985; Granovetter, 1990). Time is necessary for social structures to emerge, and an emphasis on the temporal dimension of market exchanges enables a change in focus from the analysis of individual economic behavior to the conceptualization of market structures and social norms. From this perspective, we should be concerned that new economic sociologists are not interested in historical embeddedness (Krippner, 2001; Krippner, Alvarez, 2007). Studying exchange relations, these scholars devote more attention to structural embeddedness to reveal a position of concrete interpersonal relations with respect to other relations and to relational embeddedness, which is measured by the extent of exclusivity and the strength of social ties.

### Common interests

Today, many common issues are studied by relationship marketing and new economic sociology in parallel. These issues include 1) partner selection processes based on multiple criteria, 2) the motivation systems of exchange partners, 3) communication and information exchanges, 4) trust and loyalty, 5) the influence of interpersonal relations on institutional ties, and 6) market coordination and the satisfaction of collaboration.

In their paper, Jagdish N. Sheth, Atul Parvatiyar, and Mona Sinha present concepts and notions that are intensively discussed in relationship marketing. Many of these ideas are closely related to economic sociology. We refer to examples of trust and commitments, interdependency, shared values, power asymmetry, adaptation and mutual satisfaction, determinants of initiation, continuation and termination of organizational ties, and cooperation and conflicts in interfirm relations. An additional topic that has attracted the attention of economic sociologists and marketing scholars is the exploration of how networks of long-term relations intermediate economic performance. A general purpose of relationship marketing is formulated as the “creation and enhancement of mutual economic, social and psychological value.” Interestingly, the meaning that is assigned to economic gain has significantly evolved in relationship marketing. This meaning is not confined to the maximization of profit and market share (as in transactional marketing in previous years) but is extended to the mutual satisfaction of parties who are engaged in relationships and value creation. Undoubtedly, this idea also appears to be related to economic sociology.

Economic sociologists might be pleased to know that the network approach is actively applied in relationship marketing. Scholars are interested in both dyadic relationships and social networks (Achrol, 1997). The importance of network research is explained by the principle that is shared by economic sociologists. In both fields, relational and transactional exchanges are intended to fulfill different functions and can simultaneously produce competitive advantages and disadvantages. An analysis of economic activity should account for all organizational ties that constitute an economic actor’s portfolio. This portfolio should be balanced by combining arm’s length and ongoing relations. In this respect, the explanations provided by marketing scholars coincide with the empirical findings obtained by Brian Uzzi: “optimal networks are not composed of either all embedded ties or all arm’s length ties but integrate the two” (Uzzi, 1996: 694).

### Some limitations of relationship marketing

Marketing scholars are prepared to acknowledge that “marketing theory is particularly weak in the area of markets. Marketing does not have a theory of markets comparable with the theory of markets in economics” (O’Rourke, 2004: 108). In addition, relationship marketing, as a part



of administration sciences, is primarily oriented toward achieving applied results for the development of managerial practices. Generalizations and interpretations are often undervalued. In this sense, diverse market theories that are developed by economic sociologists are able to bring numerous new ideas to relationship marketing (Lie, 1997; Fourcade, 2007; Fligstein, Dauter, 2007).

In relationship marketing, a market is described as a field that is populated by a variety of different economic actors, including suppliers, distributors, and consumers. Scholars attempt to determine how to benefit from the harmonization of these diverse relationships (in terms of value creation and competitive advantages). However, markets tend to be associated with the demand side, and the role of consumers is certainly prioritized. Marketing research frequently fails to consider other market participants (e.g., governments, business associations, workers) that could be an important part of the context of partnership and conflict relationships.

An additional weakness that can be attributed to relationship marketing is the implication that scholars are inclined to study relationships in a positive and prescriptive manner. Although conflict relationships are also at the core of marketing studies, such relationships are typically considered from a normative perspective. Ongoing relations are believed to assist economic actors in reducing the risks of fraud. However, Mark Granovetter convincingly highlighted the nature of controversial relations between social ties and malfeasance. He insisted that "while social relations may indeed often be a necessary condition for trust and trustworthy behavior, they are not sufficient to guarantee these and even provide occasion and means for malfeasance and conflict on a scale larger than in their absence" (Granovetter, 1985: 491).

In relationship marketing, it is typically accepted that collaborative partnership is beneficial for value creation and enables exchange partners to receive mutual economic gains. Economic sociologists are more skeptical and tend to problematize the effects of relationships on economic performance. These scholars demonstrate that the "outcomes of embeddedness are not unconditionally beneficial, however, embeddedness can paradoxically reduce adaptive capacity under certain conditions" (Uzzi, 1996: 694). This ambiguous influence of relationship components on economic outcomes should certainly be considered when studying market exchanges.

## New economic sociology and relationship marketing: why do they follow different paths?

Although economic sociologists treat markets as the primary subject of their studies (Swedberg, 1994; Fourcade, 2007), they are also inspired by the investigation of peculiar and peripheral types of markets. For example, such scholars more enthusiastically study socially contested commodities, credential goods, and fictional commodities. Unlike sociologists, marketing scholars usually study the "standard markets" (Aspers, 2010), which constitute the core of modern economies.

In addition, marketing scholars traditionally devote more attention to the issues of distribution (the spatial and temporal aspects of the circulation of goods) and consumption, whereas sociologists are more inclined to study production and, recently, financial issues. The issues of distribution and consumption became even more important during the second half of the 20th century when most developed and developing countries underwent a trade revolution. This trade revolution caused drastic economic changes when "large retailers had replaced large manufacturers as the key organizers of the world economy" (Petrovic, Hamilton, 2011: 3). However, retailing is a curiously peripheral topic in the sociological literature, although it is acknowledged that trade represents "one of the few forms of interaction between the first human communities" (Swedberg, 1994: 256).

It should be emphasized that relationship marketing defines its subject matter as exchange relationships per se (Hunt, 1983; Kotler, 1972; Frazier, 1983; Dwyer, Shurr, Oh, 1987). In their famous article, Dwyer, Shurr, and Oh (1987) identified at least four reasons that exchange relations refer to the main focus of relationship marketing:

*"First, exchange serves as a focal event between two or more parties. Second, exchange provides an important frame of reference for identifying the social network of individuals and institutions that participate in its formation and execution. Third, it affords the opportunity to examine the domain of objects or psychic entities that get transferred. Finally, and most important, as a critical event in the marketplace it allows the careful study of antecedent conditions and processes for buyer-seller exchange" (Dwyer, Shurr, Oh, 1987: 11).*

In contrast with relationship marketing, new economic sociology has much wider scope of interests, but we be-

lieve that its specific interest in market exchange theory should be better articulated. Sociologists should not neglect important contributions to the understanding of exchanges that are offered by the social exchange theorists who developed an original concept of power based on interdependency and exchange. In his prominent book, Peter Blau (2009 [1964]) presented insightful ideas regarding how elementary forms of exchange can produce social structures and norms. Nevertheless, in this classical work, economic exchange is similar to a neoclassical contract. Social exchange theorists are blamed for defining social exchange excessively broadly, whereas economic exchange is defined in a manner that is excessively narrow (Hodgson, 1999). New economic sociologists have exerted efforts to overcome this opposition, primarily within the network and institutional approach frameworks (Swedberg, 1994). In the network approach, markets are defined as social structures that are characterized by intensive social interactions among participants. New institutionalists demonstrate how rules and their social meanings support exchange relations. However, studies that are primarily devoted to exchange relations are scarce in the field of economic sociology (Dore, 1983; Baker, 1990; Uzzi, 1996, 1997; Baker, Faulkner, Fisher, 1998; Uzzi, 1999; Rooks, Raub, Selten, Tazelaar, 2000; Uzzi, Lancaster, 2003; Zhou, Zhou, Li, Cai, 2003; Molm, Whitham, Melamed, 2012).

