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PERCIN BATUM

Anadolu University, Türkiye

MANAGEMENT AND MARKETING SCIENCES' REACTION TO THE NETWORKED WORLD

Abstract:

The purpose of the exploratory study is to compare the perspectives of management and marketing sciences on networks and reveal out why and how firms become connected and interdependent, and how the relationships affect their ability to compete according to these perspectives. For this purpose, network theory has been taken as a common ground. The management theories which form the network theory and relationship marketing have been discussed. In this paper, the difference between the perception of management and marketing sciences on networks have been expressed in terms of the components of ARA Model. It is possible to notice that some issues have been reverted under different components.

This paper aims to put emphasize on that the two arm in arm sciences are in the opposite edges and explain why by presenting the attitude of two different sciences to networks through a model which explains the network theory. It is hoped that this paper helps decision takers to be enlightened if they act as a manager or marketer.

Keywords:

Relationship marketing, The network approach, ARA model, Interaction approach, Resource dependence theory, Social exchange theory, Institutional theory

JEL Classification: M31, L19, M19

1. Introduction

The world is globalizing day by day. Therefore, inter-organizational global networks between firms emerge. The competition has been transferred into brand networks. It is obvious that every relationship is desired to be long term. Any firm wish to develop good relationships with their customers, suppliers and subsidiaries so that they can operate by more stable and beneficiary activities.

The term network is not new neither for management and marketing. But how they perceive a network differs. It is well known that strategic management theory has inspired industrial network thinking. But this journey did not end there. Network theory gave its roots to relationship marketing, which lead to a paradigm shift in marketing.

This study consists of a comparison of the point where network theory comes from and where it comes to. In this way, we aim to show how a notion can transform into a reverse thought and wish to give proof for evolution.

2. The Network Approach

Hakansson and Ford (2002) have simply defined a network as a structure where a number of nodes are related to each other by specific treads. A business market is a complex structure and a firm within the market cannot be considered isolated from its environment. The network approach has emerged over the last four decades as a distinct body of knowledge, especially in the field of B2B marketing and purchasing. By the studies of Industrial Marketing and Purchasing (IMP) group, interaction and network approaches have been developed respectively (IMP1 and IMP2). While the interaction model (IMP1) focuses on the elements of the dyadic inter-firm relationship, the network model (IMP2) conceptualizes the industrial systems as connected networks (Brennan, 2006).

The industrial network model which is the basic of network approach consists of three basic group of variables which are actors, activities and resources (Hakansson & Snehota, 1995; Tikkanen, 1998; Gadde et al., 2003; Brennan, 2006). The model developed upon these variables is called as ARA Model.

i) It is individuals who give life and constitute the organic part of the business networks. What happens in a network stems from the behavior of individuals who bring into the relationships between companies their intentions and interpretations upon which they act (Hakansson & Snehota, 1995). *Actor bonds* connect actors and influence how the actors perceive each other from their identities in the networks. Medlin & Quester (1999) have described three layers of actor bonds. In the first layer, the bond between actors which have been created by interactions influence the nature of activity links and resource ties. The second layer, developed actor bonds make it possible to change the links and ties with acceptable responses. The third and final layer exceeds economic benefits and assign a different meaning to actor bonds in terms of social and symbolic values. The ones are the actor bonds which influence the views of interaction and formation of relationships. The quality of bonds also has a direct bearing on an actor's possibilities because network actors control activities and resources.

ii) The activity dimension of network model includes activities as product development, information production and processing, purchasing and selling (Hakansson & Snehota, 1995). *Activity links* include technical, administrative, commercial and other activities of an organization that can be connected in different ways to those of other organizations (Tikkanen, 1998).

