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The Relationship between Stakeholder Marketing and Reciprocity in Eastern Europe: A Conceptual Analysis

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This conceptual paper deals with important implications of 'reciprocity' in marketing in emerging and developing business environments, such as Eastern Europe. In mature, developed, high income, business systems, both transaction and relationship based marketing have been well researched. We posit that in less mature business systems, especially transition or emerging economies, there is a third way to look at marketing and exchange, which we call 'reciprocity-stakeholder marketing.' We believe that our framework shows the importance of reciprocity, a fundamental concept in business, for marketing in emerging environments such as Eastern Europe. This paper provides a meaningful starting point for empirical research for developing strategies in Eastern Europe.

Keywords: Eastern Europe; reciprocity; stakeholder; hostages; countertrade; emerging environments

Introduction

This conceptual paper deals with marketing implications of 'reciprocity' in marketing in emerging and developing business environments. International marketing is taking place within a context set by specific, identified stakeholders (Woodbine, 2008; Zakhem, 2008) and in the institutions that support them. Marketing research is increasingly recognizing that in-order to be effective; one needs to consider a broader range of stakeholders. Marketing was seen too restrictive and single dimensional to be effective in the eyes of the Nordic school of thought (Gummesson and Gronroos, 2012). Long term interactive relationships and social networks, rather than transactional exchange, are considered the core of research in marketing. In mature business systems, both transaction and relationship based marketing have been well researched (Arnold and Quelch, 1998; Polonsky, Schuppisser, & Beldona, 2002). We posit that in transition or emerging economies such as Eastern Europe, there is a third way to look at marketing and exchange, which we call ‘reciprocity stakeholder marketing.’ We believe that our framework shows the importance of reciprocity (Rosanas, 2008; Stevens, 2008), a fundamental concept for marketing, in emerging environments such as Eastern Europe. The Study of credible commitments that has been relatively neglected in academic literature is explained by the assumption, common to both law and economics, that the legal system enforces promises in a knowledgeable, sophisticated, and low cost way (Berger & Herstein, 2012).

Understanding social capital is relevant for understanding what is going on within and between companies (Luoma-Aho & Vos, 2010). Doing business in many post-Communist countries is very risky because of the prevalence of bribery, extortion and organized crime penetration (Beekun, Westerman, & Barghouti, 2005). In emerging and developing economies, a traditional institutional base has been found striving toward the global economy. In the initial stages of their transformation, such economies have an institutional vacuum, where opportunism (Stevens, 2008; Donaldson, 2008) may be difficult to overcome. If they are to succeed, they need something to support the exchange thus implementing the marketing process in the short term. We believe that such a framework exists. It is an approach that provides temporary scaffolding within which the necessary new institutions of both transactional and relational type can be constructed.

The literature, which has most influenced our thinking on stake-holder marketing, is that on the role of institutions in economic development (Rosanas, 2008; North, 1990; Olson, 1992) or in emerging and transition economies (Kleinrichert, 2008). This paper contributes to this debate in two ways. First by providing a framework for analysing international marketing, which has to be effective across the divide between very different business systems, Secondly, this paper sets out to integrate thinking on the significance of ‘ethical’ social institutions, especially in the context of emerging globalization, for international marketing (Chiou & Pan, 2008; Choi, Hilton, & Millar, 2004) in Eastern Europe.

We suggest that, in addition to these two institutional aspects of markets and relationship marketing, a third framework is appropriate, one that is based on the concept of mutual hostage giving and taking (Schelling, 1960; Williamson, 1983; Hilton, Choi, Lee, & Millar, 1997) as a means of establishing an irrevocable mutual commitment to a sequence of exchanges out of which may develop a relationship of trust and consequent ongoing exchange. Such reciprocity provides an ethical aspect to marketing exchange that can overcome the opportunism (Stevens, 2008; Zakhem, 2008) that exists in emerging and developing business environments such as many Eastern Europe countries.