Although both marketing scholars and economic sociologists argue that their focus is on studying relationships, both groups address a variety of relationships and the differences among them. In the economic field, two types of relationships co-exist. The first type includes relations that endure only within the time frame of a given transaction. The second type embraces relations that endure beyond the completion of a given transaction (Burt, 2000: 2); the existence of such relations implies that transactions can be based on already existing interpersonal relations or that, on the contrary, transactions can contribute to the formation of steady interpersonal relations. Each of these relationship types has different meanings and goals (Uzzi, 1996). We would argue that marketing scholars tend to study the first type of relations, although they are increasingly devoting more attention to the customer life cycle models, which bring them closer to the second type. By contrast, economic sociologists are primarily interested in studying the second type of relationship, which is developed beyond transactions per se. Overall, marketing scholars typically prioritize formal contractual relationships, whereas economic sociologists devote more attention to informal interpersonal relations.

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Within the last three decades, relationship marketing and new economic sociology have clearly made remarkable progress in developing their research agendas. Sharing many common intellectual roots and interests, these disciplines remain disconnected and persistently ignore the accomplishments of one another, thereby rendering their market theories less complete and comprehensive. These disciplines could benefit from collaboration in the future. If such collaboration occurs, then mutual orientation will provide additional fuel for both relationship marketing and new economic sociology in participating in the continuous race with conventional economics (Swedberg, 1997).

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## Endnotes

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<sup>1</sup>This idea was generated by Ian Macneil to distinguish between discrete contracts and relational contracts. "A discrete contract is one in which no relation exists between the parties apart from the simple exchange of goods" (Macneil, 1980: 10).

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## Interview with Professor Gary Hamilton

**Gary G. Hamilton** is a Professor of International Studies and of Sociology at the University of Washington. He specializes in historical/comparative sociology; economic sociology, and organizational sociology with focus on Asian societies and with particular emphasis on Chinese society. He is author of numerous books and articles, including most recently *Cosmopolitan Capitalists: Hong Kong and the Chinese Diaspora at the end of the 20th Century*, editor and contributor (University of Washington Press, 1999), *The Economic Organization of East Asian Capitalism*, with Marco Orru and Nicole Biggart (Sage 1997), and *Asian Business Networks*, editor (de Gruyter, 1996). He is the co-author, with Robert Feenstra, of *Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan*, (Cambridge University Press, 2006) and co-editor, with Misha Petrovic and Benjamin Senauer, of *The Market Makers: How Retailers are Reshaping the Global Economy* (Oxford University Press, 2011).

**You are widely known as an expert in historical and comparative sociology. You also made valuable contributions to studying different models of Asian capitalism. How would you define your research interests today?**

Thank you for your question. Like most sociologists, I don't view historical and comparative sociology as a research interest; for me, it is a methodological approach. Nearly everything I have done has been focused through the historical and comparative lens. As for my research interests, although it might seem otherwise, actually my research interests have remained remarkably consistent since my graduate school days. I have always been interested in how economic actors of one kind or another understand and organize their activities. I have also been interested in East and Southeast Asia, and so I have put these two interests together for most of my career.

For the past few years, I have been working on the relationship between global retailing and Asian manufacturing. I see this interest in a very broad way. First, it involves detailed empirical research that compares this relationship across Asia for the manufacturers, and also across the U.S., Europe, and Japan for the retailers. Second, the topic is

also historical in the sense that retailers were not always global and only started to look for Asian manufacturers in the decades after World War II, and since that time, the relationships between retailers and manufacturers have been constantly evolving, constantly changing. I am interested in understanding why at that time, why in Asia, and what and why the specific changes. Third, and most importantly, this interest is also theoretical. Getting a handle on the comparative and historical dimensions of the topic allows me to ask the larger theoretical questions about how to understand these evolving relationships in the context of global capitalism.

**Recently, you published a book on the revolution in retailing together with an international team of scholars (Hamilton, Petrovic, Senauer, 2011). Is this book an offshoot of your interest in the relationship between global retailing and Asian manufacturing?**

Yes, this book is the second one that I have written related to the topic. The idea for *The Market Makers* came out of the previous book on the topic that I wrote with Robert Feenstra (Feenstra, Hamilton, 2006). This book is about two very successful Asian economies that became increasingly organized in very different ways. Most previous writers had lumped the two economies together. They argued that the industrialization of both were products of the "developmental state," essentially the outcome of state planning in strong state societies. My long-term research in Taiwan convinced me that the developmental state thesis did not work well in Taiwan, although initially I thought that it might apply in South Korea. Rob, who is a very prominent international trade economist, and I developed a project to develop and test an alternative hypothesis that the organizational differences between the two economies could be explained without evoking the developmental state thesis, by simply positing differences in the economic power of local business groups vis-à-vis other business groups and firms in their respective economy. Rob developed a simulation model, from which we drew a set of detailed hypotheses. We successfully tested these hypotheses with a number of datasets that we developed. These tests show that our alternative hypothesis is a more complete and more convincing explanation for East Asian industrialization than the developmental state thesis.

In the course of testing one of the hypotheses, I was trying to figure out how to use a huge dataset of U.S. imports to analyze whether the differences in industrial structure between South Korea and Taiwan would show up in the products produced for export. The differences did show up, dramatically so. As I examined the disaggregated custom-level data, I found something that I did not expect to see. These very detailed data revealed the specific products Taiwan and South Korea were exporting to the U.S. on a year-by-year basis. Looking at these products, I knew in a flash (and it really happened that way) that the rapidly expanding sets of products being exported were all manufactured on contracts and that one of the real mysteries to be solved was unraveling the demand side of the Asia's export-led industrialization. That realization led me to examine what we called "the retail revolution" in the U.S. and Europe. The second half of *Emergent Economies, Divergent Paths* was the first systematic investigation of link between global retailers and Asian manufacturers.

That research convinced me of two things. First, the impact of global retailers on Asian manufacturing is the single most important cause of the so-called Asian Miracle, which is the rapid growth of capitalism in East Asia from the 1960s on. The Asian states' developmental policies are not unimportant, but, with the exception of Japan, widespread, rapid industrialization would not have occurred in East Asia without changes in the structure of retailing in the U.S. and Europe. Second, once I analyzed the Asian cases from this angle, this explanation of Asian industrialization seemed at once both obvious and yet relatively unrecognized by other writers. This realization led me to organize a workshop, funded by the Sloan Foundation, that pulled together a group of leading scholars who were working on various aspects retailing and contract manufacturing. That workshop led to the book *The Market Makers*.

