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Interest Domination as a Framework for Exploring Channel Changes in Transitional Economies

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Interest Domination as a Framework for Exploring Channel Changes in Transforming Economies

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Abstract
Changes in political and economic power can affect channel structures and decisions. Western channel models may not be useful for understanding the process of change in Central and East European transforming economies. This discussion suggests that channels in transforming economies may be controlled by groups or networks of people with mutual interests, a phenomenon the authors call interest domination. The article examines interest domination by managers, Communist cadres, and other party elite in two transforming economies and describes how structural and behavioral components of command economies might be conducive to interest domination of marketing channels. Propositions for explaining the political, social, and economic factors that sustain interest domination and contribute to change in interest-dominated channels are offered. Examples from Hungary and Tajikistan are used to provide context for the discussion.

Economists monitoring the move toward a market economy in Central and Eastern Europe have focused on macroeconomic goals, such as the development of financial, regulatory, and legal infrastructures; the transfer of public property to private sector owners; and currency stabilization and convertibility. From a marketing channels perspective, all of these issues are important in facilitating the development of channels that meet consumer needs, encourage economic development and reinvestment, and provide linkages to external markets. As Savitt (1992) suggests in the context of privatization, however, current analyses place too much emphasis on overall economic outcomes, particularly the development of markets, at the expense of attention to the process of achieving these goals. It is important to understand the process of market development to explain differences in the rate and direction of social and economic change.

In evaluating the public policies driving institutional changes in Central and Eastern Europe, several recent articles have advocated a Shumpeterian perspective, which suggests that it is better to build on existing skills, history, and values than to try to eradicate the old ways completely and start with new institutions, norms, and personnel (Murrell 1992; Nason, Carman, and Dholakia 1992; Voszka 1991). For Central and Eastern Europe, this means that along with existing cultural values and managerial skills comes the "baggage" of the old way of doing business, including the social networks among managers that resulted in decisions based on personal outcomes rather than organizational efficiency and effectiveness (*Economist* 1995a,1995b; Nagy 1993; Voszka 1991).

This phenomenon of social networks and the resulting outcomes can be called *interest domination;* this article contends that it is one factor that can accelerate or retard change in transforming economies. Investigating and understanding interest-dominated channels in transforming economies may help Western marketers examine channel operations and social effects in an environment whose political, economic, and social experiences and values may differ from those used to model Western channel issues.

The objective herein is to provide a framework for understanding channel changes taking place in transforming economies. The article views channel structure as composed of relationships embedded in a historical, political, and personal context. The process of change is premised on a context in which these social networks of shared interests have resulted in high barriers to entry for local entrepreneurs, with the consequence being limited diffusion of accumulated wealth across social groups. Based on an examination of two countries in different stages of economic and market development (Hungary and Tajikistan), explanations of how social, political, and economic changes affect changes in distribution systems are proposed. Understanding how such countries as Hungary are developing a market and channel structure can help researchers understand and guide the process in countries like Tajikistan, which lag behind in both market and economic development.

The discussion is presented in three sections. The first introduces the concept of interest domination in marketing channels and provides a theoretical base. Drawing on existing theoretical models in the network, political economy, and ethnodomination literatures, the authors present interest domination as a context-specific governance structure. The next section uses two countries with transitional economies, Hungary and Tajikistan, as examples to describe the development of interest domination. This section examines how interest domination is developed and sustained, then addresses the issue of how interest-dominated channels change. The final section of the article discusses how interest domination contributes to an understanding of the process of transformation and economic development.

Interest Domination

Interest domination is the control of distribution channels in a specific industry or geographic area, or both, by an isolated group of economic actors. This dominant group controls resources and concentrates power to the extent that an insider/outsider culture develops. Outsiders have limited access to capital and ownership opportunities. Insiders usually share a common background, common values, or common experiences that set them farther apart from other individuals or groups. The focus of this article is groups of former Communist cadres, political elite, or enterprise managers under command regimes.

The theoretical base for interest domination is drawn from three streams of research: the political economy framework, network theory, and the sociological concept of ethnodomination. Political economy models contribute the motivation and environmental variables. Network theory focuses on the group and promotes understanding of how relationships among individuals produce trust and provide transaction value. The concept of ethnodomination provides the basis of a framework for relating interest domination to environmental change. The Figure illustrates how interest domination draws from these three research streams.

Political Economy Framework

In marketing, the political economy framework has been used to examine the interplay between power distribution and resource allocation within a channel of distribution. According to this approach, a channel of distribution represents a political economy in which, as Benson (1975) notes, the primary concern is ''the distribution of two scarce resources, money and authority" (p. 229). Relatively less attention has been given, however, to the application of the framework on a macro level (Robicheaux and Coleman 1994), where the channel of distribution is analyzed as embedded within economic and political institutions.

Arndt (1981, 1983) characterizes political economy as an institutional approach to marketing, meaning that the focus is on the rules and conditions that govern transactions. Again, these rules can develop within a channel of distribution as a function of political and economic conditions, such as the relationship between the use of power and market conditions (Frazier and Kale 1989). The rules and conditions can also arise from governmental regulations that directly or indirectly affect distribution channels or from historical or cultural norms affecting the distribution of political and economic power. According to Arndt (1981), political economy "links economic processes to organizational structure and goals and the influence of important stakeholder groups" (p. 40). In the context of a transitional economy, political economy allows the analysis of channel development to go beyond the effects of the change from a sellers' to a buyers' market by incorporating variables relating to political elements both internal and external to the channel.

