This paper presents a unifying framework for the analysis of distribution channels which encompasses both economic and sociopolitical determinants of channel member behavior and provides a suitable departure point for comparative work. The framework integrates present approaches to the study of marketing channels and provides an essential, but heretofore missing, basis for comprehensive empirical research in the area.

DISTRIBUTION CHANNELS AS
POLITICAL ECONOMIES: A
FRAMEWORK FOR
COMPARATIVE ANALYSIS

PUBLISHED studies related to distribution channels present, collectively, a rather disjointed collage. This is due, in part, to the absence of a framework which can accommodate the various paradigms and orientations employed in performing research on distribution channel phenomena. What is needed is a comprehensive mapping of the field which depicts the various paths one could follow, the likely places where one might end up, and the boundaries of the various places within the entire conceptual space. If this mapping were successfully accomplished, then those individuals already within the field would have a better understanding of where their work stood relative to others' and would, hopefully, be encouraged to seek out complementary paradigms to those which they have adopted. The mapping would also indicate to many of those who perceive themselves as standing outside the field that much of what they are doing could easily have relevance to the substance of the field. They might even be motivated to advance the field themselves. And, most importantly, the mapping would be helpful to prospective scholars who, to a large extent, do not have a very solid understanding of the research opportunities available within the field. While no single article is ever likely to accomplish such a comprehensive mapping, there is clearly a strong need to make a beginning. If a meaningful start at ordering the field can be undertaken, then this will likely encourage others to pursue the completion and refinement of the ordering process.

Despite the centrality of distribution channels

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in marketing, there exist three major deficiencies in the current status of distribution channel theory and research. First, analyses of distribution channels have largely focused on the technologies (e.g., sales force incentive systems, pricing procedures, and the like) employed by individual organizations in their efforts to structure and control channel activities (cf.,Gattorna 1978; McCammon and Little 1965; McCammon, Bates, and Guiltinan 1971). These analyses have adopted a micro orientation in keeping with traditional problem-solving approaches in marketing management. Little attention has been given to questions of the maintenance, adaptation, and evolution of marketing channels as competitive entities.

Second, channel theory is fragmented into two seemingly disparate disciplinary orientations: an economic approach and a behavioral approach. The former attempts to apply microeconomic theory and industrial organization analysis to the study of distribution systems and has been essentially “efficiency” oriented, focusing on costs, functional differentiation, and channel design (cf., Baligh and Richartz 1967; Bucklin 1966; Bucklin and Carman 1974; Cox, Goodman, and Fichandler 1965). The latter borrows heavily from social psychology and organization theory and has been essentially “socially” oriented, focusing on power and conflict phenomena (cf., Alderson 1957; Stern 1969). Rarely have there been attempts to integrate these two perspectives. Indeed, they should be viewed as complementary, because the former deals mainly with economic “outputs” while the latter is concerned with behavioral “processes.”

Third, empirical studies of distribution networks have been extremely limited in their scope and methodological sophistication. The vast majority of empirical works in the channels area has been purely descriptive in nature, with little or no testing of formal hypotheses derived from theory (cf., McCammon and Little 1965). Although more recent studies evidence a trend toward more systematic testing of theoretical relationships, these investigations have typically been confined to an analysis of a single distribution channel within a particular industry (exceptions include Etgar 1976a, 1978; Hunt and Nevin 1974; Porter 1974; Weik 1972). Future channel research must focus on making systematic comparisons of different distribution networks within and between various environmental conditions, irrespective of whether the different networks are found in the same industry or across industries.

A promising framework for addressing these issues is provided by the political economy approach to the study of social systems (Benson 1975; Wamsley and Zald 1973, 1976; Zald 1970a, 1970b). Basically, the political economy approach views a social system as comprising interacting sets of major economic and sociopolitical forces which affect collective behavior and performance. The purpose of this article, therefore, is to present a political economy framework which can be applied to gain deeper understanding of the internal functioning of a distribution channel. Such a framework also permits comprehension of the processes where distribution channels are influenced by and adapt to environmental conditions. It is, however, recognized that this framework is only one of many that might be suggested. It has been selected because of its strong potential for comprehensively mapping this area of marketing inquiry.

