

Narrative event methods: Understanding how business market processes equilibrate and change over time.

Abstract:

This paper investigates the value delivered by an events-based methodology for understanding of how business networks and their performance equilibrate and change over time. Particular attention is given to forms of analysis that systematically map processes of change in business markets and the insights emerging from these (Reisman 1993).

A focus on events and processes leads to a different approach to explanation that is more relevant for understanding dynamics and change. Processes are the “flow” of relationships in which events occur however commonly-used approaches to network study are not particularly effective at identifying them. Field studies in the natural sciences and historical research are much more concerned with processes as they try to understand how things work or what led to a particular outcome. Common to these approaches is that they are concerned with synthesis, i.e. identifying patterns of behaviour or outcomes that lead to allow the replication of observed phenomena (Rong and Wilkinson 2011).

There has been a small amount of theoretical and empirical research that has focused on the dynamics and evolution of marketing and business systems (Wilkinson 2001). This includes (1) Stage models where a pre-specified sequence of stages is assumed and used to analyse the processes involved in relation and network development (Ford 1980, Dwyer et al 1987), (2) Descriptive characterisations of relationship and network histories e.g. case studies that sometimes highlight some of the processes going on (e.g. De Rond and Bouchikhi 2004), (3) Theories and schematic models that depict process and suggest that feedback effects drive the changes within relations and network, (e.g. Wilkinson 1990, Narayandas and Rangan 2004, Bairstow and Young, forthcoming). (4) Speculations as to the patterns of change and evolution emerging from descriptions of relations and networks (e.g. Johanson and Hakansson 1993), (5) Description and analysis of some mechanisms and processes involved in the dynamics and evolution of business relations and networks (e.g. Halinen 1998, Haase and Kleinaltenkamp 2011, Wilkinson and Young 1997, 2001). In addition, work dealing with channel evolution in terms balance and equilibration is relevant. “By balanced state (or situation) is meant a harmonious state, one in which the entities comprising the situation and the feelings about them fit together without stress” (Heider 1958, 180). Equilibration is the ways that entities move or attempt to move back to balance (Young and Johnston 1997)

Our investigations of the evolution of networks, equilibration and their processes are (in line with some of the above authors) embedded in a framework of Complexity Theory. Networks are complex adaptive systems (CAS) in that they are active and creative have bottom-up, self organising properties (order emerges as a result of the processes of micro actions and interactions taking place among connected actors rather than as a result of central direction and innate tendencies), irreversible order (Prigogine, 1997) and subject-object differentiation: (where small events can have large impact) and are sensitive to starting conditions. This approach is also in line with our own in that it recognises the centrality of events in understanding evolution.

In line with this, the focus of research reported here is on process and events. For the purposes of this research, “events” are defined as important markers in the evolution of

channels of distribution. As a method particularly suited to research processes, narrative event analysis was the primary analysis method. Narrative event analysis involves stories and the systematic investigation of chains of events and/or actions that lead to a conclusion (Abell 1987, Anderson 2003). This enables consideration of important explanations emerging from considering the timing, ordering and interaction of events – akin to ‘moving pictures’ of networks as they evolve (Ford, Gadde & Håkansson 2006).

The use and value of narrative event analysis is illustrated via a study of the Australian IT channel’s evolution. Multiple data sources were used with nearly 90% of the data coming from the archives of the main IT trade journals (*Computer Reseller News* and *Australian Reseller News*) and industry reports from 1986 to 2007. A total 605 journal articles were coded in terms of the kind of events they contained. The archival data was augmented by the insights of eight industry experts who had substantial industry and channel experience (minimum of 20 years) and multiple perspectives of channel issues (specifically that they had worked for a substantial period for one or more IT vendors and one or more IT distributors). The interviews were used to verify the nature and importance of key events and to identify any further the key events overlooked by the trade journals.