Western institutions are generally built on the basis of trust in the government, regulatory agencies, and especially the judicial system, as well as other formal institutions (Beekun, Stedham, Yamamura, & Barghouti, 2003). In many Eastern European countries, these institutions are not fully developed in the sense of Western economies (McCarthy, Puffer, Dunlap, & Jaeger, 2012). In many cases, their culture is considered to be collective in nature (Hofstede, 2006). These countries have a century's long tradition with collectivism emphasizing the importance of unity and equality (Michailova & Hutchings, 2006). For instance, in Russia, strong collective instincts were encouraged in the countryside in pre-revolutionary times. Collective farming was encouraged by the Tsars because of their fear of anarchy and in an attempt to minimize natural disasters and increase productivity. A strong cultural tendency, based on Communist ideology, is to distrust individuals, groups, and organizations that fall outside personal social networks. This has been attributed to the perception that outsiders do not share the same cultural values as group members and thus cannot be trusted (McCarthy & Puffer, 2008). For example, during the Communist period, the Communist party members placed themselves above the law. As a result, rules and regulations were easily violated and this resulted in a propensity for people not to value the judicial system and contracts. As a result, business of informal social-based networks was such that the use of personal social networks for attaining goods and services in short supply, and for circumventing official procedures can be efficiently conceptualized as the know-how of the Soviet system.

In a market economy, trust comes from formal institutions (such as courts and its legal system) and from informal institutions such as business ethics. For instance, in Communist Russia the markets were lead by central planners. There was no need for strategic or marketing planning, it was sufficient that the products were sent to a predetermined 'customer.' It was necessary to build personal relationships with 'planners' and other related firms as a prerequisite for gaining effective access to the markets. Russia has been ruled by the Communist party for over 50 years. Today, in post communist Eastern Europe, it is still important to build personal relations with government officials in-order to gain access to state property, win state contracts, and avoid direct and indirect taxes (Puffer & McCarthy, 2011).

Credible commitments and credible threats share the following common attribute: both appear mainly in conjunction with irreversible commitments and a weak legal system. The idea of using hostage exchange to create mutual incentives in a business context was originally suggested by Williamson (1983). In Williamson's model, the buyer and seller offer each other hostages to guarantee against cheating. If the buyer cheats, the seller may keep the hostage posted by the buyer; if the seller cheats, the buyer keeps the hostage posted by the seller. This is used when trust and tradition are weak or non-existent as opposed to cultures with long traditions of 'saving face' such as in China, a system called guanxi (Berger & Herstein, 2012).

Transactional Versus Relationship Marketing

Academic work on marketing since the 1990's has primarily focused on relationship based marketing exchange rather than transactional based exchange (Samiee & Walters, 2003; Kalafatis, 2002; Morgan & Hunt, 1994; Vargo & Lusch, 2004). Transactional cost marketing takes into consideration the costs incurred in the marketing of a product or a service. It takes into account the specificity, frequency, limited rationality, uncertainty, and opportunistic behaviour involved in an exchange. It claims that the best way to meet a firm's objectives is by satisfying its customers better than its competitors. The origins of relationship marketing are in Europe, during the 1980s, as a result of the dissatisfaction with the transactional marketing theory (Chattanon & Trimetsoontorn, 2009). Relationship marketing is seen as the complex and long term relationship between exchange partners and not simply as a series of transactions. These relationships are likely to rely less on formal contracts and more on issues such as trust and reciprocity. A common definition of relationship marketing was developed by Callaghan, McPhail, and Yan (1995, pp. 10):

> Relationship marketing centeres on the creation and maintenance of the relationship between two parties of exchange, the supplier as an individual and the consumer as an individual, through the possession of the desire to be mutually empathic, reciprocal, trusting and to form bonds.

Customer attraction but not customer retention is at the focal point of the transactional based marketing theory, which develops, sells, and markets products and services by means of short-term, discrete economic transactions. The authors build upon the concern in the relationship marketing literature regarding its effect on business interaction (Emerson, Alves, & Raposo, 2011). This work distinguishes between the marketing needed to support short-term, discrete exchange transactions and that required to establish and maintain longer-term repeatable and repeated transactions based on good relationships (Stevens, 2008; Donaldson, 2008) between buyer and seller.