The political economy framework serves two functions for the purposes of this discussion. First, it is sensitive to environmental change, in both the economic (resource) and polity (social power) dimensions. Transitional economies are undergoing tremendous economic changes at varying rates, and channels of distribution will be affected by both changes in external rules governing channels and corresponding changes in the distribution of power among stakeholder groups. Second, it implies that the motivation of channel members, or all stakeholders for that matter, is to maximize their level of resources and authority. This suggests that stakeholders from the Communist era will struggle to maintain their control over the allocation of resources and the distribution of power, and that their success in doing so may be one factor that accelerates or retards channel change.

The concept of interest domination assumes that stakeholders form homogeneous groups based on common interests and values. Therefore, while political economy provides the motivation for group behavior and lends justification for the interaction between economic and political elements, network concepts strengthen the analysis of how these groups accomplish their goals.

Network Theory

In the marketing literature, a network approach views firms or individuals as embedded within the channel's social and political structure. Networks of firms or individuals provide value, in the form of trust, power, and resources (Anderson, Hakansson, and Johanson 1994; Thorelli 1986), that affects economic decision making (Granovetter 1985). Networks are accepted as a form of governance structure that falls between Williamson's (1975, 1985) markets and hierarchies, providing more advantages than either one in terms of overall utility (Heide 1994; Thorelli 1986; Williamson 1985). Anderson, Hakansson, and Johanson (1994) argue that networks are an appropriate unit of channel analysis because transaction partners actually are connected beyond the dyad to numerous other partners, to the extent that changes in the circumstances of one party affect the other parties in the network, not just a single exchange partner. They suggest that, in a channel of distribution, the network context mediates between the external (macro) environment and the task (firm) environment. This is a significant recognition of the importance of analyzing and understanding how individuals in marketing channels behave in groups or networks that are not firm based.

In the context of channels in a transforming economy, a network consists of relationships among individuals involved in economic activity. The network is a collection of individuals; therefore, the unit of analysis can be the network or individuals acting in response to the network environment. A key issue is the ability of the group to "control" the economic activities of its members, because the ultimate economic power rests with the group. Applying a network perspective to the issue of channel changes in a transforming economy suggests that those networks of stakeholders that existed under the previous system may still provide access to resources and the power necessary to enhance one's relative position when the macro economic and political environments are unstable. Particularly when legal systems and institutions are nascent or nonexistent, network models suggest that managers may rely on informal support systems to realize their goals.