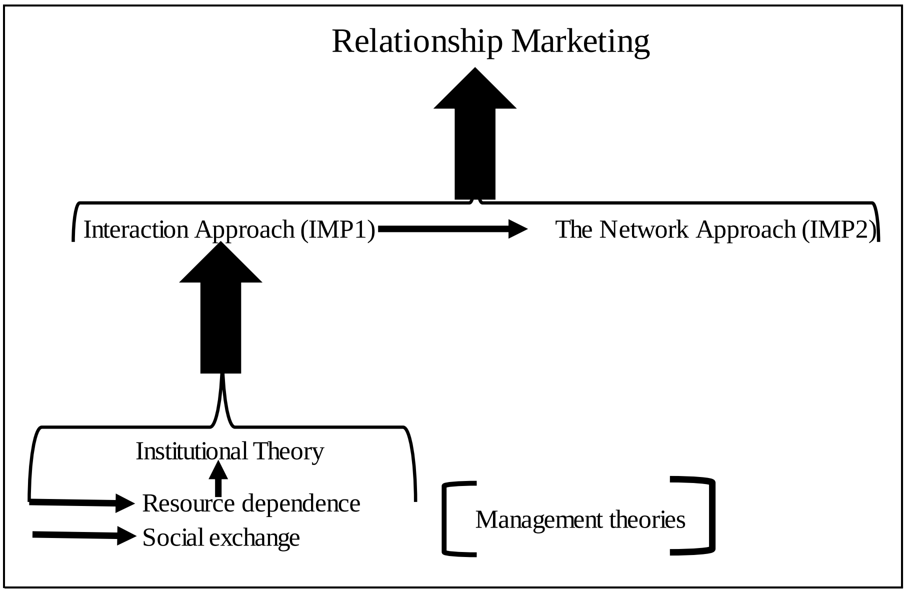
Activities of a firm are not isolated and are a part of a larger entity and interdependent with the activities of other firms within the business network. Developing activity links in a relationship means that activities performed by a company become connected to the activities of others (Hakansson & Snehota, 1995). According to network approach, a company can utilize the interdependencies that exist among the activities of the different actors by relating its own activities to the activities of the counterparts (Gadde et al., 2003).

iii) In resource dimension of network theory, even the relationships themselves are regarded as a kind of resource and companies are tied to each other in terms of their resources. *Resource ties* connect various resource elements of the companies (Tikkanen, 1998). Every company is a part of a larger collective entity which they collaborate and add value through their resources and activities (Gadde et al., 2003).

As Hakansson & Snehota (1995) implies; in network theory, the subject of business relationships is not about acquiring resources. Contrarily, it is about the connection of provision and use of resources to constitute a bigger picture. These three elements of variables are strongly interdependent and should be considered as a whole. A relationship between two companies in a network has a profile in terms of these activity links, resource ties and actor bonds (Hakansson & Snehota, 1995).

If we take a look upon theoretical background; as stated earlier, the network theory is a developed and more complex form of interaction theory. Besides, relationship marketing paradigm is considered as the extension of interaction and network theories (Grönroos, 1994; Gummesson, 1997). When we shed light to the roots of the approach, Erdogan et al. (2011) have stated that IMP1 has been influenced by resource dependence and social exchange theories. On the other hand, Brennan & Turnbull (1998) indicate that interaction model (IMP1) has emerged from new institutional economies and inter-organizational theory. Möller & Halinen (2000) verify that IMP1 has initially been influenced by resource dependency and social exchange theories, and later by institutional theory, which belong to management discipline, not marketing. The evolution of the relational paradigm has been schematized below:

Figure 1. The Evolution of Relationship Marketing From Managerial Roots



Möller & Halinen (2000) have mentioned some problems arise from the fragmented structure of the theory. As a theoretical evolution with managerial roots and marketing destination, there exist a variety of partial descriptions and theories focusing on relationship marketing instead of a unique relation marketing theory. This situation causes researchers to approach to the subject from different theoretical bases and employ different conceptual frames of reference.

In line with this opinion, Katz et al. (2004) say that there are several influential network perspectives. One of these perspectives bring management theories into the forefront and one another relies on theories of mutual interest and collective action which describes relationship marketing. Within the many, these two are the ones that apart from each other despite so much convergence. So, what are the attitudes of management and marketing thought for network relations? How the two embedded but different sighted science branches consider the networked world? It will be discussed in the following titles following the brief explanations of these theories.