The political economy framework outlined here should be viewed as the first step in the direction of identifying and dimensionalizing the major variables influencing and ordering channel structure and behavior. A premise of the framework as initially formulated is that complex socioeconomic inter-relationships involve multilateral interactions as opposed to “simple” cause-effect mechanisms, such as those between power use and conflict or between channel design and costs. Given the present state of channel theory development, the initial task to be performed in accomplishing methodological and interpretive rigor is to lay out the relevant channel dimensions in terms of “fields,” e.g., external-internal; economic-sociopolitical; structural-process. Otherwise, theoretical research in the area will continue to suffer from ad hoc operationalizations, where researchers select independent measures and globally hypothesize some dependent outcome without indicating or even being aware of which other interacting variables are being held or assumed constant. Hence, the political economy framework should be seen as an attempt to chart out or classify the total field of channel interaction. The political economy perspective as an organizing framework impels the generation of significant research questions and, therefore, has the potential for producing new theoretical insights.

As an aid to exploring the promise of the framework, a number of illustrative propositions have been generated throughout this article. They

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1 Methodologically, many of the studies fall short due to the incorrect use of informant methodologies as well as insufficient and often single-item operationalizations of constructs, thus not allowing for reliability checks and construct validation. For an excellent critique, see Phillips (1980). Thus, more emphasis needs to be given to careful research designs and improved measurement.
should be helpful in stimulating future research because they provide some insights into the kinds of meaningful relationships among core concepts which are motivated by employing the framework. However, it should be noted that there has been no attempt to specify research designs to "test" the propositions. This is because the propositions can be operationalized in a variety of ways. Given the existing state of knowledge in the channels area, it might be misleading for us to suggest specific operationalizations and would, almost certainly, deflect attention from the main purpose of the article due to the controversy they might evoke. As an aid to the reader, we have provided an appendix which conceptually defines a few of the key constructs used. This "glossary" only serves to suggest the conceptual boundaries of the constructs; it is not intended to provide operation allegations.

In the following section, the full political economy framework is broadly outlined. Then, the remainder of the paper explores, in considerable detail, the *intra*-channel variables included in the framework.

The Political Economy Framework

The political economy framework is capsulized in Figure 1. As indicated, there are two major systems: (I) the *internal political economy*, i.e., the internal structuring and functioning of the distribution channel, and (II) the *external political economy*, i.e., the channel’s task environment. Both systems are divided into two component parts: an *economy* and a *polity*. The major relationships which need to be explored are indicated by arrows with capital letter notations (see Figure 1).

![FIGURE 1](image_url)

**The Internal Political Economy**

Distribution channels are interorganizational “collectivities” of institutions and actors simultaneously pursuing self-interest and collective goals (Reve and Stern 1979; Van de Ven, Emmett, and Koenig 1974). As such, the actors interact in a socioeconomic setting of their own, called an internal political economy. To comprehend fully the relevant internal dimensions and interactions, the framework suggests that a channel be analyzed in relation to its (1) *internal economy*, i.e., the internal economic structure and processes and its (2) *internal polity*, i.e., the internal sociopolitical structure and processes.

The internal economic structure is described by the type of transactional form linking channel members, i.e., the vertical economic arrangement within the marketing channel, while the internal economic processes refer to the nature of the decision mechanisms employed to determine the terms of trade among the members. On the other hand, the internal sociopolitical structure is defined by the pattern of power-dependence relations which exist among channel members, while the internal sociopolitical processes are described in terms of the dominant sentiments (i.e., cooperation and/or conflict) within the channel.

Identifying that marketing channels consist of an internal economy and an internal polity is not a major departure from prior approaches to channel research. The contribution of the political economy framework is the explicit insistence that economic and sociopolitical forces not be analyzed in isolation. By considering the interactions between the economy and the polity, it is possible to understand...
and explain the internal structuring and functioning of distribution systems and to derive a number of illustrative propositions for channel research.

The ‘External’ Political Economy

Organizations always operate within an environment. The environment of a distribution channel is a complex of economic, physical, cultural, demographic, psychological, political, and technological forces. In the political economy framework, such forces are, as shown in Figure 1, incorporated in (3) the external economy, i.e., the prevailing and prospective economic environment and (4) the external polity, i.e., the external sociopolitical system in which the channel operates. The external economy of a distribution channel can be described by the nature of its vertical (input and output) and horizontal markets. The external polity can be described by the distribution and use of power resources among external actors (e.g., competitors, regulatory agencies, and trade associations) (cf., Palamountain 1955; Pfeffer and Salancik 1978; Thompson 1967; Yuchtman and Seashore 1967). An analysis of the external sociopolitical environment entails specification of the type of actors exercising power in the environment (Evan 1965), the power relations and means of control used between the external actors and the focal channel (Thompson 1967), the power relations between external actors (Terreberry 1968), and the extent to which the activities of channel members are actually controlled by environmental forces (Benson 1975).

