

The Political Economy Paradigm: Foundation for Theory Building in Marketing

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# The Political Economy Paradigm: Foundation for Theory Building in Marketing

This article presents an institutional, political economy paradigm in marketing as a complement to the presently prevailing microeconomic/marketing management concept. The latter framework provides insufficient tools for analyzing exchange structures and processes within and between organizations. Political economy is proposed as a more appropriate paradigm, as it focuses on authority and control patterns, conflict and conflict management procedures, and external and internal determinants of institutional change.

## Introduction

**T**HIS article presents the elements of a political economy paradigm as a potential foundation for theory building in marketing. The value of the political economy paradigm rests partly on its generality and partly on its integrative potential. Political economy is fairly general, as the paradigm may be applied in theory construction in a wide range of marketing areas. It is integrative through offering a unifying framework by incorporating major economic and sociopolitical constructs in the comparative analysis of marketing relationships.

The point of departure of the article is the ongoing debate about marketing theory and the nature and scope of marketing. It is beyond the scope of the article to discuss the course of this debate, which has been reviewed by Hunt (Hunt 1976, Hunt and Burnett 1982). However, two points should be made.

First, the interest in theory and conceptualization in marketing seems to be as old as the discipline itself. For many decades the American Marketing Associa-

tion has played a central supportive part by sponsoring special theory conferences and publications (Bush and Hunt 1982; Cox and Alderson 1950; Cox, Alderson, and Shapiro 1964; Ferrell, Brown, and Lamb 1979; Lamb and Dunne 1980). The publication of this special theory issue of the *Journal of Marketing* is another indication.

Second, perhaps the most important contribution to general theory construction has been the conceptualization of marketing as exchange, as initially evident in the influential writings of Alderson (1957). Further theoretical development took place around 1970 through attempts to broaden (Kotler and Levy 1969, Tucker 1974), deepen (Enis 1973), or make marketing more generic (Kotler 1972). As formulated by Bagozzi (1974, 1975, 1978) and Kotler (1980), the emerging new concept views voluntary exchange as the core idea underlying marketing. Hence, the essence of marketing relates to the structuring and organizing of the exchanges between (and within) marketing institutions. Such exchanges may be made more cost efficient by standardizing and routinizing transactions within the framework of long-term relationships between the organizations involved (Arndt 1979).

So far, there are no general marketing theories coming close to satisfying rigorous theory of science criteria (Hunt 1976; Zaltman, Pinson, and Angelmar

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1973). However, in subfields within marketing such as consumer behavior, there are comprehensive social-psychological conceptualizations perhaps qualifying as theories, such as the Howard and Sheth (1969) and Bettman (1979) models.

This article argues that the present situation is to a great extent due to an overreliance on what is called the microeconomic/marketing management paradigm as a largely unchallenged key foundation for theory building. It appears that the marketing as exchange notion is still in its infancy. The further development and formalization of the exchange notion would seem to require foundations which are more relevant and conceptually richer than the microeconomic paradigm. Political economy is offered as such a paradigm.

The article starts with a short discussion of the role of paradigms in science. It then turns to the most important marketing paradigms, with particular emphasis on the prevailing microeconomic formulation. The next section outlines an alternative perspective, the integrative political economy paradigm. The final section presents a selected marketing application of the new paradigm.

## Role of Paradigms in Science

Paradigms may be defined as statements of the proper domain of a science, what questions it should ask, and the rules followed in the interpretation of the results (Bagozzi 1976). Kuhn, a historian of science, states that paradigms "provide models from which spring particular coherent traditions of scientific research" (1962, p. 10). Hence, paradigms are not theories, and they fall short of advancing testable propositions and law-like generalizations. Instead, paradigms should be viewed as the *foundations* of theory, as they give theory building in a field direction and meaning.

