Received: 4 March 2019 | Revised: 31 May 2019 | Accepted: 1 June 2019
DOI: 10.1002/mde.3047

RESEARCH ARTICLE

WILEY

The theory of the marketing firm

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The theory of the marketing firm locates the rationale of the modern business enterprise that lies in its responding profitably to the imperatives of marketing orientation. Economic theories of the firm generally fail to recognize these imperatives, enhanced consumer choice and sophistication, which entail marketing orientation as the rationale of the firm. The paper propose a competence theory of the firm as a metacontingency and examines the bilateral contingencies by which firms link to their consumerates, which indicate their capacities for customer orientation. The marketing firm emerges as a means of encapsulating entrepreneurship, economizing on transaction costs, and enabling the management of marketing specialization.

Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer.
Adam Smith. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: Methuen & Co (Book IV, chapter 8, 49)

1 | INTRODUCTION

Theories of the firm are preoccupied with what firms are and why they exist. At its simplest, in the neoclassical conception, a firm is a production function; at perhaps its most complex, it is a nexus of contractual and noncontractual relationships, multilateral interactions, and systems of communication and authority. The idea of the firm in economic theory conveys a unit that produces rather than consumes, as compared with the household which consumes but does not produce: Between them, they provide a means of coordination consisting of "impersonally determined market prices and personally defined tastes" (Demsetz, 2014, p. 8.) It is entirely possible that a firm in this sense could be a one-person operation rather than an organization[1]; in which case, the question transforms into that of explaining why firms-as-organizations exist and accomplish what they do. As Penrose (2009, p. 31) portrays it, the firm is more than "a collection of productive resources": It is also "an administrative organization."[2] Recognizing that it is an administrative organization, the raison d'être of which is the profitable satisfaction of consumer wants; this paper seeks the rationale of the contemporary firm in an environment that predominantly comprises marketing considerations. For the critical issue is how production and consumption interact.

Although it would be facile to imagine that economists have ignored the consumer's being the mainspring of productive activity, theories of the firm seem often to permit this observation no more than the status of a foundational truism rather than that of a central explanatory component. Yet what Adam Smith said so elegantly almost two and a half centuries ago is now of enhanced significance, for the contemporary firm faces competitive and demand conditions that stem from unprecedented levels of consumer choice and consumer sophistication. As a result, its rationale, modus operandi, and effect must be understood in their light. This is the task of the theory of the marketing firm.

No current economic theory of the firm is based on the understanding that the consumer interest is paramount or that marketing-oriented management is the justification of the business, and why, or that recognizes marketing transactions as the central defining characteristic of the firm. No economic theory recognizes that the modern firm is a metacontingency whose output is the marketing mix and that upon this rests its fortunes, and certainly no theory attempts to trace the implications of the imperatives of marketing-oriented management. A theory of the marketing firm must, in addition to recognizing the imperatives of marketing-oriented management, explain what it is that marketing firms do that makes them distinctive both from other concepts of the firm and from organizations not designated firms at all. Whereas the account of

I dedicate this paper to the memory of Professor Leonard Minkes (1924–2018), mentor and friend.

the imperatives of marketing-oriented management is descriptive of the conditions that modern firms face, the account of what marketing firms do that follows recounts the managerial and strategic requirements that such firms would have to fulfill in order to survive and prosper under these conditions. It does not seek to put forward a blueprint for corporate action: That is the job of performance theories that trace the fortunes of actual companies as they operationalize the necessity to respond appropriately to the imperatives. Rather, it is an idealized account of the action appropriate to the demands of marketing-oriented management, a portrayal of the knowledge and decisions that the firm would require in order to fulfill its strategic obligations. Nor is it, therefore, a logical microeconomic theory (e.g., Rubinstein, 2012), any more than a guide to managerial action, but a behavioral-economic theory of essential managerial competence informed by behavioral knowledge of how firms and consumers operate.

As an economic-psychological approach[3] to the understanding of modern business enterprise responding to economic and social conditions that mandate customer or marketing orientation as a philosophy of corporate behavior,[4] the theory of the marketing firm seeks to elucidate why there are firms, the nature of their boundaries, and how they should be organized by reference to these conditions and the imperatives they place on those responsible for their strategic management. Its disciplinary base includes the economics of transaction costs (Coase, 1937; Williamson, 1975, 1985), principal and agent interaction and the firm as an assemblage of contacts (Alchian & Demsetz, 1972; Jensen & Meckling, 1976), entrepreneurship (e.g., Holcombe, 2007; Kirzner, 1973; Sautet, 2000), productive specialization (e.g., Bylund, 2016), information encapsulation (e.g., Holcombe, 2013, 2014), and the separation theory of the firm (Spulber, 2009a). This microeconomic base is supplemented by behavioral psychology and marketing thought.

The paper pursues a competence theory of the firm as an idealized marketing entity. Chomsky (1957, 1965) distinguishes competence theories of language from performance theories. The first refers to knowledge of the rules of language; the second, to the manifest use of language in actual situations. In this context, a competence theory is concerned with the structure of rules of grammar a person would ideally need to know in order to speak a language, whereas a performance theory involves itself with the ways in which everyday speech occurs in the process of interpersonal communication. Dennett (1978) has employed this distinction in his approach to the theory of mind to distinguish between mentalistic explanations of idealized systems in which the predictors of behavior are intentions such as desires and beliefs and which derive their credibility from the instrumental capacity of these entities to predict and psychological explanations that are empirically testable against data. I employ the idea of a competence theory in this paper to refer to an idealized view of how a firm would need to behave in order to respond successfully to the social and economic factors that suggest that corporate performance is dependent on the pursuit of a strategy of customer orientation. The theory seeks to identify the information needs and consequent decisions of a firm pursuing marketing-oriented management.

The structure of the argument is as follows. The paper first examines several economic theories of the firm and argues that, despite their insights into production, they are preoccupied with intrafirm perspectives and deficient in their failing to consider the realities of consumer choice and sophistication in which inhere the imperatives of marketing-oriented management. The marketing firm is presented as a response to these contingencies in which a company-wide philosophy of customer orientation is the prerequisite of corporate survival and profitability. On this basis, an alternative theory of the firm based on marketing considerations is proposed, which identifies the entrepreneurial process as consisting in the strategic conversion of market information into marketing intelligence and strategic knowledge, and the argument is made that this process must be encapsulated within firms for competitive reasons. Entrepreneurial encapsulation of strategic decision making, therefore, provides the basis of the rationale of the marketing firm.

2 | RATIONALES OF THE FIRM

2.1 | The management of transaction costs

The question of why there are firms antedates Coase's, 1937 paper,[5] but his thesis that firms exist in order to economize transaction costs has become a classic contribution to the theory of the firm. In a nutshell, the entrepreneur who attempts to coordinate productive activities through price information provided by the market finds that obtaining and using such information entail costs. When these costs of using the market, transaction costs, reach a certain level, there may be advantages in the entrepreneur's incorporating the activities within a managed system, the firm, wherein coordination is based on planning and administration rather than market prices. The import of Coase's thesis is that resources may be allocated other than through the price mechanism; resource allocation may be effected by the exercise of managerial authority within firms, notably those large enough to take on the necessary tasks of planning and coordination. Incorporation is probable when internalizing tasks allows them to be fulfilled more economically than multiple contracting within the decentralized market place. In particular, the costs of transacting business via the price mechanism, the costs for instance of discovering what prices are available, and of writing and policing contracts to govern transacting may be reduced by the employment of managerial authority within an organization. When transaction or marketing costs can be reduced by the supersession of the market, the tasks that incur them are likely to be undertaken by firms. Coase assumes that the operation of the firm's internal market mirrors that of the external market (Bylund, 2016, pp. 15–16.)

Williamson (1975) bases his theory of transaction cost analysis on the behavioral principles of bounded rationality (Simon, 1976, 1987) and opportunism that he defines as "self-interest seeking with guile." Williamson is concerned primarily with "maladaptation costs" that arise when gaps in long-term contracts necessitate reformulation and realignment of contractual relationships: Vertical integration occurs when either the need for these tasks can be obviated or conducted at lower cost under internal organization than in the market not least because internalization makes possible the settling of issues by fiat. Incorporation also facilitates the monitoring of contracts and promotes loyalty and cooperation via the encapsulation within firms of human and nonhuman assets relevant to the transaction (Williamson, 1975). For Williamson, the focus has become that of economizing the totality of transaction and production costs, and he is careful to distinguish the types of transaction involved (see Bylund, 2016, p. 62). Hence, internal organization is less costly than market organization as a result of three forces: the *frequency of transactions* that increases transaction costs, *uncertainty* over transactions, and the *specificity of the assets* required for transacting; all of which may engender opportunistic behavior on the part of one or other of the parties involved.

2.2 | Management of authority relations and nexus of contracts

The multiperson firm involves issues of agency and conflict of interest (Alchian & Demsetz, 1972). These authors emphasize, first, that cooperation is enhanced when it is accomplished by the organization of teams rather than when it is based on the association of individual efforts within the market and, second, that team organization entails difficulties arising from the allocation of tasks and assumption of responsibility for actions on which the success of the entire team depends (Demsetz, 2014, pp. 16–17). Individual team members may act opportunistically to shirk effort; as Demsetz puts it, “the difficult problem of productivity apportionment among synergistically interacting team members makes team organization especially susceptible to shirking problems” (p. 19).

Output can be increased if it is undertaken jointly, and doing so within the confines of the firm makes possible the monitoring of effort and reduces the problem of shirking workers who benefit from the efforts of others while minimizing their own productive involvement. In other words, the firm makes principal–agent relationships manageable. The election of a manager to oversee the working arrangements of all laborers reduces free riding and ensures that each employee's wages are closely related to the marginal productivity of their output. Alchian and Demsetz (1972) emphasize that relationships within the firm between principal and agent are contractual, just like those of a consumer to a tradesperson. In the consumption case, there is no question of authority, only the capacity of either party to the contract to refuse to trade further with the other. Firms likewise have no authority or fiat over their workers any more than the consumer has over the retailer.

