DEVELOPING THE INSTITUTIONAL NETWORK APPROACH TO MARKETS AND BUSINESS MARKETING PRACTICE

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Abstract

Based on a socio-economic perspective and the business marketing reality of emerging country markets, this conceptual paper develops the institutional network approach to markets. The purpose is to compare markets and marketing practices in and between emerging markets as well with mature markets. To give a background to the socio-economic approach developed, other major approaches to the relation between market forms and marketing are discussed, viz. the neoclassical perfect market, market imperfections theory, the market as economic institution, and the market-as-network approach. The latter perspective is developed further by using institutional theory. Based on a combination of four basic rules inherent in every institution, the business marketing practice is found to follow either the efficiency based logic or the legitimacy-based logic. Due to emerging markets being characterized as network societies, three major efficiency-oriented network practices are distinguished.The legitimacy-oriented marketing practice is expressed in the matching strategy and is oriented towards satisfying non-economic goals.

Keywords

Institutional network approach**,** emerging country markets, market forms, business marketing practice

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Introduction

There is a resurgent and growing interest in the linkage between business marketing (also called industrial marketing or business-to-business marketing) and the market, in particular represented by the practice-based approach to markets and marketing (Araujo, 2007; Araujo et al 2008; Kjellberg & Helgesson, 2006, 2007). But this new-born interest comes after a long period of scant interest in the issue compared to the large focus on it in the 1970's and 1980's, when the foundation of the IMP field was laid. In the 1970's much research was done on market structures to study why the empirical findings on the marketing behaviour of industrial firms differed from the behaviour in consumer markets. The then newly developed 'market imperfections' theory was primarily used to study the markets, mainly the structure-conduct-performance theory of industrial organization. It provided new insights into the market structure compared to the traditional market types found in neoclassical economic theory such as perfect competition, oligopolistic competition, and monopolistic competition. A little later 'market failure' theory or transaction cost theory became popular as another approach to understand the linkage between markets and industrial marketing, in particular the markets-and-hierarchies theory developed by Williamson. Its strong focus on intermediate vertical market forms inspired the development by IMP researchers of the industrial network as a third form in-between the market and hierarchy, defined as the markets-as-networks approach. Despite this early interest in transaction cost theory, its impact on describing and explaining marketing behaviour in business markets has been negligible in comparison with theories from monopolistic competition and industrial organization. Rather, the market as a social arena has come to be the dominant view within the IMP field. The inter-organizational foundation includes social and political aspects originating from social exchange theory, social network theory and 'power/dependency theory'. Business marketing is determined by a mix of social and economic influences (Jansson, 2006, 2008).

Problem, Purpose and Outline

A major problem is that this mix makes the market as an arena for exchange, transactions, or relationships unclear. Is it a market as depicted in economics, a social arena, or both? The few attempts to develop this proximate environment of business marketing according to the markets-as-networks approach have got stuck in the middle between economic theory and social theory. In addition, the focus of most IMP research is on marketing and not on markets. It is about describing and explaining business marketing itself, i.e. the behaviour rather than the forum where it takes place: the market. This back-stage role played by the market implies that the connection between markets and marketing is of minor interest. Another sign of this is that when markets are actually studied, the focus is more on certain factors in the market than on the market as an entity. E.g. marketing is rarely related to any particular market structure. One may even say that the market is mostly taken for granted.

Thus, there is a need to develop the relation between markets and business marketing, which is done in this paper. Its focus is more on the market than on marketing, since the market as a foundation to marketing needs to be developed first. The major market forms giving different views on marketing are elaborated on. The discussion is concentrated to the more specific international markets found in transition economies of Eastern Europe and Asia. The purpose is to make it possible to compare how market forms differ between countries and regions in order to lay a foundation for studying the interplay between the market and the marketing activities. How markets influence business marketing practice is therefore also taken up.

The article applies a specific socio-economic perspective to markets and marketing, which is defined as the institutional network approach (INA). It is interdisciplinary, since it combines economic and social theories. The markets-as-network approach is developed further by using institutional theory, implying that the market as an institution is developed along similar lines as found in Araujo (2007).

The INA shares many basic characteristics with the more recently developed practice-based approach (Kjellberg & Helgesson, 2006; 2007). First, both develop the original idea of IMP research: that social reality rules. Second, the interest is in the interplay between market and marketing activities. However, there is a difference in focus. While the INA concentrates on how marketing activities are influenced by the market, the practice-based approach is more interested in the opposite relation, i.e. how markets are constructed through the marketing practice. Both build on the epistemology of scientific realism (Hunt, 1991). When Kjellberg & Helgesson (2006) combine this perspective with ontological relativism, they characterize their methodological stance as practical constructivism, implying that the on-going construction of social reality is studied, that is excluding the physical reality. This is also a suitable perspective for the INA, marketing practice then being assumed to be constructed differently depending upon how the international market is constructed. The practice based approach, on the other hand, directly studies how social reality is constructed. In addition, contrary to studying micro processes, the INA focuses on the meso and macro levels.