Kuhn's conceptualization is useful for explaining the rise and fall of paradigms. Though his ideas have generated much controversy (Lakatos and Musgrave 1970, Morgan 1980), the essence of his position appears to remain intact. Kuhn proposes that when a paradigm is established in a discipline, so-called "normal science" is practiced as puzzle-solving activity. New, marginal bits of knowledge are generated by means of shared existing categories and well-known procedures. The consequence is that research results more or less tend to be known in advance. Such structuring of research offers several advantages. The majority of the researchers in the field do not have to engage in a futile search for the ultimate "truths." Instead, they are allowed to concentrate on "mopping up" activities. However, as time passes, anomalies arise for which normal science fails to provide adequate answers. When such anomalies build up and scientists

are losing faith, the field enters a crisis stage. This culminates in a "scientific revolution," and a new paradigm emerges. In turn, the new paradigm goes through the same cycle. In schematic form, the process may be depicted as follows:

PARADIGM 1 → NORMAL SCIENCE  
STAGE → ANOMALIES STAGE →  
CRISIS STAGE → REVOLUTION  
STAGE → PARADIGM 2

The above discussion leads to two main conclusions. First, paradigms tend to have a conserving function, as they favor the status quo and resist fundamental changes. Second, paradigms are social constructions—world views—being the outcome of historical and political processes (Bagozzi 1976). The network of assumptions characterizing a given paradigm becomes a shared reality binding together members of the scientific community; from this follows that networks of assumptions are often taken for granted and remain beyond conscious awareness (Morgan 1980). Challengers of the orthodoxy risk being ignored or suffering the fate of being dismissed as "unscientific" or "polemic."

Let us now turn to the research paradigms in use in marketing.

## Paradigms in Marketing

In a recent essay, Carman (1980) discussed the most important active paradigms in marketing. These paradigms should not be confounded with the various *subfields* (or research areas) within marketing, such as marketing management, nonprofit marketing, international marketing, industrial marketing, marketing channels, organizational buying, consumer behavior, macromarketing, the consumerist/ecological activist school, etc. A subfield which may draw on one or more paradigms relates to unit of analysis and research interests and reflects the specialization and division of labor in a discipline.

The six main marketing views of the world identified by Carman (1980) are the microeconomic paradigm, the persuasion/attitude change paradigm, the conflict resolution paradigm, the general systems paradigm, the functionalist paradigm, and the social exchange paradigm.

The microeconomic world view (also referred to as the neoclassical paradigm) focuses in an abstract manner on market equilibrium and resource allocation. This paradigm is particularly significant in marketing and forms the underpinnings of the marketing management tradition, with its emphasis on the profitable manipulation of the elements of the marketing mix. A related micronormative perspective is provided by the more narrow persuasion/attitude change

(information processing) paradigm, restricted to the market communications part of the marketing mix. Though it may be expanded to cover macromarketing phenomena, as argued by Stidsen and Schutte (1972), the persuasion/attitude change paradigm as usually applied can be well-treated as a part of the microeconomic notion.

The remaining four paradigms in Carman's list leave the normative, single actor perspective of the first two conceptualizations by being mainly positive and focusing on interorganizational relations, institutional change, and conflict. These four paradigms are complementary rather than mutually exclusive. For instance, the conflict resolution perspective emphasizing why and how conflicts emerge and are resolved would seem to be a necessary ingredient of any institutional paradigm in marketing. Similarly, the general systems paradigm provides a research language for dealing with interrelationships, goals, resources, and control mechanisms in human systems. Alderson's (1957) functionalism and notion of organized behavioral systems use general systems constructs and attempt to explain behavior at a fairly high level of abstraction. Finally, the social exchange paradigm covers the transactions and interactions among institutions, groups, and individuals.

Carman (1980) further developed a combined systems/exchange paradigm by integrating the two approaches. The task here, however, is to formulate an even more comprehensive and integrative institutional paradigm by drawing on all four paradigms. First, a few words on the microeconomic approach is needed to provide a point of departure.

## The Microeconomic Paradigm

A dominant world view in contemporary social science is the microeconomic paradigm. Though this certainly is arguable, some writers even go so far as to name the microeconomic notion as the perhaps highest intellectual construction in the social sciences (Hernes 1978, p. 197). The mission of the microeconomic perspective is to explain relative prices, market equilibrium, and income distribution. A central tenet is the belief that competition brings about allocative efficiency. The paradigm also implies that supply and demand curves can be derived by means of marginal analysis and assumptions about utility maximization, utility and cost functions, rationality, and perfect information (see standard texts such as Henderson and Quandt 1971). Though some of the assumptions (for instance, perfect information, certainty, profit maximization, etc.) have been relaxed, the core of the microeconomic paradigm remains unchanged.

