



Emergence of business markets – A critical realist foundation

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ABSTRACT

Critical realism provides an ontological foundation for theories of business markets. Critical realism contributes to business marketing theory by (1) proposing an open system approach as a response to the limitations of empirical observation for uncovering causal mechanisms shaping business markets, (2) revealing the interaction of social structures and subjective agency in shaping professional buying processes and (3) revealing emergent properties of business relationships, where interacting businesses create value that no individual company could produce in isolation. Critical realism paves the way for researchers aiming to transcend the limitations of middle-ground theories and thriving for higher-levels of generalization. Thus, critical realism offers a response to the call of marketing scholars for approaches revealing a more general understanding of the role of business markets in the context of emerging networked economies.

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1. Introduction

This article presents critical realism as a foundation for designing macro-level-theories of business markets. Critical realism contributes to the advancement of theories of business markets in the following ways: (1) Critical realism offers an open-system perspective as a response to the limitations of empirical research on business markets, which misses unobserved events and dormant causal mechanisms. (2) Critical realism elucidates the interaction between social structures and individual actors in shaping "professional buying needs" (Lichtenthal, Mummalaneni, & Wilson, 2008). In contrast, established theories of buying behavior tend to analyze structure and agency in isolation. (3) Critical realism offers an approach for studying emergent phenomena on business markets, where relationships between businesses produce new qualities of value creation that no individual company can reach in isolation.

Marketing scholars ascertain that business marketing research is falling short of its potential and does not match the level of empirical relevance that business markets have been gaining through the rise of networked economies (Anderson, Narus, & Narayandas, 2009; Castells, 1996; Ford, 2011; Moeller & Wilson, 1995; OECD, 2007; Quinn, 1992; Woelfl, 2005; Woodside, 1997). Marketing scholars have been highlighting the limitations of middle-range theories that dominate marketing research and stand in the way of higher levels of generalization (Hakansson, Ford, Gadde, Snehota, & Waluszewski, 2009; Johnston & Lewin, 1997; Lichtenthal et al., 2008; Sheth & Sharma, 2006).

Critical realism opens a fresh perspective by taking a step back and investigating the relationship between the reality we aim to understand and the theories we build therefore. This is part of a particular domain of the philosophy of science termed ontology (investigation of existence). Rather than directly engage in the design of theory, critical realists aim to inform researchers with insights into the conditions of theory design and research strategies.

Critical realism contributes to the foundation of marketing theory by highlighting the limitations of empirical observations as a means for understanding reality. Critical realists argue that insights of empirical remain limited to observed events. Empirical studies will miss events beyond the researchers scope of observation as well as causal mechanisms that have the power to shape reality but may have remained dormant during the time of the empirical study. Against this background middle-range theories remain trapped to the empirical contexts of their studies. Critical realism offers to transcend these limitations. One pillar consists of isolating causal mechanisms that work with necessity and coherent logic, like the law of gravity or economies of scale (Bhaskar, 1998; Sayer, 2000). The other crucial pillar consists of context factors that enable or constrain the exercise of causal mechanisms like weather conditions in the physical world or business contexts in the economic world (Bhaskar, 1998; Sayer, 2000). As a result, critical realism provides an open system view on reality, where causal mechanisms work with logic and necessity, but have the potential to generate new features of reality and the potential of surprise. Such open-system theories put less emphasis on prediction of events in favor of gaining an understanding of the dynamics of forces that shape the emergence and the reproduction of business markets (Sayer, 2000). Business markets are an example for emergent phenomena, where elements, like buyer and supplier firms, engage in relationships that produce new properties that no single element would be able to produce in isolation (Harper & Lewis, 2012).

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This article elaborates a critical realist perspective on characteristic features of business markets in order to present a research agenda for the study of the emergence of business markets. The following section discusses the implications of key elements of critical realism for the study of business markets. Section 3 presents an agenda for business market research that draws on critical realist ontology. Finally, the article provides a conclusion.

2. Emergence of business markets – a critical realist ontology

2.1. The stratified reality of business markets

Business marketers make one common experience: Their performance depends on events partly beyond their control, such as activities of customers or competitors (Anderson et al., 2009; Easton, 2002; Lichtenthal et al., 2008). Marketing researchers operate on the assumption that they are able to explain at least partly success and failures of marketing actors in a systematic manner. The aim to identify systematic approaches to the competitive environment has favored the application of realist ontologies in marketing (Easton, 2002; Ryan, Tähtinen, Vanharanta, & Mainela, 2012).