This theoretical development of the market as a foundation to marketing is based on the reality of the actual marketing activities of firms. It is founded on the author being involved in studying this reality during a long time, around thirty years. To give a background to the socio-economic approach developed in the article, other major approaches to the relation between market forms and marketing are discussed. Therefore, the treatise starts from the early dawn of the establishment of the modern formal market and the theory behind it, viz. in economics with the mother of all markets, the neoclassical perfect market. In this market, the behaviour does not include any marketing practice at all. Such behaviour is introduced in monopolistic competition, which is one of the cornerstones of the markets-as-networks approach. The relation between market form and marketing practice is then developed further in a section on market imperfections theory. Another approach to markets is represented by the market as economic institution, which is especially relevant for business marketing practice, and which is taken up next. Then follows a discussion of what the markets-as-networks approach implies for the relation between market form and marketing practice.

The Perfect Market

The mother of all markets is the neoclassical perfect market, where there is only price behaviour. The market is characterized by perfect information, fully rational decision-makers, atomistic competition, homogeneous resources, and no entry and exit barriers. Price decisions are assumed to take place only by individuals, who are fully informed about everything. Marketing is therefore assumed out of the picture, since there is no need for information. The actor in this market is called economic man, who is perfectly rational and emotion-free, has complete information on all decision alternatives, and who has the capacity to calculate and select the best alternative. The values and norms behind this rationality were developed already in the 16th and 17th centuries by the mercantilists and by the early economists in the 18th century, for example Adam Smith, and were finalized at the end of the 19th century in discussions on the emerging consumer society. This highly stylized economic world is more or less isolated from society at large. One of its basic values is social atomism, where individuals are defined as independent, anonymous and individual market actors, acting only on price information. Society is based on values of selfishness or egoism, and behaviour is regulated by economic incentives and sanctions. The individual is free to choose his or her own actions irrespective of background, thus being removed from the social background. Economic man has supremacy, since society is to be organized to make maximization economic behaviour possible. For example, another value premise is that the state should stay in the background and act as a ”night watch”.

The Imperfect Market

This ideal representation of a completely rational decision maker expressed as economic man is the foundation of the efficiency orientation of mainstream economics. However, more realistic market forms have been developed by economists over the years by taking away some of the strict premises of the perfect market. In oligopolistic market forms, for example, the indefinite number of sellers have been replaced by a small number, which gives another price behaviour than in the perfect market. Monopolistic competition, on the other hand, is based on that homogeneous resources are heterogeneous, meaning that information is now imperfect, and that more decision parameters are introduced into the economy, which makes room for marketing. Decision makers start to become a little human, since they now have a more limited cognitive capacity and their rationality is bounded.

Still, these market forms simplify too much and do not contribute much towards knowing how markets work in reality. This situation changed drastically in the 1960’s and 1970’s with the development of theories on industrial organization or market imperfections. Markets started to be studied not as deviations from a perfect market but as the imperfect markets they are. Mainly models were developed on the structure of the imperfect market to explain the conduct and performance of firms, e.g. concentration ratios of horizontal and vertical market structures and scale economies (e.g. Bain, 1956; Caves, 1979; Scherer 1980). Market structure has come to be studied in two principal ways. One looks at industry structure to explain why different industries develop in different ways, the other looks at the pattern of firm growth within a typical industry to describe the evolution of the size distribution of firms.

The five forces model developed by Porter (1980) to know about strategy in an industry is a good example of the pervasive influence of market imperfections theory on what determines firms' marketing conduct, and performance.

As part of this development, different other ways for how people think when making economic decisions have been suggested, mainly different forms of rules of thumb. One decision routine emphasizes a satisfying behavior rather than a maximizing behavior, where a limited number of alternatives are searched, evaluated, and decided on in specific ways (Cyert & March, 1963). A number of empirically based rules of thumb have been found, for example:

- People tend to look for information that support a certain line of reasoning rather than for information that are against it.
- People tend to simplify by overlooking what is remote in time and space.
- Acts of simplification are influenced by social norms and individual aspirations, perceptions and experiences. (Sjöstrand, 1997, pp. 50-52).

Thus, these 'imperfect' but more realistic 'logics-in-use' makes the classical cognitive rationality represented by economic man rather doubtful. Still, the shared understanding behind these logics or heuristics is often based on this classical rationality

The Market as Economic Institution

The market as economic institution can be traced back to the first American institutional economists, who were active in the beginning of the 20th century, mainly John Commons and Thorstein Veblen. They were in their turn very much influenced by the German historical school from the end of the 19th century. Already then and still today institutional ideas in economics build on calling into question the validity of mainstream neoclassical economic theory. The basic idea is that this economic theory is too narrow, since it does not place the economy into its societal context. It is like studying the bloodstream without studying the body. The major ideas that united these early different institutional economists are well summarized by Carlson (1995):