The parsimony and elegant logic of the microeconomic paradigm has resulted in a strongly entrenched position in its home market, economics. The same

features have also made the paradigm "exportable" to related fields. For example, the harmonious, nonconflict world and equilibrium assumptions of neoclassicism also emerge in Parsons' work (it is perhaps no wonder that Parsons was also trained as an economist) in sociology (Parsons and Shils 1962). The "maximizing man" notion is a central part of Homans' (1961) social exchange theory. An application of marginal utility analysis (not intended as tongue-in-cheek) is the attempt to explain church attendance in terms of the discounted expected value of the future eternal life (Azzi and Ehrenberg 1975).

In the almost poetic formulation of Richardson (1972, p. 895), the microeconomic world view features firms as "islands of planned coordination in a sea of market relations." Such a view is apparent both in the management science and marketing management traditions (subfields) emphasizing rationality and means-ends instrumentality. From pioneering texts such as Howard (1957) and McCarthy (1960), up to the recent more sophisticated treatments like Kotler (1980), the marketing management tradition has made a strong point of distinguishing between the environment (mainly uncontrollable) and controllable decision variables in the marketing mix. The role of marketing management is to attain maximum profits by finding the optimum combination of decision variables, popularized by McCarthy (1960) as the four "Ps" (Product, Place, Promotion, and Price).

A logical expansion of this tradition is the adaptation of marketing management technology to the areas of nonprofit marketing (Kotler 1982, Rados 1981) and the further diversification into specialized areas such as health care (Kotler and Clarke forthcoming), education (Kotler and Fox forthcoming), the arts (Mokwa, Dawson, and Prieve 1981), and politics (Mausser 1982).

As used in marketing, the microeconomic paradigm is undoubtedly valuable in its present role to provide normative decision rules for practitioners. However, when it comes to providing a basis for a positive theory of marketing as exchange, the microeconomic world view is inadequate. The emphasis on marketing technology being a strength for the marketing management tradition becomes a weakness when the objective is to build a theory of the organization of exchanges in the marketplace. Such a theory would seem to require a research paradigm going beyond the one actor, given goals perspective. Furthermore, the paradigm must include conflicts within and between organizations and the structuring of external relations.

Such a paradigm is the political economy world view.

## A Political Economy Approach to Marketing

The term *political economy* was introduced in the 17th century to denote what is today referred to as eco-

nomics. In modern usage, political economy has taken on different meanings. There are several contemporary streams within political economy such as radical political economy, the Chicago school of economics, etc. This article will mainly build on what may be called the organizational approach to political economy. Hence, it will view social systems as "comprising interacting sets of major economic and sociopolitical forces which affect collective behavior and performance" (Stern and Reve 1980, p. 53). More specifically, political economy emphasizes the interplay of power, the goals of the power wielders, and the productive economic exchange systems (Buchanan 1964).

The political economy paradigm may be used in micromarketing as well as macromarketing contexts. Macromarketing may be defined as "the study of exchange activities and exchange systems from a societal perspective" (Shawver and Nickels 1979, p. 41). At this level, the political economy paradigm has been used to theorize about the interplay of the three main social and economic control processes: markets, politics, and bureaucracies (Arndt 1981).

Here, however, the concern is with micromarketing phenomena. The political economy world view has proved quite flexible in conceptualizing about organizational behavior. Its usefulness has been documented in the analysis of individual organizations (Zald 1970b) as well as of interorganizational networks (Benson 1975), and for business firms as well as for public agencies (Wamsley and Zald 1976) and nonprofit organizations (Zald 1970a).

Stern and Reve (1980) have extended the political economy framework by adapting it to the "superorganizations" of marketing channel dyads. Their state-of-the-art article demonstrates the generative power of the framework by developing a set of intriguing testable hypotheses. With the objective of discussing channel relations, it was sufficient for Stern and Reve (1980) to outline the main dimensions of political economy (external/internal and polity/economy). This article goes one step further by "filling in some of the cells"—identifying main components or elements of political economy analysis. A second purpose is to show the wider applicability of the paradigm which may be used for a variety of marketing problems.

The next section outlines the conceptual foundations for political economy analysis. Then the framework is illustrated by one marketing application.

## Conceptual Bases for the Political Economy Paradigm

Most marketing studies based on the microeconomic paradigm have drawn on economics, learning theory, and cognitive and social psychology. The political economy paradigm also utilizes constructs from or-

ganization theory, political science, and sociology. Particularly central notions come from the areas of social exchange, the behavioral theory of the firm, and transaction cost economics.