**Could you explain what you mean by the "retail revolution"? What are its most essential features?**

I think it is fair to say that there has not been just one retail revolution. The development of department stores and mail order catalogs in the latter half of the nineteenth century certainly transformed retailing in the U.S., as did the rise of supermarkets and self-service shopping in the first half of the twentieth century. Most of these earlier changes were largely local and regional and, in some cases, national. The transformation that we focus on in *The Market Makers* is the global transformation that occurred

in the decades after World War II. This transformation resulted from a confluence of events that occurred simultaneously or in fairly rapid succession, and the result was to utterly transform the nature and scope of retailing. The best way to describe the features of this revolution in retailing is to list the various developments that collectively led to the transformation. Then I will explain in more theoretical terms why this transformation is so important.

First, in the middle 1950s, because of changes in U.S. tax codes, there was a boom in shopping center construction. In a very short time the number of U.S. shopping centers nation-wide jumped from around 500 in 1954 to over 7,000 in 1965. There are now over 50,000 in the U.S. alone, and many times that number around the world, all of which were built in the past 40 years or so. Second, the rapid growth of shopping centers promoted the growth of chain stores, both anchor stores and specialty retailers. Third, at the same time that these two aspects of retailing were just beginning, the fair trade laws in the U.S. were declared unconstitutional. These laws, which required retailers to sell goods at the manufacturers' suggested retail price, had been enforced in many U.S. states since the Great Depression in the 1930s. Once these laws were overturned, discount retailing could begin. In the same year, 1962, Wal-Mart, K-Mart, Target, and Kohl's began discount retailing. Almost all of specialty retailers in the U.S. that dominate their respective niche markets today date from the late 1960s to the 1980s. Fourth, at almost the same time that the above three things were developing, supermarket chains and food manufacturers developed a way to track store inventories with "uniform product codes" (UPC) in 1969 and that could be electronically tracked from point-of-sells information. Thus, bar codes and scanning devices were born at the very moment when computers were invented that were powerful and compact enough to allow stores to computerize their inventories. The first item scanned was a pack of chewing gum in 1974. By the early 1980s, Wal-Mart realized that they could track all their inventories for all their stores. They then required all of their suppliers to use bar codes on the items they sent, and then so did K-Mart. Within the decade, the use of standardized bar codes, scanning devices, and computerized inventories became standard practice across retailers as well as their suppliers. As a consequence, the notion of supply chains was advanced, and supply chain management became standard practice for retailers and manufacturers alike. Fifth, at the same time all of the above was occurring, someone else, a person who wanted to ship goods by boat from Texas to New York, invented

containerized shipping, which in the next decade also became standardized, leading to a global transformation in logistics.

When all these diverse parts came together in the 1980s, "lean retailing," as Fred Abernathy and his colleagues would call it (Abernathy, Dunlop, Hammond, Weil, 1999), became possible, and the retail revolution took off. The essential features of lean retailing are bar codes and scanning devices, computerized inventory systems, just in time transfer points, which replaced warehouses, and a standardized system of communications that goes across all firms.

### Is that when the Asia manufacturers enter into this picture?

No, actually, they come into the picture much earlier. This was another development that occurred simultaneously with the other ones I just mentioned. When fair trade laws were in force, most brand name apparel products were produced by U.S. manufacturers. In an effort to circumvent the manufacturer's fixed price for such goods as underwear, men's shirts, knitted sweaters, and a lot of other items with predictable demand, large U.S. department stores developed their own in-store brands, the manufacturing of which they contracted to others. At first, these private label goods were made by U.S. apparel makers, but soon department store demand outstripped U.S. manufacturers' capacity to produce the goods. Some of these manufacturers asked Japanese trading companies, especially Mitsui, to supply the goods that U.S. manufacturers could not. Because wages and other costs were rising in Japan, Japanese trading companies initially looked to the former colonies, Taiwan and South Korea, as places to locate factories to make these products. To this end, they found local people in both locations willing to engage in contract manufacturing. These trading companies, and later foreign retailers as well, actually helped the Taiwanese and South Koreans become competent suppliers. They lent them money, trained their employees, sold them the inputs, and then marketed their final products. Sometimes these individuals had previous business experience, but just as often they had little or no previous experience. That appears to be the beginning of contract manufacturing in Taiwan and South Korea.

### Where does it go from there?

The initial successes led other retailers to try the same Asian experiment. The big retailers soon did away with the middlemen. By the early 1970s, the largest retailers were establishing buying offices in Taiwan, South Korea, and Hong Kong. To interact with these buyers, the Taiwanese, South Koreans, and Hong Kong entrepreneurs started their own trading companies. By the mid-1970s, the relationship between retailers (now global) and Asian manufacturers was a going concern and had established its own momentum. At about this time, a new actor entered the picture: brand-name merchandisers. These are factory-less manufacturers. Nike was among the first, but soon many other joined in. All these firms designed and merchandised their own products and nurtured a group of Asian manufactures to make their branded products on order. By the late 1970s, a whole array of consumer goods made in Asia began to flood both European and U.S. retail stores. By this time, these retailers and brand-name merchandisers created new products (e.g., a vast variety of consumer electronics, different types of bicycles, sporting goods, running shoes) that were never produced in quantity in either the U.S. or Europe.

This relationship between Asian manufactures and a rapidly growing and increasingly diverse set of retailers and merchandisers was in place before lean retailing really began.

### So what happened when lean retailing got going?

Lean retailing allowed retailers to obtain point-of-sales data that they could use to rationalize their supply lines. They were able to plan what products to stock where and at what price. Most importantly for Asian manufacturers, retailers could use this information to determine which suppliers could produce which products at the desired price, quality, and quantity. From the retailers' point of view, they now could reduce some of the risks inherent in retailing.

At the same time that retailers were beginning to convert to lean retailing, the regime of the U.S. president, Ronald Reagan, negotiated the Plaza Accord, an agreement that required Japan, Taiwan, and South Korea to reevaluate their currencies upward against the U.S. dollar. In less than a year, these countries' currencies rose between 30 and 40% against the U.S. dollar. This reevaluation squeezed



Asian manufacturers to such a degree that they were having difficulties meeting the price points that the retailers demanded in order to stay competitive with other retailers in their locale.

Japanese manufacturers, primarily automobile makers and parts suppliers and consumer electronics, moved their production to Southeast Asia and the U.S. The governments of Taiwan and South Korea had just lifted martial law and began allowing local capital to move out of the country. The Taiwanese businesses began to move some of their low-end production to Southeast Asia and especially Mainland China, and the South Korean business groups to Southeast Asia and Latin America. After the Asian financial crisis, China seemed like the least risky option for overseas investment, which led to a concentration of East Asian manufacturers in China. Many of these Asian manufacturers did not move their manufacturing facilities willingly. In fact, Western retailers warned many of these manufacturers that, if they did not move, they would lose their contracts.

Lean retailing is one of the chief factors for the rise of export manufacturing in China. As reported by Feenstra and Wei (2010), over 60% of China's export comes out of factories predominantly owned by non-Mainland Chinese.