1. The static and mechanical general equilibrium theory should be replaced by a dynamic theory about evolutionary processes. Economics should be inspired by Darwin's world view based on biology rather than on Newton's world view based on physics.
2. The economy cannot be studied in isolation from the rest of society. This holistic idea implies that the economist should work in a cross-disciplinary way and benefit from knowledge in psychology, sociology, anthropology, and law.
3. Neoclassical theory builds on unrealistic assumptions about the individual as a utility maximizer in a market characterized by perfect competition. This simple idea should be replaced by more realistic models on the market and a social-psychological perspective on the individual, who is both egoistic and altruistic.
4. The evolutionary process is not about invisible hands controlling individuals in harmonious ways but about individual and organized interests that sometimes clash and sometimes cooperate.
5. To reduce individual choice and reduce the risk for conflicts, habits and collective control mechanisms evolve, viz. institutions. Individual behavior influences the institutions and the institutions influence individual behaviour.
6. There is an inter-play between institutions and technical development. Mostly, changes in production technologies result in changes in institutional arrangements. Since groups are influenced differently by technical changes, some groups will change their behavior faster than others, which lead to conflicts.
7. In the modern industrial society, there is a basic conflict between production technology that makes large-scale production possible, and the business mentality, which main purpose is to earn as much money as possible. Since production is subordinated to business mentality, production capacity is not fully utilized. This is the well-known conflict between the long-term oriented industrialist and the short-term oriented financier.
8. The price mechanism does not work as a seamless coordination mechanism in an economy consisting of both competition and monopoly parts. It does not allocate resources between

various activities in an efficient way, creates unfair income gaps and does not manage to keep economic activity at a high and permanent level.

The works of these institutional economists only became important from the 1960's and onwards. One major reason was the growing importance of socio-economic issues, where the limits of neoclassical economic theory became too obvious to neglect. Examples of such issues concern labour, environment, developing countries, globalization, big business and multinational corporations. Another major reason was the crisis for Keynesian economic theory (Carlson, 1995). The new institutional school is one major school that developed. Its basis is on transaction cost economics, an idea that originates from John Commons. The most well-known scientists promoting this institutional orientation are Ronald Coase, Oliver E. Williamson and Douglass North, and where 'Law and economics' is one major new research field. As will be discussed below, the study of the market as an economic institution also builds heavily on this tradition.

However, the new institutional school is not very holistic in its outlook. It resides within the economics discipline. It is a broader economic theory, where some basic assumptions of neoclassical theory have been replaced by more realistic assumptions, e.g. those about perfect information, perfect markets, and fully rational decision-makers. It mainly relates to one non-economic institution, viz. law, and which is studied from an economic perspective. Except for North, transaction-cost theory is static, and does not deal with economic development processes.

Contractual man

A later form of 'economic man' based on the same fundamental nature of man is the 'contract man' founded on transaction cost theory and agency theory. Here, man is not only egoistic but also deceitful and opportunistic. Therefore control of individuals becomes the key issue in markets and firms, either by punishing them or rewarding them. Transaction cost theory stresses the former aspect, i.e. the importance of authority (fiat), the staff being tightly monitored and controlled (Williamson, 1975, 1985, 1991). Agency theory stresses the latter part, i.e. incentives, e.g. by making large stock options an important part of managers' compensation. Thus, as most economic theory, enforcement mechanisms are pinpointed.

Vertical Market Forms

The market as an institution is mainly based on Williamson (1979, 1985). Market governance is based on the perfect market in neoclassical economic theory, where exchange is costless. However, an ideal market of this type has nothing to do with reality. Market governance as defined by Williamson (1979) is a better theoretical representation of a price-dominated type of market institution. It comes close to the perfect market, but the congruence is not complete, since there are costs for transacting. It is a highly formalized market, in which information is not sought about potential buyers and sellers, since these are lacking by definition. The assumption of atomistic competition is retained. The identity of individual actors in the market is thus irrelevant. Discrete transactions are emphasized. The closeness to perfect competition is evident in the fact that the entry and exit to the market is free, and not regulated. Knowledge of the market is also at a high level. Even the future is predictable and can be related to the present through information about prices, products and quantities. Such assumptions make it possible to specify contracts in detail, e.g. stipulating the rights and obligations of the parties under various circumstances. Market governance represents the main governance structure for non-specific transactions. It is based on classical conceptions of contracting, in terms of which "third party participation is discouraged. The emphasis is thus on legal rules, formal documents, and self-liquidating transactions" (Williamson, 1985, p. 69). Note that the functioning of a specific legal system is assumed, in Williamson's case the U.S. system. Market governance is thus very abstract and comes rather close to the markets found in the pure competition model. The most important characteristic is that most of the information is contained in the price. Price is the dominating control mechanism. It is a carrier of information about products and quantities, as well as about incentives, coordination and the allocation of resources. Market governance is signified by discrete transactions, price being determined by the market itself and where price cannot be influenced by any single buyer or seller. In addition, relationships are unimportant, transactions are repetitive, and switching costs are low

In bilateral governance, the relationship as such is focused and not discrete transactions or the agreement. Established relationships are used for such transactions instead of going to the market. Business is not seen as a process of continuous adaptation to changing conditions, but rather as adaptations made within continuous relations. Business exists and takes place through a network of contacts that are bound by rules or routinized arrangements of a formal and informal nature. Price is chiefly supplemented by informal sanctions as a main control mechanism. Trust is established in order to get the behaviour routinized.

In trilateral governance transactions are safe-guarded in a different way. Assistance from a third party is taken to solve disputes and evaluate performance, which is most relevant in organizing markets for very complex products like machines and projects. The emphasis is then on the individual agreement. Transactions take place in the development of such a formal agreement, and interactions subsequent to the agreement are guided by it. Price is supplemented by rules as another important control mechanism (Jansson, 1994).