3. Managerial Theories Underlying Network Theory

As mentioned earlier, strategic management theories were the ones that lead the way to focus on relations for revealing the way to make business. Taking roots from resource dependence and social exchange theories initially, interaction and network approaches have been affected by institutional theory afterwards. Thus, it is necessary to interpret and consider the basic mottos of these theories in order to propound their perspectives for business relationships.

i) *Resource dependency* is a theory with roots from open systems framework, which argues that organizations must engage in exchanges with their environment to obtain resources necessary for survival or prosper (Barringer & Harrison, 2000).

The theory briefly explains that the organization tries to gain power or decrease self-vulnerabilities through resources which lead to competitive advantage. On the other hand, a competition already exists for the resources.

ii) Based on the initial studies of Homans, *social exchange theory* is considered as one of the most influential conceptual paradigms for understanding workplace behavior. Social exchange involves a series of interactions that generate obligations (Wikhamn & Hall, 2012).

In social exchange theory, it is assumed that units engage in social exchange only in order to maximize their outcomes and the relationships are interdependent (Holthausen, 2013). Cropanzano & Mitchell (2005) state that these interdependent transactions may lead to good relationships, but only under circumstances of continuous and bilateral rewarding reactions of each other

iii) The structures and processes of organizations take shape in consequence of their adaptation to the environment they live in (Meyer & Rowan, 2006). *Institutional theory* suggests that institutional environments impose pressure on organizations to appear legitimate and conform to prevailing social norms (DiMaggio & Powell, 1983).

Institutional pressures motivate firms to participate in inter-organizational relationships for obtaining legitimacy, acceptance, and survival (Barringer & Harrison, 2000). Companies may obey to change under obligation, normatively, or by mimicking. For any reason whatever, organizations have to adapt to environment in one way to another to survive.

4. Consequence of Network Theory in Marketing: Relationship Marketing

In accordance with the new marketing thought and parallel to Grönroos' widely known definition, Erdoğan (2009) has defined marketing as an applied science which aims for constituting, sustaining and developing exchange relationship networks that create value for all parties. This definition has three main components; value co-creation, value exchange, and parties involved in the relationship. The term value mean a lot for relationship marketing. Ravald & Grönroos (1996) formulate perceived value of a product as perceived benefits divided by perceived sacrifice. In relationship marketing, all members of a network try to increase perceived benefits or decrease perceived sacrifices in order to co-create value.

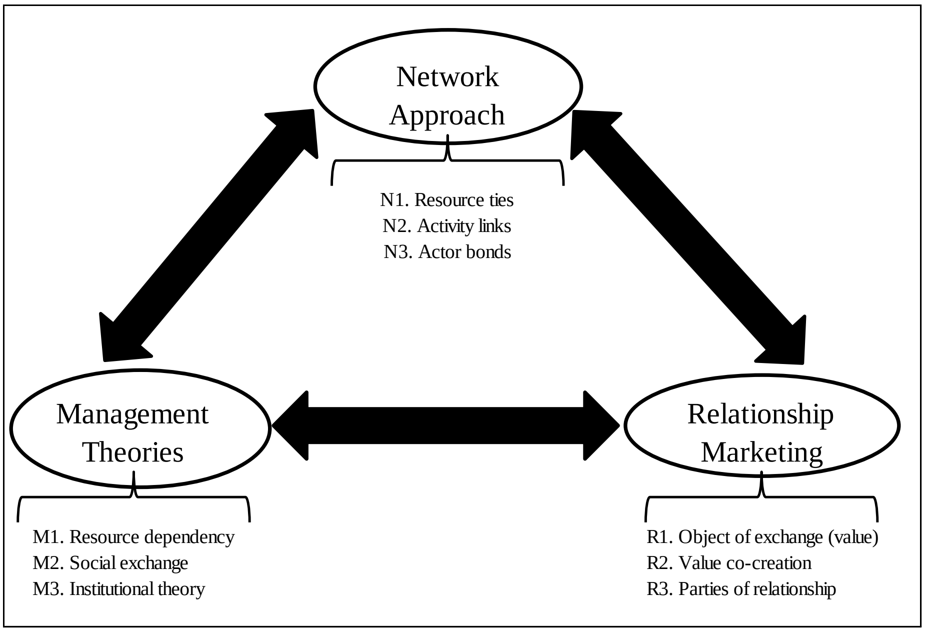
Relationship marketing attempts to involve and integrate customers, suppliers, and other infrastructural partners into a firm's development and marketing activities. Such involvement results in close relationships with the partners of the firm (Sheth & Parvatiyar, 1995). In this statement, the term partner is important because other parties are not considered as just units of transaction. Instead, all interacted units are considered as partners that endeavor together for the same universal purpose; to sustain. Porter (1998) also has stated that every firm is a collection of primary and supportive activities which are performed to create value at the end of the processes and all the performers of these activities are a part of this value chain.

