

Nonprofit marketing: investigative research inquiry

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ABSTRACT

The objectives of the study were (a) to identify the reasons and concerns of those public administrators and marketing scholars who do not accept the usefulness of marketing in the public sector; (b) to deconstruct, comprehend, interpret, and critically appraise the current conceptualization of nonprofit marketing from the viewpoint of negativists identified in step (a); and (c) to reconstruct, redefine, reinterpret, and reoperationalize the current controversial conceptualization of public sector marketing into a new conceptualization. The critical theory approach to the study primary used non-empirical procedures data collection and analytic procedures that included investigative research. The paper presents results of investigative research analysis.

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1. Introduction

Interest among public administrators in the application of marketing tools to public sector services also emerged from the tax revolt of the late 1970s and early 1980s. With the shrinkage and withdrawal of grants from federal and state governments, municipalities were confronted with the issue of how to satisfy the growing expectations of taxpayers in a milieu of reduced financial resources. During this period of financial scarcity, the public administration literature witnessed an attempt to rethink the nature of public sector management through the active importation and borrowing of private sector techniques. Several commentators labeled this process of importation as integration of public and private sector management or in briefer terms “managerialism” (Graham, 1995; Murray, 1975; Walsh, 1994). Marketing in the public sector was part of the managerialism movement.

Walsh’s (1994) analysis suggested that interest toward marketing among public administrators was significantly stimulated by the growth of consumerism, the development of market-based approaches to the provision of public services, and by extensive use by government agencies of promotional techniques. Similarly, O’Farcheallaigh (1991) contended that the marketing philosophy in government organizations was a reaction to a commonly recognized need for governments to change the ways in which they organized and delivered public services. One of the earliest

attempts to view citizens as customers, city hall as the community's market place, and the city manager as a marketing manager, was a series of articles in a 1970 issue of *Public Management* published by the International City Management Association (ICMA). Several articles--written by the executive director of a government city center organization, a consultant from an advertising agency, and a professor of government--defined marketing, described its usefulness for government organizations, and suggested that marketing tools could offer innovative ways of addressing issues for public managers (Garvey, 1970; Goldberg, 1970; Joyner, 1970). The general tone of these articles was that marketing was an overlooked opportunity for improving the delivery of city services, and many public sector managers were unaware of the positive role of marketing even though they were unconsciously engaged in it.

Kotler and Murray (1975) introduced marketing as a concept into the more scholarly public administration literature in the leading North American public administration journal. Since that time, the word marketing has become an established term in the public manager's lexicon. However, in the two decades following the Kotler and Murray article, the application of marketing tools to the public sector was confusingly linked with their application to the nonprofit sector. Thus, texts and articles often use as synonyms such terms as nonprofit marketing, government marketing, political marketing, and social marketing even though there are different environmental contexts and, hence, marketing applications in each of these milieus (Capon and Mauser, 1982). It appears that public administrators and the literature most commonly use the term "nonprofit marketing." This is probably attributable to the original articulators of

the generic marketing concept believing the term “nonprofit organization” to be an appropriate generic term for the public sector and social cause organizations (Kotler and Levy, 1969; Kotler, 1972).

Marketing techniques within the public sector have been applied across the full range of services including police services, garbage collection, population control, recycling, and education. Texts appeared that focused on specific of application of marketing techniques to different nonprofit and government agencies (Crompton and Lamb, 1986; Fine, 1990; Howard and Crompton, 1980; Kotler, 1975; Lovelock and Weinberg, 1984; Mokwa, Dawson, and Prieve, 1980; Mokwa and Permut, 1981; O' Faircheallaigh, Graham, and Warburton, 1991; Rados, 1981). In addition to public management journals regularly addressing different marketing topics, several academic journals (e.g. *the Journal of Nonprofit Marketing*, *Journal of Hospitality and Leisure Marketing*, *Health Marketing Quarterly*, and *Social Marketing Quarterly*) were subsequently launched to address issues related to the application of marketing techniques to specific fields in the nonprofit and public sectors. Today, public sector marketing applications are being used in a large number of international contexts including republics of the former Soviet Union and Third-World Countries (Barach, 1984; Beveridge 1995; Bloom and Novelli 1981; Duhaime, McTavish, and Ross, 1985; Gallagher and Weinberg, 1991; Lamb, 1987; Latham, 1991; Rushman, Smith, and Thompson, 1997; Tam, 1994).

The intent of this paper is to provide investigative analysis of the prevailing conceptualization of public sector marketing.

2. *Conceptualization of Public Sector Marketing*

Kotler and Murray (1975) suggested one of the earliest and most influential conceptualizations of public sector marketing. It was elaborated upon in a text published in the same year (Kotler, 1975). Kotler adopted Boulding's (1970) definition, and Blau and Scott's (1962) classification, of formal organizations. In Kotler's (1975a, p. 5) interpretation, a formal organization is "a purposeful coalescence of people, materials, and facilities seeking to accomplish some purpose in the outside world." Different purposes determine different types of formal organizations: business concerns seek to benefit their owners; service organizations seek to benefit their clients; mutual benefit organizations seek to benefit their members; and commonweal organizations seek to benefit the public at large. In spite of differences in goals, Kotler contended that all formal organizations were involved in exchange relationships with various categories of publics.

However, the concept of voluntary exchange is only one of several possible philosophical alternatives for explaining the relationships between formal organizations and their publics. Other options include: the love system, characterized by the underlying motive of benevolence on one side without any necessary reciprocation by the other; and the threat system characterized by an underlying motive of malevolence on one side. Thus, in Kotler's interpretation, a church and its members, a police department and citizens, a charity and its donors, and so on; are all engaged in exchange transactions that involve taxes, services, money, contributions, feelings of well-being, or

other tangible and intangible benefits. If an organization is willing to exchange resources with an identified public, then this category of public becomes the organization's market or "distinct group of people and/or organizations that have resources which they want to exchange, or might conceivably exchange, for distinct benefits" (Kotler, 1975a, p. 22).