The Market as Network

According to the industrial network approach to business marketing, the market is viewed as a network (Easton, 1992; Håkansson & Johanson; Håkansson & Snehota, 1995; Hägg & Johanson, 1982; Johanson & Mattsson, 1988; 1992; 2005; Mattsson, 1997). Based on the observation that marketing practice occurs through relationships in networks, it is concluded that the market structure consists of strong interdependencies between firms organized in networks. Thus, marketing practice influences the market structure rather than the other way around. Actually, the forest in the form of the market is mostly not seen for all the trees in the form of relationships. Due to the strong social content of these relationships, it is concluded that the market is primarily a social arena rather than an economic arena. Sociology theory then becomes important and is used to describe and explain business behavior in networks, e.g. Granovetter (1985), whose basic argument is that economic behaviour is embedded in social networks. The networks are also characterized by high power dependencies, whereas social exchange theory is used, cf. Blau (1964), Cook & Emerson (1984), Emerson (1962), Pfeffer & Salancik (1968). A third major argument is based on economics and relates to one major market imperfection, viz. that markets are characterized by heterogeneity and not homogeneity. This originates from monopolistic competition and is mostly used as a premise and not as an explanatory factor. Basically, it is assumed that industrial networks consisting of differing individual firms exist to match heterogeneous resources to heterogeneous demands. However, this argument is too limited and pulled out of its economic market context. To be able to develop the connection between marketing behaviour and network structure from an economic perspective, a larger part of the market imperfections theory could be included. However, as long as the contradictions between the economics based and social theory based arguments are not resolved theoretically, the connection is hard to develop more. Another way would be to develop the social perspective by building further on the idea that the network is a specific market form of its own, usually found in-between the neoclassical market and the hierarchy. Powell (1990), e.g., characterizes the network as an empirically identifiable governance form in addition to the market and the hierarchy. However, this approach suffers from the same contraction between economic and social theory. The network is added as a new governance form based on social theory to the economic governance forms of market and hierarchy. Powell also mixes an empirically based governance form with two ideal governance forms that are pure theoretical and impossible to relate to any real market or firm. The need for this other governance form and its characteristics are then largely derived from the overly simplified and non-realistic characteristics of the market and hierarchy.

The Market as Socio-Economic Institution

Institutional theory makes it possible to develop further the market network as social arena, and resolve the contradictions discussed above between social and economic perspectives. First, the market as social structure is integrated with the market as ideational system. The ideational or the identity system is the realm of ideas, which is separated from the social structure of society. Social identities (e.g. a lawyer or management consultant) belong to the cognitive system and are based on shared meanings, expressing a mental capacity for a certain behaviour. The ideational system is described by words like ideas, meanings, beliefs, codes, knowledge and learning. By including this system, the market as socio-economic institution shares certain basic characteristics with the practice-based approach, since it views markets and marketing from an ideational perspective. As in this approach, the focus is on practices defined as routinized activities in groups, which are organized around shared practical understandings, and the production of stability (Araujo et al, 2008). However, as developed below, such practices are made more rule-like by putting them within a social institutional theory frame.

Second, the socio-economic perspective means that the market as economic institution is integrated within the social frame, making the latter the overriding point of departure. One consequence is that the classical conflict between individual and group behaviour is included in the same institutional theory frame. This means that the market is viewed as an efficiency-oriented social order. Business marketing activities taking place in market networks are now determined by the institutional set up of this market and the market environment. E.g., networks are tied up with property rights as a legal institution as well as with other institutions.

The market as social structure concerns relationships and collectivises, which are described by using terms such as roles, groups, values, status, and trust. As found above, social identities, on the other hand, belong to the cognitive sphere. The role is then an enactment of a social identity, prescribing the behaviour appropriate to an actor in a particular capacity (e.g. the norm creates expectations for how the lawyer should act in court based on his capacity expressed in the identity). This distinction between structures of society and structures of the mind is important to build on instead of excluding one for the other. The social structure and the ideational system are therefore integrated by defining the market as socio-economic institution. The under-socialized economic man and contractual man are replaced by 'relationship man', who has both a brain and social relations, and therefore is part of an ideational as well as a social context.

According to Hodgson (1988) price is not any more completely determined by the market. When the degree of uncertainty is high, as in complex and volatile markets, guideline information is published so that agents can cope. There are often informal trading networks too, which help to establish trading conventions and norms. The market is described as a social institution from a normative point of view:

"We shall here define the market as a set of social institutions in which a large number of commodity exchanges of a specific type regularly take place and to some extent are facilitated and structured by those institutions. Exchange, as defined above, involves contractual agreement and the exchange of property rights, and the market consists in part of mechanisms to structure, organize, and legitimate these activities. Markets, in short, are organized and institutionalized exchange. Stress is placed on those market institutions which help to both regulate and establish a consensus over prices and, more generally, to communicate information regarding products, prices, quantities, potential buyers and potential sellers…….

It is because prices are stable, and are perceived by agents to be in equilibrium, that the task facing market institutions is less daunting in this respect. However, market institutions may still have many other functions, such as providing information regarding quality and the location of potential buyers and sellers, and regulating both the product and the entrants to the market. In fact, a crucial function may be more subtle; by ordering trade under the aegis of some institution, the price and quality of the product may be legitimized at its given level. There is a kind of stamp of institutional approval which may contribute in a powerful manner to the emergence of price norms…..