The political economy world view means positioning marketing as exchange behavior, the social unit being a marketplace for the exchange of scarce resources. (The term *social unit* is preferred to the more narrow concept *organization*. *Social unit* hence encompasses organizations, groups, families, etc.) The focal social unit (the unit that is the object of analysis) is conceived as a political coalition of internal and external interest (stakeholder) groups having partly common and partly conflicting goals. This notion is the core of the behavioral theory of the firm (Anderson 1982, Cyert and March 1963). The task of marketing (or rather general management) is to work out acceptable "exchange ratios" for the various interest groups (labor, stockholders, bankers, distributors, consumers, local and national government, etc.) which give time, money, raw materials, and fabricated parts "legitimacy," etc., and in return receive money, finished products, ego gratification, etc. (Arndt 1979).

The interest groups are oriented to the acquisition and defense of a secure and adequate supply of critical resources (Anderson 1982, Pfeffer and Salancik 1978). At the current stage of knowledge, there is no basis for making any exhaustive listing of such critical resources. However, interorganizational theorists such as Benson (1975) claim that money and authority are the two basic types of resources. These can be used as a common currency to acquire other resources (personnel, information, etc.).

Finally, the political economy is also inspired by transaction cost economics integrating parts of microeconomics, contract law, and organization theory. As developed by Williamson (1975), this tradition centers on the transaction cost advantages of different forms of internal and external organization (interorganizational form) of transactions, within the constraints of bounded rationality and opportunistic behavior.

Common to most applications of political economy analysis, including the present article, is the delineation of a set of *dimensions*. Next, these dimensions will be used as a basis for developing a *typology* of key components of political economy.

### Dimensions of Political Economy

Political economy analysts such as Zald (1970b), Benson (1975), and Stern and Reve (1980) propose that the following three dimensions are particularly central in the comparative analyses of organizations:

- polity–economy
- external–internal
- substructure–superstructure

*Polity* refers to the power-and-control system of a social unit, a network of social units, or society. The polity encompasses both power and the values (ends) which power is used to achieve. The *economy* is the productive exchange system of a social unit or society transforming "inputs" into "outputs." Hence, the economy is concerned with the arrangement of the division of labor and allocation of resources for task accomplishment and maximization of efficiency. An essential characteristic of political economy is the insistence of simultaneous analysis of the polity and the economy, with particular emphasis on the interdependencies.

The second dimension relates to the *external* (environmental) vs. *internal* (organizational) polity and economy. The boundary of this dichotomy depends on the unit of analysis. When the interest centers on interorganizational linkages such as channels of distribution (as in the marketing application of the paradigm to be presented below), the focal *network* will constitute the internal sphere. In turn, laws, regulations, and regulatory agencies are examples of elements of the external sphere.

The third dimension, proposed by Benson (1975), is the distinction between *substructure* and *superstructure*, building in a loose way on the original Marxian conception. Superstructural variables such as sentiments and behaviors are viewed as determined by (and in some cases, restricted by) the underlying substructural pattern of dominance.

### A Typology for Political Economy Analysis

It has become customary to develop typologies for political economy components on the basis of the two dimensions, polity-economy and external-internal. Hence, the resulting frameworks tend to analyze po-

litical economies as the structure, processes, and interaction of the following four broad fields: political environment, economic environment, internal polity, and internal economy (Stern and Reve 1980, Wamsley and Zald 1976, Zald 1970b). Such a two-by-two typology does not ignore the substructure-superstructure dimension. As mentioned above, superstructural constructs such as sentiments and behavior can be viewed as dependent variables determined by external and internal political economy.

The proposed typology is presented in Figure 1. The main departure of Figure 1 from previous work is the introduction of a "Relations to the Environment" category intervening between the environment and the internal political economy. It is not always meaningful to dichotomize the environment into political and economic forces. A given external interest group such as suppliers may involve both economic and political forces. Hence, the dichotomy will not be used for the environmental social units themselves but for the *relationships* between the focal social unit and the environment.

The proposed typology includes the following five major fields: the environment, external political relations, external economic relations, internal polity, and internal economy.