Having introduced the notions of organization, public, market and exchange, Kotler explained the differences between marketing and a sales orientation. The marketing concept involves continuously adjusting the firm's offerings to the targeted customers' needs. In contrast, a sales orientation involves continuous adjustment of buyers' needs to the firm's offerings. He asserts that a sales orientation is likely to be characteristic of an unresponsive organization, while a marketing orientation is likely to result in a highly responsive organization. Kotler (1975) favors the latter and defines marketing as being applicable for all types of formal organizations:

The analysis, planning, implementation, and control of carefully formulated programs designed to bring about voluntary exchanges of values with target markets for achieving organizational objectives. It relies heavily on designing the organization's offering in terms of the target market's needs and desires, and on using effective pricing, communication, and distribution to inform, motivate, and service the markets (p. 5).

With few exceptions (Lauffer, 1984; Mauser, 1983; Rados, 1981), this transactional conceptualization of public sector marketing has been widely accepted by scholars writing about public sector marketing.

3. Limitations of Conceptualizations

Some negative comments towards applying the marketing philosophy and techniques in the public sector have emerged in the public administration literature. As an advocate of public sector marketing observed: "marketing's recent and growing participation in public sector management has received a bipolar love-hate evaluation" (Roberto, 1991, p. 81). Opponents of marketing in the public administration field felt uncomfortable with Kotler's generic transactional conceptualization of public marketing, which suggests no differences between public and private management; public and the nonprofit sectors; and the role and application of marketing in these different sectors.

Rainey, Backoff, and Levine (1976) contested Kotler and Murray's (1975) and Murray's (1975) positions that there were only limited differences between formal organizations and between managing public and private entities; that their trends converged; and that as a result, marketing was appropriate in the public sector. In contrast, Rainey et al., (1976) postulated that there are crucial differences between the two sectors and, thus, in the role of marketing in public agencies. Drawing from the literature existing at that time and organizing their data into three major categories (environmental factors, organization-environment transactions, and internal structure and processes), Rainey et al., (1976) contended that a public organization: works in an environment with less market exposure; has more legal and formal constraints on its procedures and spheres of operation; relies more on the "coercive" and "monopolistic" nature of many government activities; and has less decision-making autonomy. Allison (1992) and Walsh (1994) reached similar conclusions. These analyses challenged the

notions of the appropriateness of both the marketing philosophy and voluntary exchange in the delivery of governmental services.

Differences between the public and private sectors were at least partially recognized in subsequent literature on public sector marketing. Crompton and Lamb (1986b) argued that government organizations are committed to allocate resources equitably, while private sector organizations direct resources only at the most responsive target markets. Equity principles require public organizations to deliver services to all citizens on a fair basis. In contrast, commercial organizations selectively serve only responsive customers. Although differences were recognized and incorporated into some conceptualizations of public sector marketing, the controversy remained salient. Crompton and Lamb (1986b), Mokwa and Permut (1981), and Coffman (1986), who all accepted the distinctive positions of commentators on both sides of the debate, demonstrated the centrality of controversy. They recognized Rainey et al.'s (1976) crucial differences between public and private organizations, but they accepted the Kotlerian conceptualization of marketing based on the voluntary exchange paradigm as the basis of their conceptual frameworks.

Doubts were raised that the conceptualization of public sector marketing authentically reflected the public realm (Loveday, 1991; Walsh, 1994). Walsh (1994) and Loveday (1991) argued that public sector marketing as it is operationalized has little in common with the public realm. According to Walsh (1994), marketing has not developed in a fashion that is specific to the context of government. He believes that the current conceptualization of marketing reflects a simple semantic adjustment of

commercial marketing definitions, for example, by dropping the notion of profit without substantive adaptations to the political context of the public realm. Loveday (1991) questions whether public sector marketing is in any way innovative. He argues that “what the marketers claim as their own has been developed by a lot of other people as well; marketers have made a distinctive contribution in thinking it through in the context of selling products, first tangibles and more recently intangibles, to a mass market” (p. 174). Both authors support Walsh’s (1994, p. 70) conclusion that there needs to be a rethinking and re-examination of public sector marketing in order to develop its new politically informed form, and to make it “specifically public service marketing rather than a pale imitation of a private sector approach within the public service.”

Empirical studies seem to support these critical voices. Contrary to Lamb and Crompton’s (1981) findings about the growing acceptance of marketing philosophy in public park and recreation agencies, Graham (1995) found that after 10 years of attempting to implement it in public sector organizations, most agencies still were not customer-oriented as defined by the generic marketing concept. Smith’s (1988) study found that marketing was viewed only as a promotion technique concerned with specific problems such as an AIDS campaign. Marketing continued to be perceived by many public administrators as unethical, goal distorting, and as an inappropriate model and framework for public service delivery (Buchanan et al., 1994; Ehling, White, and Grunig, 1992; O’Faircheallaigh et al., 1991; Vanden Heede and Pelican, 1995). It appears that either public administrators should make an effort to better understand marketing and embrace it, or that public sector marketing should undergo further

modifications to address the concerns of those public administrators who remain skeptical towards it.

4. Investigative Research Analysis.

The notions of investigative research (Douglas, 1976) and an underlying adversary research paradigm (Levine, 1974), emerged in response to limitations identified in the statistical analysis and cooperative research paradigm. Levine (1974, p. 669) noted:

By an adversary model, I mean that we are dealing with a situation in which there are claims and counterclaims, and arguments and counterarguments, each side advanced by an advocate who attempts to make the best possible case for his position. The scientific community, in the form of an editor, a referee, or a program committee, acts as a judge does in a preliminary hearing, deciding whether there is a sufficient case made in the particular study to take it to trial before the scientific community.

Douglas (1976, p. 57) maintains that the work of researchers who use the adversary model is similar to the work of detectives, investigative journalists, judges, and prosecutors. All of them are confronted with the same type of problems: misinformation, evasions, lies, fronts, taken-for-granted meanings, problematic meanings, and self-deceptions.

Investigative research, along with biographical methods, was comprised of several steps. First, through a literature review the views of the original authors who contributed to development of the public sector marketing concept were identified. Second, using publicly available interactive media resources, such as the Internet,

authors' affiliations were reviewed and their professional biographies analyzed. Third, social science disciplines that have influenced the development of public sector marketing were identified. Fourth, concepts borrowed by marketers from the social science disciplines identified in step three have been reviewed and analyzed. Fifth, the meaning of concepts identified in step four were defined and compared with their interpretation in the marketing literature. Sixth, if discrepancies in interpretations were found, disconfirmatory data were recorded and their original meanings as postulated by the original authors were summarized. In summary, the investigative research reported in Chapter IV, identified disciplinary and conceptual sources of the public sector marketing concept, comparing them with original and postinterpretation by marketers.

