12-2013

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Abstract

The story of the growth of emerging economies is about the growth of their marketing institutions. Marketing channels are the key marketing institution in enabling the flow of goods and services. However, marketing scholars typically rely on models and theories devised in the developed economies to study the marketing channels in emerging economies, and these include theories based on political economy-based frameworks that emphasize power and dependence. We argue that often the institutional drives to gain legitimacy provide a powerful lens to understand the evolution of marketing channels. In this conceptual paper, we illustrate our arguments through a few examples, and provide an agenda for future research.

Keywords: Marketing Channels, Emerging Economies, Institutional Theory

Introduction

Emerging economies are often characterized by their relatively higher and sustainable growth rates. The attendant economic conditions usually include increase in productivity and GDP at rates higher than those in the developed economies. These developments affect many facets of economy. For example, the increased variety and flow of goods and services result in the development and evolution of marketing channels.

This is an expected outcome because growing economy and the increase in consumption go hand in hand and the marketing channels are made of interdependent organizations (channel members) that link the marketer with the end consumer. Wholesalers, agents, brokers, insurers, retailers, warehouses, transporters, specialized delivery vehicles, road, rail, ports, waterways, and the electronic data network – these all are vital ingredients of a marketing channel system that keeps the economy humming.

Despite the central role of marketing channels (or simply "channels") in connecting the marketers and consumers, surprisingly little attention is paid to understanding how marketing channels evolve in emerging economies and if the dominant frameworks and model used to understand the channels in developed economies are appropriate in understanding the evolution of channels in emerging economies. Usually, the models from the mature economies are deemed relevant for the emerging economies as well (e.g., Dong, Tse, and Hung 2010; Kale 1986). It is our thesis that the neoclassical theory based efficiency centered framework or the political economy-based models, the dominant theoretical frameworks through which the functioning of channels is examined in developed markets, do an incomplete job of explaining the functioning and evolution of channels in emerging economies.

In the developed economies, the marketing channels are sophisticated in nature as they serve a mature economy. Following the lead of other social scientists, the efforts to understand the marketing channels traditionally have been rooted into the neoclassical framework where efficiency is the goal and transactions happen without frictions and information is ubiquitous. Since these assumptions do not reflect real life conditions, scholars adopted the political economy framework where the economic actions are steeped into political concerns of power and dependence (e.g., Frazier and Summers 1986). The dominant themes in the literature addressing channel concerns have been governance mechanisms (Yang, Su, and Fam 2012), agency relationships (Vermillion, Lassar, and Winsor 2002), power equations among channel members (Frazier 1983), various types of influence attempts they bring in to achieve the desired outcomes (Scheer and Stern 1992), and the relational bonds they establish with each other (Zhuang and Xubing 2011).

All these issues are vital in capturing the nature of a marketing channel from various angles, however, we argue that they miss an important piece of the puzzle – how various *institutions* within the society shape the evolution of the marketing channels. The institutional view examines the dynamics of marketing channels as the channel development gets informed by the constraints put on it by various institutions (Grewal and Dharwadkar 2002; Varman and Costa 2009; Yang, Su, and Fam 2012). This view looks at market development "as a political and social process…as a process of legitimation" (Humphreys 2010). Our aim is to highlight the kinds of issues related to marketing channels to be explored through further conceptual and empirical studies.

Why Institutional Theory Matters in Examining the Channel in Emerging Economies

Our context *of emerging economies* does not mean that institutional theory cannot be applied in the *developed economies* context. Indeed, the institutional theory has been applied in understanding the marketing organizations in developed economies as well (e.g., McFarland, Bloodgood, and Payan 2008). Further, the "recurrence of earlier patterns" and studying "inter-institutional strife" have often remained the focus of the investigation (Brown 1987).

While the usefulness of the institutional theory is highlighted when it comes to understanding change in economic environment (e.g., Scott 2004), there is still need for a bit detailed discussion. The channels are made of dyads and the neoclassical theory assumes frictionless transactions. In reality, transactions are fraught with uncertainty and mediated through various institutions designed to reduce this uncertainty (North 1991). If we take an example of a remote rural community in an emerging country like India, a farmer may provide vegetables to end consumers in the local community in cash- or barter-based transactions. This is the simplest and shortest form of marketing channel, where the transaction is personal in nature. It is most likely that the buyer and the seller know each other and have engaged in repeated transactions in the past. The presence of the interpersonal trust suffices in enabling the transaction.