The paper presents several process-based maps of the channel’s evolution and describes the way these provide insights. Mapping of events enable identification four phase changes, i.e. where a critical event changed the character of the industry, including substantial changes to the way the channel functioned. Comparing these phases provides a valuable overview. Examination of these patterns assisted in the identification of the probable critical incidents that precipitated imbalance (Chell 2004, 1998) and thus identified where to commence searching for the equilibration processes that are the focus of this research. A process of ongoing equilibration where this channels sought to create a new form of balance after radical change was identified.

Keywords: networks, evolution, equilibrate, process, methodology, narrative, events, mapping

Introduction

The processes that cause or impede distribution channel change influence and are influenced by events. The Australian IT industry and its channels of distribution typify this with a number of substantive events modifying the processes that in turn have shaped the development of the channel(s) over the last twenty years. For example major events such as the 1991 recession and current financial crisis of September 2008 resulted in increased mergers and consolidation in the Australian IT channel in turn resulting in fewer channel partners and in the emergence of new technology opportunities to counteract this shift. The emergence of a new technology, the internet, created new opportunities for vendors and distributors and corresponding adjustments to the channel. Such market forces interact, providing the impetus for the reallocation of resources and for changes in channel marketing relationships and channel structures.

There is limited amount of systematic research on channel structures' evolution over time from single to more complex multi-tier channel structures and the impact of events and processes in this. Much of the existing channels research is cross sectional and is variables-focused rather than focused on relationships as a whole (as discussed by Wong et al 2010). Neither is there a sufficient insight provided by the large body of longitudinal research that has been conducted. Much of this work is in the form of descriptive case studies (Dubois and Gadde 2002; Rowley 2002; Dubois and Araujo 2004) where the analysis methods can be difficult to ascertain and/or replicate and where focus often is not on the mechanisms that underpin channel evolution but other aspects of channel operations (e.g. power, conflict, performance). Even when evolution is a study's focus (e.g. Coelho 2008) a systematic analysis of past critical events and their impact on channel processes is not generally undertaken. This is at least in part due to the problems associated with researching longitudinally (Hodgson 2001). One way of overcoming these problems is via the use of the method of narrative sequence event analysis (Abbott 1995), where the focus is on the nature, order, timing and interaction of events and their impact.

This paper uses this approach to better understand the nature of channel structural changes over time by considering the events and processes that occur, the way they combine and the way that these combinations drive the development of an Industry and its channels of distribution. A case study examining the evolution of the Australian Information Communication Technology (IT) channel over a twenty year period investigates the chains of events, in part by considering the stories of participants that illustrate the channel's history (Abell 1987).

Evolution, Equilibration and Balance

In a complex living system, certain dynamics increase or decrease forces within the system and other dynamics modify or balance those forces. Through time systems are remade and/or evolve. New patterns need to emerge if a system to move to congruence with an (often

changing) environment. If a system cannot adapt sufficiently, it will “die” and dissolve into its environment. The events of the environment precipitate events within the system. The changes that events bring “procreate”. That is, they create synergies (Holland 1998) and also bring unintended consequences (Norton 2002). Positive combinations of changes can create further action and resource acquisition capabilities (Alderson 1957), although not all combinations of changes are positive.

The conceptual underpinnings of channel evolution are considered here in terms balance and equilibration. “By balanced state (or situation) is meant a harmonious state, one in which the entities comprising the situation and the feelings about them fit together without stress” (Heider 1958, 180). Equilibration (a term coined by Piaget in his later work) is the process by which systems retain or move towards balance. Balance and the process of moving towards it have not been widely used in business marketing but have been considered in other marketing contexts (e.g. Woodside 2004) and are considered throughout science and social science literature (Garcia 1992).

It is argued that the seeking of balance is a fundamental motivator in human psychology (Appley 1990) allowing us to organise and integrate our thoughts and ideas (Festinger 1957), to organise our thoughts and sentiments in relations with others (Heider 1958), and is the basic means by which learning and knowledge formation occurs (Feldman 1995). Balance is so fundamental that humans are biologically driven to seek it (Parkins 1990).

There is an interplay between seeking and achieving balance that enables the “capacity of living systems to organise and reorganise themselves in many alternative ways” (Appley 1990 pg 7). Alternative states such as better or lesser performance will be associated with “different actions and feelings that are in some way appropriate” to these states (Heider 1958, pg.175).