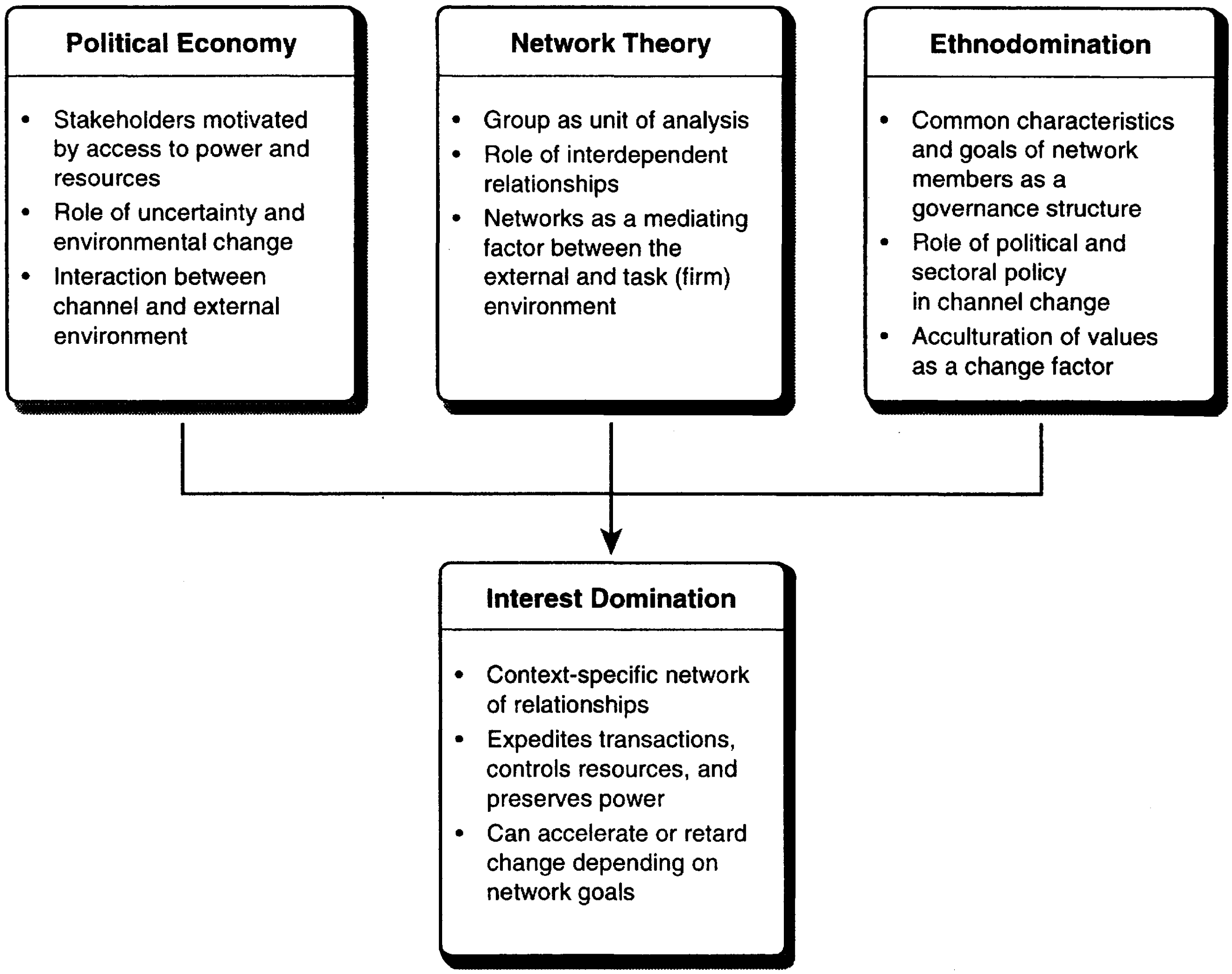

Figure 1. Theoretical bases of interest domination in transforming economies

Ethnodomination

Network models are just beginning to examine issues of social change (Portes and Sensenbrenner 1993), and the concept of change has not been explored within the marketing literature on channel networks. Political economy, in turn, only suggests which variables are important in a changing environment. Here, the literature on the ethnodomination of trade (Bonacich 1973; Smith 1976; Speece 1990a, 1990b) is useful in providing evidence of the factors that are related to changes in trade channels dominated by networks of shared ethnicity.

Evidence of ethnodomination comes from developing countries where ethnic networks control both power and the distribution of resources, with resulting effects on sectoral policies that serve to maintain the domination. This discussion draws on the ethnodomination literature to develop the concept of interest domination to describe channel networks that act to accelerate or retard change in channel institutions. The process of opening ethnodominated channels incorporates elements of acculturation that are, the authors argue, analogous to the process of disseminating business knowledge and changing the entrepreneurial values of certain population segments within transitional economies. Ethnodomination studies also highlight the important effects of changes in regional economic and spatial policy on channel development.

Integration of Perspectives

The approach in this article is distinct from studies that use market characteristics to explain channel structure and processes. Frazier and Kale (1989) suggest that relationships between manufacturers and distributors are different in sellers' and buyers' markets as a result of differences in economic market antecedents. According to a political economy perspective, in sellers' markets, manufacturers dominate the channel because of supply constraints. This may be manifested in surface rather than deep relationships, increased use of coercive power, long-term supply relationships that preserve the status quo, and the use of efficiency over effectiveness criteria in evaluating channel performance (Frazier and Kale 1989). As the economic environment of the sellers' market opens to resources and competition, these behavioral relationships change. Transforming economies are in the process of moving from sellers' to buyers' markets in many industries, and this article focuses on the behavioral and political processes that accompany changes in market structure.

The authors approach channel control from a macromarketing perspective but recognize that the problems and evidence will be industry specific. Distribution channels may vary in the degree of continuity of management through the transition from complete continuity to complete change in management. Furthermore, the outcomes of domination may depend on the level of professional management expertise, the strength of old networks, industry norms, and the strength of organizational and personal objectives.

Finally, this article argues that interests change over time, and the dominant group may change. The focus is on domination of trade channels by former managers, Communist cadres, or party elite, but the presence of many groups competing for power suggests that at some point additional perspectives on interest domination may be useful. The key to understanding interest domination rests, not in labeling the dominant group, but in identifying how the group achieved dominance and whether the environmental change catalysts suggested herein as linked to change in dominated channels are present.

The next section provides background information on Hungary and Tajikistan, two contrasting examples of transitional economies in different stages of economic and market development, as a preface to the conceptual discussion of interest domination.

Hungary and Tajikistan

While this discussion is not intended as an empirical study and relies heavily upon existing literature in marketing and sociology, information collected during visits to Hungary and Tajikistan during the summers of 1994 and 1995 is used to reinforce the context and illustrate the propositions.

Hungary is a Central European country with a population of 10.5 million. The Hungarian economy is considered one of the front runners in the emerging markets of Central and Eastern Europe (*Economist* 1994). Unlike other countries in this region, Hungary has been very successful in replacing former COMECON trading partners and has attracted the lion's share of foreign investment in the region. While it is difficult to generalize about the development of distribution channels in Hungary, the number of private wholesaling units has increased immensely since 1989. Cash-and-carry warehouses supply smaller businesses; larger firms often buy directly from the manufacturer or have integrated many distribution functions. Interviews were conducted in Hungary in 1994 and 1995 with the managing directors of 11 companies engaged in consumer goods wholesaling and retailing.

Tajikistan, a former republic of the Soviet Union, gained its independence in 1991. Its economy is in the early stages of transformation, and the distribution channels for most products are still in their infancy. In the agricultural sector, the "bazaar" system is still common, with buyers and sellers of produce interacting in a large central marketplace. For manufactured goods, complete collapse of the state-run system has created a vacuum in the distribution sector. A class of distribution entrepreneurs is slowly emerging, but growth of the sector is severely handicapped by the lack of such market institutions as commercial banking and legal infrastructure. As later examples in this article suggest, the people with power and connections (mostly members of the former Communist Party) are the ones who are able to succeed under these conditions. Given this background, Tajikistan provides an ideal setting for observing the role of interest domination. One of the authors spent three weeks there in summer 1994, visiting factories, farms, and collective enterprises and talking with businesspeople, government officials, and private citizens.

Using the authors' observations and other information gathered before and during these visits to Hungary and Tajikistan, the next section offers propositions to explain how interest-dominated channels develop in a command economy and how this domination may be sustained during the economic transformation.