The external economic and sociopolitical forces interact and define environmental conditions for the channel. The external political economy thus influences the internal political economy through adaptation and interaction processes (Aldrich 1979). Furthermore, channels not only adapt to their environments, but also influence and shape them (Pfeffer and Salancik 1978). The arrows in Figure 1 which indicate interactions between the component systems therefore point in both directions.

Attention is now turned to an elaboration of the internal political economy of distribution channels. The focus on intra-channel variables is a natural starting point, given that virtually all existing channel research has dealt with internal channel phenomena. Knowledge of environmental variables and their impact is fragmentary at best (Etgar 1977). Future examinations of the political economy framework must, however, focus on environmental variables and on the interactions between the internal and external economies.

The Internal Political Economy of Distribution Channels: An Elaboration of the Framework

In this section the major internal economic and sociopolitical forces at work in distribution channels are described. These forces interact in shaping channel arrangements and in affecting marketing channel behavior and performance.

Internal Economy of Distribution Channels

Distribution channels are primarily set up to perform a set of essential economic functions in society, bridging the gap between production and consumption. Thus, it is no surprise that a substantial proportion of channel research, especially the earlier studies, has focused on an analysis of the internal economy of distribution channels (see Gattorna 1978; McCammon and Little 1965 for reviews).

As already indicated, the internal economy of a distribution channel may be divided into two components. The internal economic structure refers to the vertical economic arrangements or the transactional form in the channel. These arrangements range from a series of independently owned and managed specialized units which transact exchanges across markets to complete vertical integration where exchanges between wholly-owned units are conducted within a hierarchy (Williamson 1975). Whereas market transactions rely primarily on the use of the price mechanism, hierarchical transactions rely on administrative mechanisms. Between these two extreme economic arrangements lies a wide variety of structures in which the market mechanism is modified through some kind of formal or informal contractual arrangements between the parties involved (Blois 1972; Liebeler 1976).

Operating within each internal economic structure of a channel are certain internal economic processes or decision mechanisms. Thus, agreement on the terms of trade and the division of marketing functions among channel members may be reached in impersonal, routine, or habitual ways; through bargaining; or via centralized planning processes. The type of processes used to allocate resources in any given channel is likely to conform to or, at least, be constrained by the transactional form of the channel. Typically, competitive, price-mediated mechanisms are dominant in those market transactions where information is relatively complete and products are undifferentiated, as in soybean trading, while centralized planning is dominant in most hierarchical transactions. But competitive, price-mediated mechanisms have also been simulat-
ed in hierarchical structures through mathematical programming models using computed shadow prices as terms of transfer (Jennergren 1979). For other transactions which fall in between the two structural extremes, the allocation of many marketing activities is largely determined through bargaining among the parties.

Of critical importance for channel analysis is the need to compare the efficiency and effectiveness of various transactional forms or structures across each of the three decision making mechanisms. It is also important to consider cases where a specific economic process is employed across economic structures. For example, an illustrative proposition dealing with centralized planning processes might be:

P1. The more centralized planning processes predominate, irrespective of the transactional form, the more efficient and effective the marketing channel for a product or service is likely to be.

In this sense, efficiency could be defined in terms of output to input ratios (e.g., sales per square foot) and effectiveness could be some external market referent (e.g., market share). A number of theoretical rationales underlie P1: (1) the likely constraints on suboptimization within the channel derived from joint decision making, (2) the exploitation of potential scale economies, (3) the possible cost advantages gained via increased programming of distributive functions, and (4) the reduction of transaction costs due to reduced uncertainties and lessened opportunism (cf., Etgar 1976a, Gronhaug and Reve 1979).

There are, however, a number of rationales working against P1's central premise: (1) the satisfying modes which operate when centralized planning processes predominate, (2) the danger of bureaucratization and loss of cost consciousness, and (3) the curbing of initiative at "lower" levels. Therefore, P1 demands investigation in concert with a second, counter proposition.

P2. The more centralized planning processes predominate, irrespective of the transactional form, the less likely is the marketing channel to be able to react quickly to external threats.

This proposition has its roots in the criticism which has often been directed at vertically integrated systems (cf., Arndt and Reve 1979; Sturdivant 1966). However, it may also apply to market transactions, because the more that the exchange process among channel members is organized, the more severe become trade-offs between efficiency and adaptiveness. On the other hand, while fast and specific adaptation to localized threats will likely be slow when centralized planning processes are prevalent, the adoption of such processes may permit better environmental scanning, more opportunities to influence external actors, and more ability to absorb shocks over the long run than those channels which are typified by bargaining or by routine or habitual decision making.