The process of moving towards a balanced state is equilibration. Equilibration has been widely considered in the social sciences including social organisations and relationships. (Pettigrew 1967 and Axelrod 1984), developmental psychology (stemming from work of Piaget and Vygotsky 1920-1950s, the work of de Vasconcellos 1995, Hodge 1995, Wozniak 1996), conflict management (Berkovitz 1992), organisational development (Chapman 1992, Lumley 1997) and cultural anthropology (Zupancic 1993). It has also been considered in a variety of contexts in psychology (e.g. abnormal psychology and psychoanalysis (Parkins 1990) and learning theory (De Oliveria and Viccari 1993, Feldman 1995, Juckes 1991). Equilibration is also considered in the study of complex adaptive systems (e.g. Prigogine 1990, Kauffman 1995, see Heylighen 1997 for an overview).

Equilibration is:

“not a simple balance of forces as in mechanics ...but in the sense of self-regulation; that is, a series of active compensations in response to external disturbances and an adjustment that is both retroactive (loop systems or feedbacks) and anticipatory, consisting of a permanent system of compensations.” (Piaget 1976, p. 74)

Equilibration theory assumes that systems tend to resist moving to new equilibrium states, systems will strive to develop more effective means of coping with shocks. Not only do

social systems cope with change by changing their relations with others, they change their methods for coping with change as part of their survival strategies (Appley 1990).

Balance and Equilibration in Channels of Distribution

There is recognition that channel structure will vary as will the environmental factors that drive it (Stern and Reve 1980; Anderson 1985; Dwyer and Welsh 1985; John and Weitz 1988; Klein, Frazier et al. 1990). By “Channel structure” we mean the configuration or length of the channel (i.e., the number of channel member involved) and the allocation of functions among channel members (Rosenbloom, 1987, Stern and El Ansary, 1988.). Channel structure indicates the complexity of the channel system, reflecting the external environment of the channel and influencing as well as being influenced by its internal polity, i.e., its centralization, formalization, and participation in the allocation of channel functions (Dwyer and Welsh 1985; Dwyer and Oh 1988; John and Reve 1982).

Methlie and Gressgard (2006) argue four key structural conditions are central. Market conditions refer to the impact of market forces (and changes) such as size of market, industry growth, competition (relating to number of vendors and distribution partners in the channel), long term strategic trends and the frequency of mergers and acquisitions on channel structure. Product conditions relate to the impact of technology, this includes the emergence and evolution of new products and technology, products superseding other products and length of product life-cycles. Influence conditions refer to social mechanisms and relate to the impact upon the channel of how vendor-distributor relationships are managed. This involves the fit of organizational culture and expectations between vendor and distributor, the fit of personality of account manager on vendor distributor side, interpersonal skills of account manager, communication frequency, interpersonal skills and how conflicts are managed. Finally, commercial agreement conditions are concerned with the risk/return profile of distribution and relate to the vendor commercial distributor agreement, basic functions, and channel strategy, nature of commercial relationship, performance targets and formal reporting.

Theories of the process of change towards balance (equilibration) are concerned with two types of change: the adjustment within a balanced state and the movement towards new states of balance. The marketing case studies reported by Hertz (1998) and Yamada (1993) suggest that for many distribution networks the process is one of constantly seeking rather than finding balance. It seems likely that where there are continuing changes, (such as have characterised IT channels) there is unlikely to be a state where a channel can remain in balance with its surroundings. Therefore it is necessary to consider the processes by which channels continue to evolve in an attempt to achieve balance as well as the achieving of balance itself.

The Case Study: The Australian Information Technology Industry

The case study presented is that of the Australian Information Technology (IT) industry’s evolution, focusing on the time period 1986 to 2007. The channels of distribution that operate

and have evolved in this industry have exhibited rapid change over a relatively short period of time. This is in contrast to other industries where there has been very little change, for example, the Australian pharmaceutical distribution has been quite stable for the last 50 years (Medicines Australia 2007).