This literature indicates that the traditional approach to international marketing saw exchange far too much in terms of what might be appropriate in an idealised market with full transparency, perfect free information, easy legal enforcement of contracts, and high rates of productive efficiency. However, even in well evolved market-based societies, such as the United

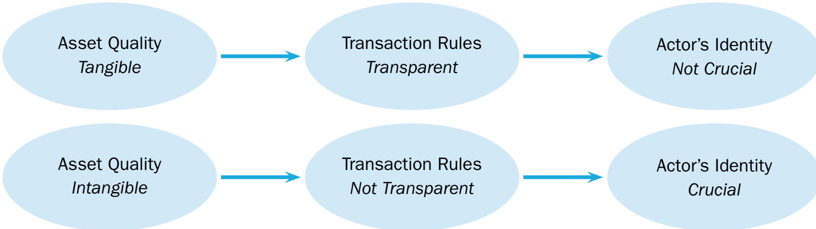

Figure 1 Gift versus Market Exchange – Identity

States, markets do not operate on such a basis, but ultimately always rely on relationships as a sound basis for marketing (Chattananon & Trimetsoontorn, 2009).

Research is increasingly revealing the fact (Samiee & Walters, 2003; Alexander & Colgate, 2000; Morgan & Hunt, 1994; Achrol, 1991; Bucklin & Sengupta, 1993; Vargo & Lusch, 2004) that if one accepts the relationship marketing view, one needs a fundamental paradigm shift. This needs to take into account relational contracting (MacNeil, 1980) within a relational marketing context (Dwyer & LaGace, 1986) that underlines the increased importance of networking (Child & Tse, 2001) to establish effective partnership based on both internal competition and relationships in an increasingly global context. Figure 1 summarizes the concept.

Reciprocity and Stakeholders: Countertrade

Reciprocity is the component in a business relationship that enables giving and receiving favours at a future date, a type of bilateral contingency for a mutual benefit (Berger & Herstein, 2012). Stakeholder theory was developed in-order to better map the firm's environment and assist firms to more efficiently identify and balance different needs (Luoma-aho & Vos, 2010). A stakeholder is an individual or group that is affected or can affect the performance of a firm (Freeman, 1984). Countertrade has been defined as: 'essentially barter trade in which the exporting firm receives payment in terms of products from the importing country' (Rugman & Hodgetts, 1995, p. 168).

We believe that this view portrays matters a little too simply. Hammond's (2000) presents a slightly more complex approach that identifies four types of countertrade: barter, buybacks, offsets and counter purchase, that are all considered as common in international business exchange in Central and Eastern Europe, Asia, Latin America, and Africa (Hilton et al. 1997; Choi, Lee, & Kim, 1999; Marin & Schnitzer, 1995).

Buybacks and barter are the direct exchange of goods between two parties without foreign exchange and were common to trade within Central

Europe (Robicheaux & El Ansary, 1976). Buybacks occur where one party provides input into the production process of another party in return for promising to purchase a proportion of the resulting output. Offsets take place where a seller agrees to offset, partially or in total, the costs of the buyer by subcontracting or co-producing (Thomsen & Pedersen, 1999). Counter purchase is the promise of one party to purchase the goods of the other party at a later date in return for delivering and receiving payment for goods. Barter is seen as the exchange of goods instead of the use on money.

The system operating in the former socialist economies had to adopt all the techniques described above as a pure market exchange. In the past, these exchanges were banned and personal inter-society social relationships were prohibited (Zakhem, 2008; Rosanas, 2008). In such circumstances, the only way they could trade was using countertrade to affect exchange. We posit, however, that these methods can and are used more generally to overcome market and reputational barriers to enterprises wishing to enter the global market and are used in markets where the legal system is weak.

Olson (1992) and Ostrom (1990) note that the former socialist countries had many characteristics common to societies at the beginning of history. There were few if any courts, and if there were any they were often arbitrary in their judgements. Governmental systems and coherent policies (Kleinrichert, 2008; Zakhem, 2008) to facilitate trade did not exist. The leadership of such states was exercised by dictates and arbitrary power ignoring normal social pressures to conforming socially acceptable behaviour typical in most modern and even very ancient societies (Whitley, 1992). As Olson has noted, despite these circumstances international trade with such countries still occurred. The gains from trade are substantial, if not colossal; some trades, and especially those that can be consummated on the spot, are essentially self-enforcing in that the interests of the parties are by themselves sufficient to make the transactions happen (Olson, 1992).