However, as the economy grows, it is characterized by specialization of actors and division of labor. The mass production means the production and consumption are separated geographically, setting the stage for introducing more actors in the marketing channels (e.g., regional distributors) and making the transactions *impersonal* in nature. The impossibility of knowing everyone involved in the channel personally means the interpersonal trust is not a viable mechanism to reduce the uncertainty in the transaction (e.g., the quality of products may be unknown). Typically, contracts are drawn to reduce the uncertainty about the transactions. However, just writing a contract is not enough, as without the threat of enforcement, they may remain toothless. Various institutions play role in reducing the uncertainty, enforcing the contract if need be, and enabling the transaction. Table 1 describes the mechanisms employed in enforcing the contracts at various levels of complexity in the transactions.

The mediation of transactions by the institutions introduces “friction”, challenging one major assumption of the neoclassical frameworks. The political economy-based models take into account such “imperfections” in the market, and focus on how constructs such as power and negotiations strategies affect the outcomes, including *economic* ones, of a marketing channel. However, in emerging economies, the channels often function within extra-economic context.

Examples of Marketing Channels with Extra- Economic Context

A few of the examples of the marketing/distribution channels with the extra-economic context are listed here:

1. Coarse grain distribution centers are often awarded to needy individuals where need-based considerations supersede merit-based considerations. Similar considerations are at the heart of the Gramin Bank model, which distributes micro loans. The Shakti initiative by HLL has dual bottom lines as they choose underprivileged rural females as beneficiaries. These social welfare expectations from a channel are likely to be found more readily in emerging rather than mature economies.
2. Often new marketing channel arrangements are pursued in emerging economies not necessarily for its economic feasibility but because it rubs off on the firm in a positive manner. Amul was pioneer in adopting the Internet as a marketing channel in its goal to be known as an “IT company in the food business”.
3. The political institutions generally overpower the economic efficiency considerations, greatly affecting the type of channels that can evolve in a given economy. Further, political willingness to enact laws to allow market-based exchanges to flourish (e.g., antitrust laws) and create a powerful judiciary to make contracts enforceable is critical in setting a stage for economy to take off. This is highlighted by the case of the Latin American countries where they liberally borrowed from the constitution of the United States in a hope to mimic its economic success. However, the lack of institutions that can make contracts enforceable and support private property rights has resulted into dysfunctional economies for the better part of the last century (De Soto 2003).
4. The polity supersedes economics in that the competing interests in politics do not let the pure market equilibrium presumed by the neoclassical theory to realize. In India, the congress party was defeated even after putting the country to the path of

enhanced growth rate. The message - if the fruits of economic growth were not enjoyed by all, there will be consequences. This made the political parties to re-evaluate their stance towards liberalization such as disallowing the FDI in FMCG retailing, greatly affecting how marketing channels would have evolved.

5. The general suboptimal state of physical infrastructure (e.g., investment banking) in emerging economies is often compensated by substituting the influence of caste and community-based institutions. For example, the great construction boom in many parts of India is financed by temples in a transaction between the builder-devotee and the religious head that does not always show up on the financial documents.
6. Emerging economies are often characterized by “dual economies” of relatively free- and the controlled- segments. Within the “controlled segment”, there are about half a million Fair Price Shops (FPS) in India, run by the Public Distribution System (PDS). The aim of these shops is ensure food security for the poor populace, and therefore, efficiency and market forces take a backseat. The institutional theory may be a proper tool to understand the functioning of this channel as legitimacy is a more immediate concern than efficiency (cf. Grewal and Dharwadkar 2002).

The other argument about using institutional theory in understanding the evolution of marketing channel in emerging economies comes from the inherent nature of the emerging economies – they are usually associated with the lack of competitive structure and disregard for efficiency and the preference for the welfare or autocratic state. When the growth path is sought, it is through the establishment of *market institutions* (emphasis added, McMillan and Barry 1996). Therefore, understanding the change through institutional theory is an appropriate choice.

The Potential Research Agenda

In light of the issues we highlighted so far, we argue for a greater consideration of the context, particularly the immediate institutional environment in examining the marketing channels in emerging economies. Society and culture play dominant roles in how we frame our sense making endeavors. The neoclassical theory is devoid of accounting for such idiosyncrasies, though, it is doubtful if we can simply wish these away as noise.