Australia's IT industry is a significant part of the Australian economy. The 30,300 IT businesses in Australia generated revenues of \$79.9 billion in 2007. In 2007 the IT industry contributed 4.6% of GDP, more than agriculture (3.1%) and approximately equal to the mining sector (5.0%). (Chaplin 2007.). Australia has had leading international IT companies operating in Australia for the last 50 years and a diverse assortment of small, privately owned companies (Chaplin 2007). The distribution channel includes distributors/wholesalers, retailers, and resellers. Resellers are split into two main groupings – those that focus on selling products ('volume movers'), and those focusing on services ('value providers') (Chaplin 2007).

Methodolgy

The research used multiple data sources to gain the broadest possible range of information and allow triangulation (Yin 1984). Nearly 90% of the data came from collecting and categorising archival data from two of the main IT trade journals (*Computer Reseller News* and *Australian Reseller News*) and industry reports from 1986 to 2007. A total number of 1550 trade journal articles were considered for coding and a final sample of 605 journal articles were coded as described below and the events they reported included in the data base used in further analysis. For the purposes of this research, "events" are defined as important markers in the evolution of a channel. The articles were included in the database if the coding criteria were met. Each identified event was rated on a three point relevance scale (1=highly relevant to channel, 2=medium relevance and 3=low relevance) for every code. Articles were included in the data base if they reported one or more events that were rated as high or medium relevance for at least one structural condition component (as discussed by Methlie and Gressard 2006) This was augmented by a review of channel literature that looked at additional elements not explicitly addressed by that classification (however none were found).

For example, coded influence factors included relational factors such as conflict, trust, power, loyalty, etc. Coded market factors included events such as mergers and acquisitions; product factor codes included product launches, technological innovation, and commercial conditions things such as channel programs and strategy. Articles were included in the data base if they reported one or more events that were rated as high or medium relevance and/ or they reported the processes that linked these events. Use of this kind of archival data avoids problems of imperfect recall; and because the material used (articles in trade journals and reports published during the review period) is from the perspective of many different observers, we also avoid dependence on the perspectives and interpretations of only a few observers.

The archival data was augmented by the insights of eight industry experts who had substantial industry and channel experience (minimum of 20 years) and multiple perspectives of channel issues (specifically that they had worked for a substantial period for one or more

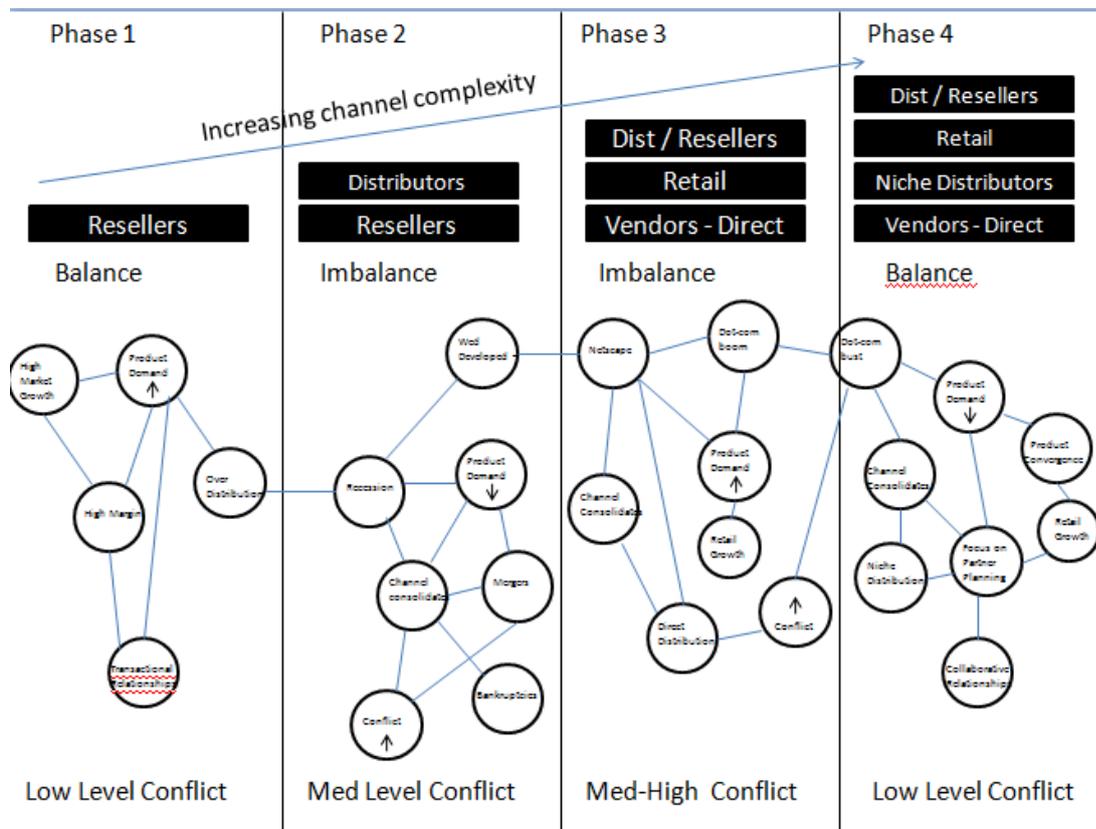
IT vendors and one or more IT distributors). The interviews were used to verify the nature and importance of key events and to identify any further the key events overlooked by the trade journals. Experts were interviewed for 45 to 60 minutes using a semi-structured format and were recruited through personal contacts and snowball sampling. The interview covered topics including industry trends, how channel partner relationships have changed and what critical events have shaped the channel.