*The Environment.* Empirical research on organizational behavior has underscored the dependence of organizations on their environments (Aldrich 1979, Pfeffer and Salancik 1978). However, to get from such a general recognition of the external control of organizations to a theoretically meaningful and operational framework is a vast navigational task in still mostly uncharted waters. It will be necessary to find a compromise between excessive detail and too much abstraction-defying observation. It appears futile to at-

**FIGURE 1**  
**Major Components of Political Economy**

Environment	Relations to the Environment	Internal Structure and Processes	
	<b>Political Relations</b> Dependence relations Interorganizational form Control mechanisms	<b>Internal Polity</b> Goals of the social unit Distribution of power Power bases Boundary-spanning positions Mechanisms for managing conflicts	<b>POLITY</b>
<b>Characteristics of the Environment</b> Proximity Capacity Differentiation Concentration Turbulence	<b>Economic Relations</b> Competitive markets Quasi-integrated systems Integrated vertical marketing systems	<b>Internal Economy</b> Structure of the social unit Internal exchange processes Allocation rules Incentive systems	<b>ECONOMY</b>

tempt to develop a reasonably complete list of external interest groups or list of relevant variables in the environment. As Achrol, Reve, and Stern (1983) argue, such "itemization" would result only in an inventory of situational facts limiting the generalizability across time and space.

A more useful approach is to identify most important dimensions of the environment or the external forces. The following five dimensions presented below are common to many attempts to develop inventories of environmental dimensions (Achrol, Reve, and Stern 1983; Aldrich 1979; Benson 1975; Pfeffer and Salancik 1978): (1) proximity to the focal social unit, (2) environmental capacity (referring to the availability of resources sought in input and output markets which may be characterized as being "rich" or "lean"), (3) environmental differentiation (the degree to which elements of the environment are heterogeneous and complex), (4) environmental concentration or dispersion, and (5) environmental turbulence (the rate of change and the interconnectedness among change processes).

As Achrol, Reve, and Stern (1983) observe, a superordinate dimension is environmental uncertainty or predictability, which is a function of dimensions (2) to (5) above. Hence, the uncertainty is high when there are lean, differentiated, concentrated, and turbulent task environments.

*External Political Relations.* Environmental political interactions differ from economic relations in that they involve attempts to influence the decision premises of the parties to the relationship. To achieve their goals, marketing institutions organize their environments by forming external alliances with other organizations in the lateral environment, structure or administer vertical relations with suppliers or customers, and have direct contacts with the most powerful parts of the regulatory environment (Pfeffer and Salancik 1978). Similarly, external actors may make conscious efforts to affect the social unit's goals and internal functioning. In contrast, strictly economic relations involve no attempt to change organizational goals or to affect power relationships as they refer to transactions within a given framework (Zald 1970b, pp. 231-232).

The distinction between political and economic phenomena is related to the difference between the concept's organizational *effectiveness* (the external standard of performance) and organizational *efficiency* (the internal standard). The basic decisions about how to structure the interorganizational exchanges clearly belong in the polity realm. Hence, a pivotal polity function is to ensure organizational effectiveness—that is, to promote legitimacy by meeting the demands of the various interest groups involved in exchanges with the social unit. On the other hand, the routinely cost-

efficient handling of transactions within the given framework, the matter of organizational efficiency, falls into the economy sphere.

The following three aspects are believed to be particularly important for understanding the relations between the social unit and the external polity: the dependence relations, the structuring of interorganizational forms, and the control mechanisms.

The power of the focal social unit vis-à-vis a part of the external polity is inversely related to its dependence on that part for a given scarce resource. Hence, if there is only one supplier of a given critically needed specialized machine used in the production process, and there are no easy substitutes or alternatives, the distribution of power is heavily in favor of that supplier because of his/her monopoly position. While the distribution of power determines the *potential* influence of the external polity, the *actual* influence depends on the extent to which the power is used. Two main channels for power implementation are structuring of interorganizational relations and control mechanisms.

The interorganizational form of marketing channels may vary from, at the one extreme, competitive market relations and loosely coupled marketing systems, to, at the other, complete vertical integration or corporate exchange systems where hierarchy (internal transfers) has replaced the market transactions (Williamson 1975). During the last decades, intermediate interorganizational forms have grown in importance. Such so-called "quasi-integrated" systems may be in the form of contractual vertical systems or administered systems (Stern and El-Ansary 1982). In general, the more the focal social unit is tied in with a stable external political and economic structure, the more areas of internal decision making will be affected by the external polity (Zald 1970b, p. 232).