Mention must also be made here, albeit briefly, of the view of the firm as a multiplicity of contracts with its stakeholders, including shareholders, directors, employees, customers, and suppliers (Easterbrook & Fischel, 1991; Hart, 1995). Prior to Alchian and Demsetz's (1972) analysis and the work of Jensen and Meckling (1976), the tendency of economic theory was to analyze microeconomic behavior at the level of the market. Thereafter, the emphasis shifted to the analysis of intrafirm behavior. Rather than the firm being treated as a black box, it could now be opened up to the analysis provided by neoclassicism (Bratton, 1989). The firm was no longer a unitary actor: It became a coalition of interests that could be investigated through the law and economics perspectives of contracting, even though according to some critics, this meant that the firm as an entity became entirely fictional (see, e.g., Langlois, 2016; Mäntysaari, 2012; Orts, 2012).

2.3 | The management of productive specialization

This approach derives from the pioneering work of Bylund (2016) whose strategy is based on the view that, “If the firm is production, then we should be able to find the essence of what the firm is by studying the type of production that is undertaken within it” (Bylund, 2016, p. 3), which necessitates an analytical depiction of production under differing means of coordination. The initial stage entails specialized production in the absence of firms; the purpose of which is to locate limitations in production that indicate how the advent of the firm enables a solution. In other words, the firm provides the alleviation of a problem that the market cannot cope with. Bylund is entirely open to firms' also economizing on transaction costs and permitting the monitoring of effort in team production, but his theory points to a more fundamental role of the firm, namely, its solving the problem of what he terms “the specialization deadlock.”

The specialization deadlock, in the decentralized market (i.e., one with no firms), refers to a situation in which there is incompatibility between the outputs of successive stages of a productive process as a result of increased division of labor that eventuates in items for which there is no market support. As long as workers all produce specialized items that are usable in the successive stage of production, the problem does not arise: In the example provided by Bylund, a producer of steel can obtain the iron and coal required through market transactions; moreover, this steel producer can trade the finished steel wrought by his productive processes with a motor manufacturer. Such a decentralized market, marked by autonomous producers at each stage, results from the output of each productive stage being accomplished by many competitors, given that there are also competing applications for the intermediate goods. As long as the three productive stages (1, iron and coal production; 2, steel production; and 3, automobile manufacture) are concluded each in its entirety, there is no problem of incompleteness: The output of Stage 1 is the input of Stage 2; the output of stage 2, that of stage 3. But if a producer specializes in the first half of Stage 2 and tries to sell it externally, there will be no market for its output; similarly, to specialize in the second half of Stage 2 means there will be no customer because motor manufacturers require the output of Stage 2 to have been completed. A producer at Stage 2 may wish to specialize in this way in order to effect a more efficient division of labor, perhaps through additional investment in capital goods.[6] But the market does not support such a move: The resulting incompleteness of a production procedure is apparent from the inability of the market to absorb it. In Smith's famous saying, the division of labor is limited by the extent of the market, or as Bylund (2016, p. 6) puts it, “One cannot individually specialise further than what is already implemented in the market so that inputs can be acquired and outputs are saleable in the existing market.”

This decentralized situation inheres the specialization deadlock that would, if the extramarket specialization it entails was engaged in, significantly increase uncertainty. The lack of appropriate prices would require exhaustive coordination, which is expensive in the decentralized market, and this would inhibit if not eliminate the possibility of individuals' seeking economic efficiency through further productive specialization, contenting themselves with the degree of specialization that is supported by existing market conditions. The resolution of the situation is achieved by the device of the firm that can embody the increased specialization that the market cannot support. Rather than economizing transaction costs, the economic role firm in solving this problem of production emerges from an innovative approach to production that enables concentrated specialization. Indeed, "The firm, as it here emerges, is an island of specialisation that must be formed outside the extent of the market. It is the observable result of an innovation in production that uses specialisation of a degree and kind that is impossible to establish in the market (that is, through the price mechanism" (Bylund, 2016, p. 7).

2.4 | Entrepreneurial encapsulation

The entrepreneur in neoclassical microeconomics is both the owner and manager of the firm. However, given the concentration on states of equilibrium in the neoclassical model of the firm, the absence of change, there is little for the occupant of these roles to do. The firm is a price taker that generates a single product for which there is an assured market; consumers' tastes are invariable; perfect knowledge is obtained; and the firm, like every other firm, inescapably earns a "normal" profit. The entrepreneur is thus spared the necessity of having to make decisions by the theoretically prescribed contingencies of reinforcement that define the market in equilibrium. This state of affairs, which obviates the need for decision making, innovation, or marketing, is firmly rejected by economists of the Austrian school (Hayek, 1949; Kirzner, 1973; Menger, 1976; Sautet, 2000; von Mises, 2016) for whom the presumption of omniscience, the unnecessity of innovation, and the static conditions of production are entirely at odds with the realities of the economic system as it exists. Far from equilibrium being the norm, markets are constantly in flux and entrepreneurs discover opportunities for novelty in order to profit. The essence of entrepreneurship in this account lies in surprise and discovery, the alertness to the possibility of profiting through arbitrage, and thus achieving the returns due to the first mover (Kirzner, 1980.) Both calculation and management are, on this view, absent from entrepreneurship.

The Austrian perspective is much closer to the idea of business development and creative enterprise inherent in modern strategic management and marketing as well as recent contributions to the theory of the firm. Drucker (1977, 2007), for instance, argues that marketing and innovation are the sole functions of the business organization; the objective of which is to create a customer. Entrepreneurship remains, however, a "special" function. For Penrose (2009, p. 31), "Entrepreneurial services are those contributions to the operations of a firm which relate to the introduction and acceptance on behalf of the firm of new ideas, particularly with respect to products …." She contrasts entrepreneurship on this definition with managerial services, consisting as they do in "the execution of entrepreneurial ideas and proposals and the supervision of existing operations." Crucially, however, she notes that the same individuals may be involved in the provision of both kinds of service, a point to which I shall return.[7]

Entrepreneurship, seen as so decisive a mainspring of economic activity, requires protection from competitors. Also writing in the Austrian tradition, Holcombe (2007, 2013, 2014) stresses that entrepreneurial action requires internalization as it is a matter of securing personal or corporate advantage, and that first exist as "repositories of knowledge," knowledge that is necessarily tacit and decentralized. By preventing its availability to competitors but also retaining tacit understanding of production and marketing among those who can make effective use of it, the firm serves to encapsulate innovative knowledge and, indeed, entrepreneurship itself. Holcombe is making more than an abstract point here. There are tangible benefits to the firm that can safely make decisions to acquire productive inputs rather than generate them in-house because it has trust in the ability of a supplier to secure and safeguard vital tacit knowledge. The frequently febrile relationships between firms can, therefore, be an important determinant of the success or failure of an interorganizational affiliation. An additional rationale of the firm inheres, then, in entrepreneurs' ability to operate within these business organizations by virtue of their being knowledge repositories. Firms are differentiated by the specialization of their tacit knowledge, and according to Holcombe, this helps maintain tacit knowledge within their boundaries. This is realized in the ability of entrepreneurial innovation to increase profits, and this is why entrepreneurs benefit from organizing their activities within firms. The organization of production within firms enables the entrepreneur to benefit maximally from innovations due to tacit knowledge.

2.5 | The separation criterion

In his recent theory of the firm, Spulber (2009a) builds on the transaction costs perspective, arguing that the import or rationale of the firm lies in its capacity to effect more economic exchanges by means of its intermediation than would be possible through direct exchanges between consumers: "Firms play an economic role when intermediated exchange is more efficient than direct exchange" (Spulber, 2009a, p. 11) In this framework, intermediated exchange is exchange between consumers that is transacted through firms. Spulber is unusual in placing consumers at the inauguration of his theory of the firm, observing that consumers found firms when this makes their transactions more efficient than carrying them out directly with other consumers. Since "[a] transaction is the creation of value by voluntary cooperation between two or more economic units" (p. 12), the value of a transaction consists in transaction benefits minus transaction costs; there is, therefore, an incentive to create a mechanism, a transaction institution, that reduces the latter.

The rationale of firms in this theory of the firm is more radical than this opening proposition suggests, however. Spulber's (2009a, p. 63) cardinal definitional point casts the firm as "a transaction institution whose objectives differ from those of its owners." So, among the numerous forms the firm can take, "Corporations are firms because their objectives are distinct from those of their shareholders who are only concerned with their residual returns. Sole proprietorships and wholly owned enterprises are firms when they operate with objectives that are separate from the consumption objectives of their owners. Entrepreneurial startups often are not firms because their objectives are intertwined with those of the entrepreneur. Therefore, firms can take many forms including corporations, close corporations, sole proprietorships, and limited-liability partnerships. This is a question of the economic functions of the institution rather than the many legal labels that describe business enterprises" (Spulber, 2009b, p. 303.)

Not only does this criterion allow for the separation of ownership and control, the separation criterion serves also to distinguish the firm from what Spulber calls consumer organizations that would include groups of contracting individuals, clubs, cooperatives (whether of workers or buyers), nonprofit organizations, basic partnerships, charities, and public organizations. In none of these cases does the objective of the organization differ from those of its owners. Perhaps more conventionally, the rationale of firms is found also in the economic role performed when "intermediated" exchange, which involves firms rather than going straight from consumer to consumer, improves on the efficiency that can be provided direct exchange from consumer to consumer in the absence of a firm (Spulber, 2009a, p. 11.)

3 | BEYOND PRODUCTION ORIENTATION

Several of the insights provided by these standpoints will be apparent in the theory of the marketing firm. However, two tendencies must be noted before proceeding to this. These are the predomination of considerations that arise from production rather than those that involve consumption, and the intrafirm restriction of the scope of entrepreneurship. In addition, two omissions of economic theories of the firm require attention: the recent findings of the economic psychology of consumer behavior, which clarifies what it is that consumers do and, in particular, what they buy and consume, and the socioeconomic developments of affluent economies since the mid-20th century, which enjoin marketing orientation on firms. These four considerations provide a route to the elucidation of the nature and functions of the marketing firm.