The Bases of Interest Domination

This section examines how two economies in transformation from a command to a market system differ in terms of the level of domination by an insider group that we identify as former Communist cadres, managers, or party elite. Differences between Hungary and Tajikistan in the success of economic development policies, the level of foreign investment, the pace of acculturation of Western values, and political reforms are discussed, as are ways these variables may affect continuing cadre domination.

The Role of the Planned Economy

In the former planned economies of Hungary and Tajikistan, planners determined outputs and then developed a matrix of the economy to identify the inputs needed to meet those goals. Channel objectives were to (1) rationalize the flow of goods from producer to consumer, (2) minimize the number of handling stages, and (3) assure the smooth and timely delivery of the appropriate assortment of goods through the channel (Gogol 1963). The channel was vertically integrated in the sense that the state was the sole owner of production and distribution, but the focus was on production. The distribution or trading function was always meant to be strictly separate from manufacturing. The major manufacturers were large and held monopoly control over the channel and their industry (Vegh 1993).

Wholesalers served to move goods through the channel but did not add value; most value was added at the retail level (Jaworska 1992). There was no market scanning for new products or sources of supply, and credit was not offered within the channel. Referring to the textile market, one manager observed that domestic markets were unimportant, as the focus was on export trade with other COMECON countries. Another manager reported that the expertise within these channels was.in the buying of imported goods and in bartering skills, not in market forecasting and selling. Satisfaction of customers was not a transaction objective, and there was little competition from alternate vendors because competition was not a part of the plan. Thus, despite the official goals of distribution, there was no accountability for failure to deliver products in a coordinated, efficient, and timely manner because production was the only performance criteria. Channels in Hungary and Tajikistan, for example, were characterized by a high degree of concentration and centralization in resources and decision making, and they were excessively long in order to provide employment.

When business policy was liberalized in 1968, efficiency became a concern; one example of reform was the rationalization of retail clothing outlets by a Hungarian textile company. Still, product differentiation and assortment were not objectives; wholesale and retail markets were segmented by broad product category and by geographic location, rather than by consumer needs and shopping patterns. For example, Vegh (1993) reports that a small Hungarian shop might sell soap, underwear, beverages, cigarettes, shirts, toys, and books.

Government policies can affect channel structure and may be conducive to trade domination in several ways. Regional economic policies allocate money for infrastructure improvement and business development, affecting the spatial development of trade. The economic and spatial policies of a planned economy are similar to those in countries where ethnodomination of marketing channels exists (Speece 1990a, 1990b). Smith (1974) and Speece (1990a, 1990b) describe ethnodominated channels as spatially dendritic market structures connecting smaller markets in the hinterland with progressively larger markets. The vertical nature of market transactions precludes competition from enterprises in similar-sized trading cities in a specific product market. The hierarchical structure culminates in a single, large, export-oriented trade center. Because of the dendritic structure, small markets are dependent on a single supplier or buyer; hence, the monopolistic character of the channel is preserved. As a result of these trading patterns, economic development is slow and uneven, both spatially and among population segments (in terms of distribution of income).

Spatially, the old Communist distribution channels could also be described as dendritic, with hierarchical rather than vertical market supply linkages. During the days of strong central control in Hungary, the ministries dominated distribution channels, partly through regional economic development policies. The distribution of the urban population was uneven; Budapest dominated trade markets at the top of a pyramid of cities, an artifact of policies that concentrated development resources. Despite later attempts to encourage more even growth, few medium-sized cities existed to serve as regional distribution centers (Bartke 1989). Until recently, the distribution system had a wheel-like configuration, with transportation networks funneling all goods from smaller communities directly to Budapest. Now, new roads are being constructed to connect existing medium-sized cities, which could have major effects on trading patterns and opportunities. Such regional inequities also may have affected the political clout of managers from outlying areas. For example, according to Racz (1994), professional managers from other towns or villages have difficulty entering the Budapest business community.

The organizational and physical characteristics of distribution channels in planned economies suggest the first proposition.

Proposition 1: Vertical supply linkages in distribution channels, such as those in planned economies, provide a structure that is conducive to interest domination.

While these organizational and physical characteristics facilitated interest domination, the characteristics of the group itself or its social structure represent the fundamental variable in explaining how these networks originated and are sustained. The next section looks at these issues.

Social Networks

The control system of the command economy was based on strong networks of individuals sharing a common political and economic philosophy. This section identifies two characteristics of networks that contribute to interest domination. The first is the isolation of the group from the general population, and the second is group cohesiveness. The latter, it is suggested, permits group control over access to valuable resources through the concept of enforceable trust.

In ethnodominated channels, the evolution of control within the channel is based on strong cultural ties. Bonacich (1973), Smith (1974), and Sowell (1994) describe the special characteristics of ethnic groups that exercise monopoly channel control. Sowell (1994) suggests that the distinct entrepreneurial values of these groups isolate them from the indigenous population. Bonacich (1973) and Smith (1974) describe sojourners who, in addition to their entrepreneurial values, have a strong attachment to their home culture and maintain a separate cultural identity. These groups represent a closely knit community, sharing and preserving common values and economic goals. One might expect strong, closed communications networks based on common interests and weak ties to the host culture because of the isolation of the group ethnically, culturally, and economically. Portes and Sensenbrenner (1993) suggest that isolation contributes to the solidarity of the group, which aids the group in developing and sustaining economic reciprocity. They further assert that as isolation becomes more pronounced, solidarity increases, barriers to exit increase, and subsequently isolation and solidarity are strengthened.