Analysis is also required within transactional forms across the various decision making mechanisms. Especially significant are the issues which Williamson (1975) raises in his markets and hierarchies framework. He shows how market transactions may become very costly due to human factors, such as bounded rationality and opportunism, coupled with environmental factors, such as uncertainty and economically concentrated input or output markets (i.e., small numbers bargaining). When information is unequally possessed, opportunistic behavior is likely to prevail, and exchange may be commercially hazardous. An illustrative proposition drawn from this line of reasoning is:

P3. Market transactions in oligopsonistic situations are likely to lead to information imbalances, opportunistic behavior, and high transaction costs. Impersonal, routine, or habitual decision making mechanisms in such situations will not suffice to overcome opportunistic behavior within the channel.

For example, when the members of atomistic industries, such as those found in the manufacture of maintenance, operating, and repair items, rely on open market forces to determine the terms of trade between themselves and the members of oligopolies, such as in the aerospace or automotive industries, the latter may withhold relevant information regarding demand projections and manipulate the exchange process by distorting any information passed along in order to achieve inequitable advantages from their fragmented suppliers. Extensive theoretical rationales underlying P3 are provided by Williamson (1975), Arrow (1974), and Lindblom (1977). Empirical research, using this internal economy perspective, is required to test the large number of Williamsonian hypotheses dealing with why channel structures based on market transactions may tend to fail.

Internal Polity of Distribution Channels
As has been noted by several channel analysts (e.g., Alderson, Palamountain), distribution channels are
not only economic systems but also social systems. This observation has led to research on the behavioral aspects of distribution channels and the intrachannel sociopolitical factors (Stern 1969; Stern and El-Ansary 1977). In a political economy framework, these forces are referred to as the internal polity of distribution channels. The economy and the polity of channels are basically allocation systems, allocating scarce economic resources and power or authority, respectively. Both the economy and polity of channels can also be viewed as coordination systems (Hernes 1978) or ways of managing the economics and politics of interorganizational systems.

The polity of a marketing channel might be seen as oriented to the allocation and use of authority and power within the system. Similar to the internal economy, there are also structural and process variables which describe the working of the internal polity. Adopting Emerson's (1962, 1972) notion of power relationships as the inverse of the existing dependency relationships between the system's actors, the internal sociopolitical structure is given by the initial pattern of power-dependence relations within the channel. The limiting cases of dependence are minimal power and completely centralized power. Power is a relational concept inherent in exchange between social actors (Emerson 1962, 1972). There will always be some power existing within channels due to mutual dependencies which exist among channel members, even though that power may be very low (El-Ansary and Stern 1972). However, power can also be fully concentrated in a single organization which then appears as the undisputed channel administrator (e.g., Lusch 1976). Such a power constellation can be referred to as a unilateral power system (Bonoma 1976). Because of the numerous marketing flows which tie the channel members together, the more common case is a mixed power situation where different firms exercise control over different flows, functions, or marketing activities (e.g., Etgar 1976b). The latter can be referred to as a mixed power system (Bonoma 1976). Careful analysis is required to assess correctly the power-dependency patterns in a marketing channel (cf., El-Ansary and Stern 1972; Etgar 1976b; Frazier and Brown 1978; Hunt and Nevin 1974; Wilkinson 1973), because sociopolitical structures alter over time. Changing bases of power, coalition formations, and evolving linkages with external actors are among the factors causing such dynamism and creating measurement problems.

The various patterns of power-dependence relationships in a distribution channel are thought to be associated with various sociopolitical processes. The sociopolitical processes primarily refer to the dominant sentiments and behaviors which characterize the interactions between channel members. Although channel sentiments and behaviors are multidimensional constructs, two major dimensions in channel analysis are cooperation and conflict. Cooperation can be represented as joint striving towards an object (Stern 1971)—the process of coalescing with others for a good, goal, or value of mutual benefit. Cooperation involves a combination of object- and collaborator-centered activity which is based on a compatibility of goals, aims, or values. It is an activity in which the potential collaborator is viewed as providing the means by which a divisible goal or object desired by the parties may be obtained and shared. Conflict, on the other hand, is opponent-centered behavior (Stern 1971) because in a conflict situation, the object is controlled by the opponent while incompatibility of goals, aims, or values exists. The major concern in such situations is to overcome the opponent or counterpart as a means of securing the object. Conflict is characterized by mutual interference or blocking behavior.