Market exchange requires a combination of both state and customary institutions. For any developed system of commodity exchange there must be a legal system inscribing and protecting rights to individual or corporate property. There must be a body of contract law with criteria for distinguishing between voluntary and involuntary transfers of goods and services, and courts to adjudicate in such matters. However, the evolution of law is not simply a matter of legislative construction; a great deal of law grows out of custom and precedent. Property and contract law are not exceptions. Consequently, the existence of property and exchange is tied up with a number of legal and other institutions, e.g. government, political system, and common societal values. " (ibid. pp. 150, 174, 185-6).

Thus, even if Hodgson mainly deals with the legal institution, he also argues that markets are influenced by other non-economic social institutions.

The Institutional Network Approach to Markets in Transition

Defining markets as socio-economic institution provides a yardstick to compare how they vary between countries and regions, and how they lead to different business marketing practices. The institutional network approach has been developed for this purpose, being especially relevant for studying markets in transition from a non-market form to a mature market form, i.e. emerging markets. The literature clearly demonstrates that business marketing practice in these markets cannot be grasped without including social and ideational aspects, e.g. Whitley (1992). It is therefore relevant to define these markets as a socio-economic institution, which is influenced by other institutions in society.

Emergence of markets is the major characteristic of economies in mainly Eastern Europe, Asia, and Latin America. Such markets are defined by Jansson (2007a,b) as growing markets, which are being transformed from a pre-market stage (either non-pecuniary/traditional or centrally planned economy) to the market stage of the mature Western capitalistic economy, by way of integrated and successful structural reforms of companies, markets and society. Product market structures are characterized by different degrees of imperfection at the various stages of development. The early stage is rather homogeneous, rigid, and closed. The concentrated market structure consisting of a limited number of dominating big companies results in low competition. This stage is gradually transformed into a more developed market structure, which is heterogeneous, fluid, open, and fragmented. It consists of a larger number of large and small companies, intensifying competition. Rivalry is also changed from being domestic to being global as well as from being supply driven to being demand driven. The demand is segmented into modern and traditional parts and mixes between traditional and modern consumption patterns, a mix that changes over time. A major shift of demand is taken place from price orientation to quality orientation. Business practice is very much based on relationships, where relationships of business networks change from being mainly personal to being impersonal. The service sector is developing from a low service to a high service orientation with the rise of the service economy. Financial markets are also highly imperfect, and where their development usually lags the development of product markets. Due to such large differences between markets in both space and time, they are segmented into different markets by defining them as organizational fields. Moreover, the commercial practices vary a lot between these markets and between societies, generally being more personal and socially oriented as well as more influenced by corruption. Such factors behind the commercial practice are therefore distinguished as a separate institution or rule system and defined as business morale. Government is a key institution that influences the reformation of the economy, setting the rules for the political system, the legal framework, and the educational system. The legal system, e.g., is generally weak and ‘people’ oriented during most of the reform period, at least compared to the strong and formally developed system found in Western markets. This is often shown by the lack of laws protecting property rights as well of the problems in enforcing laws through the judiciary system. For these reasons the marketing practice of firms become very broad, also including the non-market relationships, e.g. with various government organizations, non-governmental organizations and other stakeholders.

Markets are found to emerge through a number of stages. Peng (2003), for example, summarizes his and other’s research on institutional transition into two major stages or modes of transacting in markets, e.g. by the World Bank (2002). Business in the first stage is relationships-based, and characterized by an informal rule-based personalized exchange with the two parties of the relationship policing each other. This type of relationship is typical of pre-market societies and therefore a relic of traditional institutions. Business takes place in a network society, where sanctions are informal, mainly trust-based. This earlier stage is gradually transformed into a second transaction mode that is a formally rule-based, impersonal exchange with third-party enforcement founded on market-supporting formal institutions designed to facilitate this more impersonal economic exchange. Traditional institutions are gradually transformed into the new institutions of the market-based society. Even if informal business relations are basically changed into formal relations, for example, it does not mean that informal relations disappear entirely. Rather, they take another form and meaning within the new market society, e.g. being more professionally based than family-based. Since an emerging country market is found along the road somewhere in-between a non-market economy and a fully developed Western market economy, it consists of a mix of characteristics from both these types of economies. For example, networks are organized in different ways depending upon stage of institutional development of the market economy.

This moving towards a market economy takes place through an embedded transformation process and passing through a number of stages at different paces. The legal system plays a key role in transforming the economy from a relationships-based pre-market stage to a formal impersonal market economy

The Institutional Network Model

The institutional network approach is developed further by specifying more the interplay between institutions on one side, and between institutions and business marketing practice, on the other. This is illustrated in the figure below. As found above, market change in emerging country markets is entangled with the evolvement of society. Markets do not develop by themselves, but basic support systems need to be in place, e.g. a legal system, a public support system, and suitable values and belief systems. This means that marketing practice is embedded in social relationships, which in their turn are embedded into the wider social structure and ideational system of society. Firms are part of elaborate and complex networks, which differ culturally, organizationally and economically from those in the West at the same time as they undergo strong changes. The mix of social and inter-organizational networks in emerging country markets are more personal and embedded, i.e. over-lapping with other networks in society, while they are more impersonal and confined to the business sector in the Western markets.