In interest-dominated channels, isolation may be based, not on ethnic differences, but on a political and managerial culture or on the expertise, values, experiences, and social networks that bind the managerial elite and distinguish them from other groups. For example, Nagy (1993) describes the ''inbreeding'' that occurred among Hungarian technocrats and managers during the 1980s, such that managerial skills could only be acquired in a managerial position, and lateral reassignment replaced upward mobility as a career pattern. He labels these groups the "new bourgeoisie" because they began to accumulate personal wealth in a socialist society, and he suggests that this "embourgeoisiement" occurred under odd conditions-a monopoly market and a hierarchical communication and management structure. The only "oddity," however, stems from an attitude—behavior inconsistency. From a purely economic perspective, the behavior was the manifestation of an insider coalition's goal of accumulating control of resources and power and the ability of the group to "control" the behavior of individual members to perpetuate its economic position.

Nagy's (1993) comments are themselves indicative of a split between social groups—those who profited from their positions during the early days of the transformation and those who did not because they were not part of the network. Portes and Sensenbrenner's (1993) insights about the solidarity of immigrant groups suggest that interest domination has been affected by, not only the presence of these groups, but also the degree to which the in-group is polarized or isolated from other social groups, during both Communist rule and the ensuing economic transformation. Isolation is also related to economic success; the success of the in-group during the transformation will continue to isolate them from the out-groups and sustain their power and economic advantage. This leads to the second proposition.

Proposition 2: Isolation of the dominant interest group from the rest of society contributes to interest domination and to the continuing economic success of the dominant group.

Access to Resources

Instrumental to the value of networks is the ability of in-group members to provide one another with access to resources that enhance economic power. Under the planned economy, social relationships arose to facilitate transactions, often outside official channels (Nagy 1993; R6nas-Tas 1991, 1994; Stark 1990,1992). For example, during a shortage, a connection to a wholesaler might be essential to providing sufficient product to meet sales targets. Nagy (1993) argues that new business forms and institutions have preserved the information power and relational structures of former exchange networks in Hungary because "the cohesive force is no longer a shared ideology but shared interests" (p. 83). Thus, the tie that binds has changed from commitment to a philosophy to protecting and enhancing economic turf, although some would argue that the pursuit of economic self-interest has always been the underlying goal. This description agrees with the "power conversion" thesis described by R6nas-Tas (1994) or the "political capitalism" of Staniszkis (1991), which suggests that cadres were able to use their official positions in the waning days of the old system to acquire assets in the new market economy.

One explanation for the apparent sustained value of cadre connections is what Portes and Sensenbrenner (1993) call enforceable trust. In their analysis of the social capital of immigrant groups, they identify *enforceable trust* as community expectations that affect economic goals and goal-seeking behavior. The community has the power to sanction or reward the behavior of its members by providing or denying access to important economic resources. The trust involved is the knowledge that community members will follow community rules; enforcement comes from the ability of the group to withhold or provide resources. Kadushin (1995) points out that enforceable trust extends beyond the dyad and is really a web or network phenomenon.

Róna-Tas (1994) offers empirical support for notion that the value of former Party connections in current business transactions may be interpreted as social capital in the form of enforceable trust. Based on self-reported responses to a random survey of

Hungarians conducted in 1991, he found that former cadre (Hungarian Socialist Workers Party) members were more likely to be engaged in corporate business than were nonmembers. This relationship persisted even when education was entered into the model.

In contrast, while former cadres participated in noncorporate, entrepreneurial positions and in farming to a greater extent than did noncadres, human rather than political capital was the explanation. Education accounted for the variation between the groups in participation in farming and noncorporate ventures and in reported income from these activities. For cadres in corporate business, however, cadre status contributed to income differentials that could not be accounted for by differences in education. These findings support our contention that, for some groups, past associations provide economic value in specific contemporary contexts. This value can come from enhanced access to property and business opportunities arising from the political process or through the benefits provided by the networks of personal, political, and business relationships.

Current business relationships seem to be a matter of trust in Hungary, in terms of access to both capital and supplies. As one successful entrepreneur commented, "My 20-year reputation is my capital. People trust my word." This individual had managed to use his network connections to attract sufficient capital to build and operate a multimillion-dollar wholesale market in Budapest. In Tajikistan, where obtaining credit from a bank is virtually impossible, entrepreneurs rely on members of the social network or family for access to capital. The trust involved is more than the interpersonal trust between the parties; it rests with one's reputation and standing within a broader group of connections. One value of the trust is the continued access to resources. This suggests the third proposition.

> Proposition 3: Interest domination enhances the ability of the network to sustain enforceable trust by continuing to provide access to economic resources to its members.

Environmental Variables

Underlying the concept of trust is its antithesis- distrust. The environment in many transforming economies is so fraught with mistrust and dishonesty that trusted networks are especially valued. One wholesaler from Veszprem, in Hungary, reported that his firm spends considerable time and money evaluating potential suppliers because of unfortunate experiences with dishonest traders. Therefore, if one is a member of a network characterized by enforceable trust, the network has value beyond that of the tangible resources that membership provides. The value of the network is again instrumental; it may be integral to expediting transactions under varying degrees and kinds of uncertainty.

Without a system of contract law to protect investments and a banking system to arrange and guarantee equal access to credit, being connected to the "right" network may be an important advantage and, in some cases, the only means of entrance into the business community. Sowell (1994) offers evidence that trust among middleman minorities can replace the need for written contracts. We suggest that these channel networks function as transaction governance structures because the social capital and trust within the network provide rules for conducting and monitoring economic transactions. The fourth proposition is as follows:

> Proposition 4: Interest domination is sustained by an environment in which other mechanisms for governing transactions, such as a legal and regulatory framework, are unavailable or underdeveloped.