3.1 | Prominence of production

Although there are clear differences among the perspectives reviewed, several appear to be inward-looking views of the firm, introspective—introverted, even—confining the boundaries of the firm to its legal limits. Coase's firm is principally a unit of production. It is a reflection of its time, an era when marketing considerations, though in development, were still not central to most firms. The firm of which Coase wrote and which dominated the landscape of his time was principally concerned with production; this was, after all, the age of innovations in manufacturing such as the automation of assembly lines. Competition was among firms in the same industry and, in a sense, over time, within the factory. It is not surprising that this firm was dominated by the need to economize on factor input costs, at a time when customer demand exceeded the capacity to supply it.[8] Although Williamson's firm belongs to a later era when marketing considerations were much more to the fore, it is still primarily a unit of production. The perspective is in some respects wider than that of Coase, behaviorally more sophisticated, and explorative of the points at which internalization becomes preferable to market transacting. But the overall impression remains one of emphasis on the imperatives of internalization and on the specificity of assets involved in production. The emphasis of the principal–agent and nexus of contracting approaches remains one of internal organization rather than external entrepreneurial strategy.[9]

Bylund's direction of gaze is also primarily on production, a theme that authors of theories of the firm have failed to address in sufficient depth. Specialization deadlock arises "… when [productive] tasks are actively split and thereby necessitate new and previously unseen specializations that are unsupported by the existing production structure and, consequently, the market" (Bylund, 2016, p. 84). Bylund is, however, writing within the Austrian tradition that recognizes the volatility of markets. For all his emphasis rests on the internal operations of, first, producers within a decentralized system of coordination and, second, firms, he recognizes crucially that production decisions are ultimately dependent for their effectiveness on what the market will tolerate. Firms are nonetheless a solution to "the problem of production," whereas innovation is something that takes place within the productive capacity of the firm. Given the emphasis on intraorganizational process innovation, the role of the entrepreneur is apparently confined to solving the specialization deadlock through changing the internal arrangements of the firm. It is a production that defines the firm, a production that encompasses its operations including entrepreneurship, and a production that we must understand better in order to define the firm and know what it does. By contrast, the kinds of specialization emphasized in the managerial/strategy literatures is concerned with the dynamics of product-market scope and diversification (e.g., Ansoff, 1986; Ansoff et al., 2019; Lynch, 2015; Penrose, 2009). This is an extravert perspective in which the role of the entrepreneur is the external search for product-market opportunities.

Spulber (2009a) is unusual in considering consumers as the starting point of the theory of the firm. This is, as noted, of particular value in his arriving at a definition of the firm. But Spulber's preoccupation is how consumers form firms and act as owners, rather than the vital role consumers play in determining the rationale of the firm, the existence, and behavior of the marketing firm, which are central to the present concern. The consumer as the raison d'être of the firm is surprisingly absent from or deemphasized by this, as by most theories of the firm. Existing theories do not embrace the implications of marketing-oriented management nor do their firms practice marketing in any modern sense. At best, they concentrate on selling, an orientation that stresses the firm's interests rather than the consumer's; at its worst, it is the deployment of persuasive sales management to induce customers to buy whatever the firm happens to produce. By contrast, marketing-oriented management takes the customer's viewpoint as paramount: The producer's interest is served by its discerning consumer wants and responding to them profitably. Moreover, the marketing-oriented firm responds to the marketplace. It is entrepreneurial, though not entirely in ways that are not emphasized by the perspectives on entrepreneurship considered thus far (see, e.g., Webb, Ireland, Hitt, Kistruck, & Tihanyi, 2011).

3.2 | Restriction of entrepreneurial scope

There are several aspects of the treatment of entrepreneurship in economic theories of the firm that are problematic in the context of understanding modern, especially large-scale, business enterprises as they are encountered. Not all of the theories described above are equally committed to the following views, though these are continuing characteristics of several corporate theories. These are, first, the confinement of the role of the entrepreneur to the start-up phase of the firm; second, the strict separation between entrepreneurship and management, as in the definition of entrepreneurship as discovery marked by surprise and the exclusion of search and calculation; and, third, the confinement of entrepreneurship to intrafirm productive innovation and consequent neglect of product and marketing innovation.

By contrast, the strategic management literature and case analyses of actual firms reveal the role of entrepreneurship in the established firm as the dispersal of entrepreneurship throughout the organization (Minkes & Foxall, 1980, 1982.) Although entrepreneurship of course operates as Spulber describes, placing an exclusive emphasis on this route would be to ignore entrepreneurship as a process that is diffused throughout the established firm (Foxall & Minkes, 1996; Minkes & Foxall, 2000, 2003). Moreover, the observation of entrepreneurial activities in firms suggests that it is a process in which both entrepreneurial services and managerial services (as Penrose describes them) play a part. Penrose, as we have seen, notes that the same managers may perform both roles, and it is inconceivable that in practice, these roles do not interact and cross-fertilize. It is possible to draw too fine a distinction between entrepreneurship and other facets of managerial contribution. We are surely not assuming that entrepreneurship, of all human areas of performance, is autonomous; we must accordingly conclude that discovery, and surprise can be the result of search and evaluation as much as of anything else. Discovery and surprise may be the outcome of the search and evaluation procedures, but they might well not occur at all in the absence of the preceding exploration and calculation. This does not make them the same thing; rather, it recognizes that entrepreneurial awareness may require, and often does require, the pursuit of marketing intelligence and its analysis. The confinement of entrepreneurship to discovery is not universal. Holcombe (2007, p. 29), for instance, defines entrepreneurship as “the act of observing an unexploited profit opportunity and then exploiting it,” noting that Kirzner's understanding is restricted to the former. Entrepreneurship is, therefore, as necessary to the established firm as to the start-up and comprises the selection of opportunities to realize the opportunities for profit offered by management of the *strategic scope* of the firm where this is defined by the marketing mixes the firm can support and the consumerates[10] it seeks to serve with them. This is consistent with the view that the firm is a means by which entrepreneurs address the problems of coordination that arise from variation and ambiguity (Holcombe, 2013; Langlois, 2007).

Indeed, the defining emphasis on surprise as the essence of entrepreneurship according to Austrian interpretations flies in the face of modern marketing realities.[11] Innovation may be discontinuous (stressing its surprising element) but also relatively continuous and still be competitively crucial. The essence of entrepreneurship for the most part is surely the recognition of opportunity rather than surprise per se. To define entrepreneurship entirely in terms of the surprise element and to leave out the calculation is to overlook the role of strategy formulation in firms and the whole process of new product development that may entail surprise at any stage. The new product development process is, moreover, essential to the final element of surprise, which is necessary for strategic decision making. The rationale of the contemporary firm rests in part on entrepreneurship, and this is largely encompassed by the whole procedure of new product development in the cause of management of strategic scope (Foxall, 1984). The strategic purview of this kind of firm embraces fully the implications of innovation and marketing-oriented management.

There is a further implication of this approach. Entrepreneurship is not only a preliminary to enterpriseful and innovative activity; it is a post hoc judgment on the success of an enterprise. Alternatively, we might say that entrepreneurship may be understood in its potential for profitable action and in the extent to which this is realized. We do not know that the insight of the would-be entrepreneur, be it an individual or an organization, is actually entrepreneurial until we can ascertain the effects of the action that followed the initial “entrepreneurial alertness.” Entrepreneurship is adjudged via accomplishment (Foxall, 1984).

3.3 | Consumer behavior analysis

The rationale of the marketing firm recognizes that marketing is logically prior to production. This does not mean that it can always precede it temporally, but it acknowledges that the acceptance at the stage of consumer choice is essential if the productive process is to be commercially successful. We have seen that this thinking is inherent in Bylund's argument that the market ultimately determines the efficacy of productive innovations. The suggestion in some marketing texts that market research will always precede production flies in the face of commercial realities in which firms are usually committed to some form of technology and production before business development occurs. Nor, notwithstanding the sophistication of the techniques that compose the new product development process, can consumers themselves always be of assistance in predicting their future wants and purchasing behavior (Foxall, 1984). But the logic of the situation that must underpin a competence theory of marketing is the truism that that consumption is the ultimate arbiter of commercial success and recognizes that firms that do not attempt prescience with respect to the market may be foreordaining disappointment. The first requirement of an understanding of the nature of the marketing firm is, therefore, to understand what consumers buy Foxall, 2017b.

Recent research based in consumer behavior analysis has sought to elucidate this. There are three reasons for the use of this psychological paradigm. First, it has provided the foundations of a theory of consumer behavior (e.g., Foxall, 2010), and therefore, its employment within the theory of the marketing firm enables the unification of two strands of marketing theory that are often pursued separated and in disparate terms, namely, consumer psychology and marketing management. Second, it is compatible with microeconomics and thereby promotes interdisciplinary analysis in terms of operant behavioral economics (Foxall, 2016). Third, it is an element in a larger integrative interdisciplinary enterprise, which is of relevance to the analysis of corporate behavior, *consumer behavior analysis*, which draws upon the theories and findings of marketing and consumer research (Foxall, 2001, 2002, 2017a).

Behavior analysis explains the rate at which a response is emitted by an organism in a given context as a function of the kinds of consequence it generates. A consequence that has the effect of increasing the rate at which a behavior is performed is a reinforcer, whereas one that depresses this rate is a punisher. Rate of responding is therefore contingent on the kinds of outcomes similar responses have generated previously in similar circumstances. This relationship between response and consequences constitutes "a two- term contingency": $R \rightarrow S^{r/p}$, in which R is the (behavioral) response and $S^{r/p}$ denotes the reinforcing or punishing stimulus that affects its future occurrence. Learning is viewed as a change in the rate at which a response occurs as a result of prior reinforcing and punishing effects. The *three-term contingency*, which forms the basic explanatory device in radical behaviorism, summarizes the role of an antecedent stimulus in the presence of which learning occurs and which comes to exert control over the emission of the response, even in the absence of the reinforcing/punishing stimuli that brought about learning. The three-term contingency is summarized as $S^D \rightarrow R \rightarrow S^{r/p}$, in which S^D is a discriminative stimulus, a stimulus in the presence of which an organism performs selectively (or discriminatively) by emitting a response; R has previously been reinforced in the presence of the S^D; S^r is a reinforcing stimulus; and S^p is a punishing stimulus.