We agree with Olson as to the incentives of exchange in spot transactions within one jurisdiction, but where the exchange is between jurisdictions some other means of building self re-enforcement into a deal is required. An alternative existed, appropriate to the circumstances of these countries and based on the ancient past as alluded to by Olson, namely that of taking and giving hostages to fortune to ensure the good faith of the transacting parties. An even older example of hostage taking (Schelling, 1960) is where marriages are arranged between son and daughter of trust seeking renege avoiding parties.

The mechanism by which such supportive hostages to fortune can be created in the modern world is by use of one of the varieties of countertrade listed earlier. Next to transactional and relationship based exchange, this third way to exchange is in contrast to both the explicit legal contract enforcement particularly occurring in formal, legalistic countries such as the United States, and the implicit social enforcement (North, 1990) more frequently observed in relationship and trust based societies. He has developed the idea of the use of such a hostage mechanism for enforcing contracts and business agreements. If each stakeholder and party to a contract faces 'reciprocity' in terms of hostage or hostages to fortune set up with the other, then a credible commitment can be established by each side to underwrite any exchange between them. Hostages to fortune provide an irrevocable and 'ethical' enforcement mechanism that can overcome the purely economic aspects (Rosanas, 2008; Donaldson, 2008) and opportunism (Schelling, 1960, pp. 72):

> The ancients exchanged hostages, drank wine from the same glass to demonstrate the absence of poison, met in public places to inhibit the massacre of one by the other, and even deliberately exchanged spies to facilitate transmittal of authentic information [. . .] in a lawless world that provides no recourse to damage suits for breach of unwritten contracts, hostages may be the only device for partners to strike a bargain.

Such a third framework for international marketing exchange is embedded within the aspects of both, the research on relationship based marketing exchange (Samiee & Walters, 2003; Li & Ng, 2002; Morgan and Hunt, 1994) and the traditional research on discrete, market-based exchange. It is believed to contribute to a firm's legitimacy by managing its long term relationships by contributing to stakeholder satisfaction and consequently shapes the firm's reputation. Stakeholders contribute to a firm's reputation and legitimacy. Hence, countertrade, seen as a manifestation of hostage taking, provides a response to turbulent and uncertain environment that can be seen as quite distinct from the idealistic world of perfect information (Chiou & Pan, 2008; Hunt & Vitell, 1986, 2006; Zakhem, 2008) and efficient markets or that requiring established trust and commitment based relationship-marketing. It is not only the stakeholders who are of substance, but rather the varied networks they become part of.

Emergence, Opportunism, Reciprocity

The issue of restraining opportunism in international marketing has been an important topic in the work on multinational corporations e.g. by Wathne and Heide (2000), Rindfleisch and Heide (1997), Luo and Peng (1999), and Gottschalk and Solli-Soether (2012). Transactions between a multinational corporation, its domestic subsidiaries and other domestic corporations and

Table 1 International Marketing Typology: Traditional, Relationship and Reciprocity Stakeholder Marketing

Marketing Type	Nature of Exchange	Citation
Traditional marketing	Short term, discrete transactions; Anonymity fundamental; Control by law of contract	Gummerson and Gronroos, 2012
Relationship marketing	Long term, repeated transactions; Relationships fundamental; Control by social exclusion	Morgan and Hunt, 1994; Chattanonon and Trimetsoontoson, 2009
Reciprocity staekholder marketing	Short and long term transactions; Personal self interest fundamental; Control by 'reciprocity'	Landa, 1994; Hilton et al., 1997; Emerson et al., 2011

governments add yet another layer of complexity to the dealings that need to be regulated if order, rather than chaos, is to be the norm in everyday business dealings (Casson & Lundan, 1999).

Government administrations and public enterprises can be as susceptible to the temptations of opportunistic behaviour as corporations, especially under totalitarian regimes where they assign themselves to the left, communally orientated, or to the right, libertarian in orientation. The absolute arbitrary discretion of the state in such circumstances results in the lack of 'norms' with no protection from social, legal, or professional sources (Brouthers, 2002). This discourages enterprises from outside of such contexts seeking business within them.