The Dimensions of Change

Writing in the context of ethnodominated channels, Speece (1990a, 1990b) notes that domination can change (1) as government policies become more focused on economic development, (2) as acculturation occurs and the population majority becomes more entrepreneurial, and (3) as barriers to entry in the retail sector fall. The authors suggest that a similar process occurs in interest-dominated channels, depending on the degrees of change in the policy, social, and resource dimensions. These dimensions are *change catalysts;* they represent the interaction of forces, both external and internal to the in-group.

The process and outcomes of change in Hungary have been different from those in Tajikistan, where progress toward a market economy has been much slower. Tajikistan does not have a history of early economic reform under the Communist Party, as Hungary does. This suggests that interest domination may be more visible in Tajik marketing channels because the factors we identify as leading to change in these channels are not found in Tajikistan to the same extent as in Hungary.

Sustained Control over Government Policies

The external political and economic environment can affect channel structure (Dwyer and Oh 1988; Dwyer and Welsh 1985; Heide and John 1990; Klein, Frazier, and Roth 1990; Sharma and Dominguez 1992). In a transforming economy, government policies aimed at encouraging economic development can influence changes in interest-dominated channels. Policies can include, for example, the infrastructure improvements in Hungary that should change trading patterns, increase market options, and alter policies regarding the privatization of state-owned assets. The process of privatization also can perpetuate channel domination by the in-group, when the group is able to influence public policy and exclude outsiders from ownership opportunities. In this sense, the in-group can drive external change while protecting their position. Assuming that the group already controls public policy, as in a cadre-run political system, the change catalyst is the opening of the political arena to other interest groups.

The privatization experience of Hungary illustrates both consolidated and diffuse control. In 1988, the momentum toward privatization culminated in the Act of Association, the legal framework for the transfer of ownership interests of state-owned assets. According to Mihalyi (1993), Nagy (1993), and Voszka (1991), the legislation resulted in what became known as "spontaneous privatization," or the transfer of ownership of the profitable assets of state companies to managers, foreign interests, and holding companies, often at bargain basement prices. Voszka (1991) suggests that artificial ownership structures perpetuated control by existing managers and resulted in the failure to create strong private market interests.

The chief executive officer of a large retail clothing company in Hungry described the process of privatization in general and explained how, in 1989, each state-owned company was required to establish a board of directors. Many companies chose political allies and friends to be on the board, and the result was a "quasi-ownership" arrangement where the board approved the actions of managers and "everyone made money," but there were no outside owners, no ''real owners" who were financially affected by performance.

Pasztor (1991) offers a detailed description of the privatization of Apisz, a successful stationery and paper products business, that resulted in consolidated control over distribution channels. This can be traced to public policies that encouraged "chain" operations. Managers were told by the State Property Agency that companies owning "chains" of retail outlets would be favored in privatization decisions, and the result has been ownership consolidation and vertical integration. Proponents see this as necessary to creating a base for retail growth, but the policy also may undermine small business development.

While the Hungarian public is aware of questionable transfers of power and wealth, and while writers like Nagy (1993), Pasztor (1991), and Voszka (1991) are now free to address the issue, the process has not been entirely smooth. One Hungarian professional commented that "these topics are not too much welcomed. We had a peaceful change, and this is the price we paid for a peaceful change." A college-level teacher commented that for many people there is little difference between the Communists and the capitalists-the economic outcomes for the majority appear to be the same. This seems to echo the "paradox of capitalism" described by Arndt (1981), which can occur when stakeholder groups succeed in eliminating competition while simultaneously professing to be true believers in the market system.

Privatization in Hungary has created numerous other ownership coalitions. It is sometimes difficult to trace the actual owners of a firm and their percentage of ownership. Coalitions of managers, bankers, and local governments represent access to the necessary resources to continue operations, but the long-term effects of these coalitions are unclear. Local governments remain powerful forces in privatization decisions, as they own property, and difficulties have arisen in clearing property rights for transfer. Furthermore, according to those interviewed, local government control over retail locations is a major stumbling block to the development of small business. Critics charge that long-term lease rates have been exorbitant and fail to reflect market value. Whether this is tied to interest domination is uncertain. It may reflect the desire of local politicians to generate wealth, or it may indicate that local government policies are at odds with a general emphasis on economic development.

In Tajikistan, constant political turmoil and the continued dominance of former Communist officials have slowed the process of general economic reform. There are still three ownership forms: state-owned companies, cooperative farms, and stock companies. Observers report that the latter are former state-owned firms that have been privatized, whose ownership has been transferred to managerial groups. From all appearances, the transfers were effected by former Communist Party members in government with whom the managers had maintained or formed social/political networks. Privatization rules favor the status quo, and managers have been able to retain control. Sources of capital are also based on these networks.

The fifth proposition is based on the experiences in Hungary and Tajikistan relating to the transfer of political power during the transformation.

> Proposition 5: Interest domination is sustained by the ability of the in-group to control public policy affecting channel and economic development.

The next section suggests that a pattern of interest domination may be altered when other groups develop the political and economic power to change policies that have perpetuated insider ownership of assets and access to markets.

Resource Alternatives

Isolation of the in-group has been identified as a factor leading to the continuation of interest domination. The degree of isolation is related to the openness of the market to foreign participants who provide both outside capital and new ways of doing business. As Portes and Sensenbrenner (1993) argue, the ability of a group to sustain enforceable trust is inversely related to the options for economic opportunity available outside the focal community. This section offers evidence that supports their contention in the context of a transforming economy by examining the effect of multinational companies (MNCs), trade policies, and world trading agencies on marketing channels. These forces affect channel domination through their influence on public policy and by bringing new ideas and ways of doing business and providing an alternative source of capital and other types of assistance to both in-group members and outsiders.