We have seen that, in behavior analysis, the probability of a response is determined by the organism's learning history, the manner in which the individual's pattern of previous behavior and the outcomes it has engendered influence current choice. This basic paradigm is elaborated in consumer behavior analysis to bring it into service as a means of predicting and interpreting human economic behavior in naturally occurring settings (Foxall, 2001, 2002). In the behavioral perspective model, shown in Figure 1, the immediate precursor of consumer behavior is the consumer situation that represents the interaction of the consumer's learning history and the discriminative stimuli that make up the current behavior setting (Foxall, 1990, 2016). The essence of the model is the consumer situation–consumer behavior relationship shown within the dotted ellipse in Figure 1. In this interaction, the consumer's experience in similar contexts primes the setting stimuli so that certain behaviors are made more probable, whereas others are inhibited. Consumer behaviors that are encouraged by the consumer situation are those that have met with rewarding or reinforcing consequences on previous consumption occasions, whereas those that are discouraged are those that have been punished. The consequences of consumer behavior, that is, its reinforcing and aversive outcomes, are of two kinds: utilitarian reinforcement and punishment consist in the behavioral consequences that are functionally related to obtaining, owning, and using an economic product or service, whereas informational reinforcement and punishment stem from the social and symbolic outcomes of consumption. Consumer behavior is therefore a function of the variables that make up the current consumer behavior setting insofar as these prefigure positive and aversive utilitarian and informational consequences of behaving in particular ways. A more closed consumer behavior setting is one in which one or at most a few behaviors are available to the consumer, whereas a more open setting is one that presents the

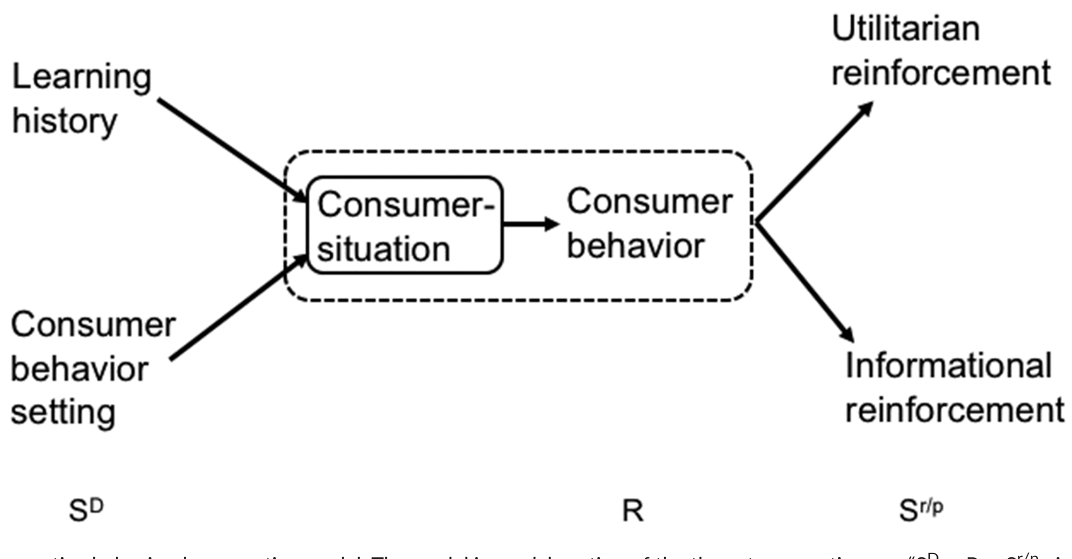

FIGURE 1 Summative behavioral perspective model. The model is an elaboration of the three-term contingency"$S^D \rightarrow R \rightarrow S^{r/p}$—in which the rate of responding (R) is a function of the discriminative stimuli (S^D) that prefigure the rewards (S^r) and punishers (S^p) that have previously accompanied the performance of similar behavior in similar circumstances

consumer with a multiplicity of ways of acting. The topography of consumer behavior is then predictable from the pattern of utilitarian and informational reinforcement, which the setting variables signal to be available contingent on the enactment of specific consumer behaviors.

It is central to the argument of this paper to understand what it is that consumers buy. Although it seems obvious that they buy and consume products and services, economists and other social scientists have explored the question in finer detail, proposing that they consume bundles of attributes, utilities, satisfactions, and so on. The behavioral perspective model proposes that they consume reinforcers that supply both functional and social benefits, that is, utilitarian and informational reinforcements. In the well-known Cobb–Douglas utility function,[12] economists suggest that consumers purchase various combinations of products or attributes that maximize their returns or utility within the confines of their income, their budget constraint. A series of empirical investigations indicates that what consumers actually maximize is combinations of utilitarian and informational reinforcement (Oliveira-Castro & Foxall, 2017; Oliveira-Castro, Cavalcanti, & Foxall, 2015, 2016). This finding allows us to debate the nature of firms and in particular the marketing firm.

3.4 | Imperatives of marketing-oriented management

Marketing-oriented management is an organization-wide philosophy that enjoins upon the entire firm the responsibility of profitably pursuing the fulfillment of customers' requirements. It is not an ideology for the aggrandizement of the marketing department or function but a unifying corporate perspective that leads to a distinctive strategy. The many definitions of strategy emphasize both the seeking of an optimal harmonization of intrafirm capabilities and external opportunities and threats, and the need to employ strategy in such a way as to achieve long-term prosperity. Andrews (1971, p. 48), for instance, portrays economic strategy in terms of "the best match between qualification and opportunity that positions a firm in its product/market environment," whereas the necessary link to profitability and survival is brought out by Simon and Fassnacht (2019, p. 42): "Strategy is the art and science of developing and deploying all of a company's resources so as to achieve the most profitable long-term survival of the company." Two extracorporate influences make this marketing-oriented management imperative within this strategic context and within that of a modern affluent economy: the existence of massive consumer choice and the advent of a sophisticated consumerate (Foxall, 1981).

Consumer choice is reflected in the vast increase in commodities, products, and brands available in the market place coupled with an unprecedented capacity to purchase them. Most consumers have available to them extremely high levels of discretionary income compared with any previous age; most marketers face an industrial situation in which supply or the capacity to supply exceeds demand with the effect that competitors actively pursue branding strategies intended to enhance their offerings by increasing consumer involvement in purchasing a given firm's output. Most consumer innovations, albeit the majority are line extensions and continuous new products, are rejected at the stage of consumer purchasing despite vastly improved techniques of market research, market-based product testing, and test marketing; estimates agree on a proportion of 80–90%. For industrial products, estimations agree on a failure rate of approximately 40%. This picture is the result of high levels of competition not only within traditional industries but across industry boundaries. Consumer tastes are dynamic, not only as a result of cultural change and advertising practice, but because consumers themselves are inventive and innovative. The result is that it is the customer who is the final arbiter of what business the firm is in or should be in and, ultimately, of corporate success.

It is well-known that industrial users tend to be highly knowledgeable about the products and services they purchase and because it is feasible and not uncommon for users to coinvent and coinnovate alongside suppliers. But final consumers are also extremely knowledgeable and experienced with respect to the brands they use, even if the knowledge us private and tacit. Consumers on the whole are neither exclusive buyers of a single brand nor random selectors among all brands in a product category; rather, they practice multibrand purchasing of a limited repertoire of competing brands that are functionally interchangeable. Within this tried-and-tested consideration set, consumers are well aware of brand substitutability and differentials. In many fields, such as computing equipment, many consumers have considerable knowledge and expertise. As noted, consumers may be inventive in devising novel uses for existing products and even originating from scratch. Not all consumers fall into these categories, of course, but there is a sense in which modern consumers are proactive rather than reactive, certainly capable of appreciating comparative advantage when presented with it and of shifting allegiance among suppliers accordingly. This is a recognition that the firm must respond to customer behavior rather than seek to mold it. The consumer is not a passive recipient of marketing mixes; rather, an active determinant of how physical and social wants will be satisfied and thereby of the business the firm is/should be in and thus the arbiter of the fortunes of the enterprise.

Consumer choice, sophistication, and power are of course relative. The actual level of consumer discretion reflects the nature of the firm as a metacontingency and consumers' display of aggregate behavior. But this potential asymmetry is not absolute; consumer tastes change and other firms innovate. It is a myopic firm that underrates its consumerate.

Consumer power includes the capacity to determine what business the firm is in or should be in. Consumer innovativeness comprises willingness (including spending power) to demand and adopt/reject innovations (which is central to the effectiveness of the productive process).

3.4.1 | Consumer invention

The consumer is part of the productive process: *user-initiated innovation*, which carries the implication that consumers can be entrepreneurs. These imperatives of marketing-oriented management make internal planning of the marketing-response inevitable if the firm is to survive and prosper. The marketing firm internalizes the specialized marketing assets it requires to compete successfully: These may be largely intellectual,[13] but they are specialized assets nonetheless and perform the same function in a theory of the firm as the physical assets of production.

Discussion of the marketing firm requires that we understand not only what such an entity does but that we recognize what it is that makes this organization distinct from others. This latter involves, first, consideration of the rationale of the marketing firm (including its objectives and its transactional relationships with other interests) and, second, its structure as an agent that acts as an entity in its own right that is involved in the management of a nexus of bilateral contingencies and that has a specific output in the form of a portfolio of marketing mixes.

4 | THE MARKETING FIRM: FUNDAMENTAL CONSIDERATIONS

4.1 | Corporate objectives

The marketing firm is that organization which responds to consumer choice in ways that satisfy both customer requirements and corporate financial goals. It is obliged by competitive conditions to practice marketing- or customer-oriented management. Its supreme purpose is the profitable service of its consumerate, which is the final arbiter of its success. Marketing-oriented management has to be more than the ideology of the marketing function, part of its attempt to secure resources from other functional areas. It is a philosophy of the whole organization and needs to be implemented as such, bringing together the various contributions of the firm's functions harmoniously and integrating them into an output, the marketing mix, that fulfills the firm's commercial objectives. Nor is marketing-oriented management a discrete operation: As is a viewpoint on organization that is pervasive in its implications, it involves coordination and integration of all the operations of the firm. As a result, it must saturate every function within the firm: top management or policy making, strategic planning, marketing, research and development, production, finance, human resources, and so on.