There is one other very important development in this history that comes relatively late. Beginning in the 1990s, a little earlier in Europe than in the US, retailers began to aggressively expand their retail outlets beyond their national borders. Before retailers could expand internationally, they had to rationalize their supply lines, but once these building blocks were in place, this globalization has been very rapid and with huge effects.

So that is the brief historical overview of the retail revolution that has occurred since World War II.

### Is all this covered in *The Market Makers*?

Yes, and not by me alone, of course. I've had a lot of help in piecing this story together. The three editors (Misha Petrovic, Benjamin Senauer, and I) gathered a group of scholars who had done the key research in earlier works. The previous work by Gary Gereffi on commodity chains is absolutely seminal, especially his work on big buyers (Gereffi, Korzeniewicz, 1994). Abernathy, Dunlop, Hammond, and Weil in their book *A Stitch in Time: Lean Retailing and*

*the Transformation of Manufacturing* (1999), first identified the process of lean retailing; Bonacich and Wilson (2008) did the pioneering work on global logistics; Thomas Reardon is one, if not the world's leading specialist in understanding the impact of the global expansion of supermarkets on food production; Dedrick and Kraemer (1998) are the key experts on PC production; Timothy Sturgeon, John Humphrey, and Richard Appelbaum have done extensive and important research on contract manufacturing; Suresh Kotha is a leading specialist on internet commerce; and Michael Wortmann is an important researcher on comparative European retailing. All of these researchers have contributed single or co-authored chapters to *The Market Makers*.

**What you have told me so far is very descriptive and mostly a historical narrative. I have heard nothing about the state so far. Is the state really that inconsequential? And as some of my colleagues would say, where is the economic sociology here?**

You are right. I haven't mentioned the state yet. As I said earlier the state is not unimportant. Overall, I consider the state to be a lagging rather than leading cause of Asian industrialization. I do consider geopolitical factors to be very important. Japan became an important U.S. ally during the Korean War, and was awarded most favorite nation status by the U.S. government. South Korea and Taiwan both received the same status. This fact made it easy for retailers to come to East Asia in the first place. The other important factor was the Vietnam War, which helped create early demand for Japanese products because Japanese goods were widely sold to U.S. troops in the commissaries. No doubt it was the quality and cheaper prices that initially encouraged retailers to source their goods from East Asia.

However, as far as the developmental state goes, state officials had relatively little to do with the early development of contract manufacturing. To be sure, state officials encouraged and often facilitated what was already underway, but they did not create or sustain contract manufacturing and did not set about to create competent suppliers. Most importantly they did not create the demand for goods. The interacting firms did all that. Moreover, in Taiwan, the state offered surprisingly little to the small and medium sized firm, which became the backbone of Taiwan's export economy. It is true that the state owned and managed some of the upstream industries, such as power



generation, steel making, petroleum refining and distribution. But these only expanded as demand for these goods and services rose. These state-owned industries did not drive downstream production; overseas demand did. Also, East Asian states did not help business people set up their production lines, transfer technology, or market their products. Retailers, brand-name merchandisers, purchasing agents, and trading companies did those things.

What the state did provide was the physical and financial infrastructure for industrialization to occur. State sponsored companies built roads, seaports, airports, housing complexes for workers and so forth, and the state actively created financial institutions, such as banks and stock exchanges, that were designed to raise and regulate the acquisition of capital for local firms. Most of this infrastructure lagged the need for it, and not all of these infrastructure projects proved helpful. Nonetheless, these projects were hugely important, but we should not, at the same time, argue that they caused Asian industrialization.

It seems to me that the story of East Asian industrialization has been "over-stated." The developmental state thesis relies heavy on anecdotal narratives rather than on systematically tested hypotheses. Relative to other types of economic actors, the state officials and politicians have loud voices and readily take credit for a country's successes, regardless of the state's actual role. The transformation of retailing in the U.S. and Europe and the development of a relationship between retailers and manufacturers are the decisive driving factors in Asia's industrialization.

### **That's the state. Where's the sociology?**

For me this is the exciting part. First, it is important to get the historical details correct because, in my opinion, factual details should drive theory and not the reverse. By this I do not mean that theory should be strictly inductive. There is a conceptual middle ground, which is the ideal typical methodology that Weber conceived as the appropriate approach to unravel the complexity of history. This methodology does not have to be just qualitative either. As Feenstra and I explained in *Emergent Economies, Divergent Paths* (2006), a computer simulation based, in this book, on the stylized transactions within business groups can serve as an ideal typical model that facilitates a very disciplined process of hypothesis testing.

For the retail revolution, it is important to theorize the organizational features of markets. For reasons that are not completely clear to me, economic sociologists have not been particularly interested in exchange relationships and trade, but that is exactly what the retail revolution is about: a historic change in the relationship between supply and the organization of supply, on the one hand, and demand and organization of demand, on the other hand. This is an area of sociological theory that is very underdeveloped.

I have found that most economists view the relationship between supply and demand, as well as between production and consumption, in terms of a natural and inevitable equilibrium. Petrovic and I have called this viewpoint an "equilibrium bias." For economists, this bias makes markets an unproblematic, central, but under-theorized concept in economics. Most economic sociologists do not take the equilibrium bias of economists seriously, but we (putting myself into this group) are just as guilty. Instead of an equilibrium bias, we have a "production bias." Economic sociologists privilege the supply side of the market. Consider Marx's theory of capitalism. This theory is, after all, about a mode of production with little or nothing about demand and consumption. When viewing exchange through the lens of production, one sees distribution, retail, and final consumption as a lineal process in time that is more or less automatic, and not so different than is expressed in Say's law, in effect that production creates its own demand.

I believe that this was never the case historically, even in the nineteenth century. Thorstein Veblen's analysis of a demand-driven economy centered around status-based consumption is closer to the reality of early capitalism than Marx's version. But Veblen's theory of conspicuous consumption did not link consumption backwards to production, and in his later work, he did not in any rigorous way connect business enterprise to retailing and consumption. To some extent, this absence is understandable because in the first half of the twentieth century huge industrial enterprises began to dominate the U.S. and European economies. It was not until the late 1970s and early 1980s that retailers became prominent enough to challenge domestic industrial manufacturers. But once global sourcing and contract manufacturing provided a doable alternative, the balance began to shift. The rise of lean retailing accelerated the shift and from the late 1980s onward manufacturing has become a price-sensitive organizational extension of global retailing.

Conceptually, then, global retailers and brand-name merchandisers become hubs that increasingly organize several kinds of actual markets. On one side, they create and maintain supplier markets; they set prices and establish the terms of exchange for the contracted goods they buy, which in turn they sell to their consumers. They are what Gereffi calls the “big buyers.” On the other side, they create and maintain consumer markets; they locate their stores, select inventory, set prices, and otherwise establish the terms of exchange for the goods that they sell to their customers. Through point-of-sales information, they anticipate what their suppliers should make and in what quantity. Theoretically, we say that they “make” both consumer and supplier markets, but they also have a huge, though often indirect impact on service markets (global logistics), financial markets, and labor markets. Each of these “market arenas” has become more responsive to the intermediate demand created by these global retailers and merchandisers.