The rationale for choosing investigative research included a need to test the extent to which the current concept of public sector marketing is objective and values free. Morrow and Brown (1994) contend that circumstances of theory production (e.g., contract research) or characteristics of the theory producer (e.g., political party associations, sexual orientation) may affect the conclusive arguments of research. Similarly, Harvey (1990) argues that researchers may experience "pressures" from such sources as research funders, academic administrators, and the business or political establishments during the research process. For example, Ekeh's (1974) critical appraisal of social exchange theory showed how political, philosophical, and ethical beliefs of the theory's author affected overall development of the theory. The task of investigative analysis in this study was to find out whether any of the "pressures," "circumstances of

production," or "characteristics of the theory producer" were present in the development of the public sector marketing concept.

5. Results of the Investigative Research

Previously, it was noted that the main methodological advantages of critical theory and investigative research are its subjectivist approach and its ability to accommodate consideration of power relationships. This enables critical theory to challenge the historical context and social conditions in which a particular concept or theory was formulated. Supporters of critical theory advocate subjectivism, because they believe that a researcher cannot be detached from society, and that some aspects of a particular author's theory can be "... deficient because of circumstances of its production (e.g., contract research) or characteristics of its producer (e.g., political party associations, sexual orientation)" (Morrow and Brown, 1994, p. 236). The results of the investigative research reported here suggested that the current conceptualization of public sector marketing is deficient, because it was confined to a particularly narrow historical context and set of social conditions, and was influenced by a very specific school of thought.

5.1 The Social Exchange School of Marketing

The assumptions underlying nonprofit marketing were influenced by such logically and conceptually coherent concepts as: broadening the scope of marketing and of consumer behavior (Kotler and Levy, 1969); generic and social concepts of marketing

(Kotler, 1972); and the marketing-as-exchange paradigm (Bagozzi, 1975). These non-empirical and mostly propositional works often were justified by references to social science disciplines including economics, economic history, cultural anthropology, sociology, and organizational theory (Belshaw, 1965; Blau and Scott, 1962; Boulding, 1970; Homans, 1969).

Investigative research of public sources, such as those available on the world wide web which include universities' home pages that list biographies and the affiliations of marketing scholars who introduced the nonprofit marketing concept, found that the most active of them (Kotler; Bagozzi; Levy; and Zaltman) were affiliated with the J. L. Kellogg Graduate School of Management at Northwestern University. Sheth et al.'s (1988, p. 28) review of twelve schools of marketing identified these scholars with *the social exchange school of marketing* which as they noted was: "destined to be labeled as the most controversial school in the history of marketing."

Further, investigative research suggested that the philosophical and methodological roots of the social exchange school of marketing were derived from the Chicago school of thought in economics. Analysis of biographies of the originators of public and nonprofit sector marketing available on the Internet found that the most prominent of them (Kotler; Zaltman; and Levy) were trained at different times at the University of Chicago. For example, at the University of Chicago, Kotler received a master's degree in economics, Zaltman received a master's degree in business administration, and Levy received both masters and doctoral degrees in behavioral psychology.

Academic traditions of the Chicago school occupy a special niche in social science. Chicago University is a private institution established by John D. Rockefeller in 1892. During its century of existence, it has become one of the most influential universities in America. Dozens of its faculty have been recognized as Nobel laureates including 16 Nobel laureates in the field of economics. The Chicago school occupies a central niche in the social sciences so it has been influential in forming US public policies, stimulating intellectual dialogs and debates, and underpinning social and political philosophies. It promotes a utilitarian-based version of radical individualism and extreme market doctrine, which is widely known as the neoclassical, libertarian, or laissez-faire economic paradigm.

The Chicago school is usually associated with Milton Friedman, and broadly refers “to those who would marketize most of the public sector and who see government as the problem, not the solution, to most economic ills” (Lindeen, 1994, p. 24). A defender and promoter of the laissez-faire school of economics and classical libertarian principles influenced Milton Friedman, Frederick A. Hayek (1899-1992). Hayek (1944) in his manifesto, *The Road to Serfdom*, formulated the main principle of the laissez-faire doctrine. This principle suggests that any parties in a market place should be free to produce, buy and sell anything that can be produced or sold at any price at which they can find a partner to the transaction. The negative attitude toward government’s intervention stems from this premise.

Another historical root of the laissez-faire doctrine is the extreme social philosophy of Herbert Spencer (1820-1903), who extrapolating from Charles Darwin, coined the term “survival of the fittest” in his book *Social Statics* (1851):

It seems hard that a laborer incapacitated by sickness from competing with his stronger fellows, should have to bear the resulting privations. It seems hard that widows and orphans should be left to struggle for life or death. Nevertheless, when regarded not separately, but in connection with the interests of universal humanity, these harsh fatalities are seen to be full of the highest beneficence--the same beneficence which brings to early graves the children of deceased parents, and singles out the low-spirited, the intemperate, and debilitated as the victims of an epidemic. (Cited in Schrems, 1986, p. 132).

Modern overtones of the “survival of the fittest” philosophy advocated by the Chicago school can be found in the work of those Chicago school graduates who attempted to introduce marketing in the public sector. Kumcu and Firat (1987, p. 83) noted the commitment of Kotler and his associates to promotion of the Chicago school laissez-faire paradigm and identified overtones of the Spencerian philosophy in their works. They noted, for example, at an international conference on the marketing and development of less developed countries (LDC): “Philip Kotler invited heated arguments from the floor when he suggested that LDCs ought to first let marketing energy come out, and later worry about the problems free markets create.” Kumcu and Firat note that conference participants did not readily accept such a pro-Spencerian approach to economic development and marketing and Kotler “... was confronted with questions regarding who reaped the benefits and who carried the burdens of such an approach.”

In the parks and recreation field, overtones of the laissez-faire libertarian philosophy can be found in suggestions to decentralize governments’ functions and shift

“power and authority *away from* city government and into the hands of other group.” (Belshaw, 1976, p. 93, italics original). Belshaw (1976, p. 94) studied the provision of recreation services in communities in the Vancouver metropolitan region and found that households “felt distant from the decision-making of local governments.” His study’s conclusions and suggestions were based on the criterion of individual utility postulated by the Chicago economists:

The study suggested the identification of neighborhood blocks in which close-to-the-people services could be run by local committees. This, in turn, suggested that local government could be built up from such committees—either by election out of neighborhood blocks or appointments from the committees themselves—and that certain kinds of administrative funds could be allocated to the committees for their direct expenditure (p 94).