This overall strategy of the firm is fulfilled in several ways. Although Spulber (2009a) argues that firms differ from consumer organizations in having goals that differ from those of owners, marketing firms may also be distinguished from public enterprise bodies in (a) facing competition from similar organizations, (b) engaging in marketing transactions, and (c) using the entire marketing mix rather than portions of it.

Several candidates have been suggested for the objective of the firm. Spulber (2009a) proposes profit maximization, a goal which he says differentiates the firm from its owners, the shareholders. Profit maximization is acceptable as an idealized objective, but even in a competence theory, it can be made more concrete. Bounded rationality (Simon, 1987) suggests that the behavior of the firm may be intendedly optimizing, but that in reality, this will be limited by cognitive competence. At best, therefore, we can understand the goal of the firm to be constrained maximization of profit: The firm will always prefer a higher to a lower profit in the longer term, but it is impossible to ascertain whether this is the most it could have achieved. There is no reason, however, to suppose that the firm will be other than a high-level satisficer. In Mäntysaari's (2012) theory, the firm aims at long-term survival, which is a more tangible objective to ascertain (note, also its compatibility with the understanding of strategy put forward by Simon & Fassnacht, 2019). Firms presumably act in order to ensure their survival but it is the qualifier "long term" here that suggests an equivalence with profit maximization. Long-term survival means more than the avoidance of loss if only because capital investment is likely to rely on retained earnings. Survival may also carry implications of growing and prospering to meet competitive pressures and novel customer demands. Given the importance of retained earnings for such expansion, creating a customer (Drucker, 1977, 2007) is a corporate objective that is compatible with constrained profit maximization, as long as a customer is understood as a buyer who displays sufficient loyalty to the firm over time to enable it to achieve its financial objectives. Customer creation is a more concrete objective than either profit maximization or long-term survival, but it is a contributor to both.

Spulber's equation of owners with shareholders is problematical; however, among others, Fama (1980) and Mäntysaari (2012) point out that shareholders are not owners. The assets of the firm are not owned by shareholders nor are shareholders unique in providing capital to the firm or in shouldering risk. If, however, we assume that certain stakeholders in the firm have objectives that are different from the firm's objective of profit maximization—shareholders, managers, and other employees, for instance, whose consumption objectives may nevertheless lead them to prefer to be associated with a profit maximizing firm—then the essence of Spulber's definition of the firm may be retained. It is natural of course to ask, is it not the goal of the managers and other employees of the firm for it to survive and prosper through the creation of a customer, because their efforts are entirely directed toward this objective because that is the whole point of the marketing firm? Or that of its shareholders, given their dependence on the achievement of profitable sales? Not in the same sense as for the firm. Each of these stakeholder groups performs functions that contribute to the creation of a customer, but their overriding motivation is consumption. They presumably prefer that the firm maximize profits through the appropriate corporate response to the imperatives of marketing-oriented management. But that is a necessary prerequisite of their attaining their consumption desires. The firm's objective, by contrast, is *not* consumption. Firms do consume"raw materials and other inputs, for instance—but this is not their existential motivation.

This conclusion has certain implications for the nature and operation of marketing firms that serve to separate them from consumer organizations whose members' objectives are not distinguishable from those of the association or enterprise as a whole. There are several further considerations, however, that must be clarified before we can make the objective of the marketing firm more concrete.

4.2 | Competition

Most public bodies are monopolies or work harmoniously and complementarily with similar organizations. Firms, by contrast, are rivals, bound by strategic ambition and antitrust legislation to avoid cooperation unless this is authorized as a joint venture for instance. Operating within an affluent, open market place is a prerequisite of the pursuit of marketing-oriented management, which permits the firm scope to determine (via consumer sentiment) its business domain and mode of working. Firms as Spulber understands them require this. But some organizations, which are often said to practice marketing, are incapable of engaging in marketing-oriented management in the sense understood in this paper. Social marketing campaigns, for instance, are not firms in Spulber's sense because the objectives of the organizations involved do not differ from those of the owners/members. Moreover, bodies engaged in "social marketing" do not have a product or service, which is literally exchanged in pecuniary markets, or do not use a competitive price mechanism. By and large, they have an amorphous output such as "smoking reduction" (rather than a concrete product or service that can participate in legal transfer for financial consideration). Public enterprises do not always compete and do not necessarily set prices or determine the business they are in autonomously; they may not exchange freely in markets because they are affected more or less by interventionist government policies.

4.3 | Marketing transactions

The marketing firm seeks to effect marketing transactions based on exchange and thereby creating customers. Marketing transactions entail literal exchange or transfer of legal title. A marketing transaction comprises mutual reinforcement based on literal exchange. In a marketing relationship based on economic exchange, the mutual reinforcement is typically accomplished by an item-for-item switch of valued items. The requirement that marketing transactions be understood as literal transfers entails that marketing firms operate in pecuniary markets. Each party to a marketing relationship provides the other with utilitarian and informational reinforcement: Typically, goods that supply functional and social utilities are traded for money and marketing intelligence. The marketing intelligence provided by customers, information about what they have bought and their experience of it and their plans for the future, provides informational reinforcement that guides the marketer's strategic planning and marketing management activities. The literalness of exchange in typical pecuniary trading is easily discerned, but the question arises what is actually exchanged in the case of intangibles such as services: The essence of a marketing transaction is mutual transfers of legal title to a product or the outcome of a service. Such exchange is a transfer of property rights (see, inter alia, Commons, 1924; Demsetz, 2014; Posner, 1995). Legal entitlement and contractual obligations are elements of the contingencies of reinforcement and punishment, which influence behavior, just as the market itself is ultimately a source of mutually accepted and reciprocally binding contingencies (Foxall, 1999).

5 | THE MARKETING FIRM: STRUCTURE

5.1 | The firm as a metacontingency

As a school of psychological science, behavior analysis has traditionally employed a single-subject unit of study. However, the theory of the marketing firm argues that an organization's behavior, although it diverges from the aggregated actions of its members, can nevertheless be understood in operant terms (Foxall, 1999). Whereas an individual's behavior is typically predicted within an experimental paradigm according to the three-term contingency, an organization's behavior reflects its structure as a system of *interlocking behavioral contingencies*. The operant nature of the supraindividual behavior of the organization is inferred from the consequences or outputs it generates over and above the aggregate behaviors of its members and the effects of the organization's behavior, which is greater than the sum of its parts, on its subsequent conduct. Biglan and Glenn (2013) speak of the relationships between interlocking behavioral contingencies, their products (or outputs), and the rewarding or punishing consequences enjoined by their external environments on these products, as *metacontingencies*. The suprapersonal behavior of the marketing firm consists in the marketing mixes that it generates, launches into the marketplace, and subsequently manages through their life cycles. The accent that the theory of the marketing firm places on exchange relationships as central to marketing transactions suggests the mechanism by which the marketing firm and its customer base are bound together, namely, the concept of bilateral contingency, to which we shall return (Foxall, 1999, 2014b, 2015).

The metacontingency concept is a means of describing the interactions of individual consumers with firms, and of firms with other firms, as based on interwoven contingencies. Each entity is a contextual system in its own right, its behavior predictable from its learning history and behavior setting (Foxall, 2018). The idea of the marketing firm rests, moreover, on a distinction between the behavioral outputs of organizations that are metacontingencies and those of collectivities of persons who may form the firm's customer base (Foxall, 2015; see also Biglan & Glenn, 2013; Houmanfar, Rodrigues, & Smith, 2009). Hence, the import of a firm as a metacontingency derives from its behavioral output having emerged from, but nevertheless over and above, the combined actions of its members. This renders the output of the metacontingency qualitatively different from the aggregated behaviors of its members. Such metacontingent corporate behavior evolves in its own right as its consequences are selected or deselected by the environment, in this case, by the firm's customers and potential customers, who respond to the marketing mixes it presents. The behavioral output of the firm's consumers is, in contrast, the aggregated consequences of their several actions. Although it is possible to perform statistical operations on measures of this behavior, as though it were an entity in its own right, it remains no more than a combination of individual operant responses

(Biglan & Glenn, 2013). Crucially, this combined behavioral entity does not evolve: Its future prevalence is not sensitive to any environmental consequences that it generates into because it produces no behavioral outputs in addition to those of consumers en masse that can be differentially acted on by a selective environment. Such behavior, the actions of a large collectivity, is termed macrobehavior (Glenn, 1991, 2004).

The marketing firm's output is the marketing mix—not a product alone but a fusion of product and nonproduct instruments available to the firm to attempt to influence demand and which acts as a single entity to create a customer. For what produces sales is not the product alone or advertising alone but the mix of elements that the firm has at its disposal to convert consumer wants into consumer demand: product, price, promotion (including advertising), and place (representing distribution utilities). Therefore, comprehensive marketing mix management is a mandatory component of the output of the marketing firm in a competence theory for it is the marketing mix as a unified entity that creates customers. The kind of firm we are considering is only competent to market successfully if it employs all four elements of the marketing mix in optimal fashion. Social marketing campaigns by contrast rely heavily on persuasive communication" in fact for many, this is the sole element of the marketing mix employed. The deployment of a communications strategy is not marketing, and clearly, it does not entail marketing mix management.