**Will you investigate any of these market arenas in your next project?**

Yes, I am working with my close colleague in Taiwan, Cheng-shu Kao, on a book right now. Kao and his team, of which I am a sometime member, have interviewed the owners and managers of around 700 different Taiwanese firms over a twenty-five year period. Some of these business people we have interviewed a number of times over the years. These interviews, along with a lot of other material, allow us to analyze the rise of supplier markets in Taiwan and their expansion into China, where Taiwanese manufacturers are an important component of the export sector of China’s economy. In fact, ten of the top twenty exporters from China are businesses owned by Taiwanese. The working title of the book is “Making Money: How the Global Economy Works from an Asian Point of View.”

**What areas would you suggest as most promising for the future research in sociology of markets?**

I would point to two areas in particular. First, economic sociologists should look at real markets (as opposed to the fictional equilibrium markets that economists write about) as locations, as marketplaces, where the organizational

arrangements between exchange partners matter. For example, the relative economic power between suppliers and retailers is crucial in how supplier markets operate. The second area is the relationship between retailers and brand-name merchandisers, on the one hand, and final consumers, on the other hand. In the past most sociologists have viewed the relationship as being essentially a one way relationship from seller to buyer; consumers can only buy what retailers offer for sale. However, with lean retailing, point-of-sales inventory management implies that retailers and merchandisers can enter into a virtual conversation with their customers in order to learn their consumption proclivities. For economic sociologists, this relationship between retailers and consumers emphasizes the importance of research on the social factors relating to consumption and on the link between final consumption and the organization of intermediate demand, the demand generated by the big buyers. Both topics are very important in understanding how modern markets work.

**Thank you very much.**

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# Book Reviews

## The End of Financialization? Review Essay

By Matthias Thiemann and Philip Mader

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**Books reviewed:** Greta Krippner, 2011: *Capitalizing on Crisis*. Cambridge, MA: Harvard University Press; Amato, Massimo and Lucca Fantacci, 2012: *The End of Finance*. London: Polity Press

This text reviews two recent books which problematize the fictitious commodity “money” and its management by the state in recent decades (Krippner 2011) or centuries (Amato and Fantacci (2012)). Both books are thus kept together by a Polanyian concept, and both carry scientific as well as political messages regarding the current system of unconstrained credit growth and interconnected financial markets. Whereas Greta Krippner’s work analyzes the evolution of state policies in the realm of credit and monetary policy from 1971-2001, the book by Amato and Fantacci peers back into a wider historical window from 1572 to today, and seeks to place these tendencies into the general institutional set-up of monetary governance. Through their analysis of the present crisis as resulting from structural changes in the role played by finance in capitalism, both books can be seen as speaking to each other, and this review essay seeks to structure their dialogue.

Greta Krippner is one of the main protagonists of a recent Polanyian economic sociology that maintains the central role of the state for the management of the fictitious commodities land, labour and money. Such an analysis operates on the macro-level and seeks to understand the institutional specifics of the governance an economy is subjected to (s. Krippner and Alvarez 2007: 228f., identifying institutional analysis as the positive project of Polanyi). In her most recent book, Krippner analyzes key changes in the governance of money and credit in the US from the 1970s to 2001. Krippner’s fundamental claim is that the

policies of the state have been conducive to financialization, if not even effectively creating it. The rise of profits from financial rather than productive activities (p. 4), as “inadvertent” discoveries stemming from the desire to deflect political responsibility for difficult choices, is the empirical phenomenon she seeks to explain. As Krippner says,

*“the turn to finance allowed the state to avoid a series of economic, social and political dilemmas that confronted policymakers beginning in the late 1960s and 1970s, paradoxically preparing the ground for our own era of financial manias, panics, and crashes some three decades later. [...] Thus financialization was not a deliberate outcome sought by policymakers but rather an inadvertent result of the state’s attempts to solve other problems.”* (p. 2)

This book may become a classic for the way Krippner’s empirical findings are grounded in a larger frame. Her 2005 paper (already something of a classic in the financialization literature) forms the empirical backbone around which she builds a layered chronological analysis of the drivers of financialization, which she locates in the policy responses to three crises in the past 40 years: “social crisis, fiscal crisis, and legitimation crisis” (p. 24). There is no doubt about this empirically-solid and theoretically-stimulating book making a substantial contribution to the development of a coherent explanation for the rise of finance over the past decades – even if it regrettably continues the customary mistreatment of financialization as an Anglo-American phenomenon.

Krippner’s three historical chapters show how the turn to the financial market was motivated by a search for “depoliticization” of distributive questions, letting the market take the difficult decisions which became necessary due to declining growth since the 1970s. Deregulating financial markets allowed policy makers to hand over responsibility for social outcomes, and by opening the “taps” of credit, present problems were displaced into the future. In the third chapter, Krippner interprets the loosening of the credit supply in the 1970s and simultaneous removal of the credit ceiling as an attempt to allow a “high price of credit” to ration credit and deflect blame being directed towards politicians. The big surprise (and unintended consequence), Krippner argues, however, was a seemingly limit-

less supply of credit, as consumers proceeded to take up credit at high interest rates. This, however, left the problem of inflation unresolved.

In the 4th chapter, Krippner argues in line with Greider (1987) that the switch to the high (real)-interest rate regime in the 1980s paradoxically provided an answer to a (potential) fiscal crisis caused by the high budget deficits of the Reagan era. The high interest rates, brought about by an impasse between the White House and the Fed, actually attracted foreign capital since 1983 in large swaths; a time in which, as Krippner puts it, the Reagan administration “discovered” the global economy and its own ease at borrowing. Her original work in this chapter resides in the reconstruction of how this solution was not planned, but rather an inadvertent discovery, which was then harnessed by the Treasury to finance a post-oil-shock recovery and run permanent deficits at the same time.

The chapter on the making of monetary policy (chapter 5) is arguably the heart of the book, as it treats the management of the last remaining instrument for the state to control credit supply after structural deregulation: the interest rate. Here, Krippner analyzes shifts in the Fed’s policies from 1980 to 1997, where it always sought to manage the interest rate at a distance, avoiding political responsibility while doing “what needed to be done” (120). In a policy learning process, the Fed increasingly sought to let markets react to the Fed’s intentions rather than its deeds, thereby shifting actual political responsibility to the markets. Krippner’s work is most original, in that she not only demonstrates the obfuscating nature of monetarism (along the lines suggested by Greider 1987), but also expands this analysis beyond 1987 to show that the fear of being drawn into politics was a constant motivating factor in the work of the central bank. It is at this point that she can most clearly show how the separation between the political and the economic is carefully crafted. . For the Fed, the fear of market collapse is bigger than the fear of political responsibility. Not upsetting expectations becomes a policy constraint, and the Fed effectively a hostage of the market. Her analysis of the reflections inside the Fed on the danger of this mirroring game, in which financial markets seek to anticipate the Fed’s next moves, while the Fed seeks to anticipate market reactions, is fascinating and disturbing at the same time.

