Stages of Economic Development and Business Orientations – their Impact on Business Education.

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ABSTRACT

As overall demand is exceeded by supply, both through an increase in manufacturers and more outputs through manufacturing efficiency, many firms will be forced to adopt the ‘Selling’ orientation, whereby resources are diverted to sales efforts in order to dispose of inventoried product and provide funds for further manufacturing efforts.

At some stage (perhaps when the above strategies are assessed to be not working), a smart firm will consider adopting a ‘Marketing’ orientation, in which the organisation conducts market research to find out what the market wants and/or needs, and then (and only then!) produces both tangible and intangible market offerings (‘products’ in marketing terms) to specifically satisfy their needs and wants. This is not only a better longer-term approach to corporate survival and making profits but is also less risky (as one’s production output is potentially pre-sold, simply because it is made to satisfy pre-ordained or perceived customer expectations).

Developed economies, as typified by OECD members, have typically come through sequential stages of economic development. They all started with the Primary development stage of total reliance on agricultural outputs for (initially) domestic use and later for exporting, (e.g., meat and grown products). This was provision of basic necessities, normally done at local or regional level. Most converted to the Secondary development stage of initially basic manufacturing or heavy engineering, using domestic or imported ores and other natural resources, (e.g., producing steel and/or basic alloys) and then progressed to added-value or advanced manufacturing (manufacture of components and complete products, e.g., automotive and consumer durables). Some like Singapore lacked the manufacturing infrastructure to produce consumer goods or heavy engineering output, and jumped straight to high-tech manufacturing (e.g., design and assembly of computers and components). Most of the developed countries are now service-based economies in the Tertiary development stage, where the provision of services in support of commerce and industry (e.g., banking, insurance, tertiary education, tourism and health services) becomes the major thrust of the nation’s economic efforts. Some are moving towards the Quaternary development stage of being an experience-oriented service economy, where personal consumption and indulgence industries (like entertainment, wealth management and adventure/educational travel) dominate the country’s economic efforts and provide the necessary growth to keep ahead of one’s competitors in the increasingly global markets). In this last stage, the emphasis is on marketing services to fulfil higher-level consumer needs, whereas the prior stage concentrated on providing services or ‘product’ to satisfy commercial growth needs.

Throughout these development stages, the nations are moving from an emphasis on a manufacturer-based focus on competency in manufacturing or product provision (the Push approach) to a customer-oriented focus (in other words, the Marketing Concept), in which what is produced is determined more by pulling demand through the markets to the service and product providers (the Pull approach). In the process, the market participants are increasing in their knowledge of each other’s needs and purchasing determinants, while the quantity and quality of consumer wants and needs are multiplying as the average incomes of the nations’ population increase.
This staged economic development model, and its consequent change in the abilities and attitudes of the market participants, appears to have been valid in the past for Australia and other so-called “first-world” countries, and there seems to be no reason to assume that it will not be applied to the current large numbers of under-developed and developing countries (some of whom will be lead by example or decree to adopt it, while others will simply let it happen to them).

The stages require different skills and knowledge in the majority of the population, and the overall education system has to adapt to supply those skills and ideas. In particular, the business education industry has a heavy responsibility to facilitate the necessary transition from what are essentially individual or family-based enterprises (e.g., farms) to SME’s to transnational corporations to (eventually) multi-national corporations. The organisational transformations needed to progress from one stage to another cannot be ‘proclaimed’ by government (but should be facilitated by them), and must be implemented instead by business and community organisations.

During the transition from a rural economy to a manufacturing economy to a services and/or information economy, cultures and sub-cultures with different values, attitudes and beliefs have to be recognised and taken into account when business decisions of all kinds are being made. This is particularly true of marketing decisions, as marketing is the interface between the means of production and the ultimate consumer or end-user. The shift is from a Macro-marketing mentality to a Micro-marketing mentality. This shift has largely been enabled by massive advances in computer and communications (C&C) technology, with its ability to allow a greater incidence of one-to-one marketing (Micro-marketing), in lieu of the older approach of attempting to satisfy the needs of the whole market (Macro-marketing).