5.2 | A nexus of bilateral contingencies

Bilateral contingency analysis concerns the overt relationships between the marketing firm and a customer, either a final consumer or a corporate purchaser (Figure 4). (Note that the bilateral contingencies that link the firm, its stakeholders, and consumerates include contractual relationships, e.g., between the firm and its customers, or the firm and its employees, and noncontractual relationships among all these parties that are both commercial and social in nature. The latter are termed "mutuality" relationships; see Foxall, 1999.) The task of marketing management is to plan, devise, and implement marketing mixes that deliver satisfactions for the firm's customer base that are profitable for the firm. The components of the marketing mix (product, price, promotion, and place utilities) appear in the marketplace initially as discriminative stimuli for the consumer behaviors of browsing, purchasing, and consuming. Purchasing includes the exchange of money for the ownership of the legal right to a product or service, and this pecuniary exchange acts as a source of both utilitarian reinforcement (in the form of resources that can be paid out or reinvested) and informational reinforcement (in the form of feedback on corporate performance) for the marketing firm. The efficacy of R_m (managerial behavior) in fulfilling the professional requirements of marketing management, namely, the creation of a customer who purchases the product at a price level sufficient to meet the goals of the firm, is determined by the generation of profit and reputation for the firm (depicted by the dotted diagonal line in Figure 2.) This consumer behavior (R_c) also provides discriminative stimuli for further marketing intelligence activities, marketing planning, and the devising and implementation of marketing mixes that respond to the stabilities and/or dynamic nature of the behavior of the customer base (Foxall, 1999, 2014; Vella & Foxall, 2011). At this level of market interaction between the enterprise and its customer base, managerial behavior can be viewed as maximizing a utility function, comprising a combination of utilitarian reinforcement and informational reinforcement. The firm is embedded in a nexus of bilateral contingencies and the management of multilateral contingencies lies at the heart of its administrative task. This is not to say that the firm is *coterminous* with such a nexus but that it provides the nucleus of a network of interrelationships among its stakeholders.

6 | THE MARKETING FIRM: FUNCTIONS

6.1 | The management of strategic scope

The management of the strategic process is that of the firm's strategic scope, defined by the range of marketing mixes a firm can support and

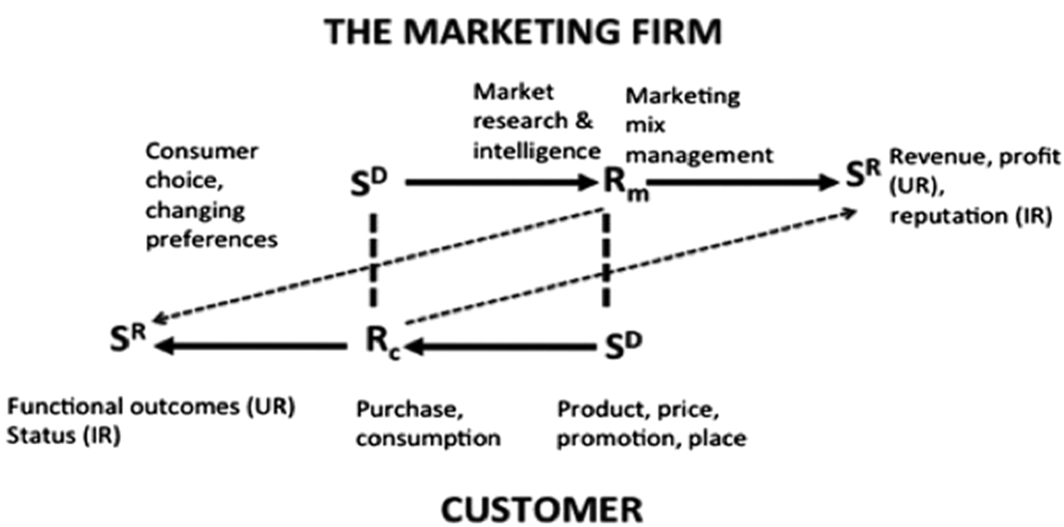

FIGURE 2 Bilateral contingency

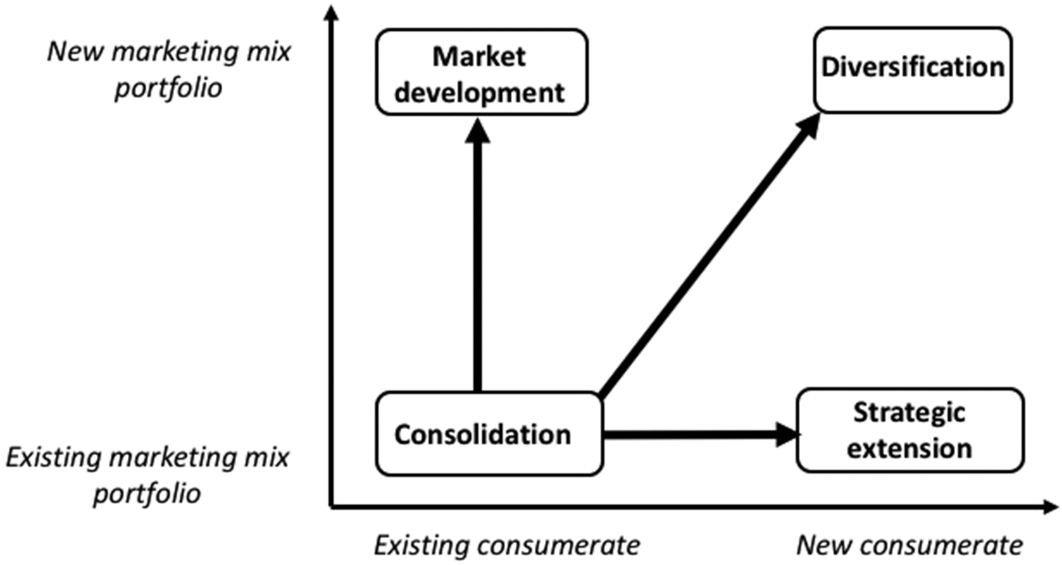

FIGURE 3 Strategic scope. Strategic scope defines the marketing mixes the firm can support and the consumerates it can serve with them

the spectrum of consumerates through whose service with them it can achieve its objectives of survival and profit maximization (Figure 3). Achieving a strategic scope that attains these objectives imposes three obligations on firms each of which demands specific informational inputs and decision outputs. The resulting spheres of operation are the *creation of marketing intelligence*, which typically involves market search and managerial response and reveals the potential (feasible) strategic scope of the firm given capabilities and resources, and the *formulation of marketing strategy*, concerned to determine the planned strategic scope of the firm, namely, the markets it will serve, the marketing mixes with which it will seek to accomplish this, and expectations of further diversification and innovation. Another way of saying this is that it is an activity that determines the potential strategic scope of the firm that the organization plans to achieve and it involves the detailed planning of the selection of product-market scope of the firm and how it will be resourced, and *marketing mix management*, the planning and implementation of the portfolio of marketing mixes through which the firm will seek to achieve its objectives developed in the course of the first two stages. This determines the revealed or effective strategic scope of the firm.

6.2 | Response to marketing incompleteness

Before expanding on the procedures involved in these resource-based operations that constitute the firm's strategic process, it is useful to introduce the concept of market incompleteness. We have seen that for Bylund, incompleteness involves splitting a productive stage generating partly finished goods for which there is no market: The producer has to either obtain partly completed inputs in order to complete it in-house or find a market for a partly finished product that does not readily exist. This is the source of the specialization deadlock because extramarket specialization results in uncertainty, a state of affairs that, as we saw, accords with Adam Smith's statement that the division of labor is limited by the extent of the market.

The case of market incompleteness is of a different kind. The strategic scope of the firm depends on the assets, productive and marketing, at its disposal. These are assets that only have value if they are protected from plagiarism by competitors. The tasks they entail may be undertaken as discrete operations but they are continuous rather than disjointed, and their holistic management is vital to the firm's strategic planning and determination of strategic scope. They therefore must be confined (kept within an organizational boundary) and classified (available only to trusted and interested parties), and their implementation in the market is strictly controlled. Marketing incompleteness is revealed and responded to by means of the deployment of these assets and the firm's response to them. Market incompleteness is a gap in the market revealed through market search, evaluated by the application of marketing intelligence within the strategic scope of the firm, and responded to through the application/extension of the strategic scope leading to effective marketing mix management that makes clear the actual strategic scope of the firm.[14]

6.2.1 | Creation of marketing intelligence

Possible incompleteness in the market is revealed by market search (confined necessarily within the strategic scope of the firm, though one would hope with an eye to extraneous opportunities too). By revealing the feasible strategic scope of the firm, this should engender planning based on the fact that market incompleteness is the identification of a gap in the market that can be filled by product development, market development, or diversification (the last of which is diversification in Penrose's terms). There may be no response necessary to the intelligence so gathered and evaluated.

6.2.2 | Formulation of marketing strategy

The firm assesses its strategic environment by considering the marketing opportunities available to it and the behaviors of consumers and competitors. This could be done with the aid of external consultants and agents. However, planned movement in any one of these directions reflects a change in the in the strategic scope of the firm (following on from requisite decision making on the basis of marketing intelligence and planning. This decision making must recognize that, although market search was undertaken within the strategic scope of the firm, its results and revealed potentials have now got to be rigorously reexamined within the capabilities framework of the organization (Day, 2011). But the planning of future marketing scope must not be confined within the preexisting corporate policy and strategy: It ought also to impinge on and challenge that strategic position so that it is not a static straightjacket; if necessary, the firm's strategic scope must be modified and decisions made with respect to the resources the firm will employ and how it will utilize them.

6.2.3 | Marketing mix management

The firm must design each of its marketing mixes as a unity of product, place, promotion, and price. It is the marketing mix that produces sales, not just any one part of it. It is feasible that external consultants or agents could assist in this stage. The firm must also manage its portfolio of marketing mixes as a single entity (Figure 4). This determines the actual strategic scope of the firm. Marketing mix management presents a more complex task than the product portfolio management that concentrates only on a single element of the marketing mix (Foxall, 1984).

The marketing firm is a means of identifying and responding to market incompleteness by altering its strategic scope (product/market development and diversification). The point about the firm's undertaking this is (a) to economize on transaction costs but also, and at least as important, (b) to enhance sales (physical) and revenues (cash). Entrepreneurship is involved in all three of these marketing resources and the tasks that they entail. Entrepreneurship is the identification of market incompleteness, the response to it in light of the firm's current strategic scope, and the development and deployment of appropriate marketing mixes that ensure that the firm's overall mix portfolio achieves its profit objectives. This does not necessarily mean it maximizes profit, only that it achieves sufficient profit to enable it to invest, satisfy shareholders, and survive and prosper. Entrepreneurship is the successful planning of profitable (in the above sense) feasible strategic scope and the implementation of the decisions that ensue with respect to the management of strategic scope. This can be undertaken only within the organization.