Briefly, relationship marketing is the incubator of all networks and interactive relationships, and all units of the firm are responsible for developing and maintaining these relationships. As mentioned earlier, that collective responsibility principle attributed to internal environment of a business is as viable as for the external environment and all the partners among the network. Relationship between parties should not be obligatory, hard to break up, and only bilateral; instead it should be like a preferred friendship. Both parties should be willing to invest more time and effort voluntarily, and multilateral (Szmigin & Bourne, 1998). Otherwise, relationship between parties depending on purely self-interests would have weak bonds.

5. Conjunction of Sciences: Influence Cycle and the Median

As indicated before, the network theory can be perceived as midpoint or transitional stage in between; **i)** managerial explanation of interactions between parties from the point of intra-organization in terms of self-benefits and **ii)** explaining the whole picture of these interactions web leading to long term relationships which transforms transactions into common concern of partners for co-creation of value in order to obtain total benefit. On the other hand, these perspectives are not sequential and all these theories are still valid. A company’s vision determines the preferred side. Besides, whole approaches are being influenced by each other continuously as seen on Figure 2:

Figure 2 Influence Chart of Theories on Networks



There is actually one more thing that Figure 2 tells. When we take a deep look at the management theories used for explaining networks, we may conclude that these three theories constitute the factors of ARA Model of network theory. Resource dependence theory deals with the resource ties within the networks, social exchange theory underlies the activity links and institutional theory comprises a basis for actor bonds. And as stated before, basic components of relationship marketing are value co-creation, value exchange, and parties involved in the relationship. The possibility to match these components with the elements of ARA Model is not just a coincidence; it is the evolution of the perspective which briefly means a perspective shift on networks as:

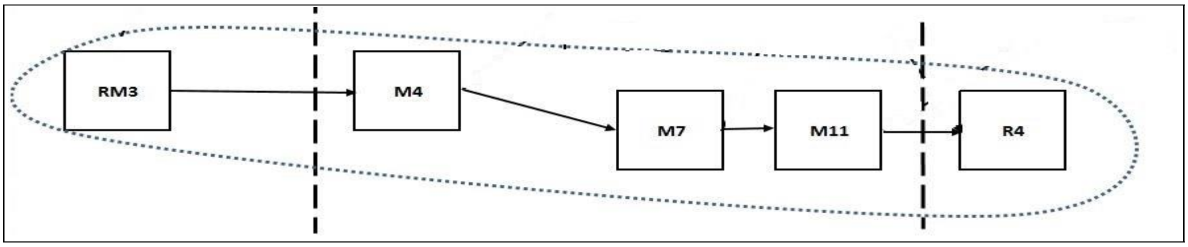
i) M1→N1→R1; **ii)** M2→N2→R2; **iii)** M3→N3→R3.

In other words, different management theories have basically molded different and certain factors of ARA model and provided a basis for the core components of relationship marketing separately.