A four step analysis process was used. First, archival data was examined sequentially to identify the actors involved, the nature and timing of critical events and the processes taking place, and a data base of these was developed. Large patterns emerging (i.e. clusters of actors, events and processes) were identified and a historical mapping of key events and their drivers undertaken. The impacts of a major event or series of events were explored and those leading to a phase change, i.e. a substantive change in the channel configuration that would require equilibration, were identified (Abell 1987; Franzosi 1998). Four phases in the 20 years of evolution of the channel studied were thus identified and provide a framework for the case. The processes that linked the coded events were considered using content and causal analysis. Processes that were highlighted by archival sources (directly and by inference) were compared to the interviews of industry experts with similarities and differences noted. Attributions of importance and causation were noted and triangulated. Frequency of mention by experts and annual review pieces in the trade journal as to key events in the industry for each year were also used to draw conclusions about the importance of events, relationships between them and their impact on evolution. This aggregated material then guided an evaluation as to how and why the Australian IT channel evolved over time.

Findings: Australian IT Industry – A Twenty year history.

There are critical events from 1986-2007 that precipitated states of imbalance and the seeking of new equilibriums. These are discussed around the four identified phase changes. A phase change is an evolutionary leap, where a substantial, discontinuous change occurs (Holland 1995). Phase changes emerge from interacting components often in unanticipated ways (Clippenger 1999) and a significant event can act as a catalyst in this process (Kauffman 1995). Phase changes are critical to evolution as shifts both generate variation and “prune” the emerging system (Holland 1995) and as such their identification is central to this analysis. In this case considering the nature of events in each phase and descriptions of the changing channel structure how the channel structure developed from a single tier channel structure in Phase 1 to a more complex channel structure by Phase 4. Comparing the phases further illustrates the nature of the process changes over time. A broad overview of the processes of channel changes are presented in Figure 1. This helps explain the patterns emerging within the phases and the nature of the structural conditions.