The Hungarian economy was open to foreign investment before the economic and political changes of 1989, but it has grown dramatically since then (*Economist* 1994). As MNCs bring external resources for local development, they acquire considerable influence in government and business decisions. This may result in an opening of interest-dominated channels as new players emerge, or it may solidify and entrench the current elite through the formation of powerful coalitions with outside owners. The deciding factors may be the effects of MNC entry on industry concentration and competition. If a previously dominated channel remains competitive, and control is dispersed among several players, it can change. In Hungary, the perception of a new kind of domination by foreigners is a concern. One respondent used nationality to describe channels with considerable foreign ownership, such as the "Austrian" retail food products channel. Similarly, products manufactured by Hungarian firms with multinational ownership are no longer viewed as "Hungarian."

Multinationals or entrepreneurs from outside groups also provide capital, information, and other types of business assistance to the local population. This outside assistance gives members of the in-group an alternative pool of resources that weakens in-group ties and may provide outgroup members with the assistance necessary to begin a meaningful business endeavor. This fits, in part, Speece's (1990a, 1990b) description of the opening of the retail sector. In dominated channels where supply restrictions have been relaxed, outsiders may have access to supplies and limited capital to begin small retail enterprises, but many of these remain at the subsistence level because sufficient resources and knowledge are not available locally to promote real growth of the retail sector.

In Tajikistan, in contrast to Hungary, foreign domestic investment is small. This is in part a function of the uncertain legal and regulatory infrastructure; while laws governing foreign investment exist, the government instability makes it unclear whether they will be enforced or changed. Members of the in-group, however, have international connections developed through their political positions, and thus have access to travel documents, goods, and capital. Private traders with connections charter airplanes and buy goods abroad for domestic resale at a substantial profit. In-group membership is integral to one's personal economic success, and the role of the group in enforcing trust among its members is sustained, in part, because the external environment is not conducive to the development of alternatives. Proposition 6 summarizes the effect of resource alternatives.

Proposition 6: In the absence of a coalition between the in-group and international traders, the involvement of international trading groups in the local economy may

a) weaken interest domination by the in-group, and
b) contribute to a breakdown of enforceable trust within the in-group.

The Social Process of Assimilating Business Values

The degree to which an economy is open to global trade is related to the final change catalyst, the social process of changing business values. In ethnodominated channels, acculturation represents a two-way exchange of cultural and business values. For example, in Thailand, Chinese Thais initially were more entrepreneurial than the indigenous Thais, but through acculturation have become more like them culturally, while the latter have adopted the entrepreneurial values of the Chinese minority (Gentry, Jun, and Tansuhaj 1995; Thorelli and Sentell 1982).

In interest-dominated channels, acculturation may be largely unidirectional. Groups with a monopoly on business skills and entrepreneurial values have to transfer these to the population at large for assimilation of business values to occur, a process much like acculturation. Traditional socialist values favored societal gain over personal gain; there have been reports of resistance to capitalism among groups in transforming economies that goes beyond resistance to the current regime. In a sense, this represents a *cultural lag,* that is, the system is changing more rapidly than people's attitudes and values.

As the countries of Central and Eastern Europe move toward social democracies and capitalist economies, one challenge is to achieve a balance between the right of individuals to gain from production and the need for contributions to programs that benefit society as a whole. In Hungary, assimilation may involve the transfer of business knowledge and skills more than a change in social and entrepreneurial values. This seems to fit with the findings of Róna-Tas (1994) on the success of cadres in business endeavors. For example, one manager reported that it was extremely difficult to convince traders in a large wholesale market about the value of differentiating their businesses with signage and providing other kinds of information to prospective buyers. Public policy decisions regarding the funding of business training programs also affect the transfer of business knowledge.

In Tajikistan, interviews revealed very limited knowledge, at the enterprise level, of the role of profit in business management. Even in firms with foreign ownership, there appeared to be little assimilation of entrepreneurial values; foreigners and natives seemed capable of maintaining their separate knowledge and value systems. The process of assimilation in Tajikistan may be initiated as the children of elite managers are educated abroad and bring business knowledge back home, but this does not mean that entrepreneurial values will diffuse beyond the in-group.

This discussion leads to the final proposition.

Proposition 7: The continuation of interest domination is inversely related to the rate of assimilation of entrepreneurial values.

Contributions and Future Issues

This article provides a framework for looking at the process of change in marketing channels in Central and Eastern Europe. The concept of interest domination is presented as a variable that moderates the relationship between the external, or macro, world and the firm environment and can accelerate or retard change. In summarizing the framework, several important points should be emphasized.

Contributions of the Model

Catalysts to Change

One contribution of the framework described in this article is the identification of factors in the external political environment that are catalysts to channel change. As Robicheaux and Coleman (1994) point out, this particular area of channel research has been neglected. This model represents a first step toward further investigation of the external influences on channel change in the context of influence patterns.

Cultural Lag

An important concept in the process of change in interest-dominated channels, cultural lag, suggests that behavioral elements lag behind economic ones. Even as seller's markets are changing to buyers' markets, people try to preserve old behavioral patterns and cling to outdated values and suspicions.

Valuable Skills

The process of change can be positive if the value of experience and skills developed under the socialist system is recognized and if outsiders understand the role of personal networks in reducing uncertainty in the current environment. Interest domination, in the long run, may be an important facilitator of change.