Control mechanisms are the external means of influence for affecting internal decisions and actions. Mintzberg (1979, pp. 65-67) has identified the following five control mechanisms: social norms, specific constraints, pressure campaigns, direct controls, and membership of the board of directors.

As is the core of the so-called "Agency Cost Model" (Jensen and Meckling 1976), the external polity may be expected to trade off the reduction in the flow of wanted resources from the focal social unit against the costs of the monitoring and influencing activities.

*External Economic Relations.* As mentioned, the normal use of the transactional arrangements or the decision-making modes is viewed as being a part of the external economy (the *design* of the interorganizational form or structure, however, involves the external polity). Obviously, process is related to structure. Competitive markets are usually characterized by automatic, spontaneous, atomistic, impersonal de-



cision making. Both bargaining and administrative routines specified in contracts are often found in quasi-integrated systems. Fully integrated vertical marketing systems normally use various forms of hierarchical, centralized decision making.

**Internal Polity.** The internal polity refers to the power system of the social unit—the way authority is distributed, mobilized, utilized, and limited (Zald 1970b, p. 237). Power is an end in itself, being one of the two ultimate resources sought (as will be remembered, the other resource is money). At the same time, power functions as a means to other ends, enabling the attainment of other goals. The internal polity can be described in terms of the following five main dimensions: goals of the social unit, distribution of power (Zald 1970b, p. 238), power bases (French and Raven 1959), boundary-spanning positions, and mechanisms for managing conflicts (Stern and El-Ansary 1982, pp. 292–299). Though this listing makes no claim of being exhaustive, these dimensions are believed to be particularly fundamental.

**Internal Economy.** In principle, the polity establishes the structure of the internal economy to ensure the efficient functioning of the internal productive processes and internal transfers. Hence, the task of the internal economy is to coordinate behavior and to allocate resources to produce an output of sufficient interest for external exchange partners. Four aspects of the internal economy appear to merit particular attention: structure of the social unit, internal exchange processes, allocation rules, and incentive systems (Wamsley and Zald 1976, Zald 1970b).

Few issues seem to have received as much research attention in organizational sociology as the role of organizational structure (Hall 1977, p. 97). The following three structural dimensions are usually singled out as being particularly important: *complexity* (horizontal and vertical differentiation or subdivision of tasks), *formalization* (the degree to which internal decision making is governed by explicit rules and fixed policies), and *centralization* (the degree to which decision making is concentrated in high levels of the hierarchy) (Hall 1977).

The structure of the social unit (in terms of the dimension's complexity, formalization, and centralization) is in turn expected to be directly manifested in the internal interactions—the internal task-related flows of activities, resources, and information. Important dimensions of such flows are direction, scope, complexity, intensity, and variability.

The allocation rules refer to the accounting budgeting, information, and decision instruments developed by the polity to enforce compliance with the decisions made and to promote efficiency. Marketing examples include sales budgets, salesperson quotas, sales force cost budgets, advertising budgets, etc.

The final aspect of the internal economy is the design and practice of rules to distribute the rewards available so as to motivate employees to perform in accordance with the goals of the social unit.

The political economy framework does not specify any fixed behavioral chain for the relationships among the five fields in Figure 1. Yet, it is possible to make causal formulations. A common pattern is that the internal polity is affected by its relations to the external polity (and to some extent, to the relations to the external economy). In turn, the internal polity transmits rules and allocates resources to the internal economy (Zald 1970b, p. 231).

To return to the point of departure, the political economy framework is a paradigm—the foundation of theory rather than theory itself. As a paradigm, political economy specifies key research questions to be asked and the major constructs, and suggests main research strategies. To illustrate the usefulness of the political economy paradigm, the next section presents a marketing application in a channels setting.

## A Study of the Political Economy of Marketing Channels

The perhaps first major marketing study building explicitly on the political economy paradigm is Reve's (1980) investigation of dyadic channel relationships.

The background of the study is the fact that earlier competitive markets are to an increasing degree being replaced by vertical marketing systems involving a high degree of interorganizational coordination (Arndt 1979, Stern and El-Ansary 1982). Such coordination involves long run contractual relations among marketing organizations and the use of power and influence strategies.