Marketing educators use the term business orientations to explain the differing approaches (or business philosophies) to satisfying the needs of the market that are adopted by producing organisations at various stages of their history. They are the Production, Product, Selling, Marketing and Societal Marketing orientations.

The agricultural stage of the economy has many parallels with the ‘Production’ orientation of a firm (‘we produce whatever we can’, knowing that any output will be snapped up by growing and largely unsatisfied market demand). As the economy grows, and some untapped demand is satisfied, some of the producers will adopt a ‘Product’ attitude or orientation, in which they produce high-quality output and seek to establish a “quality” reputation. This enables differentiation between products within the market along with market segmentation between types of buyers. The ones with this Product orientation effectively produce for only one part of the market, thus leaving the competing manufacturers to produce what other buyers within the market will be satisfied with.

As overall demand is exceeded by supply, both through an increase in manufacturers and more outputs through manufacturing efficiency, many firms will be forced to adopt the ‘Selling’ orientation, whereby resources are diverted to sales efforts in order to dispose of inventoried product and provide funds for further manufacturing efforts. Margins are normally decreased, and competition generally becomes more fierce – and often fatal! In all of the above orientations, the producer is “King” and the customer appears to be almost irrelevant to their planning and production efforts. The catchcry could be ‘Corporate rules – OK!’

At some stage (perhaps when the above strategies are assessed to be not working), a smart firm will consider adopting a ‘Marketing’ orientation, in which the organisation conducts market research to find out what the market wants and/or needs, and then (and only then!) produces both tangible and intangible market offerings (‘products’ in marketing terms) to specifically satisfy their needs and wants. This is not only a better longer-term approach to corporate survival and making profits but is also less risky (as one’s production output is potentially pre-sold, simply because it is made to satisfy pre-ordained or perceived customer expectations).
The Marketing orientation is also refined by some producers when they make decisions that also take into account the society’s sustainability concerns as well as the concerns or priorities of the buyer and the producing firm. This is then called a ‘Societal Marketing’ orientation, when the organisation continues to satisfy consumer and business needs and wants, but not at the expense of the environment in which it operates and lives.

Countries can have orientations too, which are influenced by, and in turn influence, their stage of economic development. The Macro-marketing approach seems most appropriate to them while they are learning about markets and development issues. When they are young and/or growing, they are likely to be relatively introspective and focused on satisfying existing and often basic needs (sometimes at great cost to long-term sustainability, such as logging of native forests). The ‘Production’ and ‘Product’ orientations seem to fit their national needs best. As they meet most of the market demands and move into more competitive markets (domestic or international), they adjust their strategy to sell whatever they can produce – sometimes just to keep the economic treadmill turning, it appears! When they stop pushing the production-based attitude and start to realize that they can make more by concentrating on only certain markets in the global scene (i.e., where a clear and sustainable competitive advantage can be discovered for one’s product) rather than being ‘all things to all people’, the country is adopting a ‘Marketing’ orientation. When internal or external pressures force them to make safer product or desist from producing harmful or wasteful product, they are moving to a ‘Societal Marketing’ orientation (voluntarily or not!). Australia would appear to be halfway between the ‘Marketing’ and ‘Societal Marketing’ orientations, judging by the rapidly increasing focus on sustainability of resources and environment.

Where is China now? What we perceive, in terms of its population numbers and deployment, it is still primarily in the Primary or agricultural stage. However, in terms of GDP and production capability, it has surpassed the Secondary or heavy manufacturing stage and is moving quickly towards the Tertiary services/high-tech manufacturing stage, thanks to the development of industry in the SARs. Along with the broader sharing among the majority of the population of the financial outputs of industry development, the range and depth of a plethora of service industries and Quaternary infrastructure will surely follow. The government’s initiatives in financing the huge increases in education expenditure will give it the human managerial resources to continue the high levels of growth that it is now displaying. We note that while self-sufficiency in the Primary stage is relatively cost-free and sustainable without massive investment, attainment of success in the Tertiary and Quaternary stages requires massive investment in social and commercial infrastructure.