The World of Institutions

To describe institutions words like codes, rules, habits, routines, and procedures are often used, which all imply that human behavior is regular and stable. However, by institution is often implied the social unit that houses this behavior, for example a family, clan, organization, nation, market, game or ceremony. Institutions are viewed as rules, procedures, routines, and codes typical of a legitimized social grouping of some kind. Within these institutions there are rules such as codes or programs typical of the specific organization, which lead to habitual and routinized practice. Members behave according to the codes of the organization and its network. Institutions provide individuals with normative rules telling them what actions are acceptable and which are not, for example which are immoral. New members will imitate this practice, many times even being unaware of the rules behind it. This production and reproduction of material and symbolic life through established patterns of behavior based on rules is valid for the individuals and the organizations to which they belong. Reproduction is the key word regarding institutional processes, i.e. how institutions subsist over time.

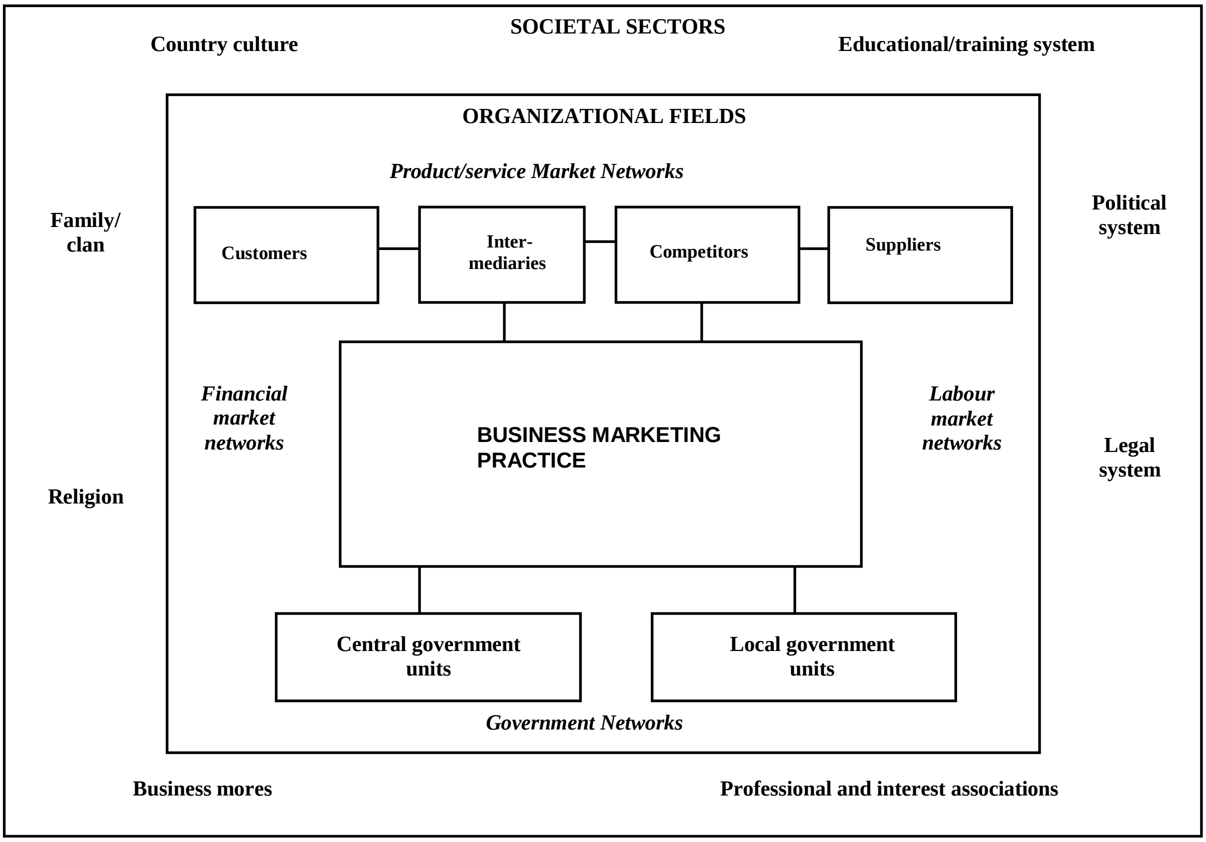

Figure. The Institutional Network Model

A first main characteristic of institutions is the rule-like or organizing nature. A second characteristic is the ability to facilitate and constrain the relations among individuals and firms. Thirdly, institutions are signified by predictability. (Nabli & Nugent, 1989). Institutions standardize marketing activities and transfer rules between individuals such as norms, and ideas. Behavior following from them is repeated over time, meaning that the practice is also valid for future situations. Uncertainty is reduced by that marketing activities can be anticipated through being repeated. Since institutions are characterized by established patterns of behavior they are also stable. These traits make institutions excellent instruments for describing, explaining, and predicting actual marketing behaviour, thereby reducing uncertainty and risks.

Due to variation of institutional set-ups, these practices differ throughout society, whereas society is divided into different social groupings characterized by different rules. Such a grouping forms an institution of its own, where behaviour follows the specific rules inherent in it. Besides having their own rules, these groupings influence each other. Market networks are therefore defined as being organized according to institutional principles. Sets of rules and regulations govern marketing practice, which is executed collectively by the individual members of this social grouping. Hence, society is divided into different social groupings characterized by different rules and practices, forming a multi-layered system of institutions. The organization of one part of society is influenced by how other parts of society are organized. This institutional world is divided into three levels of societal rules: micro institutions (e.g. the firm), meso institutions (e.g. an organizational field), and macro institutions. The meso and macro institutions link to each other in a certain way, constituting an institutional framework that influences marketing practice in networks.