The scaffold of the triple crises of capitalist societies emerging in the late 1960s (social, fiscal and legitimacy) keeps the narrative brilliantly together, but it sometimes stretches

beyond the limits of what her chapters are supposed to show. There was no fiscal crisis in the US in the 1980s, and it therefore seems inappropriate to speak of the formulation of policy responses to counter it (p.86). This formulation is furthermore inaccurate as it was rather inaction and impasse rather than action which resolved these tensions. On the other hand, the constraining role of globally growing financial markets, while clear in the data (e.g. Eurodollars destroy US domestic regulation; p.67, cf. Konings 2008), and conscious policy inaction under Greenspan in the fifth chapter) are underemphasized, with Krippner instead emphasizing the evasion of political responsibility. The state may have inadvertently discovered these (non-) policies by seeking to deflect responsibility, but once established, growing global market forces seem to have locked policymakers into them.

Krippner interprets financialization as a means to delay the difficult political decisions that became necessary given the declining affluence of US-society since the 1970s. But this declining affluence is nowhere proven in the book, unless one equates declining growth rates and growing indebtedness with declining affluence. Yet every credit of one actor is the debit of another; and affluence has not declined (per capita income in the US almost doubled between 1970 and 2007, although this growth was of course distributed highly unevenly). The appropriate political question then might rather be how to get those who benefited from financialization to finance the alleviation of inequality (even if against their will). Another question, of crucial importance, is how a future financial system which finances “real” economic activity without promoting the excessive accumulation of debt may look. Krippner alludes to a possible end of financialization in her final chapter, but actual trends of credit growth (e.g. the accelerating growth of student loans, or the rush of return-seeking creditors into fields like microfinance) coupled with a lack of structural reform in the US point to more of the same, rather than a structural break. Without a rethinking of fundamental questions of the role of financial markets, how should such a break look like?

This question of how to establish a “truly healthy relationship between economy and finance” (p. vii) is central to Amato and Fantacci’s book *The End of Finance*. The title is a wordplay, pointing on the one hand to the “end” of finance in the sense of a “goal”, namely to finance real activity and to come to an end with that activity, and on the other hand, the end of the current financial system as implied by the financial crisis. The authors centrally attack

the institutional reality of money working as a commodity traded on financial markets. The interlinkage of the function of money as a unit of account, in which debts can be recorded, and as a store of value that can be exchanged on financial markets against debt instruments, is for them the differentia specifica between capitalism and a market economy. As they put it, "capitalism is a market system with one market too many, namely the money market" (p. 224). Since money can be hoarded indefinitely, rather than being used in its exchange function of unit of account, this can cause the breakdown of all markets. Their specific reading of Keynes, from which they develop their theoretical framework, their corroboration of the different functions money can serve and their effects with historical passages is the strongest, most lucid part of this book. Large parts of the book, however, suffer from repetition and draw their theoretical inspiration from Keynes alone, without ever appraising the contributions of other great theorists, particularly with respect to theories of money and financial capital, and therefore fall short of their potential.

Amato and Fantacci's book relates much more directly to the latest financial crisis than Krippner's. For them, the "subprime" breakdown revealed fundamental flaws in the economic system based on the increasing interchangeability of credit and money, granting creditors the capacity to exchange credit into money on liquid secondary markets, and thereby to dispose of the risks inherent in the creditor-debtor relationship. The interchangeability, based on liquidity, becomes a self-propelling mechanism in financial markets, as the growth of credit combined with functioning secondary markets generates more liquidity.

Thus far, the story is fairly standard. But Amato and Fantacci tell the story because their critique is fundamentally directed at the entire idea of liquidity – the notion of the tradability of credit acting as the basis for a sensible allocation of credit. Calling liquidity a "fetish" (p. 19), they argue that liquidity inherently produces crises:

*"It is precisely the mechanism of ever higher stakes, inherent in liquidity, that makes the system based upon it structurally incapable of fulfilling its purpose – namely to provide support for economic activity. This end is never achieved. We either go too far (boom) or fall too short (crunch) – and by a measure that, in both cases, cannot be assessed."* (p. 23)

The authors trace these developments historically as far back as the founding of the Bank of England in the late

17th century, which generated a system of state debt with a liquid secondary market which permitted the British state to amass debt without ever being forced to repay. At this moment, capitalism as a system "that would perish if all accounts were settled at the same time" (Marc Bloch, quoted on page 58) came into existence, a system "that is fuelled by an optimism that constantly discounts the profits of the future, its eternal precariousness" (ibid).

They not only trace the evolution of this system, but they also show that history has witnessed other financial systems in which the persistent growth of credit is not a sine qua non. Clearing systems, in which money of account does not gain the status of a commodity (and thereby does not become misappropriated as a store of value) and in which all actors have an incentive to settle the accounts (such as in the European Payments Union of the second half of the 1940s) are shown to provide a means for credit as well as for exchange without tending towards instable disequilibria. Their radical critique of liquidity as the institutional means to dissolve the bond between creditor and debtor (which is systemically impossible, as the risk of default cannot disappear) allows us to see the recent regulatory reforms as what they are: a system-immanent attempt to restart credit growth, in an approach they call 'double or quits': to ensure that the accounts are not settled, instead restoring the trust in securitization and the banking system. The government as the lender of last resort is hostage to a system which it has to re-inflate in times of crisis or witness a paralysing debt-deflation.

The *End of Finance* is certainly a more daring effort than Krippner's *Capitalizing on Crisis*, with its far greater theoretical scope and depth, but as a result it is less clear whether it achieves its own "end" of resolving the contradictions inherent in the present crisis. Both authors question what Dore (2008) has called "that article of faith itself, the thesis that these free, competitive, global financial markets are the best way of providing cheap capital to all who can most effectively use it". Their diagnoses sound radical – "when money is the kind of commodity that it costs nothing to produce (...) and there can always be more of it, the only limit and the only measure of its growth and 'sustainability' becomes, in a wholly intolerable way, the crisis itself" – but their prescriptions are anything but radical or innovative:

*"It really is a matter of 'going back to Bretton Woods', not in order to repeat the mistakes that were made on that occasion*

*and that lie at the root of the present imbalances, but in order to seize the opportunity that was then lost.”*

For Amato and Fantacci, the solution then essentially lies in saving capitalism from the financial markets, so that capitalism ostensibly could function properly. For them, there are no structural problems of politics, only more or less useful ideas which can guide policy – let alone class antinomies or antagonistic material interests which may have led to the present crisis. Amato and Fantacci merely wish to see the “better” ideas (that is, Keynes’ ideas) prevail. Krippner, on the other hand, by reconstructing the political forces and distributive effects behind the “turn to finance”, also asks about the kind of economic system which could ever give rise to a dominance of financial markets over socio-economic life in the first place.

The question of reform of the system gains urgency, as all attempts to resolve the 2008 crisis in the Western World have only succeeded in producing new crises. The last part in Amato and Fantacci devoted to reforms in which money is de-commodified is not entirely capable of charting this course, as it bears the mark of swift production under the impression of the financial crisis. However, their poignant critique of money as a commodity interchangeable with credit provides a direction for deeper thought about the contradictory nature of present-day money, and the historical example of the payments Union in Europe may offer some guidance as to how to deal with trade imbalances. As such, the book is theoretically very valuable. The authors are well aware that given a system of credit-money, all other forms of money that deny it the status of a commodity will have insurmountable disadvantages. Given this fact in conjunction with the structural imperative of the state to persistently re-inflate a financial system in times of crisis, one is left to wonder if the nationalization of banks and the radical simplification of the financial system are not the most prudent short-term answer to the problem. And maybe this is the political debate we should be having, before dealing with the persistent inequalities. But what Krippner and Amato Fantacci agree upon, is that this requires a body politic mentally equipped for such a re-politicization of the economic system, an issue on which both remain skeptical.