The two main research questions addressed by Reve were:

1. What are the effects on channel sentiments (the superstructure of the political economy of the channel dyad) of centralized decision making, formalized interactions, and coordinative, joint programs?
2. What are the effects of the same variables on the economic performance of the channel dyad?

It is doubtful that these research questions could be adequately dealt with using a microeconomic approach centering on costs, functional differentiation, and market structures. Conventional microeconomics would even be likely to ignore altogether "intervening" variables such as channel sentiments. Two main considerations comprised Reve's conceptual framework. First, marketing transactions inside the channel were viewed as exchange processes. To analyze the implementation of marketing functions and flows, it



was then necessary to examine the structuring of such intrachannel exchanges.

This leads to the second consideration. In conceptualizing about the interorganizational linkages within the channel, Reve drew on and extended concepts originally developed in organization theory for single organizations, as suggested in the review article earlier quoted (Stern and Reve 1980). In terms of Figure 1, such an extension means that "internal structure and processes" now refers to the functioning inside the *channel* (and not inside the organization of the individual channel member).

In line with the research questions posed, Reve's conceptual framework contained three main groups of constructs: internal structure and processes, channel sentiments, and economic performance variables.

In consonance with the political economy paradigm, the two structural dimensions used by Reve were centralization and formalization. The internal exchange processes dimension in Figure 1 was measured in terms of joint programs. The next group, channel sentiments, was dimensionalized into goal compatibility, domain consensus, evaluation of accomplishment, and norms of exchange. Third, the economic performance variables included a wide range of constructs such as gross profit margins, return on assets, and turnover, both for each seller and retailer separately and for the channel dyad combined.

In the formulation of expected relationships among the three variable groups, Reve developed two alternative sets of hypotheses. The first set, building on the transaction costs economics theory of Williamson (1975), assumes that a high degree of vertical integration makes for superior communication, programming, and control. This means positive relations among the three variable groups. The alternative formulation, based on sociopolitical theories of interorganizational relations, on the other hand, hypothesizes that imbalanced power relationships and use of domination strategies lead to conflicts and unfavorable channel sentiments (which in turn lead to reduced economic performance).

Reve's sample was 99 wholesaler-retailer dyads connected by trade relationships. Two sets of mail surveys ensured measurement at both channel levels. While a more detailed discussion of the findings is beyond the scope of this paper, it should be mentioned that the results gave partial support to both sets of hypotheses. Joint programs and formalization were found to be positively related to channel sentiments; hence, supporting the transaction costs theory hypothesis. However, for the structural variable centralization, there was a negative relationship in consonance with the sociopolitical hypothesis. For the performance variables, the results were weak and conflicting.

Because of its comprehensive scope and innovative design, the Reve study is likely to become a benchmark contribution in the application of the political economy paradigm. If the paradigm were used to further extend this study, the internal exchanges could be linked to the structures and processes regarding the interactions between the channel and its environment (as suggested in Figure 1). For instance, a contingency model approach may view environmental factors as moderating the relationship between channel structure and sentiments. In highly uncertain environments retailers may be likely to tolerate if not to demand more centralized decision making and control. Inclusion of environmental variables might also improve the prediction of economic performance.

## Potentials and Limitations of the Political Economy Paradigm

For the evaluation of theories there are widely accepted theories of science criteria (Hunt 1976; Zaltman, Pinson, and Angelmar 1973). For paradigms as defined here, however, there is no consensus on what criteria to use, as is evident from the debate on Kuhn's ideas (Lakatos and Musgrave 1970). To institute a rigorous set of formal criteria would seem to be in conflict with the essentially creative function of paradigms: to inspire and support theory building. Maybe it can be defended to evaluate paradigms by integrative power and generative power.

As pointed out earlier in the article, the political economy paradigm integrates important concepts from traditions such as social exchange, the behavioral theory of the firm, and transaction cost economics by synthesizing them into one world view. It is also clear that political economy is related to many of the subfields within marketing. For instance, the macromarketing school addresses the environmental sphere in the paradigm. The consumer/ecological activist subfield similarly focuses on the interplay of environmental conditions and corporate response.