Every institution at these three levels is assumed to consist of four basic rules: thought styles that come from the ideational part and three rules belonging to the social structure: values, norms, and enforcement mechanisms. An international firm usually consists of many thought worlds, where the ideational part or the cognitive system tends to vary between its various units. Those employees sharing thoughts, making classifications and labeling reality in common have a unified thought style. Their common frame of reference works as guidelines for sense making and practice. These established patterns of thinking therefore work as cognitive recipes for how people behave. Ideally, they produce a self-activated regular marketing behavior. Norms and values also influence how people think and act. Values are the root of cultures and behavior, defined as ”conceptions of the preferred” and as standards for comparison. They set the priorities and function as guiding principles. Norms, on the other hand, specify how things should be done. They work as guiding principles for how to act, a kind of decree about how one should act or how something should be constituted or organized. Marketing practice is also controlled by incentives and sanctions. Such enforcement mechanisms concern how to construct the sanction and incentive system in order to reward or punish individuals and groups within the firm together with establishing surveillance and assessment system to control the enforcement of marketing practice. The vertical market forms discussed above are examples of the whole market as an enforcement mechanism.

Societal Sectors

The macro rules inherent in the background institutions are defined as societal sectors. Examples of such macro institutions based on the discussion above are given in the figure, e.g. legal system, political system, business mores, and country culture. Government is defined as an organizational field. It is separated from the political system, which is defined as a societal sector influencing the market networks.

Organizational Fields

The markets are defined as organizational fields. The major fields are the product/service markets, the government field, financial market networks and labour market networks. Organizational fields are described at two levels. At the micro institutions level, specific institutions within organizational fields are taken up, e.g. the marketing firm and some of its major customers in an organizational field classified as the product/service market. At the meso institutions level organizational fields are viewed as an entity. Product/service markets, for example, consist of various organizations such as customers, competitors and suppliers, which share common norms and rules. Another major organizational field (government) consists of ministries and authorities, which share common frames of reference and ways of acting typical of this field.

Product/Service Market Network. Interpreted from an institutional point of view, Porter’s ”five forces model” becomes an ideational system for how to perceive the workings of the product/service market, for example major actors and rules for how they relate to each other through competition. A number of rules are given for the market, according to which the firm can chose how to operate. The product/service market is also possible to divide further into greater detail by forming smaller organizational fields as submarkets, e.g. an industry, or a subdivision according to stakeholder, e.g. a competitors' field, one intermediaries' field, one customers' field, and one suppliers' field.

Financial Market Network. A common way to characterize financial markets is to distinguish between capital market-based and credit-based financial systems (Whitley, 1992a,b). As is evident from the name of the former type of market financial intermediation is controlled by the market. Specialized financial agents compete for capital and assets through market transactions and the prices of financial assets are mainly set by market competition. Financial transactions have an impersonal and rather short-term character, which is the equivalence of market governance in financial markets. Capital market-based financial systems are mainly found in the Anglo-Saxon countries, viz. in Great Britain and U.S.A. In the credit-based financial system financial intermediation to a larger extent takes place through long-term network relationships between banks and specific large borrowers. Financial systems of this kind are found in, for example, Germany, South Korea, and Japan.

Labor Market Network. Whitley (1992) makes a distinction between two types of labor market networks, i.e. market-based and organization-based reward systems. The purpose is to separate market-based from non-market based systems. In the former type individual professional and craft competencies are more important and persons more aware of their market value. This distinction regards

"the extent to which labour markets are structured around publicly certified skills, and occupational identities are firmly attached to specialised certified skills, affect employee mobility and identification with distinct expertise" (Whitley, 1992, p. 34).

In organization-based reward systems labour market issues are not mainly decided by the market but more by individual organizations, either by the employer alone as in many Asian emerging country markets or through negotiations between employers and labor unions as in many West European markets. Thus trade unions are an important interest organization on many markets. But since they are institutionalized differently between countries, it is often important to study them more closely, for example regarding their influence on reward systems, labor mobility and work organization.

Business Marketing Practice

Business marketing practices defined from an institutional perspective acquire a rule-like status that renders them persistent and highly resistant to change. The external environment is seen in terms of an institutional set up, within which the enterprise conducts its business. To be able to fully match this external institutional set-up, it is critical for the firm to exploit the resources of the internal set-up. That firm, which then has the best ability to design its internal institutional set-up in such a way that it permits the enterprise to respond effectively through the business marketing practice to its external institutional set-up, will be the most competitive enterprise in its industry and thus, in the best of positions to exploit market opportunities.