While they are highly interrelated, cooperation and conflict are separate, distinguishable processes. Exchange between social actors generally contains a certain dialect varying between conflictual and cooperative behavior (Guetzkow 1966). A common example is found in customer-supplier relationships ordered by long-term contracts. They reflect basically cooperative sentiments, but conflicts regularly

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2 Simply observing that many marketing channels are loosely aligned (e.g., McVey 1960) does not invalidate their systemic nature. For argumentation supporting the perspective that channels are social action systems, see Reve and Stern (1979).
3 Bonoma (1976) also proposes a third power constellation—the bilateral power system—in which the interactants are in a unit relation jointly determining unit policy for individual and group action. Such systems, which are held together by social altruism, have not yet been examined in distribution channel settings.

4 In the social sciences in general and the conflict literature in particular, there has been a considerable amount of controversy surrounding the distinction between conflict and competition. We believe that competition is distinguishable from conflict. Competition can be viewed as a form of opposition which is object-centered; conflict is opponent-centered behavior. Competition is indirect and impersonal; conflict is very direct and highly personal. In competition, a third party controls the goal or object; in conflict, the goal or object is controlled by the opponent. A swim meet is competition; a football game is conflict. For a discussion of the distinction between the two terms in a distribution channel context, see Stern (1971). For an excellent comprehensive review of the controversy, see Fink (1968).
take place regarding the interpretation of contractual details and problem-solving approaches.

At one extreme, dysfunctional conflict processes—those aimed at injuring or destroying another party—will severely impede any existing or potential cooperative behaviors among the parties. However, the absence of confrontation will not necessarily produce maximal joint-striving, because the complacency and passivity which may be present in the relationship may cause the parties to overlook salient opportunities for coalescing (cf., Coser 1956; Thomas 1976). Indeed, because of the mutual dependencies which exist in channels, it is likely that conflict, in some form, will always be present (Schmidt and Kochan 1972; Stern and El-Ansary 1977; Stern and Gorman 1969). In addition, channels cannot exist without a minimum level of cooperation among the parties. Thus, conflictual and cooperative processes will exist simultaneously in all channels.

Having specified major structure and process variables in the internal polity, it now is possible to examine their interactions for illustrative propositions. For instance, there exists a relatively large number of situations in distribution where power is somewhat balanced, e.g., when department store chains deal with well-known cosmetic manufacturers, when large plumbing and heating wholesalers deal with major manufacturers of air conditioning equipment, and when supermarket chains deal with large grocery manufacturers. Drawing from political science theory, it can be proposed that:

P4. In marketing channels typified by balanced power relationships, interactions will be predominantly cooperative as long as the balance of strength is preserved (e.g., Kaplan 1957). However, the potential for dysfunctional conflict is higher than it would be if power were imbalanced (Gurr 1970).

The first part of P4 is primarily drawn from balance of power theories of international politics which predict peaceful coexistence as long as balance of strength remains. This position is congruent with the insights offered by bilateral oligopoly and duopoly theories in economics (Scherer 1970) which forecast the development of informal or formal interfirm agreements regarding pricing and competitive actions. The second part of P4 draws on relative deprivation theories of collective conflict (Gurr 1970) which predict that conflict potential and the magnitude of manifest dysfunctional conflict will be highest in balanced power situations.

Even though P4 is intuitively appealing, counter propositions can be offered which indicate that empirical verification is required. For example, Korpi (1974), a political scientist, argues that conflict potential is higher in slightly imbalanced than in balanced power constellations while Williamson (1975), an economist, posits that a centralized power pattern—the extreme form of imbalanced power—will tend to exhibit predominantly cooperative modes of exchange when compared to a more balanced pattern. Furthermore, in an imbalanced situation, ideology is often used as a unifying and cooperation-inducing force by the more powerful party. The seeming cooperation in a balanced power constellation may be of a deterrent nature. Thus, there is a need to distinguish between detente-type cooperation and ideologically-induced cooperation.

As with the variables specified for the internal economy, there is clearly a need to compare structural sociopolitical conditions across processes and vice versa in order to generate propositions which can permit predictions for channel management. At the same time, it is important to understand that conflict and cooperation processes are activities conducive to some economic end; they are not ends in themselves. Furthermore, the way in which power is used within a channel will clearly affect the sociopolitical processes. For example, it may be proposed that:

P5. In marketing channels characterized by imbalanced power, the use of coercive power will produce a dysfunctional level of conflict.