Further, the national economies are path dependent. Their current bearings are a result of the journey made in the past. For example, the escape-from-monarchy ideology, the frontier mentality, and the lack of ancient history has provided for a very unique context to the American economy compared to the European and the Asian economies.

The post-independence Indian economy is relatively young, but already includes two major inflection points. One, immediately after the independence, conscious choice was made to be self-sufficient, probably as a response to the just endured slavery to the British. This guiding principle led to emulating the socialist structure of the soviet economy, with centralized planning as a key feature. The second inflection point came roughly four decades later, when in 1991 India had to put aside its national pride and fly gold to London to ensure liquidity in the international trade. The resultant liberalization of economy is still work in progress. Consequently, our inquiries should take into consideration the evolving nature of the economy (and parts of economy such as marketing channels) in framing the questions. Some indicative questions are mentioned below:

1. As the erstwhile third world countries are reclassified as emerging economies, they make transition from the centrally controlled economy to the market-based economy. As the public distribution of goods and services get eclipsed by the market-based system, what are the implications for the marketing channels in terms of how their performance is measured?
2. What types of formal and informal institutions affect the marketing channels? How? Are one type of institutions more like to affect than the other? Why?
3. Infrastructure development is the backbone of any robust marketing channel. The legal and social arrangements affect how the hard infrastructure evolves. The adoption of VAT (software) encourages adoption of more efficient hub-and-spoke model of warehouses. How does evolving institutional environment affect the development of infrastructure?
4. What are the factors affecting the evolution of the institutional environment for marketing channels (e.g., the changing perceptions of the role of the government versus private enterprises in creating jobs)? Which factors are more important than the others and how do we know that?
5. Technology is brought in to harvest the productivity gains within economy/marketing channels, but that alone is not enough. It is the technology nestled within the institutional arrangement to make the impersonal transactions possible that sets the stage for the productivity gains. How does technology interact with the evolution of the institutions in affecting the channel performance? Would M-Pesa like system be possible without the widespread adoption of the wireless technology?
6. How institutional and economics-related factors interact to affect the evolution of marketing channels? Chi-Hsing and Kuo (2008) provide a promising start with examining the case of a computer manufacturer, however, more robust methodology is needed to gain deeper insights.

These issues are illustrative in nature, but do lay out an agenda for understanding the unique role of institutional environment in the functioning and evolution of marketing channels in emerging economies. While there are some initiatives in marketing to apply institutional theory in understanding the evolution and functioning of marketing channels (e.g., Richey et al 2005), much needs to be done to fully harness the explanatory power if this theory.

Conclusion

Marketing channels interact with the economy in which they reside as a mini system. Channel development is a very organic process where the marketers try to devise a best way to deliver value to customers *within the constraints* they have to face. On the other hand, they also *go beyond these constraints* by bringing in new technology, riding on the infrastructure development, and implementing the innovations within the system. This constant process of adjusting-and-readjusting, give-and-take forms the cutting edge of the channel evolution.

This process may be different in emerging economies (e.g., India) compared to the developed economy (e.g., USA), because the channel evolution has a larger gap to overcome in the former. The channel evolution process in emerging economies is dynamic and complex. Martinsons (2008) alludes to these differences while discussing electronic markets in China. Further, we do not believe the channels evolve and work similarly in all emerging economies, partly because the institutional environments are not always comparable. The Indian economy presents an interesting mix of free market and socialism, rising modernism and resurging religious fervor, and both political will and opposition for market reforms. All of these conflicting and complementing dynamics make for an interesting research agenda for scholars interested in understanding the channels in emerging economies in general and India in particular.

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Table 1: Uncertainty Reduction in Transactions through Contract Enforcement

	Type of Contract Enforcement	**Means of Enforcement**	**Examples**	**Remarks**
1	First Party	Self declaration that "I will act morally"	A personal oath	Relies on a discretion of an individual
2	Second Party	Retaliation	Threat of violence	Law is bypassed
3	Third Party (informal)	Societal sanctions	Threat of making one an outcast	Higher transaction cost as many individuals are involved
4	Third party (formal)	Legal court	Legal penalty	Could be costly but is efficient and scalable