The generative power of political economy was illustrated in the Reve (1980) study and the original Stern and Reve (1980) position paper for the marketing channels area. Of course the applicability of the paradigm is not limited to the channels area. For instance, the industrial buying subfield appears to be dominated by process models emphasizing short-term, situational phenomena (Johnston 1981). The political economy world view would, as alternative, move the focus to structural constructs, such as the establishment and maintenance of transactional routines with suppliers. In consumer behavior analyses, the household may be viewed as a special case of small organizations leading to emphasis on goals, power bases, conflict management, and allocation rules. Third, the

political economy paradigm may also contribute to the development of contingency theories for the organization of the marketing functions (Anderson 1982, Weitz and Anderson 1981) by directing attention to the functioning of alternative internal and external structures.

The most important limitations of the political economy paradigm relate to the methodological problems and the vagueness and incompleteness of the framework.

Several serious methodological problems remain in testing theories based directly on political economy. The paradigm specifies many constructs and relationships which are difficult to capture through conventional tools such as cross-sectional surveys. However, at least in exploratory work, small scale case studies and unobtrusive methods such as content analysis of documents may be feasible. Furthermore, the political economy paradigm normally (but not necessarily) implies the use of key informants within the organization or within the network of organizations, with the resulting problems of reliability and validity (John and Reve 1982, Phillips 1981).

As compared with the precise microeconomic paradigm, political economy at its present level of development is vague and imprecise. The paradigm may well inspire theories which are mutually conflicting.

Finally, the paradigm still is incomplete. For instance, like much of the work in organization theory, the political economy framework may be criticized for putting too little emphasis on the performance or goal attainment of social units in terms of effectiveness and efficiency. The failure of Reve (1980) to uncover significant relationships between channel structure and performance is symptomatic of the situation.

At this point it should be clear that the microeconomic and political economy paradigms are complementary rather than alternative. The microeconomic framework, with its emphasis on controllable variables and problem solving, is appropriate in the normative marketing management tradition. However, for the building of positive theories in marketing, the political economy world view would seem to be a more relevant base.

## Concluding Comments

Contemporary marketing thought is still profoundly dominated by the perspective of the microeconomic paradigm, taking the organization and its goals as givens. In marketing applications this paradigm centers on the profitable manipulations of the marketing mix. As suggested by Kuhn (1962), being the dominant world view, the microeconomic paradigm tends to remain unquestioned and assumes a status of being real and routine.

The political economy paradigm offers an alternative formulation by integrating economic structures and processes with sociopolitical phenomena. Marketing organizations are treated as social systems—dynamic, adapting, and internally differentiated. Important dimensions of marketing behavior are authority and control patterns, distributions of power, conflict and conflict management, and external and internal determinants of institutional change. Changes in economic processes are linked to the structure and goals of social units and the influence of external power wielders and dominant internal interest groups. The political economy paradigm encompasses the marketing-as-exchange notion and places it in an organizational perspective.

The political economy framework directs attention to two main areas where marketing has special responsibility: (1) interorganizational management, and (2) internal marketing.

The political economy approach implies defining the “identity” or “character” of the focal social unit in terms of its exchange relations to other social units such as suppliers, customers, joint venture partners, etc. Hence, the social unit is a part of a network or social unit set linked together over time by a system of structured exchanges. The ties may be of a technical, economic, social, political, emotional, informational, or competence nature. The role then for marketing is to develop, maintain, and deepen the interorganizational network relations.

So far the marketing discipline has mainly been concerned with what may be termed *external marketing*, relationships between the focal social unit and its environment, with emphasis on boundary personnel groups, such as marketing managers and buying center participants. The political economy framework also points to the internal tasks of the marketing function, so called *internal marketing*.

The three major tasks of internal marketing are the information function, the competence development function, and the motivation function. Efficient implementation of marketing decisions requires dissemination of information to and from all internal groups that will be involved in or affected by the marketing activities. Another internal marketing function is competence development or human resources management. This is particularly important in service companies where “the organization is the product.” Third, there is the development and maintenance of incentive and motivation systems for rewarding marketing performance. Ouchi’s (1981) work on “Theory Z” suggests that one of the main ingredients of the Japanese commercial success is their mastery of internal marketing problems.

In sum, political economy should be viewed as an

integrative research paradigm for the comparative study of organizations at the micro level. While political economy does not provide the answers, the paradigm

offers a framework for defining the proper research questions to be asked. And that is no small potential contribution.

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