Role of Government

In transforming economies, governments play an extremely important role in the process of change and can be a determining factor in whether interest domination will continue. Reports of corruption among business and government officials must be understood within the framework of change and the desire of those involved to preserve and protect resources and authority and reduce uncertainty.

Predictive Value

Interest domination is an important variable in the rate of change in transforming economies. By confirming or denying the existence of factors that sustain or reduce interest domination, marketing researchers can predict how quickly change may occur and then develop strategies to direct the process.

Individual Actors

Interest domination focuses on relationships among individuals that cut across firm boundaries. While the relationship of the individual to the group is integral in perpetuating domination, the individual is the economic actor making decisions. Research on the social context of trade relationships has focused on the firm, rather than the individual, as the unit of analysis (Anderson, Hakansson, and Johanson 1994). Interest domination suggests that this may not be the appropriate approach in certain contexts, such as a transforming economy.

Stark (1990) describes cohesive networks of trust, cross-ownership, and stable contracting that he asserts function similarly to Japanese business networks, in which interpersonal relationships are crucial. The authors argue that, in the Hungarian context, there is little or no firm identity as yet. The larger firms were state-owned, but "deals" were made between individuals. Small firms in the former second economy were represented by the individual entrepreneur. While larger firms with foreign ownership are trying to build firm identity, in many cases this identity is still securely tied to owners or managers (Dahab 1995; Stark 1990).

MNCs as *Powerful Players*

Finally, with the increasing importance of world trade to these economies, governments may find their role diminished by the power of MNCs and world trading organizations. Boddewyn and Brewer (1994) suggest that, in a global trading environment, MNCs approach governments as resources to be controlled, rather than as constraints to activities. This may be particularly applicable in transforming economies struggling to enter global markets rapidly and to halt rising external debt and growing trade imbalances.

Future Efforts

It is important to approach research and management issues regarding Central and Eastern Europe with three caveats. First, a Western orientation may not be appropriate for either academic analysis or managerial decision making. Nason, Carman, and Dholakia (1992) emphasize this point when they suggest that channel mapping to document existing transaction patterns and relationships should precede normative research. The ethnodomination studies by Speece (1990a, 1990b) also demonstrate that non-Western models are appropriate for studying channel operations and change in underdeveloped countries.

Second, the political and economic situation in Hungary and throughout Eastern Europe is dynamic and affects channel decisions. The writings of Denitch (1992) and others suggest that the “politocracies” of the socialist era may be flourishing in capitalist guise. Denitch’s (1992) arguments about the “Mexicanization” of Central and Eastern Europe focus on the potential for a dual economy composed of the managerial elite and a subsistence labor class.

This concept is strikingly similar to ethnodominated outcomes. Ethnodomination provides the framework for looking at what could happen in Central and Eastern Europe if the politocracy continues, and it also provides guidance on how change may occur. Interest domination of marketing channels is one manifestation of tightly held political and economic power. Integral to change in interest-dominated channels are the assimilation of business knowledge and values by the general population from the entrepreneurial elite and broader access to capital resources. Recognizing that change will occur and using public policies to guide the process is one approach. As trade barriers fall and markets develop, one concern is that indigenous firms will not be able to compete with MNCs, and the result may be the loss of local jobs. This has a direct effect on channel decisions.

In the face of political and economic uncertainties and the lack of entrepreneurial experience in Hungary, Tajikistan, and other Central and Eastern European countries, MNCs have difficult decisions to make regarding channel selection. Many have chosen to develop their own distribution systems, some have been able to work with local entrepreneurs, and others have built alliances with state-owned or newly privatized companies (Dahab, Marquardt, and Gentry 1994). Speece (1990b) suggests that it is important for MNCs to work within the system, that is, to use local channels whenever possible to enter the market. Considering the prevailing sentiment and concerns about foreign competition, firms that use local suppliers or distributors may have at least a political advantage over those with their own channels.

Finally, it is important to understand the process of assimilation and how it applies to Central and Eastern Europe. Ignoring the expertise of technocrats or managers because of their prior connections may not be an efficient way to build a solid base for a new economy. As Speece (1990b) suggests within the context of ethnodominated channels, purging old institutions, values, and resources without having replacements is unwise. Recognizing them and incorporating them into a strategy is more prudent.

Conclusions

The focus of marketing research on Eastern Europe thus far seems to be on understanding developing markets, rather than the role of marketing in economic development. This article integrates the two perspectives by exploring how channel domination can affect market structure, which is related to economic development. The concept of interest domination can help explain and predict the changes occurring in distribution channels in transforming economies.

This article suggests that managerial carryover from the Communist era and the delineation of other cohesive group interests may be affecting current distribution decisions. The outcomes may include monopolistic structures, higher prices, a lower supply response, and uneven distribution of income before adjustments. Countries such as Hungary, where economic progress has been rapid and political reforms have been extensive, may not demonstrate the level of interest domination of marketing channels found in a less developed market economy, such as Tajikistan. In Hungary, barriers to entry in retail and wholesale sectors are falling and a regrouping of business relationships is occurring. The process of assimilating business values may be slow. Public policies can help by stimulating development of small and medium enterprises. Eventually, business relationships will adjust to the new climate.

Finally, understanding the process of change in interest-dominated channels can enhance investment opportunities and business outcomes. Knowledge of how these channels change through the process of assimilation offers marketers a framework for evaluating channel decisions, as well as future opportunities for research regarding how public policies, social ties, shared experiences, and relationships affect both channel decisions and economic outcomes.

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