Some general comments are necessary. First, the management of strategic scope views the strategic process is a single entity, rather than three disjointed spheres of operation, which as a whole is concerned with the creation and implementation of the strategic scope of the firm. Its goal and content are the portfolio of marketing mixes, which constitute the emergent output of the business organization that influences, first, consumer behavior and, second, the fortunes of the firm itself and hence its subsequent behavior. Indeed, the management of a whole portfolio of marketing mixes in a unified and harmonious manner is the very embodiment of the firm as a metacontingency, and it rests on the concept of the bilateral contingencies that define marketing and mutuality relationships within and beyond the firm.

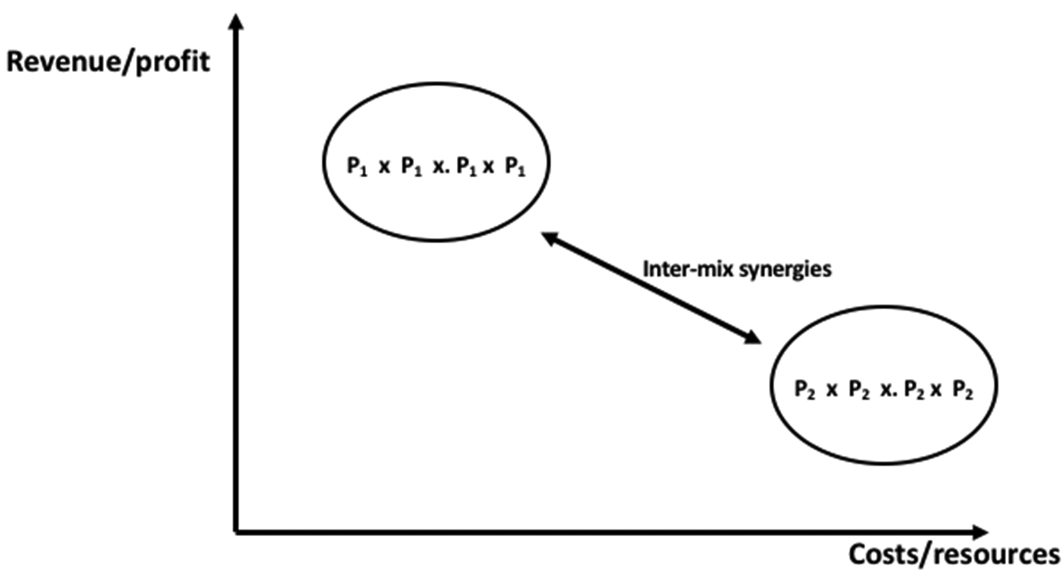

FIGURE 4 Portfolio of marketing mixes. The strategic scope represented by the portfolio of marketing mixes that the firm manages determines the extent to which the firm consolidates its market positions or diversifies into novel areas. The portfolio must be managed as a single entity. For simplicity, only two marketing mixes are shown

7 | THE MARKETING FIRM: RATIONALE

7.1 | Corporate objectives revisited

From the foregoing, it emerges that "the goal of the marketing firm is the maximization of profits through the creation and delivery of marketing mixes that optimally satisfy consumers' requirements." This is the goal of the firm but not of any of its stakeholders. Only marketing firms have a marketing mix as their output. Other organizations, even if they are commercial in structure and orientation, have goals that are not distinguishable from those of their stakeholders. A nonprofit organization, for instance, has a goal that is identical with that of its stakeholders; though by definition is not profit-seeking, it seeks to avoid losses, but its goal and those of its members are identical. Such organizations seek to maximize the output for which they were established (e.g., smoking cessation), which is identical to that of their owners and other stakeholders, including their "consumers."

This goal is consistent with the marketing firm's being a metacontingency, an organization that has an output over and above those of its constituent members; in evolutionary terms, this output, the marketing mix, is part of the sum total of variation provided by competing marketing firms within which consumerates select. This process of selection determines the shape of future marketing mixes and thereby of the range of variation available to customers. Other organizations, even if they are subject to financial discipline, even if they generate and manage some elements of the marketing mix, are essentially characterized by macrobehavioral considerations. Their outputs are organizationally shaped insofar as a system of intraorganizational rewards and punishments regulates the behavior of their managers and other employees (Foxall, 2014a, 2014b). But their outputs do not in themselves evolve as do those of marketing firms through the process of marketplace selection.

7.2 | Marketing specialization

The specialized marketing resources that are integral to the strategic process are human: the entrepreneurs/managers responsible for the discovery of marketing opportunities and for their planning and implementation. The specialized marketing assets integral to this process consist in the information, intelligence, and knowledge that are generated in the course of the strategic process. Each of the stages that comprise the strategic process has its own intellectual requirements; the outcomes of which feed into the succeeding stage or the reiteration of the process: market information, which is the data with respect to, for example, behavior of consumers; marketing intelligence, which is the market data contextualized within the framework provided by the firm's strategic capacities and present strategic profile; and strategic knowledge, which is the marketing intelligence that leads to the formulation of the potential strategic scope of the firm. In the first stage of the strategic process, the creation of marketing intelligence involves the gathering of market information and its transformation into marketing intelligence. This stage of the strategic process is vitally concerned with the generation from market data, first, of information about current and future market operations and opportunities and, second, of evidence that can form the basis of strategic planning, marketing intelligence. The inputs are the answers to indicative questions: What services are consumers buying? What kinds and levels of utilitarian and informational reinforcement are they consuming? Questions of this kind arise from considerations of the enhanced levels of consumer choice that entail marketing-oriented management. The answers determine the firm's knowledge base with respect to the business it is in. Questions that derive from the enhancement of consumer sophistication include the following: What will consumers demand and consume? What does their consumption behavior reveal about the kinds and levels of utilitarian and informational reinforcement they will require and consume in the future? The outcome of this process is knowledge of the feasible strategic scope of the firm. The marketing mixes it might conceivably produce and launch coupled with the consumerates it could realistically serve by their means.

The formulation of marketing strategy is the transformation of marketing intelligence into strategic intelligence, that is, strategic plans based on the potential strategic scope of the firm given its capabilities and present scope. On the basis of the marketing intelligence that becomes available in the earlier stage, the questions that arise from consumer choice considerations are of the kind: How are we and our competitors responding to the market information we have/they probably have and what are the implications of our marketing intelligence for strategic scope? How shall we design our strategic portfolio? On the basis of consumer sophistication, the questions that arise are the following: What will the planned portfolio require of us in terms of resources and assets, especially marketing assets? This work reveals the potential strategic scope of the firm, the marketing mixes the firm intends to manage and the consumerates it plans to serve. The devising and planning of the portfolio of marketing mixes that the firm will assume responsibility for is a vital part of this stage of the strategic process.

Marketing mix management involves the detailed development of final plans for the portfolio, the launch or relaunch of any novel mixes, and the continuous management of the portfolio to meet corporate objectives of survival through the constrained maximization of profits. The questions that arise from consumer choice considerations concern the outcomes of monitoring of the marketing mixes for which the firm is responsible, the implementation of its strategic portfolio, for example, from the standpoint of the enhancement of consumer choice: What are the outcomes of the implementation of our strategic portfolio? And, from that of consumer sophistication: How should we change the composition of our marketing mix portfolio? The proximal outcomes include the adjustment of the strategic portfolio; the more distal outcomes are the financial implications of having designed and currently managing the strategic portfolio. The management process is one of continued monitoring and progress and fine tuning of operations on the basis of strategic knowledge.[15]

Although Bylund argues that the specializing of (production) tasks by subdivision can be achieved only within a firm to ensure that there is a "market" or productive use for the output of subtasks, I want to emphasize the organizational implications of the specialization of tasks reliant on strategic marketing information. These might also be readily subdivided on the basis of a novel division of labor but that is not the central point for the marketing firm. Such knowledge and the intelligence on which it depends need to be subdivided and recombined and managed as a whole within a particular strategic vision, and this state of affairs is likely to be attainable only within the confines of an organization. The management of actual and tacit knowledge can be achieved only if it occurs within an organized framework of authoritative control, with top management taking responsibility for the culture of marketing-oriented management and for its implementation. The only phase of the entire process that can advisedly involve extracorporate inputs is the gathering of market data. The further the firm advances through the strategic process, the more specialized the assets it produces become, and the greater is the need of its encapsulation within the firm. The necessity of this process, as the required corporate response to the imperatives of marketing-oriented management, allied with the necessity of its being conducted under the aegis of a firm that can protect marketing assets from competitors, provides the rationale of the contemporary firm, the marketing firm.[16]

7.3 | Strategic encapsulation

The assessment of feasible strategic scope (via the creation of marketing intelligence) involves the acquisition of appropriate marketing information and its transformation into marketing intelligence, which is the basis of marketing planning.[17] This operation enables the firm to gain marketing research data by which to determine the segments of the market it might realistically serve and plan how it intends to do so. It may undertake (a) the acquisition of basic information, either directly through its own internal capabilities or via an external specialist organization (to which it is said to commercially delegate the task). It might use market research agencies, for instance, or simply use consultants and advisers. But, beyond this, the ultimate decisions and the procedures that lead to them remain its own because the transformation of marketing information into marketing intelligence is an internal matter.

The planning of potential strategic scope (via formulation of marketing strategy) is corporate-level policy making and strategy formulation or at least a large part of it. This is the determination of the firm's overarching strategic direction–the goals it pursues, its means of achieving them, and the criteria of success it applies. As a result, (a) the firm determines its initial strategic scope (what consumerates it seeks to satisfy and with what marketing mixes). It is unlikely that the firm would use consultants and advisers in this regard, because it is tending toward a situation in which the firm is about to take (b) the ultimate decisions that will determine its strategic portfolio. Ultimately, these decision-based procedures are operations that can only be undertaken within the firm. Even if they are conducted haphazardly or by default, they are inescapable and remain a corporate responsibility.