Figure 1: Processes of Australian IT Channel Change 1986 - 2007



In Phase 1 product and market conditions are indicated to have played the central role in shaping the channel's evolution as indicated the relative high frequency of those kinds of events, this was confirmed by the industry expert interviews the examination of which, in combination with the archival material show the highly influential nature of these types of events. The product-related events during this phase show a pattern of vendors combining PC hardware and software solutions; the combining and recombining of these resulted in effective, productivity-enhancing tools that led to rapid growth for technology products in the corporate market. This combined with events that reflected the buoyant market conditions of the time and in turn translated to strong market growth and further demand for technology products. Despite these changes the channel remained balanced. Channel configurations remained fairly stable despite the evolution of product and markets conditions. There was no need for channel equilibration because the changed conditions balanced with the existing channel relationship structure. The climate of intense rivalry and competition amongst IT producers was a driver of the continuing evolution of the new technology products (i.e. Microsoft Windows, IBM PC). The channel relationships were arms length as many vendors operated from overseas. This was possible because there were low conflict levels (which were facilitated by arms length relationships). Continuation of this steady state was further facilitated by the rapid market growth and rapidly growing demand for IT products. It was easy for vendors and resellers to achieve their sales revenue and profit targets and no need for them to compete for business. The margins were high and fuelled by high growth and demand for IT products. This interplay of commercial conditions resulted in the channel

operating on a single tier channel structure with vendors appointing a network of resellers that emphasized intensive distribution.

Although there was little difference in the mix of structural conditions in Phase 1 and 2 a phase change was precipitated by the development of the world-wide web. In the short term, product-related events showed patterns of continuous change. The technology continued to evolve rapidly - PCs became more compact (convergence) and software applications expanded. However while supply possibilities continued to evolve smoothly there were rumblings of the major change the web might bring. And, the demand (market) conditions were evolving more discontinuously. There was a prolonged period of recession that contributed to lower levels of product demand and/or slowed growth. This created problems such as over-expansion and reduced margins and profits for vendors and channel partners and created imbalance in organisations and between channel partners. Equilibration was facilitated by events such as bankruptcies of distributor partners who did not have the fiscal management to grow sustainable businesses. A reduced number of consolidated vendors allowed greater coordination and facilitated the move of the system to a more balanced state. Social conditions (channel relationships) became strained because the environment was more uncertain and demand was weaker and was exacerbated by over-distribution by vendors – their response to the changed conditions. Overt conflict grew, largely in response to this over-distribution. Over-distribution was also led to vendors rationalizing their partners and with fewer partners development of partner planning processes became more effective. It is interesting that as the channel evolved from a single tier structure to a more complex multi-tier channel structure in Phase 2, the level and incidence of conflict also evolved (as reported in the archival data).

Figure 1 indicates how interconnected structural conditions impacted to precipitate Phase 3. This was the most dynamic phase in the history of the Australian IT channel with major imbalances being very imperfectly addressed by equilibration processes. A phase change was precipitated by the launch of the Netscape browser in 1994. The ensuing internet revolution forced every vendor to have internet connectivity with their software and hardware products and there were further productivity enhancements for the PC to meet the again-intense market demand. The dot-com era emerged, characterized by the proliferation of investment in novel internet-based businesses. The new IT functions created high growth but within this phase this was accompanied by intense competition among vendors for strategic acquisitions or mergers to increase their competitive and market position. The outcome of the competition was continuing consolidation and associated high incidence of conflict as characterized the last phase. Channel relationship conflict was further exacerbated by vendors' introduction of multi-channel distribution models, in line with the Dell direct internet model, and vendors' struggles to manage these and communicate their channel goals to existing partners. There was a prevailing attitude that the internet would eventually replace conventional indirect distribution. This created relationship conflicts, uncertainty and distrust in the channel. These commercial conditions resulted in high levels of margin decline. Through this phase the channel did not reach balance or even come close to it. The multiple, interconnected processes created negative feedback cycles that meant that balance was unachievable despite the substantial equilibration processes, e.g. the restricting of the channel, that were occurring.