Thus, business marketing practices vary with the mix of rules of the institutional set-ups faced by the firm. Based on a certain combination of the four basic rules, the practice follows one of two major rationalities: the efficiency based logic and the legitimacy-based logic. The business marketing practice in product/service markets is dominated by the former logic, since this market is mainly an economic institution. To survive in an efficiency-oriented economic environment with profit-maximizing customers and competitors, the marketing practice needs to be cost-efficient and oriented towards satisfying economic goals. But customers might also have non-economic goals relating to their natural environment and social environment. When satisfying such goals by establishing relationships to other stakeholders than owners or customers, e.g. workers, local community and the government, the practice followed is defined as legitimacy oriented. Here, it is a question of adhering to external regulations, values, and norms of these parties in order to gain, or maintain their support.

Three major efficiency-oriented business marketing practices defined as strategies and taking place through network relationships are distinguished: the network strategy, the linkage strategy and the competitive strategy (Jansson, 2007b). The network strategy concerns the marketing practice related to the whole market network, inclusive of buyers, distributors, competitors, suppliers and financiers: how the firm deals with this whole grouping from a marketing point of view. The linkage strategy is about the practice of the seller when creating and maintaining direct relationships with each party of the network, while the competitive strategy primarily focuses on the network practice in relation to the competitors. Unlike the linkage strategy, it does not normally take place in direct relationships with this party, rather it deals with how marketing practice is influenced by the position the seller takes or possesses in the competitors' network.

The practice expressed through the matching strategy complements the efficiency-oriented business marketing network practice (Jansson, 2007a). It is based on the legitimacy rationale, and takes up how firms manage relationships directed to the social side of the external institutional framework. A specific feature of the emerging country market is the critical importance of non-economic aspects in marketing. There are no pure economic environments. Stakeholders in economic environments, e.g. customers also have social goals. So even if economic aspects pre-dominate as is usually the case in markets, social aspects need to be considered. In organizational fields dominated by social interests, matching strategy is oriented towards satisfying non-economic goals, for example related to corporate social responsibility, which today is a critical strategic issue for many companies. Matching practice then involves joining in competition with other firms the internal environment framework with the external environment, by making them suitable to each other. Firms act to match the internal and external environments to each other. These environments are defined as institutional frameworks and to consist of four types of basic rules: thought styles, values, norms and enforcement mechanisms. In principle, the activities can be directed at three major sections of the social environment of the emerging country market. At the societal level, it is a question of matching the values, norms, and thought styles existing in organizational fields and societal sectors with those of the firm. At the stakeholders' level, groups in society are identified that influence the MNC and are influenced by the MNC. A practice is developed for how to match the norms and values of the stakeholder network selected and what this means for the business marketing strategy, i.e. how to establish and maintain relationships towards them. Usually, there are a few critical stakeholders that need more treatment than the others, e.g. the government. At this individual stakeholder level, it is important to match the social characteristics of the specific grouping. A basic issue in deciding on the matching strategy is then to find the right balance between how to act in relations to these three levels in society, a major aspect being how the business marketing strategy is influenced.

The variation in business marketing practice due to different institutional set-ups is exemplified from Jansson et al (2007). They show that variation in marketing practices between European, Russian and Chinese business networks is explained by differences in the basic rules of the environments of these networks. In accordance with the variation in thought styles, firms in networks develop different shared understandings and shared definitions of the social reality through differences in the institutionalization of common beliefs. Due to differences in values and norms, certain behaviour is promoted, while other behaviour is restricted. Business practices in Western Europe are based on written and formal contracts. In the Chinese and Russian contexts they are less common, and social contracts in the form of verbal agreements and promises are often the basis for agreements and transactions. Individual trustworthiness is important because of a lack of tradition of trust in organizations or formal laws. Thus, norms like trustworthiness could work as substitutes to regulations. Because of weak legal institutions 'guanxi' relations in China and 'blat' relations in Russia have become a substitute for the legal system. Three major aspects were found to be critical regarding differences how relationships are established and maintained in the networks, viz. patience, suspicion and performance. Performance is more highly valued in West-European networks compared to Chinese and Russian networks as well as being less balanced against social issues. The importance of performance is perceived differently, and where differences relate to the degree of patience and suspicion.

Conclusions

Based on a socio-economic perspective and the business marketing reality of emerging country markets, the institutional network approach to markets was developed to characterize markets in transition and the business marketing practice taking place there. The framework was developed for the purpose to compare markets and marketing practices in and between emerging markets as well with mature markets. It was also developed to explain such differences.

The market-as-network approach was developed further by using institutional theory. The market as social structure is integrated with the market as ideational system. Moreover, the market as economic institution is integrated within this socio-institutional frame. The business marketing practice varies with the mix of rules of the institutional set-up faced by the firm. Based on a certain combination of four basic rules, the practice follows one of two major rationalities: the efficiency based logic and the legitimacy-based logic. The rationale behind the business marketing practice in market networks is mainly to earn profits, while the main motive towards the government network other organizational fields outside markets is to achieve legitimacy. The marketing practice in the latter case is denoted as matching strategy. Defining business practices from institutional theory gives them a rule-like status and renders them highly resistant to change. Due to that emerging markets are characterized as network societies, three major efficiency-oriented network practices or strategies are distinguished in these markets: the network strategy, the linkage strategy and the competitive strategy. Even if economic aspects usually pre-dominate also in emerging markets, social interests of the various stakeholders are also critical in market networks and tend to dominate in certain organizational fields. The legitimacy-oriented marketing practice valid under such circumstances is expressed in the matching strategy and is oriented towards satisfying non-economic goals, for example related to corporate social responsibility.

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