Additionally,

P6. Marketing channels characterized by imbalanced power and dominated by coercive influence strategies will be inherently unstable, resulting in decreased competitive viability.

To some extent, the works of Raven and Kruglanski (1970); Stern, Schulz, and Grabner (1973); and Lusch (1976) examining the relation between bases of power and resulting conflict point in the direction of these propositions.

Alternately, in line with findings generated by Wittreich (1962), Kriesberg (1952), and Weik (1972), it is possible to propose that:

P7. Marketing channels characterized by minimal power will exhibit low levels of cooperation.

This is supported by McCammon (1970) who has argued that conventional marketing channels, comprised of isolated and autonomous decision making units, are unable to program distribution activities successfully. If power is low, so is dependence.
Thus, two or more relatively independent entities may not be motivated to cooperate.

The above propositions indicate a few of the expected relations within the internal polity of distribution channels. As mentioned, they are merely illustrative of the meaningful insights for channel theory and management available in this kind of analysis.

Interaction between Internal Economy and Internal Polity of Distribution Channels

The essence of the political economy framework for the analysis of marketing systems is that economic and sociopolitical forces are not analyzed in isolation. Therefore, it is imperative to examine the interactions between the economy and the polity. To illustrate the potency of the combination, it is again possible to generate a series of propositions. Each of these propositions draws upon the variables enumerated previously.

The constellation of a given economic structure with a certain sociopolitical structure within a marketing channel will influence the economic and sociopolitical processes which take place. Considered first is the intersection between various power structures and economic structures typified by market transactions.

P8. In marketing channels in which market transactions are the predominant mode of exchange and in which power is centralized, centralized planning processes will emerge.

A relative power advantage within a channel is often used to program channel activities, and in such situations, decision making with respect to at least certain functions (e.g., promotion, physical distribution) tends to be centralized. Indicative of these types of channel arrangements are those found in the food industry where manufacturers, such as Nabisco and Kraft, develop shelf or dairy case management plans for supermarket chains; in the automotive aftermarket where warehouse distributors, such as Genuine Parts Company, evoke inventory management programs for jobbers (e.g., NAPA); in lawn care products where manufacturers, such as O. M. Scott, engage in detailed merchandise programming with the various retailers of their products; and in general merchandise retailing where retailers, such as Sears, Wards, and Penneys, preprogram the activities of their private label suppliers.

In addition to economic efficiency considerations, several behavioral considerations underlie P8. Thus, following Williamson (1975), some form of organizing process (in this case, centralized planning or programming) is required in order to overcome the tendencies toward opportunistic behavior present in market transactions and to cope with the bounded rationality of each channel member. The means to achieve centralized planning may be centralized power, although this is not always likely to be the case. For example, even in cases where there are balanced power structures in channels, centralized planning processes have emerged. This was the case when the Universal Product Code was developed jointly by retailers and manufacturers operating through their food industry trade associations.

P8 can be elaborated by considering the sociopolitical processes which are likely to prevail in market transactions with centralized planning.

P9. Under the conditions specified by P8, marketing channels will exhibit a relatively high level of conflict, but they will also exhibit highly cooperative processes. Such channels will tend to be more competitively effective than others where market transactions are also the predominant mode of exchange.

Following Korpi’s (1974) reasoning, P9 predicts that conflict potential will be high due to the imbalanced power situation. The expectation with respect to cooperation is based on the ability of the channel administrator to mitigate opportunistic tendencies among the units in the channel and to establish superordinate goals. The overall effect of the combination of interacting variables in P9 will be to produce effective channel systems in which programmed merchandising is likely to be the rule rather than the exception. Such channels are likely to be more successful in improving their market shares relative to other channels typified by market transactions.

Anecdotal evidence supporting P8 and P9 can be found in the construction and farm equipment industries. In these industries, market transactions are the predominant means of exchange between the various manufacturers and their dealers. However, Caterpillar and Deere have gained sizable leads over their rivals by developing highly efficient and effective systems of distribution through the use of their considerable power in their channels. They have achieved an unusual amount of success by programming their networks and by managing conflict within them.

Another proposition in line with the discussion above is that:

P10. In marketing channels in which hierarchical transactions are the predominant mode of
exchange and in which power is centralized, conflict processes are more likely to be effectively managed, superordinate goals are more likely to be established, and efficiency is more likely to be achieved relative to any other marketing channel.