Phase 4 commenced with the dot-com bust of 2000, businesses built on fragile revenue and profit projections during the boom collapsed in rapid succession. However the equilibration was not as radical as that which characterized previous phase. This is in part because as previous period of intense evolution had created an industry capability to handle high levels

of evolvability. Product conditions had been instrumental in evolving the channel from Phase 1 through to Phase 4. The growth and development of the Australian IT industry and the distribution channels that operated within it were highly dependent on incremental improvements in existing products and rapid development of new product technology. For example incremental improvements occurred with Intel creating the next generation of Intel processors. New product development, occurring with PC and Windows software in Phase 1 and 2 and the internet in Phase 3, saw a paradigm shift in internet based technology and an explosion of new applications. The importance of IT technology advancements over the twenty year history was the main catalyst for channel evolution. For example the dot-com bust of 2000 created a fusion between information technology and telecommunications. This fusion developed further new niche channel opportunities for many new IT services e.g. security products such as anti-virus software. By Phase 4, products were maturing and there was a convergence of technologies e.g. Blackberry had the capabilities of a PC with the functionality of a mobile phone in compact form. The market conditions resulted in still fewer competitors as market consolidation continued in the channel. The mergers and acquisitions that had occurred over the last twenty years had resulted in fewer distributors and vendors. The intense competition had meant that a few very large vendors remained. The impact of the largest merger in IT history, the HP and Compaq in 2001, was testament to the channel being controlled by very large, influential and powerful vendors. The social conditions operating during Phase 4 resulted in many vendors adopting a more sophisticated partner planning process and applying a higher degree of selectivity of channel partners. The conflict levels were still fuelled by vendors rationalising channel partners, selling direct and other associated conflicts such as poor channel implementation of channel programs and account management. The power of vendors over wholesalers by Phase 4 was one of dependency by wholesalers. The smaller the wholesaler, the less influence the partner had over their vendors. This resulted in vendors calling the shots with distributors, and vendors appeared to be less accountable.

Discussion and Conclusions

Figure 1 outlines the process of change through four phases. When these are considered in conjunction with the sequences of events occurring and the attributions made by commentators (via the archival material and the expert informants) it is possible to begin to articulate the processes that characterize the channel and the ways these processes co-create change. This channel illustrates the process of equilibration that characterizes systems that are tipped into imbalance and processes of change in response to the dysfunction that characterize imbalance. Not all of these change processes are positive, i.e. they do not necessarily act and interact in such a way as to move the system towards balance.

The event analysis of the evolution of the Australian IT channel and its relationships highlights several change patterns. The Australian IT channel has evolved from a single tier reseller model to a more complex multi tier channel over the last 25 years. Figure 1 indicates this progression. The increased complexity indicated in Figure 1 created an ever-more-challenging environment for channel management. It became evident from event history analysis that the more multi tiered the channel became the greater the incidences of conflict between channel partners and an increased need for increased channel coordination and communication.

Countervailing this to some degree in later phases was the reduction of number of vendors through mergers, etc. and this, combined with performance-based consolidation, considerably reduced the number of channel relationships, improved their efficiency and arrested some of the profitability decline (due to economies of scale and scope). However, channel conflict continued to grow and in particular in the early years of Phase Four was substantial. A primary cause of this conflict was poor channel coordination by vendors in the now much-more-complex industry characterized by multiple and competing channels, but was also due to the poorer quality distributor relationships. In other words a vicious feedback cycle emerged with negative relationship outcomes creating the conditions for further relationship decline (as discussed by Young and Wilkinson 1997 and Wong et al 2010). This process leads to a tentative conclusion that conflict is a central process in times of channel disequilibrium. It signals the disequilibrium to channel participants and sets in motion attempts at conflict management in an attempt to re-balance the system. The ways conflict was managed varied in its effectiveness in moving this channel towards balance. Arguably it was the combination of reduced relationships and a partnering orientation that moved the channel towards a (more) continuing balanced state.

There are important implications for managers emerging from these findings. First, many of the causes of channel evolution are largely beyond the control of the individual players within that channel (Wilkinson and Young 2005) as is control of the balancing processes. Effective response to evolution is in part via effective channel management that focuses on ways of building the capacity to work with channel partners to jointly deal with, cope and manage these changes. The rationale is that additional skills and resources that arise from such partnering give organisations greater capability to deal with changes (Ritter et al 2002). This requires joint activity within effectively functioning relationships.

Consideration of the time and process in relationships opens new avenues for analysis and insight. The framework of balance-imbalance and equilibration allows focus on channel processes in a way that few other perspectives can. Combined with the historical analysis of events this allows a very powerful analysis of the way channels evolve.

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