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**Book:** Beckert, Jens and Patrik Aspers, (eds.), 2011: *The Worth of Goods: Valuation and Pricing in the Economy*. Oxford: Oxford University Press.

**Reviewer:** Brooke Harrington, Copenhagen Business School, [bh.dbp@cbs.dk](mailto:bh.dbp@cbs.dk)

The 14 chapters in this edited volume address valuation and pricing as central to the formation of market order. Both the empirical settings and theoretical bases of the chapters are diverse, ranging from contemporary art markets to environmental disasters, and from the classics in sociology to the literatures in anthropology and economics. Themes such as status and the intersubjective creation of meaning link all of the chapters, as does a qualitative methodological orientation. Rather than treating prices – or how they are set – from a quantitative point of view, this volume contributes insights on the social processes of assigning value. Simply by documenting the many ways in which interpersonal and institutional interaction shapes prices and other measures of worth, the volume represents a significant step forward in the ongoing jurisdictional struggle between economic sociology and neo-classical economics.

This contribution is stated most clearly in Beckert’s chapter, which offers a novel theoretical perspective on the imaginative value of goods. In this fascinating piece, Beckert uses Durkheimian theory to extend the notion of valuation beyond the usefulness and status-signaling properties of objects and into the realm of the intra-personal – the meanings, sensations, and experiences that possessions can evoke. While the use and status dimensions of value have been amply addressed in previous economic and sociological research, the imaginative value of goods has been virtually ignored in contemporary social science, despite the ubiquity of this mode of valuation in everyday life. When we talk about cherishing an object that has “senti-

mental value," we are usually talking about a tattered childhood toy, or a souvenir – something that may not "do" anything in a practical sense, and may not raise our status in the eyes of others. Consider the furious bidding triggered by the chance to own a piece of clothing once worn by Marilyn Monroe or Princess Diana: the value of owning such objects is not to wear them, but to evoke the presence and charisma of those personalities.

This dimension of valuation comes to the foreground in the auction process, which may be why so many of the empirical chapters focus on auction-based valuation. For example, Beckert mentions the high value placed on bottles of wine associated with famous years in history, such as an 1811 Chambertin that drew a price of thousands of Euros not because of its taste, but because of its ability to bring the consumer into imaginative communion with the height of the Napoleonic era and the first sighting of Halley's Comet. In her chapter devoted to the wine market, Garcia-Parpet makes this connection explicit, noting that when it comes to pricing, experienced rare wine brokers find that a bottle's "symbolic meaning is often privileged over the organoleptic qualities of the vintage in question" (p. 140). This dimension of value offsets the decreasing use value of the wine, which declines sharply once it reaches the age at which its fruit turns to vinegar.

Auctions also figure prominently in Velthuis' chapter on contemporary art markets and – in a sense – in Mears' chapter on the valuation of fashion models' "looks." Both are subject to a discursive process between sellers and buyers, which results in prices being set on what is arguably the most subjective of qualities: beauty. In the case of art, Velthuis points out the auctions are used in rare but significant occasions, such as when the Impressionists could not find any institutional supporters to broker their work, and so organized their own public sales. Auctions were in that case a necessity for those shut out of the conventional circuits for establishing value. For contemporary art and artists, auctions have a very different meaning: in some cases, allowing collectors (particularly those from emerging economies) to engage in conspicuous consumption through public bidding; in other cases, depressing the value of work (as in charity auctions) or "emancipating" it from institutional governance (as in the 2008 record-setting auction of Damien Hirst's work).

Like paintings and sculptures, the bodies and faces of models are subjected to a process of valuation that takes place through bidding: in this case, between modeling

agencies and clients. The looks for sale – classified through terms such as "Apple Pie," "Yoga Fit," and "Drug Addict" – are first defined in a discursive process between agents and clients, and then reduced to an hourly or daily price. The puzzle at the heart of Mears' interview study is the intense competition to model in "editorial" settings, which pay little or nothing, but offer lottery-like odds of making one a star. This is opposed to much more lucrative "catalog" work, where the pay is steady and often good, but the status value quite low.

Two other chapters bear mentioning for their skill at making the connection between valuation and pricing. Karpik's chapter traces the history and impact of a controversial French government project to change the standards of valuation for scientific publications – a plan that is seemingly an administrative and conceptual decision, but which has very concrete effects on scientists' salaries and access to research funds. In Fourcade's chapter, the analysis focuses on American policy-makers' attempt to estimate the cost of the Exxon Valdez oil spill in terms of a public good: the natural beauty that was destroyed in the accident. This study holds particular significance for its discussion of both the methodologies and consequences associated with attempting to price what economists refer to as "externalities."

A brief essay cannot hope to address all that could be said about an edited volume of this length and diversity. This review has attempted to bring forward some of the volume's highlights, as well as sketching out its broader intellectual agenda. In that regard, it is worth noting that the book gives surprisingly little direct attention to the impact of organizations on valuation and price-setting; although their crucial role is implicit in virtually all of the chapters, only one addresses organizations explicitly – Ravasi and colleagues' case study of the Vespa brand. It is unfortunate that organizations get such short shrift in the book, since this chapter suggests how much a sociological perspective on value could contribute to management research. On the other hand, the chapter by Smith seems quite out of place in the volume, since it is extremely light on both theory and empirical examples, and makes virtually no effort to engage with the other papers in their book or with the contemporary sociological literature. Finally, the frequency of copy-editing errors throughout the volume was surprising, given the quality of Oxford as an imprint – but that is a minor distraction from what is otherwise a very readable and valuable work of scholarship.



**Book:** Ziegler, Rafael (ed.), 2009: *An Introduction to Social Entrepreneurship. Voices, Preconditions, Contexts*. Cheltenham: Edward Elgar Publishing.

**Reviewer:** Daniel P. Kinderman, Department of Political Science and International Relations, University of Delaware, [kindermd@udel.edu](mailto:kindermd@udel.edu)

Interest in social entrepreneurship (SE) has risen continuously during recent decades. Dozens of organizations, several academic journals, and hundreds of books are devoted to finding entrepreneurial solutions to social problems. It's not hard to see why social entrepreneurship has struck "a responsive chord." In a highly-cited paper, a leading scholar writes that social entrepreneurship "is a phrase well suited to our times. It combines the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance, the high-tech pioneers of Silicon Valley" (Dees, 1998: 1).

In case the idea of entrepreneurs with a social mission seems too strange to be taken seriously: the European Commission has recently announced a new policy initiative to harness social entrepreneurship in support the European Economic model, in the midst of the deepening Eurozone financial and banking crisis no less. But how realistic is it to enlist entrepreneurs (some of whom brought about the current crisis) in the pursuit of not-for-profit social goals, not the natural hunting ground of the entrepreneur? The anthology *An Introduction to Social Entrepreneurship. Voices, Preconditions, Contexts*, edited by Rafael Ziegler, offers answers to this and other questions. This volume will interest anyone looking for a sophisticated introduction to the contested and ill-defined concept of social entrepreneurship.