These libertarian ideas were partially implemented through California’s Proposition 13 and Massachusetts Proposition 2 1/2, which significantly reduced government support for public park and recreation in those states and made Public Park and recreation agencies more dependent on alternative sources of revenue such as user fees.

5.2 Major Assumptions of the Social Exchange School of Marketing

The Chicago school, which is the philosophical fundament of the Social exchange school of marketing, broadly assumes that: (1) society and other social collectivities are mere aggregates of individuals and not the structures that integrate social, political, and cultural factors; (2) the individual is the prime decision-making unit and not social collectives such as ethnic and racial groups, peer groups at work, and

neighborhood groups or communities; (3) people are cost minimizers and benefit maximizers motivated by personal self-interest on the basis of fully available information; and (4) the market economy can be studied as a separate self-contained system relatively independent from society, polity, and culture (Etzioni, 1988).

Given these assumptions, Chicago economists advocate decentralization, deregulation, privatization, and unlimited individual choice as policy in the search for social prosperity. They argue that limiting individual choice, regulation, and centralization of power and decision making in government hands, creates political and economic shortcomings. These include: lack of responsiveness toward consumers and political institutions, ineffectiveness, poor decisions, lack of coordination, delay, unfair procedures, price-fixing, subsidies and cross-subsidies that create inefficiencies, limiting competition, restricting choice, retarding technology, and acting as a drag on productivity (Smith, 1988).

Although Chicago economists partially agree with mainstream economists that markets can fail because of externalities involved and a need for common public goods such as national defense, they still use the criterion of individual utility as a starting point for understanding the theory of market failure. Thus, the Chicago school suggests that government intervention is needed, only if the benefits of intervention into voluntary exchanges among individuals expressing individual choice exceed the disadvantages of lost freedom (Smith, 1995). Because of this philosophy, the Chicago school suggests the use of cost-benefit analysis before any government decision to intervene. Armed with a reductionist and intellectualist methodology, the representatives of Chicago school

seriously discuss such intangible and symbolic costs and benefits as “warm feelings inside,” “gratitude,” “clean conscience,” and the like, to support arguments against government regulation (Bagozzi, 1975; Kotler and Levy, 1969a).

The social exchange school of marketing, consistent with Chicago school traditions, advocates interjecting the Chicago school assumptions, although with some variations, into the public sector. Marketers are interested in “understanding what the organization exchanges with each public; i.e., what each party gives and gets ... [and what are] ... the motivations underlying their transactions and satisfaction received” (Kotler, 1975a, p. 17). Therefore, the social exchange school of thought postulates three major assumptions underlying the concept of public sector marketing: (1) an open-system model of formal organizations borrowed from organizational theory; (2) the concept of social exchange adapted from sociology; and (3) self-interest motivation advocated by “formalist” economic anthropologists (Table 2). These assumptions and their sources are discussed in the following sub-sections.

5.3. An Open-System Model of Formal Organizations.

The social exchange school of marketing assumes that an organization is "a purposeful coalescence of people, materials, and facilities seeking to accomplish some purpose in the outside world" (Kotler 1975a, p. 5). Primary functions of such an organization are: (1) input--attraction of sufficient resources; (2) throughput--conversion of these resources into various products; and (3) output--distribution of these throughputs to the public. This conceptualization of a formal organization as a resource

conversion machine is consistent with the precepts of an open-system model of organization whose primary goal is to respond to external and internal pressures.

The open-system model of formal organizations views a park and recreation agency as being at the center of a system that responds directly and quickly to the needs of an array of different publics. The agency has substantial independence to respond quickly to changes in the environment in which it operates.

Table 1: Results of Investigative Research

<i>Social Science Discipline</i>	<i>Concepts Borrowed to Develop Public Sector Marketing</i>
Organizational Behavior	Open-System Model of Formal Organizations
Sociology	Individualistic Social Exchange Theory
Economic Anthropology	“Formalist” History of Marketing Exchange

The open-system model encourages decentralized decision-making, because success is perceived to depend on being able to respond quickly and adapt to dynamic external and internal pressures. This perspective is not pre-occupied with following pre-established goals. It puts emphasis on efforts to attract additional resources from the external environment beyond those regularly provided by the agency’s governing body,

to convert these resources into park and recreation programs and services, and to efficiently distribute these services. The agency is viewed as the primary decision-maker, it does not have to constantly see authority from a higher authority for its actions.

The social exchange school of marketing recognizes four types of formal organizations that are differentiated by the primary beneficiaries of an organization's activities (the *cui bono* criterion). Mutual-benefit associations benefit their members: political parties, unions, fraternal associations, clubs, veterans' organizations, professional associations, and religious sects. Business concerns benefit their owners: industrial firms, mail-order houses, wholesale and retail stores, banks, insurance companies, and similar private for profit organizations. Service organizations benefit those categories of publics who are in direct contact with these organizations: social work agencies, hospitals, schools, legal aid societies, and mental health clinics. Finally, commonweal organizations benefit the public at large: the State Department, Bureau of Internal Revenue, military services, and police and fire departments (Kotler, 1975, p. 30). Park and recreation agencies would be classified either as service or commonweal organizations, depending on the type of services that were offered by a particular agency.

However, the social exchange school of marketing assumes that in spite of differences among beneficiaries, the primary goal of all types of organizations is to survive through responding to external and internal pressures by attracting, converting, and distributing scarce resources in a competitive environment. Since the goals and functions of all formal organizations are generic, then the social exchange school

believes that management of all types of formal organizations should be generic (Kotler and Murray, 1975). This school assumes that management of organizations can be differentiated only to the extent that an organization effectively or non-effectively deals with external pressures, performs its basic “resource machine” functions, and achieves the survival goal. Thus, the social exchange school of marketing distinguishes between effective (*responsive* organization) and non-effective (*unresponsive* organization) styles of management.