6. Clash of Sciences: Management vs. Marketing on Networks

The coalition of management theories, the network theory, and relationship marketing are each like a foot of a tripod with some similarities and big differences indeed. These differences will be evaluated under this title in terms of the elements of ARA model by explaining on a symbolic network example in Figure 3:

Figure 3. A Section of a Network System (Chain X)



6.1. Attitude towards Actor Bonds: "I want to" Versus "I need to": The distinction between managerial and marketing perspective on actor bonds can be understood by examining the attitude towards the purpose and nature of the relationship established. In business life, interactions and relationships start with necessity; the difference is the intention in the ongoing process.

According to management, a firm is like a countryman in a metropolis who is trying to be accepted by the environment. He is an ordinary man has nothing special to offer. The best he can do is to adapt to environment and act like the others. In this context, what a firm should do is to be like the others in order to be a part of a business network. Briefly, management perspective focuses on adaptation for establishing network connections. On the other hand, marketing perspective focuses on the intention of creating value in harmony with external limitations and regulations. Adaptation is not well enough to be an indispensable part of a network, the firm should have a specific added value beyond economic benefits to offer.

According to management perspective and therefore institutional theory, the bond between actors continues as long as dependency remains. The relationship has an obligatory structure. On the other hand in relationship marketing, it depends on the parties to continue the relationship once established. Parties are volunteer for maintaining and developing strong and long term bonds with each other loyally. It possible to say that while managerial perspective represents the first layer of Medlin & Quester's actor bonds, marketing perspective represents the third layer.

As Hakansson & Snehota (1995) indicated; the process of building trust and identity in relationships affect the identities of companies. Establishing the actor bonds with a managerial attitude will probably result in negative impressions and lack of trust. So, an unhealthy relationship within network may occur. But with a marketing point of view, a relationship chain within network which depends on loyalty will make good impressions for members, build up trust, deepen commitment, and increase the desire for cooperation.

In the B2C context of actor bonds it can be said that managerial approach considers final customer as a rational creature who picks up the one with the most tangible/functional value. However, it is well known that consumers do not establish relationship with brands not only because they offer functional benefits. Consumers tend to establish relationships with brands both rationally and emotionally. If they are enthusiastic, they wish to enter in long time relationships with increasing value and significance over time (Brito, 2011). Therefore, as Gummesson (2008) indicated, every supplier has a relationship to the customer's customer and a collaborative branding strategy for increasing the value of umbrella brand will be more proper instead of self-branding of network members.

6.2. Attitude towards Resource Ties: Despotism Versus Collectivism: The main difference between the sciences' approach on resource ties is about the treatment of the concept once again. Barringer & Harrison (2000) state that resource dependency theory and management approach indeed consider inter-organizational relationships from an economic point of view and anything else is ignored. On the other hand in marketing, even a firm's network is seen as an inimitable resource (Gulati et al., 2000). It means that marketing has a much broader understanding on resources.