Critical realists take a particular perspective by assuming reality as stratified, meaning that we perceive only the surface of a reality hiding deeper strata. Because they view the world as stratified, critical realists are skeptical towards the role of empirical observation in providing an understanding of the world. As evident in the problem of induction, co-variation in data is a weak indicator for causation (Easton, 2002; Ryan et al., 2012). That it was snowing in London last Easter is no hard evidence that it will do so next year. Mainstream marketing researchers prefer to employ rationalist approaches to deal with the problem of induction, by testing refutable theories against data of empirical observations. Critical realists maintain that hypothesis testing is exposed to events that go unnoticed and to causal mechanisms that have remained dormant or un-observed during a particular research project. In critical realist terms, we observe the outer stratum of reality termed the “empirical” (see Table 1; Bhaskar, 1998; Sayer, 2000). Critical realists hold that events beyond our perception shape our empirical experience, constituting from a deeper stratum called the “actual”. Not least, critical realists hold that reality is shaped by causal mechanisms that have not necessarily been exercised in actual or perceived events. They locate these potential powers in a deeper stratum called the “real” (see Table 1; Bhaskar, 1998; Sayer, 2000).

Take your experience of the weather: In critical realist terms, your experience of a pleasant day resides on the stratum of the empirical. While you enjoy your afternoon in the Hyde Park, low pressure systems may be

on their way from the Atlantic to end your afternoon stroll soon but not yet being noticed by you (see Table 1). These unobserved events happen on the stratum termed the “actual”. Critical realists hold that we are able to identify causal mechanisms that shape events. Causal mechanisms reside on a yet deeper stratum of the “real”. Causal mechanisms describe necessity and logic working behind observed or un-observed events (Bhaskar, 1998; Sayer, 2000). Imagine the burning of a large share of the Amazon rain-forest over a short time. Radical empiricist strategies would rely on a one-off experiment. Critical realists approach disentangle causal mechanisms, like physical and chemical laws from context factors like weather conditions and gain an understanding of their interaction. While this strategy will not lead to predictable results, it helps to identify system characteristics and potential paths.

Thus, critical realism offers a stratified perspective on business markets. Our experience resides on the empirical stratum, like the order of a hammer between a manufacturer and its supplier. Our experience of business transactions will miss events happening in the “actual” stratum which might be relevant for our theory building (Ballantyne & Varey, 2006). For example, we may miss relationships of the customer with other potential suppliers, taking place on the stratum of the actual. Researchers investigate these empirical and actual events in order to identify economic, social or other mechanisms shaping the business buying process. These causal mechanisms, as for example the hold-up potential or risk-exposition caused by supplier-monopolies (Anderson et al., 2009) reside on the stratum of the “real”.

For business marketing, critical realism opens the door for building open-system theories of business markets that transcend context-dependent observations without falling back into the pitfalls of general theories. Take the example of business-to-business transactions: A positivist research strategy is confined to identify patterns of transactions between professional buyers and sellers for inductive theory construction. Mainstream marketing research moves beyond pure observation and prefers a rationalist research strategy, by testing theories against empirical observed facts. One example is to test of governance theories against archival contracts in order to study the boundaries between firms (Ghosh & John, 1999; Mooi & Ghosh, 2010). Critical realists aim to gain a system-level understanding, by studying the dynamics of the business relationship and accounting for context factors that condition its emergence. So the impact of transaction costs might be shaped by context factors, e.g. supplier portfolios, or forces that have remained dormant, for example the impact of learning on transaction costs between a buyer and a seller over time.

While aiming at a more macro-oriented picture, the open-system view of critical realism means also a step back from general theories. For example, researchers might be tempted to reside on grand theories like “the division of labor is dependent on the extent of the market” and create a theory of the growth of business markets (Becker & Murphy, 1992; Smith, 1801; Stigler, 1951). A critical realist perspective calls for researchers to investigate how the division of labor unfolds in interaction with other forces. For example benefits of vertical integration for innovation strategies or service quality, might constrain or reverse a general move to outsourcing (Economist, 2013). If critical realists observe a firm applying vertical integration when targeting a growing market, they would not necessarily reject the division-of-labor-hypothesis, but aim to identify forces working on a system-level.

2.2. Separating structure and agency

Lichtenthal et al.’s definition of business marketing illustrates the challenge present in business markets: “Business marketing phenomena occur with all transactions, exchanges and relationships between any dyad involving organizations, institutions, resellers and, within social networks. Individuals are included only when not personally

Table 1
The critical realist strata.

Strata of reality	Reality of weather (examples)	Reality of business markets (examples)
The empirical Human experience.	Pleasant day in London.	Supplier gets an order from an industrial customer.
The actual Events happening, including those not being perceived.	Low pressure system building over the Atlantic, not yet perceived in London.	Customer spreads orders across a supplier base, without the supplier realizing the scope of the supplier portfolio.
The real Causal mechanisms generating events.	Chemical and physical mechanisms in shaping the weather.	Economic effects of supplier-specific investments, like hold-up potential.

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