The conceptualization of an “unresponsive organization” suggests an organization is a bureaucratic organization (in the negative sense of that word) which routinizes operations, replaces personal judgment with impersonal policies, specializes the job of employees, and follows a rigid hierarchy of command. A bureaucratic organization is maladapted to the external environment and, thus, is relatively unresponsive to public needs. It resists change, responds poorly to external pressures, and is ineffective in performing resource-converting functions. In contrast, a “fully responsive organization” implies that the organization effectively responds to external and internal pressures, successfully performs resource-converting functions, and achieves the survival goal. Fully responsive organizations are sensitive to public needs, willing to change and adjust their offerings, and seek to survive through providing full satisfaction to their stakeholders.

The concept of a fully responsive organization is synonymous with a “doctrine known as ‘the marketing concept’” (Kotler, 1975, p. 43). The marketing concept is positioned as an alternative to a production or sales orientation and implies "a

consumer's needs orientation backed by integrated marketing aimed at generating consumer satisfaction as the key to satisfying organizational goals" (Kotler, 1975, p. 46). The major thesis advocated by the social exchange school of marketing is that all formal organizations should be fully responsive. That is, they should employ, or at least strive toward adaptation of the marketing concept as the basis for their operations (Kotler, 1975).

5.4. Self-interest and the Public Welfare.

The social exchange school of marketing contends that pursuit of personal self-interest is the only motivation for exchange between all formal organizations and their publics. Although Kotler (1975) avoided the term "self-interest," Bagozzi (1975, p. 34), who acknowledged receiving Kotler's advice, openly recognized self-interest motivation in the context of public sector marketing:

... many individuals, groups, and firms pursue their own self-interest. This is what Adam Smith meant by his reference to an "invisible hand." Similarly, in his analysis of primitive societies and marketing systems, Frazer has shown that ... the pursuit of self-interest can be the foundation for the web of kinship, economic, and social institutions. The recent exchange theories of Homans and Blau are also based on this individualistic assumption of self-interest.

The invisible hand philosophy of Adam Smith is one of the most popular in the Western world. It is especially popular in the United States with its long tradition of individualism and promotion of individual rights. Adam Smith postulated:

Every individual endeavors to employ his capital so that its produce may be of greatest value. He generally neither intends to promote the public interest, nor knows how much he is promoting it. He intends only his own gain. And he is in this led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends it. (Cited in Shafritz and Russell 1997, p. 205).

This philosophy proscribes the mechanics of quid pro quo motivation between individuals and groups or collectives. Adam Smith (1850, p. 7) specified the quid pro quo principle that underlies his philosophy of the invisible hand in the following terms: “whoever offers to another a bargain of any kind, proposes to do this: give me that which I want, and you shall have this which you want.”

Although Bagozzi made reference to alternative collectivistic assumptions underlying the exchange mechanism, he did not clearly state these assumptions. Shapiro (1973, p. 124) similarly believed that this central role of self-interest in the context of nonprofit marketing was sufficiently self-evident that there was no need to discuss it: "I shall not bother discussing the concept of self-interest; it can be taken for granted." In summary, the self-interest motivation assumption adopted by the social exchange school of thought in the context of public sector marketing suggests one major conclusion: all relationships between formal organizations and their clienteles are based on self-interest.

Exchange Arrangements. A central tenet of the social exchange school is that *all* formal organizations seek to attain their goals through the voluntary exchange mechanism. They perceive voluntary exchange to be the only alternative to theft, force, and beggary (Kotler, 1975). Since a formal organization is defined as a resources converting machine that does not resort to force, theft, or selfless giving to attract

resources, then the voluntary exchange mechanism is considered the most plausible option for formal organizations to attract, convert, and distribute resources.

Kotler (1972) believes that the voluntary exchange of values should be conceptualized as a transaction that, in turn, is the central generic concept of marketing. Such an exchange requires existence of at least two conditions: availability of two parties, and each party possessing some resource that is valued by another party (Kotler 1975, p. 23). Voluntary exchanges of values are not limited to such conventional resources as “goods, services, and money ... [and] include other resources such as time, energy, and feelings” (Kotler, 1972, p. 49).

Kotler (1975) contends that all formal organizations are involved in at least three types of exchange. First, business concerns and service organizations are involved in voluntary exchange of resources between three parties. Graphically this type of exchange can be shown as sequence $A \Leftrightarrow B \Leftrightarrow C$, where “ \Leftrightarrow ” signifies “gives to and receives from” (Bagozzi 1975, p. 32), A is an owner or donor, B is business concern or service organization, and C is a customer or client depending on business concern or whether the example relates to a service organization. Second, mutual benefit associations and commonweal organizations are involved in voluntary exchange between two parties. Graphically this type of exchange can be shown as sequence $A \Leftrightarrow B$, where A is a mutual benefit association or commonweal organization and B is a member or citizen depending on whether the example is a mutual benefit association or a commonweal organization. However, when he examined exchange in commonweal

organizations such as a police or fire department in more detail, Kotler (1975, p. 25-28) recognized that:

- (1) “there is a question of how voluntary this transaction is” (p. 25);
- (2) exchange “seems more like a one-way flow of value” (pp. 27-28); and
- (3) dyadic exchange “fails to depict the full sequence of exchange relationships” (p. 28).

Despite these observations, Kotler insisted that commonweal organizations were involved in exchange relationships. Kotler (1975, p. 25-29):

- (1) “a social contract is voluntary entered into” (p. 25);
- (2) exchange cannot take place “if one of the parties has nothing that is valued by the other party,” that is, one-way flow is not an exchange (p. 23); and
- (3) “there is a third party, the local government, that enters into exchange relations” (p. 28).

In summary, using these assumptions and a fire department as an example, Kotler offered a diagram of a third type of exchange relationships in commonweal organizations. Graphically this exchange is represented as a closed sequence of relationships $A \Leftrightarrow B \Leftrightarrow C \Leftrightarrow A$, where A is a fire department, B is local government, and C is citizens.

Bagozzi (1975), who was doing graduate work under Kotler’s supervision, extended this typology of exchanges further by drawing upon anthropological and sociological literature. Bagozzi was more specific and identified three types of voluntary exchange (restricted, generalized, and complex) which exhibited three classes of

meanings (utilitarian, symbolic, and mixed). Types of exchange refer to the number of parties involved in a transaction and the direction(s) of the exchange. Classes of meanings relate to the reasons or, more broadly, motivations for the occurring exchanges. Juttner and Wehrli (1994) by relating meanings to the three different types of exchange, conveniently presented Bagozzi's framework in the form of a matrix (Figure 1).