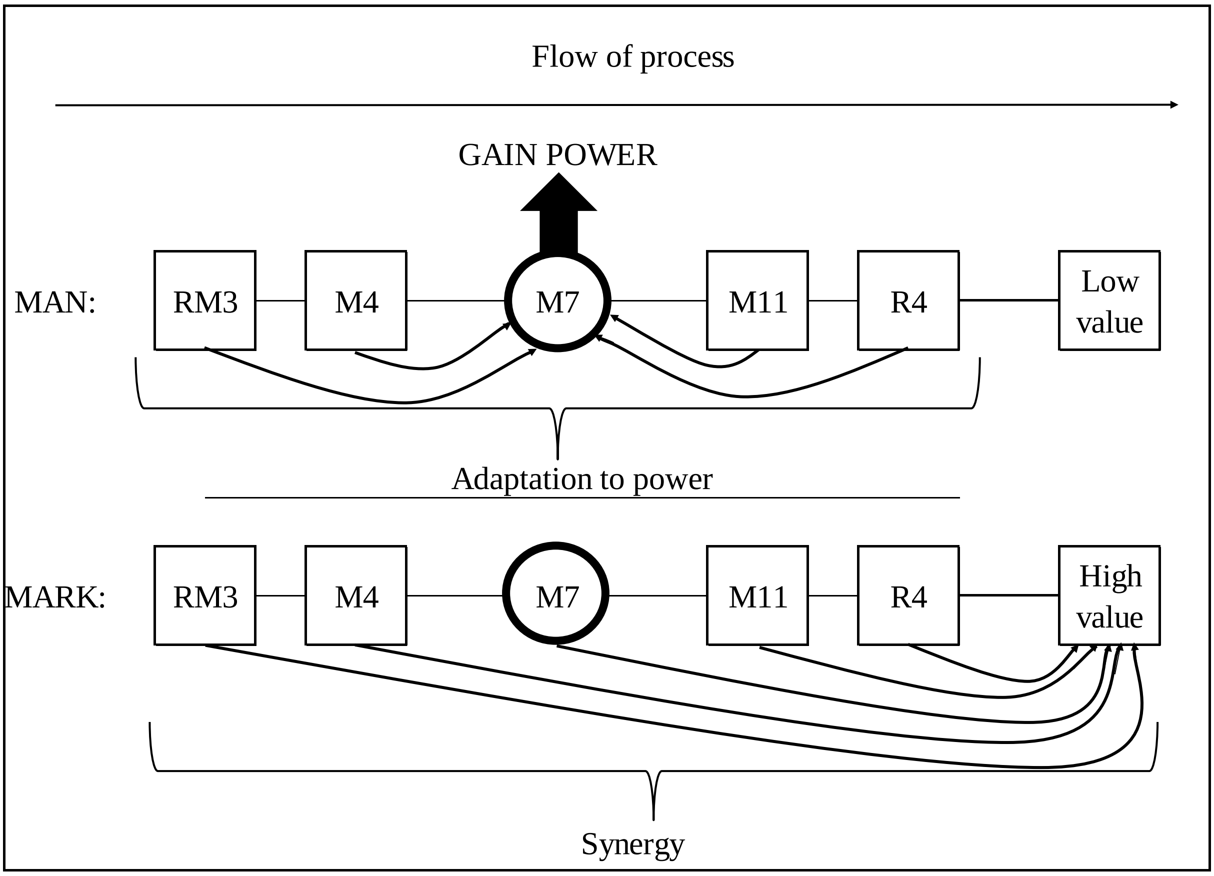
Brethertorn & Chaston (2005) have exposed that having a clear strategic intent with adequate capital allows ownership and control of key resources and capabilities. So, all companies would have a possession instinct for resources. Resources can be considered key if they are rare, valuable in the market, imperfectly imitable, and non-substitutable and they are the ones that can lead to competitive advantage (Barney, 1991). The difference between sciences' point of view lays on the planning of what to do with that superiority hold.

With a self-focused way of thinking as in management, a firm would prefer to acquire control over critical resources in an effort to decrease dependence on other organizations and acquire control over resources that increase the dependence of other organizations on them (Barringer & Harrison, 2000). In marketing on the other hand, resources are seen as components of value creation and pooled by partners in the network for attaining the highest value. Please check Figure 4.

Let's turn back to Chain X. Assume that network member M7 hold a key resource unit which is vital for the process. With a strategic management way of thinking, what M7 should do is to make benefit of this strength and establish rules for the network. In this situation, other members have to put extra effort for accommodating to M7 and shift their focus from value creation process to adaptation. Such ever-growing dependence will threaten and exploit other members which will sooner or later have them to finish the relationship with M7.

However in a network which all members consider each other as partners, the existence of such a strength at one of the members' hand will encourage and motivate the network for giving their best and contributing the existing strength with their competences. Such a synergy will lead to a shift in created value.