The underlying rationale for this proposition is supplied by Williamson (1975):

Unlike autonomous contractors, internal divisions that trade with one another in a vertical integration relationship do not ordinarily have pre-emptive claims on their respective profit streams. Even though the divisions in question may have profit center standing, this is apt to be exercised in a restrained way. For one thing, the terms under which internal trading occurs are likely to be circumscribed. Cost-plus pricing rules, and variants thereof, preclude supplier divisions from seeking the monopolistic prices to which their sole supply position might otherwise entitle them. In addition, the managements of the trading divisions are more susceptible to appeals for cooperation. Since the aggressive pursuit of individual interests redounds to the disadvantage of the system and as present and prospective compensation (including promotions) can be easily varied by the general office to reflect noncooperation, simple requests to adopt a cooperative mode are more apt to be heeded. Altogether, a more nearly joint profit maximizing attitude and result is to be expected. (p. 29)

However, it should be noted that, even within a vertically integrated channel, opportunism and bounded rationality may still be found. In addition, the large size of many vertically integrated organizations often creates problems of bureaucratization and inflexibility. Thus, P10 isolates centralized, as opposed to decentralized, power. For example, the power which Sears' field operations held with regard to inventory levels within its stores was one of the major reasons for the disastrous inventory situation the company faced in 1974. In order to reduce the opportunistic behavior which existed among Sears' various divisions (e.g., the retail stores refused to hold their rightful share of the inventories which were building to abnormal levels in Sears' distribution centers), the entire company was reorganized and power was centralized more firmly in its Chicago headquarters. Now it remains to be seen whether Sears' management is equal to the task of successfully controlling the organization. Clearly, the advantages of such an internal political economy can dissipate as increasing degrees of vertical integration lead to more complex organization, more impersonal relationships, less perception of the relationships between actions and results, less moral involvement, generally more self-serving behavior, and greater toleration for substandard performance.

It should be noted that the political economy framework also encourages the examination of more narrowly focused propositions than those already stated. Given the difficulties associated with researching channel issues (due primarily to the lack of accessibility to and the sensitivity of the data involved), it is likely that research using the political economy framework should start with relatively manageable tasks. Illustrative of such propositions are:

P11. The more that relationships between channel members are characterized by cooperative behavior, the greater the level of profits attainable to the channel as a whole.

P12. The greater the proportion of relative power possessed by any channel member, the greater the proportion of the channel's profits that member will receive.

Central issues in political economies are (1) how surpluses are generated and (2) how they are distributed among the members. These "processes" provide critical links between the "political" and "economic" aspects of the system. P11 suggests a positive relationship between the level of cooperation within the channel and the joint profits obtained by it. The rationale is that cooperative behavior facilitates coordination and programming of activities within the channel which, in turn, provides potential cost advantages and improved competitive strength. In some cases, cooperation is likely to be informal, requiring a minimum of interaction. In these cases, environmental factors such as professional or trade norms, the role of trade associations, and the impact of government regulations may play significant roles in encouraging joint striving behavior. In other cases, cooperation may take the form of ad hoc consultations, the formation of committees, the establishment of federative coordination bodies, or the construction of bilateral contracts, joint ventures, or other types of formal long-term agreements (Pfeffer and Salancik 1978).

P12 addresses the critical issue of the allocation of joint profits within the marketing channel. The division of returns clearly is a matter of relative power and bargaining skill. Thus, the benefits obtained in the economic arena are divided in the political arena, a situation which is analogous to the income reallocation problem in welfare economics. Porter (1974) has found some empirical support for P12 using mainly secondary data.

Focusing on the interaction between the economy and polity of marketing channels may also produce insights into the evolution and adaptation
of channel institutions. Innovative distributive institutions, such as limited line-limited service grocery stores (e.g., Aldi) and catalogue showrooms (e.g., McDade), may emerge due to differential cost advantages achieved by improved logistical systems or sharper positioning relative to specific consumer segments. The initiative for such innovations often comes from "outsiders" who are at odds with traditional channel norms and practices (Kriesberg 1955; McCammon and Bates 1965). Thus, the innovations result, at least in part, because of functional conflicts within existing channels. As the new institutions mature, they tend to hire personnel from competitors, thereby gradually changing their professional orientation. At the same time, they become preoccupied with quality, add services, and begin to cater to broader market segments, thus moving towards the same practices as their competitors. The functional conflicts with other channel members tend to disappear, and opportunities for new outsiders to innovate emerge. Such scenarios as the "wheel of retailing" simply illustrate how sociopolitical circumstances often influence economic activities within a marketing channel. In turn, the economic form influences the sociopolitical sentiments surrounding the emerging transactions which lead, in turn, to further changes in economic activities.