First, Bagozzi (1975) distinguishes between utilitarian, symbolic, and mixed meanings of exchange. A utilitarian or purely economic exchange is "an interaction whereby goods are given in return for money or other goods and the motivation behind the action lies in the anticipated use or tangible characteristics commonly associated with the objects of exchange" (p. 36). Symbolic exchange refers to "the mutual transfer of psychological, social, or other intangible entities between two or more parties" (p. 36). Mixed exchange involves "both utilitarian and symbolic aspects and it is difficult to separate the two" (p. 36).

Figure 1: A Conceptual Exchange Framework

		Exchange Meanings		
		Utilitarian	Symbolic	Mixed
Exchange Types	Restricted	Restricted Utilitarian	Restricted Symbolic	Restricted Mixed
	Generalized	Generalized Utilitarian	Generalized Symbolic	Generalized Mixed
	Complex	Complex Utilitarian	Complex Symbolic	Complex Mixed

Adapted From: Juttner, U. and Wehrli, P. (1994).

Further, Bagozzi distinguishes three types of exchange. Similar to Kotler's position, he identifies a restricted type of exchange as a voluntary exchange between any two parties, A and B. Parties A and B could be consumers, retailers, salesmen, organizations, park and recreation agencies or collectives. Diagrammatically this type of exchange is represented as $A \Leftrightarrow B$, where " \Leftrightarrow " signifies "gives to and receives from." (Bagozzi, 1975, p. 32). Often this type of exchange is referred to as direct, dyadic, or economic exchange. Restricted exchange is characterized by the notion of quid-pro-quo, free price-making mechanism, and self-interest motivation. Examples of this exchange included customer-salesman or wholesaler-retailer relationships. In the marketing literature Alderson (1965) discussed fundamental rules of this exchange.

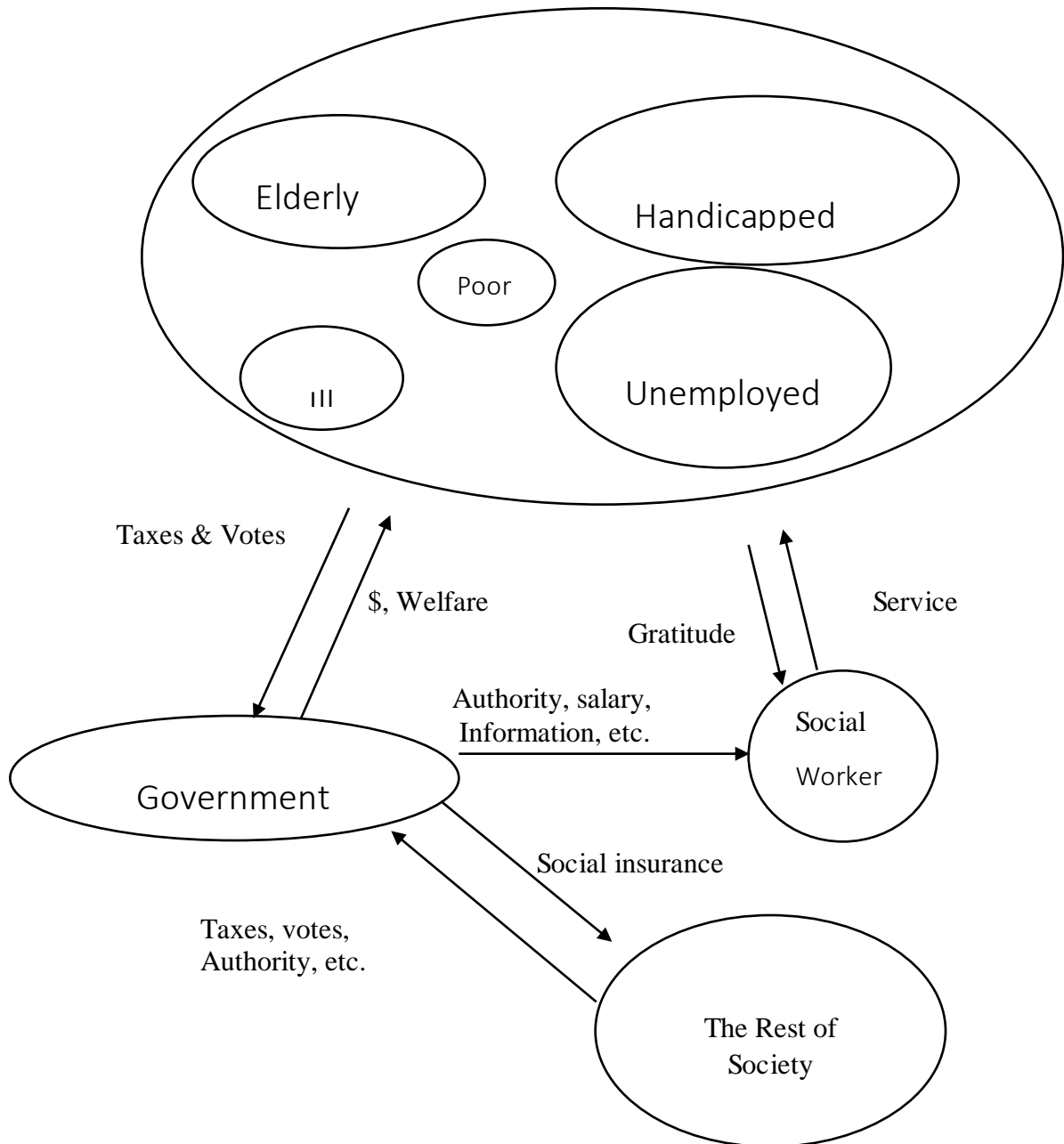
Generalized type of exchange involves univocal reciprocal relationships among at least three actors. The actors do not benefit each other directly, only indirectly. Diagrammatically this type of exchange among three actors A, B, and C is represented as $A \Rightarrow B \Rightarrow C \Rightarrow A$, where " \Rightarrow " signifies "gives to." (Bagozzi 1975, p. 33). This type of exchange sometimes is referred to as indirect or multiparty exchange. Bagozzi gives an example of a generalized exchange transaction between a local department store A, a public bus company B, and riders C. A local department store (A) donates a number of benches to bus company (B); the bus company (B) places the benches at bus stops for the convenience of its riders (C); riders (C) are exposed to store's (A) advertisement placed on the benches and patronize the store (A).