Figure 4. Benefit Comparision of Power between Management and Marketing

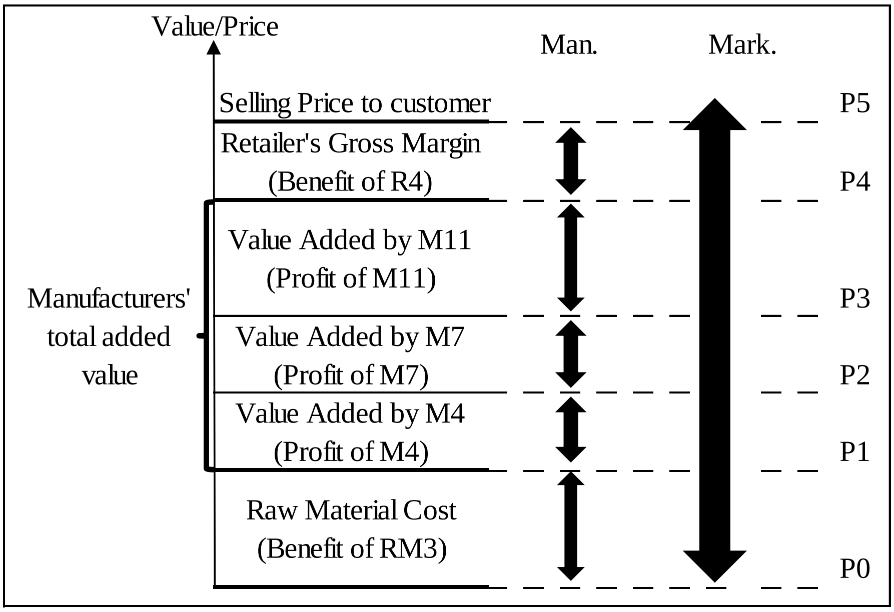


As seen, while strategic management divert firms to gain competitive advantage within network, marketing motivates them for higher value co-creation and gaining competitive advantage among other competitor networks. In such a way a power in terms of resources is perceived as a thread by other members in management. But it is embraced as an opportunity by the whole network in marketing view.

6.3. Attitude towards Activity Links: Me Versus We: Gadde et al. (2003) state that strategic management approach has a pure competitive focus on relationship. But relationship based network understanding provides balance between competition and cooperation which lead to value co-creation. Besides, as in social exchange theory, the company take place in the network with the idea of winning and maximizing self-benefit in management approach. But in relationship marketing, all parties consider themselves as a team and collaborate for maximizing the total benefit, profit, value, etc. of the network and share the outcome of the synergy equally. In other terms, while management defends the opinion of competition within the network, marketing relies on competition for the favor of the network. As Gummesson (2008) explained, it is a plus sum game rather than a zero sum game. Please check Figure 5.

Let’s take M7 as example. With a managerial approach on actor bonds, company M7 competes against the other channel members and does its best in order to maximize its profit zone by hiking P3 or pulling down P2 with power. An increase on M7’s benefit will result in a decrease on benefits of M11 and/or M4. However, with a relationship marketing focus, what M7 and the other members altogether should do is to collaborate for increasing the final value; either increasing the benefit gained (upwarding P5) or decreasing the total cost (P0) by sharing information, knowledge, process, technology, etc. and finally split the profit/benefit gained equally. This is the only way for a real change in the created value or for co-creation of a totally new value.