Conclusion

Analysis of distribution channels as political economies provides a framework in which to incorporate and integrate the variety of approaches and findings found in the existing channel literature. More importantly, the emergent framework provides a basis for future research by isolating the critical dimensions determining transactional effectiveness and efficiency in distribution. It also provides a conceptual mapping which may be useful to anyone with an interest in channel relationships.

The framework, including the illustrative propositions developed from it, presents a preliminary, general look at distribution channel structuring and functioning. In particular, the propositions advanced above serve to underscore the caveat that the economy and the polity of such systems are inseparably linked and cannot be studied in isolation (Frey 1978; Lindblom 1977; Thorelli 1965; Tivey 1978). Choosing an internal economic structure for a channel seems to have clear implications for the internal sociopolitical structure involved. The constellations formed by the intersection of the various economic and sociopolitical structures also have implications for the type of sociopolitical processes to be expected within channels. An internal economic structure may have certain benefits in terms of the economic performance and the competitive effectiveness of the channel. On the other hand, the sociopolitical processes associated with a given internal economy may vary both in the transaction costs and in the rationality of decision making for the channel as a whole. All of these factors directly influence channel performance. Another general implication which may be drawn from this type of analysis is that the various political economies of channels require different interorganizational management strategies for maintaining and expanding channel operations and for dealing with channel conflicts.

Clearly, factors in the external political economy will have a profound influence on a channel's internal political economy. Any propositions generated by adopting the political economy framework, including those outlined here, need to be modified by circumstances in the external economy and polity. A description of the impact of external forces and internal-external interactions then emerges as a topic for future work. However, this directive must be kept in proper perspective. In the only published empirical research focusing directly on the latter topic, Etgar (1977) has indicated that certain aspects of the internal political economy of channels can be expected to explain more of the variance in channel behavior than environmental factors. Following his findings, the strongest emphasis in future research should probably remain focused on achieving a deeper understanding of the internal political economy. The framework provided in this article should, hopefully, be of some assistance in this respect.

Appendix

Definitions of Key Concepts in the Political Economy Framework (See Fig. A-1)

Political economy = collectivity comprised of an economic system (economy) and a sociopolitical system (polity) which jointly influence collective behavior and performance.

I. Internal political economy = the internal structuring and functioning of an organized collectivity (e.g., marketing channel) analyzed in terms of an internal economy and an internal polity and their interactions.

II. External political economy = the task environment of an organized collectivity (e.g., marketing channel) analyzed in terms of an external economy and an external polity and their interactions.
I.1. *Internal economy* = the internal economic allocation system analyzed in terms of the internal economic structure and processes.

I.2. *Internal polity* = the internal sociopolitical allocation system analyzed in terms of the internal sociopolitical structure and processes.

II.1. *External economy* = the economic task environment of an organized collectivity (e.g., marketing channel) described by the nature of its vertical (input and output) and horizontal markets.

II.2. *External polity* = the sociopolitical task environment of an organized collectivity (e.g., marketing channel) described by the distribution and use of power resources among external actors and their prevailing sentiments.

I.1.1. *Internal economic structure* = the economic arrangements or transactional form within an organized collectivity (e.g., marketing channel) set up to complete internal exchanges.

I.1.2. *Internal economic processes* = the decision making processes within an organized collectivity (e.g., marketing channel) which determine the terms of trade and the division of labor, functions, and activities among the internal actors.

I.2.1. *Internal sociopolitical structure* = the pattern of power/dependence relations within an organized collectivity (e.g., marketing channel).

I.2.2. *Internal sociopolitical processes* = the dominant sentiments and behaviors which characterize the interactions between actors within an organized collectivity (e.g., marketing channel).

II.1.1. *Transactional form* = internal economic arrangements ranging from markets to hierarchies (e.g., vertical integration).

II.1.2. *Decision making processes* = internal collective choice processes ranging from impersonal determination of terms of trade through the price mechanism, through bargaining processes, to centralized planning processes.

II.2.1. *Power/dependence relations* = internal power/dependence pattern ranging from minimal power (low dependence), through mixed power constellations of balanced and imbalanced power (mutual dependence), to centralized power (unilateral dependence).

II.2.2. *Dominant sentiments and behaviors* = internal sentiments and behaviors of cooperation and functional or dysfunctional conflict characterizing internal exchange, ranging from minimal cooperation, high dysfunctional conflict to maximal cooperation, functional conflict.
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