As discussed earlier, such uncertain environment provides neither a basis for frictionless market exchange nor for trust and relationship-based marketing exchange. We posit that countertrade or 'reciprocity' exchange of the type we describe does, however, provide a workable framework for international marketing efforts to penetrate such societies and establish effective trading links. Such reciprocity overcomes the traditional, purely economic (Rosanas, 2008; Kleinrichert, 2008; Stevens, 2008) aspects of opportunism. This paper complements the earlier research (Hewett & Bearden, 2001; Morgan & Hunt, 1994; Samiee & Walters, 2002; Lusch & Brown, 1996) that discusses the importance of relationship marketing and bilateral dependence in non-market governance. Table 1 contrasts the three potential approaches we have outlined in this paper.

Still now, countertrade agreements comprise up to 25 percent of all trade with the former socialist countries (Frances, 2011; Oggioni & Yves, 2012). Hammond's (2000) paper provides an in depth empirical analysis of the continuing prevalence of countertrade agreements throughout certain parts of the world. He shows its prevalence in the actions of governments in many developing countries, e.g. the huge arms for trade and the knowhow deal set up by the South Africans or similar deals brokered by Malaya and

Indonesia. Traditionally, the explanation given for the continued existence of such trade has been the result of a shortage of foreign exchange. We believe this to be a concomitant symptom of the business environment and not the primary source of the benefits, which sustain countertrade. We explain that countertrade survives and has grown because it serves the function of creating an artificial environment conducive to marketing, trade and business in settings where otherwise any exchange at all would be extremely difficult due to the fact that the legal and social systems required to support it and enforce conformity with the rules required to make it work do not exist.

In Central and Eastern Europe the prospect or recent actuality of EU accession may change this for the better, but on the other hand experience indicates that even existing EU countries, e.g. Portugal and Greece are not adverse to stakeholder deals especially in the present economic crisis. In fact, one could argue that much EU international trade and marketing has always been facilitated by such thinking. In the original European Community, the agriculture of France was effectively traded for the industrial productivity of West Germany, which, as a result of the Cold War, lost its bread-basket to the East in what was East Germany. Countertrade also still happens in government-to-government deals, e.g. to balance the trade between two states or to demonstrate that a political return in terms of jobs or income has been gained for a particular politically crucial social group. In such cases, the company/supplier is paid by its own government. All types of countertrade have built in hostage to fortune (Schelling, 1960; Williamson, 1983) and through this a mutual irrevocable commitment by the stakeholders to continue the exchange with each other in addition to what is required to carry out the primary transaction.

Examples of Countertrade: Reciprocity Stakeholder Marketing

Two major types of countertrade, namely offsets and buybacks, illustrate the point on the giving and taking of mutual hostages to fortune (Schelling 1960; Williamson 1983; Hennart and Anderson 1989; Mirus and Yeung 1986).

Offsets

Hall and Markowski (1993) provided a précis on offsets originally provided by Udis and Maskus (1991) who claim that in general, an offset is a contract imposing performance conditions on the seller of a good or service so that the purchasing government can recoup, or offset, some of its investment. In some way, reciprocity beyond that associated with normal market exchange of goods and services is involved. Direct offsets require the participation of industry in the buying country in the manufacturing or assembly of the item around which the sales contract is written and may include licensed production, coproduction or subcontractor production. Indirect offsets entail goods and services unrelated to the exports included in the sales contract and may include some forms of foreign investment, technology transfer.

A key part of offsets is therefore the fact that their whole discussion refers to agreements to purchase arms. In the case of indirect offsets, the credibility of such deals is almost certainly sustainable as the state is a key contracting party. In both described cases, the existing authority in the state has a clear vested interest in sustaining the deal. In each case, by accepting the deal, a hostage has been created by the purchasing government. In the first instance, this is in terms of political leverage with its own population by giving them access to otherwise unavailable foreign sales. In the second case, this is in terms of technology for which the government believes they will be able to deploy to its future advantage. Cancelling the deal in either case would damage the interest of the purchaser as well as the seller, as was the case in the 'Phalcon' reconnaissance deal between Israel and China. Israel had to cancel the deal as a result of US veto on the exchange. In this case, both China and Israel lost face as well as large amounts of money.