Figure 5. Difference of Focus on Benefit

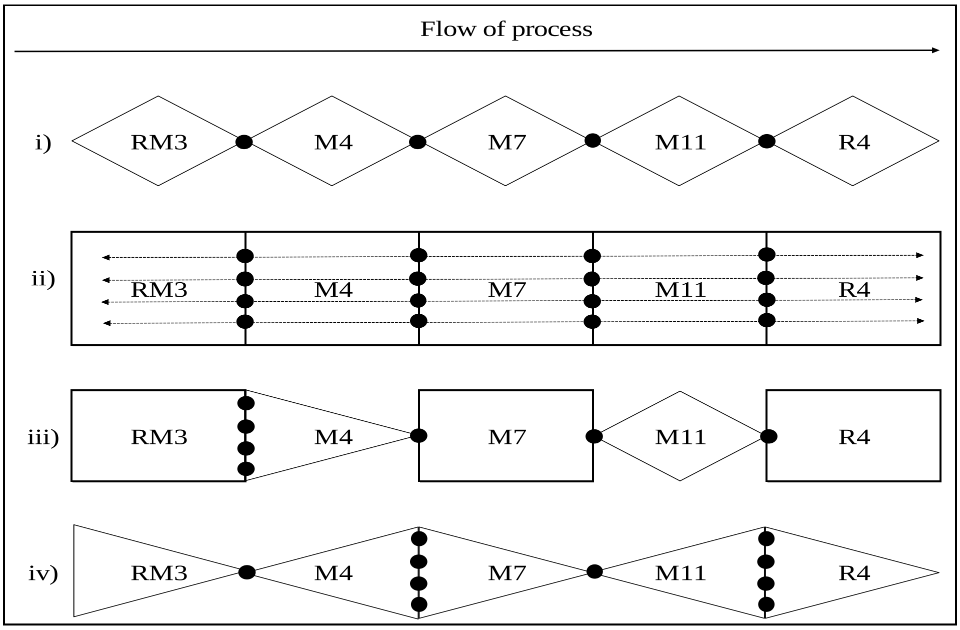


As understood, in managerial approach all parties compete for gaining power in order to make other parties dependent in network system. And what relationship marketing approach defends is to take part in the network as a team member and dedicate themselves for the same common goal. The basis of social theory depends on the opinion that individuals expect and prefer relationships with high outcome in exchange for a lower payoff. In such a case, it is not possible to develop sustainable relationships.

The quantity of the activity links between members is as important as the quality of these links. It is not possible to collaborate for the same goal by linking up limited activities. Even there are much more; let’s assume that two companies can interact with each other and establish a relationship via 4 different activities; economic transactions, branding, process development, and distribution. With a pure management and self-focused view of interaction, there would be a high competition among network members and all parties would make efforts for maximizing their self-benefit. Under these circumstances, all parties would try to gain power and keep their key strengths to themselves which lead them to limited contact points, maybe economic transactions only. But in marketing understanding, parties act as one and share their capabilities and assets within network for the final shared purpose; constituting a value chain. And even one member hesitates to act this way, the value chain is damaged. Check Figure 6:

As all geometrical figures represent a firm, there exist three types of firm behavior. The black dots represent the number of activity links. Diamond firms are the ones which avoid linking up their activities and interact only for economic transactions within the network, the triangle ones are the partial collaborators, and the rectangles are full partners.

Figure 6. Different Levels of Linking Activities



The first line illustrates the pure management perspective. Companies only interact for economic transactions and have buyer/seller behavior. On the other hand as seen in the second line, self-activities of firms can be added to one another only if all types of activities are linked with each other within the whole network system. Thus companies coordinate and work in harmony. Otherwise, the collaboration line will be broken somewhere in the chain and make it impossible to maximize the co-created value (Last two lines).

7. Afterword

In this paper, the difference between the perception of management and marketing sciences on networks have been expressed in terms of the components of ARA Model. It is possible to notice that some issues have been reverted under different components. This is because as Holmen & Pedersen (1998) said there is no clear boundary between activity, resource, and actor dimensions of ARA Model and they're all embedded into each other. On the other hand, the sciences and the theories belong are influenced by each other a mentioned before.

The purpose of this paper is not to defend one perspective to another. It is aimed to put emphasize on that the two arm in arm sciences are in the opposite edges and explain why. As mentioned earlier, it is not possible to say that one of these perspectives is suitable for all conditions. And also we cannot say that each science consider networks purely as expressed in the text. The boundary between marketing and management is blurred as well.

With this paper, we tried to present the attitude of two different sciences on networks through a model which explains the network theory. It is hoped that this paper helps decision takers to be enlighten if they act as a manager or marketer.

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