Increased international trade will be both a boon and a challenge to China. The process of dealing with foreign countries with different values and cultures will force the Chinese to examine many of their inherent ways of thinking and their methods, just as it has with all other countries who have traded in the expanding global markets. The sheer size and momentum of the increase in the Chinese economy will give it a dominant role in many international markets, and determine its bargaining power. At the same time, it depends on others for raw materials in many areas, and cannot afford to alienate them in the long term.

China’s rapid economic development has probably given it an overall Production orientation, where it is trying to keep up with burgeoning demand on a number of fronts, and sheer production capability is needed most. However, the current levels of strong growth at some stage have to slow, and this will lead to a reassessment of what is needed by the markets. In international markets, a Selling orientation is likely at some stage, as developing countries progress to being competitors on a cost basis with many of the products that China is currently exporting. In many markets at home and abroad, its Production orientation will be changed to a Product orientation, to stave off the market attacks by those developing countries. This can be achieved by having a better reputation for the quality of Chinese product than for those produced by the newer lesser-known entrants.
The production-based mentality that is appropriate for today’s environment will eventually need to give way to a more service-based mentality, to meet the differing needs of the future markets and overall economy. Business education needs to start now in re-educating managers so that they can in turn influence their staff to adopt this changed approach and attitudes. It will be a long and expensive task, but it will better prepare the Chinese organisations (public and private) to meet the forthcoming challenges. Market research into current knowledge of the marketing concepts involved is needed to determine the extent and scope of the re-education efforts.

Given the fact that China will inevitably be a major player in global markets, business education needs to be focussed on training managers and staff to manage their domestic and international dealings effectively and efficiently. Knowledge of business theories alone will not accomplish this – what must be instilled is knowledge of the differing values, attitudes and beliefs that those staff will encounter within those global markets, along with imparting and instilling the skills needed to adapt to those changing circumstances and cultures. This can be done by sharing knowledge with international partners, and learning from the past successes and mistakes of others who have ventured into foreign markets.

Case studies are obviously one way of rapidly developing the required knowledge, but they cannot compare with the value gained from exchange of ideas through international contact by both students and staff. Mere translation of existing foreign cases into Chinese is only a basic method of education, which suits learning by rote more than learning by discussion between informed teachers and interested students. A better approach is to have pairs of academics writing and adapting cases from both countries for use in discursive teaching in both countries. These cases would focus on the experiences of organisations before, during and after their entry into the Chinese market. In the process of writing up the cases, the teacher is also being taught, and is then far more capable of engaging in and leading classroom discussions in which the students gain deeper knowledge from the case study.

An internationalised curriculum which focuses on diversity and cultural aspects, along with a more discursive approach to teaching and increased flexibility of study methods (not all students love lectures!), is necessary in both countries. Again, the cases produced in the cooperative manner mentioned in the prior paragraph will allow greater focus, by teachers and students alike, on the similarities and differences which typify the business dealings in both countries.

Excessive reliance on advances in Computing and Communications technology to disseminate knowledge should be questioned, as it can proliferate superficial knowledge while appearing to provide comprehensive and critical learning. Deep learning normally comes from personal or face-to-face contact and discussion, following the acceptance of data and knowledge, however disseminated.

CONCLUSION

Nothing educates people better than involvement with real-life experience, especially when those experiences are related to academic theory and used to expand the quantity and quality of the existing body of knowledge. This is particularly true in international business. Cross-cultural work and study placements for both educators and their students should be encouraged, with the recipients of such opportunities being mandated to return to their homeland and pass on their experiences to their peers (teachers and students alike). The relationship between the participating universities will be greatly enhanced by this approach.