Bagozzi also combined these two types of exchange and introduced a third type of marketing exchange that he titled "complex." Complex exchange is a "system of

mutual relationships between at least three parties [where] each social actor is involved in at least one direct exchange, while the entire system is organized by an interconnecting web of relationships" (Bagozzi, 1975, p. 33). Bagozzi distinguishes between two subtypes of complex exchange: *complex chain exchange* that has open-ended sequences of direct exchanges $A \leftrightarrow B \leftrightarrow C$; and *complex circular exchange* with closed-ended sequences of direct exchanges $A \leftrightarrow B \leftrightarrow C \leftrightarrow A$.

Bagozzi provided examples of complex exchange subtypes. Complex chain exchange could be a typical channel of distribution where a manufacturer (A), a retailer (B), and a consumer (C) depict the distribution channel $A \leftrightarrow B \leftrightarrow C$. Complex circular exchange can be an exchange between a person A, a television B, an advertising agency C, and a book publisher (D). Bagozzi (1975) saw the essence of public sector marketing as being in the complex type of exchange where government, disadvantaged citizens, public administrators, and the rest of society are all involved in a complex sequence of restricted and generalized exchanges with mixed symbolic and economic resources (Figure 2).

Figure 2: Social Marketing and Exchange



Adapted From: Bagozzi (1975).

6. Discussion

Results of the non-empirical procedures reported in this chapter support critical studies that have been published previously. For example, Dixon (1978), Monieson (1988), and Pandya and Dholakia (1992) offered critical analyses of the social exchange school of marketing. Their major criticism related to the epistemological, ontological, and methodological aspects of the research orientation employed by representative of the social exchange school of marketing. They noted that although representatives of this school proposed many popular concepts and models in the marketing literature, many of them lacked empirical support. For example, although almost two decades had elapsed since the social marketing concept based on complex exchange was introduced, almost no empirical work on the social marketing concept had been reported in the marketing literature (Hirschman, 1987). Nevertheless, the concept has flourished in academic circles--a phenomenon that Dalton (1971) called the Holy Ghost: everywhere present but often unseen.

Borrowing from Max Weber, Monieson suggested that the prospering of inauthentic marketing concepts proposed by the social exchange school of marketing, resulted from intellectualist rationalization. The notion of intellectualization was introduced by Max Weber in his speech "Science as a Vocation" presented at Munich University in 1918. Intellectualization means "a continuous rationalization of society's activities and arrangements by employing a systematic cost-benefit type of analysis that abides by the tenets of Western logic" (Monieson, 1988, p. 6). Intellectualization, or "intellectualist rationalization," is a process when "the ultimate and most sublime values have retreated from public life either into the transcendental realm of mystic life or into the brotherliness of direct and personal human relations" (Weber, 1946, p. 155). Weber argued that increasing intellectualization and rationalization are not indicative of increased knowledge usable to humans. Rather, they stimulate religious or academic "prophecy", which creates only "fanatical sects but never a genuine community" (p. 137).

Intellectualization is a methodological approach that rests on “lawlike generalizations” and “unhampered objectivity” (Monieson, 1988). It employs a reductionist methodological approach, by which the diversity of surrounded facts and forces is reduced to the schema of technical logic or mathematical formula. Such a thought process frequently leads to what Monieson (1988) termed, “*reductio ad absurdum*.” Intellectualization produces inauthentic, valueless, and irrelevant knowledge. Monieson (1988) believed the intellectualization of public and nonprofit sector marketing resulted from intellectualization forces in the marketing literature. The non-empirical results reported here support the criticism that the social exchange school of marketing uses reductionist and intellectual methodology. For example, Boulding (1970), whose works were adopted by the social exchange school, distinguished between the *threat*, *exchange*, and *love* integrative systems. Boulding (1970) borrowed the idea of different integrative forces from Sorokin’s (1964) conceptualization of *compulsory*, *contractual*, and *familistic* types of social relationships. These conceptualizations are consistent with the exchange, redistribution, and reciprocity transactional modes found during the negative case analysis. However, the social exchange school used only one transactional mode, the voluntary exchange system, in their discussion of the Boulding studies. The negative case analysis found that Boulding (1970) did not consider the exchange pattern to be a dominant integrative pattern of all organizations with their environments as was claimed by the social exchange school (Kotler, 1975). Boulding (1970, p. 28) reported the results of an experiment he conducted in which he asked respondents to rank the importance of the threat, exchange, or love social forces for a number of different organizations. The results were mixed:

For some types of organization, there was substantial agreement. When it came to organizations such as the national state, there was no agreement at all, some seeing it as primarily a threat system, some as an exchange system, some as an integrative system.

Results of the experiment imply that besides the exchange framework there are other explanations and conceptualizations of how formal organizations, especially public agencies,

interact with their environment. For example, organizations such as labor unions, police, schools, and the armed forces, Boulding placed under the threat system. Organizations such as corporations, the stock market, and arts groups he placed under the exchange system.

It is fallacious to present Boulding as an advocate of voluntary exchange as being the only plausible option for organizations to deal with their publics (Kotler and Murray, 1975). On the contrary, as a former president of the American Economic Association Boulding was an active proponent of the love pattern of organizational arrangements with the environment. He referred to it as a "grant" or "transfer" economy (Praff, 1976). The difference between an exchange economy and grant economies, according to Boulding (1969, p. 2) is substantial:

the 'exchange' economy ... studies bilateral transfers of exchangeables (A gives something to B, B gives something to A) and the grants, or transfer economy ... studies one-way transfers of exchangeables (A gives something to B, B gives nothing in the shape of an exchangeable to A).

Another example of reductionist methodology relates to the substantivist and formalist economic perspectives in economic anthropology. Viewpoints of opponents of the substantivist perspective (Belshaw, 1965) were used by the social exchange school of marketing to justify exchange arrangements in the context of public agencies. However, Belshaw (1976, p. 59), whose works were adopted by the social exchange school, cautioned:

... I differ fundamentally from those of my colleagues--including anthropologists--who characterize village, rural, and nomadic universes as essentially repetitive and unchanging, a view strongly endorsed by so-called "substantivists" such as Karl Polanyi, George Dalton, and Marshall Sahlins.