Some (though not many) edited volumes consist of tightly interlinked essays that flow into a single theoretical or argumentative stream. This book does not offer that: the contributions are very heterogeneous. Indeed, it is striking how many different meanings and assessments of social entrepreneurship can be found in the volume. As the editor, Rafael Ziegler, explains in his introduction, a conscious decision was made to solicit contributions by social entrepreneurs as well as academics. The chapters by practitioners are about: water management in Central and Eastern Europe (Kravcik); countering extremist violence in Germany (Korn); democratic education in CEE (Stanowski); and facilitating entrepreneurship in Germany (Albers and Friebe).

Theoretical chapters cover the following topics: Schumpeter's full model of entrepreneurship and its application to SE (Swedberg); the role of the culture of management and SE (Illouz); a theoretical and empirical critique of some self-portrayals of SE (Boddice); a sociological perspective on SE (Vasi); the role of SE in the neo-liberalization of the UK (Grenier); the use of art to re-conceptualize and re-appropriate SE for society (Hjorth); and SE's contributions to sustainable development (Seelos and Mair).

Readers may find it fruitful to read across these essays. This review will illustrate how this can be done by focusing on a question of interest to this reviewer: social entrepreneurs' attitude towards state authority. While some contributors aver that social entrepreneurship should not and cannot replace the state, others find that SE is attractive for precisely this reason. Krzysztof Stanowski remarks: "we cannot give up to the state too many responsibilities, and we do not want to (...). If the state takes responsibility out of citizens, builds insurance relations between citizens and the state, then this destroys social entrepreneurial activity" (61, 63). In this view, the welfare state is antithetical to SE. Other contributors have different views. Holm Friebe writes that he does "not share a deep suspicion against big organisations and the state (...). [E]ntrepreneurship is not a cure-all" (70). Paola Grenier argues that social entrepreneurship was inscribed in the Thatcherite project in the UK. Her tone is ambivalent. Rob Boddice suggests that "social entrepreneurship is a plausible epilogue to the 'spirit of capitalism.' (...) People leading meaningless but financially enriching lives reach a crossroads at which value needs to be added to the meaning of their activities, rather than to the bottom line" (147). In this more cynical view, social entrepreneurship is more about appeasing our conscience than about effecting real change. All of the above definitions are consistent with the following remark by Bogdan Vasi: "Unlike social movements, social entrepreneurs may push for an innovative solution by working within the institutionalized channels and reproducing 'the rules of the game,' without challenging the hegemony of governments or business models" (162).

In his own research in a related but distinct field, Corporate Social Responsibility / Corporate Social Entrepreneurship, this reviewer encounters a multitude of work that is naively laudatory, excessively cynical, or fails to place its object of analysis in the context of contemporary capitalism. Against this background, this volume's portrayal of social entrepreneurship as ambiguous, if not ambivalent, is very welcome. By the end of the book, very few claims and

assumptions about SE are left unquestioned. In sum, this volume is much better at raising questions than it is at providing answers, but finding the right question(s) is the first step, and this anthology's thoughtful, high-quality essays help us to do so. The book appears at a pivotal time when global capitalism, having vanquished any systematic alternatives to itself, is itself suffering from a serious systemic crisis. It's hard to disagree with Rafael Ziegler's claim

that a "source of hope" is needed (1). Whether or not social entrepreneurship offers that hope depends on who you ask.

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# Ph.D. Projects in Economic Sociology

## Social Determinants of Innovative Consumption Practices: Use of Computers and Internet in the Russian Households

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Consumption has been an object of study both in economics and sociology. In sociology dominant theories of consumption had a tendency to focus either on symbolic meaning of goods, or on the moral judgments of consumerism: consumption of symbols, conspicuous consumption, and consumption society. Macroeconomics studies the evolution of aggregated consumption and its reaction on macroeconomic shocks and shifts in government economic policies. Microeconomics is focused on the effects of relative price changes and imperfect and asymmetric information on individual consumption behaviour. Behavioural economics tries to explain seemingly irrational consumers' behaviour including savings and consumption credit decisions. Studies of household budgets, especially conducted on Russian data, have a tendency to look at deprived population from the point of view of strategies of survival or focus on income and consumption inequality. Thus, consumption in economics is mostly viewed through the lenses of price, disposable income and (ir)rationality.

The author of this research would like to take a more balanced look on emerging consumption practices as a part of everyday social life from the perspective of economic sociology drawing on the diffusion of innovations instruments. Why are new consumption practices, such as making purchases via Internet adopted by some Internet users, but not the others? Are changes in domains other than individual or household consumption, such as professional life and place of residence, associated with adoption of new consumption practices?

The contribution of this research is intended to add to two distinct, but related fields. First, to the diffusion of innovations literature, which is currently focused on the following elements of diffusion: the innovation, communication channels, time, and a social system, primarily its structure

(Rogers, 2003), by emphasizing the importance of individual life history perspective to the process. Second, to the body of economic sociology studies by focusing on consumption, which has been neglected for a long time in favour of production and distribution (Zelizer, 2005). Theories of practice offers the best framework for answering the stated above research questions, avoiding both extremes of undersocialized and oversocialized individual, providing a tool for analysis of emerging consumption practices, and shifting attention from symbolic communication to actions (Warde, 2005).

Diffusion of innovations studies have identified the following variables related to innovativeness: more years of formal education, greater degree of social status, and upward social mobility. It has been established that income, though highly related to innovativeness, does not offer a complete explanation of innovation adoption (Rogers, 2003: 289). I will focus on the relation not only of the current status of this variables to the innovativeness, but of the changes that have occurred in the respective domains: level of education and number educational institutions attended, current occupational position and number of jobs held during last say, ten years, place of residence and number of relocations, etc.

I argue that not only current status, but the change that has occurred to the status of these variables during a lifetime will explain innovativeness in consumption. The mechanism of such influence is thought to be twofold. First, the change in these variables is accompanied with the accumulation of weak ties (Granovetter, 1973), which is especially articulate in the case of education and occupation. Weak ties are instrumental in gaining access to information that an individual does not possess already, thus leading at least to a potential of innovation adoption. Second, the more change we will see in these variables, the more likely the individual is open to change in other regards, including consumption practices.

The hypotheses would be tested on the data of the Russian Longitudinal Monitoring Survey (RLMS-HSE), a national representative household survey designed to monitor the effects of Russian reforms on the economic well-being and health of household and individuals and carried out since 1994. The database has vast information on household

consumption, expenditures, incomes, geographical and employment mobility of its members, and community data. Of the most interest is RLMS-HSE 18th round administered in 2009, which included a block of questions on new products and services and focused on computer and Internet utilization in the household.

There does not seem to exist a huge digital divide in Russia according to the 2009 RLMS survey. Computers at home are owned by 59% of the general public, as compared to 71% of the individuals from the upper income quintile. Internet at home is in disposal of 46% of all Russian population, and 60% of the upper income quintile representatives. At the same time, online activities differ much more considerably between these two groups. This existing variability in adopting Internet activities allows for applying regression analysis in order to study its social determinants.

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