An amusing historical example of this, typical of offset contracts, was the purchase of civilian aircraft by the former Yugoslavia from McDonnell-Douglas. This was offset by the purchase of Yugoslav ham by McDonnell-Douglas. In this example, the well-being of the Yugoslav ham industry was the hostage. Yugoslavia as a state had additional benefit for its corporations and citizens from continuing sales of hams, which it would lose by reneging on the contract. Thus, the offset contract provided incentives to the purchaser to abide by the agreement despite the lack of legal enforceability that one might have found in doing business with a socialist country in those days.

Buybacks

Buybacks are another major type of countertrade. A buyback is a type of joint venture where an enterprise in a developed country supplies the technology and capital required to manufacture a product and agrees to except in payment a percentage of the finished goods that technology can produce. The participant from the emerging economy provides other inputs such as labour and production sites. The output that is bought back by the developed country company is sold in developed markets – thus indirectly providing much wanted access to these developed markets for the enterprise in the emerging country (Choi, et al., 1999)

A typical example of such a buyback was the case of IBM supplying the technology and capital to produce and assemble computers in Hungary

Table 2 Value Creation Conditions: Reciprocity, Redistribution, Market Exchange

Conditions of value creation	Major Characteristics
Reciprocity	Under reciprocity, the identity of the exchange partners are known, with the market valuation, price less important than the social, psychological aspects of value creation
Redistribution	Under gift giving and exchange, inalienable assets are exchanged, often between actors of different status, leading to a certain redistribution of assets and value
Market Exchange	Under economics of markets, exchange is through money of alienable objects, products, services between free actors, agents, who may enact further exchange

(Hilton, et al. 1997; Choi, et al. 1999). In turn, IBM bought back part of the output from the joint venture and sold the computers in its own developed markets in Western Europe and the United States. The advantage of such an agreement was that neither side had an incentive to renege on the quality of inputs or the efforts, on the energy invested into the joint venture and, in extremes, could destrain on the other hostage to fortune. As in the case of offset agreements, there is an element of hostaging between the two joint venture partners. Both joint ventures have mutually beneficial incentives to provide their best technology, capital, labour, efforts and to making the joint venture agreement work. Table 2 summarises these concepts.

Conclusions and Further Research

This conceptual paper emphasised the ‘reciprocity’ in marketing in emerging and developing business environments. International marketing is taking place within a context set by specific, identified stakeholders and the institutions that support them. In mature business systems, transaction and relationship based marketing have been well researched. We posit that in less mature systems, especially transition or emerging economies, there is a third way to look at marketing and exchange, which we call ‘reciprocity-stakeholder marketing.’ We believe that our framework shows the importance of reciprocity as a fundamental concept for international marketing in emerging environments such as Eastern Europe.

The concept of thinking about marketing in terms of ‘reciprocity,’ rather than opportunism, is of assistance to the developing research paradigm that operates on the basis of a more ‘ethical’ approach to marketing theories. Countertrade agreements of the type presented by the authors indicate how this thinking can provide an insight into how export or trade can proceed in the absence of the institutional framework needed for transaction or relationship-based marketing. We posit that in a globalizing world more and more enterprises in more and more countries are entering exporting and international trade. To do so they may be required to compensate for their lack of an institutional base on which to establish and sustain exchange by applying a different angle of looking at international marketing and exchange, stake-holder marketing. The objective of this paper was to introduce this new way of looking at countertrade in an international marketing context emphasising a reciprocity based relationship in the absence of a social or legally enforceable one.

The authors identified two ways in which the raised perspectives are of benefit. Firstly, there is room for further conceptual work on 'reciprocity' and ethical marketing in mature economic environments. Secondly, there is a scope for empirical work to examine the proportion of exporting or international trade that is carried out under each of the institutional forms that this paper has outlined. As stated: traditional marketing, relationship marketing, and our third category, reciprocity based stakeholder marketing.

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