A similar approach was used by the social exchange school in their discussion of collectivistic and individualistic social exchange theories. Although Ekeh (1974) did not recognize the substantivist distinction between the "within" and "between" relations, he recognized the difference between individualistic and collectivistic sociological approaches and distinguished between direct exchange based on individualistic assumptions and generalized

exchange formed by collectivistic assumptions. However, the social exchange school ignored collectivistic assumptions underlying the concept of net generalized exchange. Concepts of direct and univocal reciprocities that form two distinct types of restricted and generalized exchanges were meshed together by the social exchange school into a new concept of complex exchange that was presumed to be based on both individualistic and collectivistic assumptions. While occasional exploratory studies in the sociological and economic anthropology literature still attempt to follow this type of analysis, mainstream sociologists and anthropologists appear to reject it or at least to recognize different approaches (Brody, 1985; Coleman, 1987; Cook 1987; Gillmore, 1987; Knottnerus, 1994; La Valle, 1994; Yamagishi and Cook, 1993; Uehara, 1990). The substantivist distinction between the concepts of “pooling” and “redistribution” was also neglected. However, recent studies in the marketing literature recognize this distinction (e.g. Pandya and Dholakia 1992).

Bagozzi’s training in the traditions of Chicago school is a probable explanation for his selective choices. The Chicago school does not recognize either substantivist anthropology or collectivistic sociology. Rather, it defends and promotes formalist anthropology and individualistic sociology. Although most marketers are relatively satisfied with the current controversial microeconomic model of public sector marketing based on formalist anthropology and individualistic sociology (Nickels, 1974), a growing number of marketing scholars have suggested that a different analysis be adopted and that substantive concepts be used in the context of the public sector (Dixon, 1978; Ferrel and Zey-Ferrel, 1977; Hirschman, 1987; Monieson, 1988; Pandya and Dholakia, 1992).

Results of the non-empirical procedures in this chapter also directly support critiques of the Chicago school that can be found in the social science literature. Many social scientists have consistently resisted adopting the Chicago school’s philosophy because Chicago scholars have relied primary on intellectual and reductionist approaches, which often produce non-testable and near-tautological conceptual models that lack empirical support. Etzioni’s (1988) summary of

the economic literature related to the philosophy of the Chicago school suggests that representatives of the school rarely engage in testing and sometimes manipulate data to induce a “correct” fit by adding variables and accommodating adjustments. As a result, these neoclassical theorems are “a-scientific.” They are mathematically elegant but remain empirically untested.

Beginning in the 1950s, the Chicago school has been remarkably successful in its consistent efforts to broaden the conceptualization of market arrangements, and to spread a laissez-faire philosophy as it penetrated most aspects of human life and colonized other social disciplines.

The Chicago school gave birth to many pro market concepts in different social science disciplines. It can be found for example in individualistic sociology and social psychology (Homans, 1969; Thibaut and Kelley, 1959), the formalist perspective of economic anthropology (Belshaw, 1965), and the public choice school of thought in public administration. Loyal to efforts of Chicago school to colonize other social disciplines, the social exchange school of marketing efficiently enough to collected all the pro market concepts from different social disciplines and re-interpreted many others in order to develop, introduce and justify marketing in the public sector.

Some commentators pointed out the negative consequences associated with the Chicago school’s efforts to spread market arrangements into social life and into almost every social discipline. Kuttner (1997, p. iii) noted:

In scholarly economics, theorists such as Milton Friedman, who had been marginal, became central. The concrete study of economic history and economic institutions became archaic. The smartest rising economists used ever more complex mathematics, based on the premise of a “general equilibrium”—a concept that presumed a smoothly self-correcting market and implicitly urged that markets become purer and that more realms of society become markets. Newly self-confident conservative economic theorists colonized other academic disciplines. Market concepts became widespread in law, political science, and economic history. As experts on public policy, these economists became the intellectual champions of privatization, deregulation, and liberation of the global marketplace. It all boiled down to one very simple core precept: market is better.

Etzioni (1988) pointed out that anytime the Chicago school entered another social science discipline, for example, political science or economic history, it always brought with it a set of clearly stated core assumptions which have rarely been empirically tested.

Because of the vague nature of symbolic and intangible costs and benefits, opponents of the Chicago school are skeptical about the reliability of cost-benefit analysis in the context of government regulation policies. According to Smith (1995, p. 445) “cost and benefits are not easily defined; the relationships between direct and indirect costs often are not easily discernible; the estimate of costs is highly sensitive to assumptions.” He points out that such a cost-benefit analysis enforced by complex statistical numbers (or lack of them) is a very “politicized” and “manipulable” device.

Many state governments seem reluctant to adopt complete decentralization or deregulation suggestions in the context of parks and recreation. Belshaw (1976, p. 94), who was an advocate of Chicago principles in the context of the provision of public recreation services, recognized that there are no “instances where this approach has in fact been tried” because of the difficulties associated with implementing such an approach: “scale of funding, the enormity of the job to be done, the atmosphere of distrust, the possibilities of corruption, and the quite cynical political manipulation on all sides.” For these reasons, many mainstream economists and most public administrators do not accept the Chicago school’s postulates in spite of the attractiveness of their libertarian ideas of freedom (Smith, 1995).

7. Conclusion

The results of the non-empirical procedures undertaken in this chapter contribute to existent critical studies in several important ways. First, they link assumptions underlying the social exchange school of marketing with the assumptions of the Chicago school. Few attempts have been done in previous studies to trace the intellectual roots of

the school and to identify this connection. Second, the non-empirical results of this study show that the social exchange school of marketing is loyal to the methodological and epistemological traditions of the Chicago school. The social exchange school employed a reductionist methodology with minimal reliance on empirical testing. Because of such a methodological approach, the diversity of social concepts that can be found in the social science literature was reduced to fit the assumptions of the Chicago school. Third, the results of non-empirical procedures demonstrated that the concepts adopted from social science were misinterpreted and biased, and were significantly adapted to fit the assumptions of the Chicago school. Analysis showed that most of these adaptations conflict with, and conceptually contradict, mainstream conceptualizations of public agencies in the organizational behavior and general public administration literatures. Fourth, the results documented the consistent efforts of the social exchange school to spread their confusing conceptualization of public sector marketing into different disciplines and academic publications where they found some support. Finally, the results introduce alternative concepts from the social science literature that have significant potential for explaining the organization, motivation, and internal and external arrangements of public agencies with employees and communities.

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