The achievement of effective strategic scope (via marketing mix management) depends on the prior accomplishment of the first and second stages.[18] The firm is now in a position to (a) make decisions with respect to the design and delivery of marketing mix (product, price, promotion, and place) through which it seeks to satisfy its consumers or other publics and thereby achieve its financial objectives and (b) implement its marketing mixes and manage them through their life cycles. The marketing-managerial operations involved in these operations must be integrated into the firm; the implementation, monitoring, and management phases involved could hardly be delegated to external organizations given their closeness to the strategic profile and interests of the firm.

What we have identified as the unique assets of the marketing firm may be termed intellectual marketing resources (IMRs), which are the basis of specialization within the business organization. They are particular to very singular contexts and can only be combined in a compatible manner with other similar resources in the same firm. The specialization of these marketing operations compels internalization given the competitive situation of the firm. Acquisition of the means of carrying out the three marketing operations we have identified entails a kind of division of labor that arises from obtaining highly specialized assets, which are compatible only within the framework of a single organization.

In the course of the management of strategic scope, these intellectual marketing tasks are constantly made more sophisticated, combined with others, reorganized, broken down, in a process of constant compatibility seeking. There is no market for the intermediate outputs (though they would be valuable to competitors), but all work together to produce a greater-than-the-sum-of-the-parts outcome that is the marketing plan and marketing mix. This can only/most effectively be done within the confines of a single organization. This process is not an exact replica of Bylund's model, but it has the same effect: pressure toward internalization and integration. In sum, the IMRs embody a high degree of asset specificity that is unique to the marketing firm as a response to the imperatives of marketing-oriented management; the transaction costs of pursuing IMRs in the market would include loss of secrecy. The IMRs would cease to be assets in this case.[19]

The strategic process encapsulates information that is a key marketing asset conferring competitive advantage: The information is of two kinds: overt (e.g., market research data) and tacit (e.g., methods of investigating markets, production innovations, and plans for marketing mix management). Members of the organization benefit, in principle, from the sharing of the tacit and overt knowledge encapsulated in the strategic process, but they may not be the sole beneficiaries. Overt knowledge is potentially available to competitors; tacit knowledge is available only if competitors are given access to it by the marketing firm. This might occur by a member of the marketing firm transferring employment to a competitor, through industrial espionage, or by other means (Mansfield, 1985). Bundles of information from all these sources potentially (if the information is sound) provide competitive advantage for the marketing firm. It is not clear how far the marketing firm can protect this tacit knowledge legally: In the case of espionage, protection or redress is possible; in the case of employee mobility, however, it is not so clear that recourse to these remedies would be available. Much tacit knowledge may not be transferable because it depends on particular contexts and personal qualities and skills in the marketing firm. In addition to overt and tacit knowledge, there are matters of intellectual property such as trademarks that will be well-protected by law. Although it might be argued that all these forms of knowledge could be protected to some extent in the decentralized market, the firm is the obvious mechanism by which to protect them.

8 | AN EXEMPLAR OF PERFORMANCE RESEARCH

The theory of the marketing firm that has been proposed sets out the competencies that a business operating within an affluent economy that makes marketing-oriented management imperative would ideally need to possess, the goals it would need to fulfill, and its behavior in doing so. It is neither a managerial prescription nor a detailed statement how firms actually behave. One of its functions, however, is to suggest propositions and hypotheses for research into the performances of firms. In order to illustrate such research, this section advances an instance of the position of the marketing firm in relation to its market behavior that is amenable to empirical investigation: the relative symmetry of bilateral contingencies that link marketing firms with their consumerates and their implications for the extent to which firms can practice marketing-oriented management. The following discussion does not propose particular operational measures for empirical investigation but sets out a credible research agenda with the aim of suggesting avenues of research at a greater level of detail.

The pattern of mutually contingent interaction of two organizations (e.g., a marketing firm and a corporate customer), each of which is a metacontingency, might be thought of as relatively symmetrical. After all, each firm has an output in the form of a marketing mix (in the case of the marketing firm) or a corporate purchasing strategy (in the case of the customer), which is based on a strategic process that converts market information into marketing intelligence and then strategic knowledge. The two metacontingencies form a superordinate bilateral contingency in which a series of marketing transactions may take place, and long-term personal relationships come to mark this pattern of interaction; in other words, the bilateral contingency involved is prolonged and strong and supplemented by mutuality relationships. Each side to the transactions comes well prepared intellectually to engage with the other and to earn long-term maximal profit therefrom. The marketing firm presents an integrated marketing mix: the customer, an integrated corporate purchasing strategy. This situation, in which metacontingency meets metacontingency, may be thought of as involving relatively balanced power relations between the parties.

These symmetrical relationships are based on relative equality between the transacting parties; each designs and implements a strategic marketing plan by taking the other's behavior into consideration and strategizing accordingly; each reads the other's behavior in terms of a unified marketing mix or purchasing policy from which it can infer the strategy of the other and respond to it strategically. Each organization enjoys a considerable degree of control over its own behavior setting. Moreover, each member of the bilateral contingency matters to the other sufficiently for its long-term strategic ends to be taken into consideration. Each party provides the other with marketing intelligence, can assert its strategic aims, and if it chooses not to transact with the other, can wreak tangible effects on the other's fortunes. The result is genuine relationship marketing based on a long-term bond between the transacting organizations.

Relative asymmetry, by contrast, would be marked by an inequality of interaction: One party to the transaction, the marketing firm, is a metacontingency, whereas individual members of the consumerate are individually pitted against this organization, which is in a position to use extensive resources to make its marketing mix highly attractive. The marketing firm may be able to take a long-term perspective, whereas the individual consumer is much more constrained temporally in her decision making. The buyer is almost certainly unable to assume a strategic stance. As long as the potential customer base is large, the marketing firm need not seek sustained associations with its individual consumers, for it can attain its revenue and profit objectives even if it loses current consumers, so long as it can attract enough new ones. It is hardly under pressure to meet the requirements of each available market segment, let alone each consumer. However, this might well prove to be a myopic strategy. The high failure rates of new products attest to the power of the customer base to dictate the fortunes of even the largest marketing firms, the constant attraction of a new customer base is costly—perhaps for more so than the retention of existing buyers—and severe competitive pressures militate against complacency. The relationship remains asymmetrical in the sense defined, but consumers achieve a degree of countervailing power. Hence, in an affluent economy, characterized by the imperatives of marketing-oriented management, bilateral contingencies ensure that consumers' setting scope is sufficiently open to allow them to transfer their business to another supplier.

Now, certain predictions follow from this analysis. We may posit, for instance, that bilateral contingencies will differ in their stability or fragility where these are understood as the degree to which they motivate orderly and sustained exchanges between marketers and their customers. Industrial purchasers, engaging in metacontingency to metacontingency supply arrangements, might exhibit more stable patterns of interaction; final consumers, engaging in macrobehavior to metacontingency relationships, might exhibit a lower degree of loyalty. These potential patterns of relationship have been explored in a study of the bilateral contingencies that characterize marketer–customer interactions in the context of environmentally impacting consumption (Foxall, 2015), and this allows some hypotheses to be put forward for empirical investigation. Bilateral contingencies at the stable end of the continuum are marked by close or proximal interactions in which the behaviors of marketers and consumers are relatively united. They involve easily read stimulus profiles (the elements of supplier behavior that act as motivating operations or discriminative stimuli for customer behavior are very apparent and vice versa), they are immediately acting (especially in the case of metered commodities), and they are reliable. Moreover, stable relationships entail genuine marketing relationships comprising literal exchanges that embrace the whole of the marketing mix. More fragile relationships may, however, be built on contingencies that are more remote or distal, not easily read, featuring delayed and unreliable consequences. They are likely to rely principally on persuasion and to preclude the need for literal exchange. These suggestions for investigation require additional translation into testable hypotheses and operational measures, but they illustrate the potential for a performance theory of the marketing firm and its empirical evaluation.

9 | CONCLUSIONS

9.1 | Contributions of the theory of the marketing firm

The theory of the marketing firm recognizes several contextual developments that are absent from economic theories. It does so by incorporating within a theory of the firm insights and findings from consumer behavior analysis, marketing thought, Austrian-economic analysis of entrepreneurial encapsulation, and a range of economic rationales of the firm based on transaction costs, principal-agent relationships, specialization, and the separation approach to the firm.

The first is to build on the finding of consumer behavior analysis that what consumers do is maximize utilitarian and informational reinforcement. This is the key to constructing a marketing theory that incorporates both consumer behavior and managerial action within a single conceptual framework that brings together microeconomics and behavioral psychology. Both theoretical and empirical research in consumer behavior analysis indicates that what consumers maximize is not commodities, not attributes of commodities (as they are usually defined), not vague satisfactions and utilities, but bundles of utilitarian and informational reinforcement within their budget constraints. This is, for instance, the source of the reality of interindustrial competition, which defines the extent of consumer choice and unites consumer behavior and marketing analysis.

Second, it recognizes the imperatives of marketing-oriented management based on enhanced consumer choice and consumer sophistication. These are familiar enough to marketing specialists (e.g., Kotler & Keller, 2015) but absent from both economic and psychological theories of the firm. This is a key incorporation of marketing thought into the theory of the firm, in which the marketing firm provides the required response. This permits the definition and analysis of the marketing transaction and the essential components of the behavior of the marketing firm, including the deployment of the entire marketing mix, the objective of the firm as opposed to those of its stakeholders, and the relationship of the marketing firm with competitors. The boundaries of the marketing firm are not coterminous with its legal and organizational limits. The essential relationships between the firm and its consumerates in which it reaches out to users and potential users extend the entrepreneurial process to include them. Whatever frontiers must be attributed to the firm in order to maintain its constitutional and organizational integrities, their ultimate porosity must be recognized in respect of the inclusion of the entrepreneurial role of the consumer.

Third, it presents a novel rationale of the contemporary firm as a response to these imperatives: entrepreneurial encapsulation which serves to protect the specialization of marketing assets that are crucial to the entrepreneurial process. The rationale of the contemporary firm is to be found in the opportunity for entrepreneurial encapsulation it offers so that the strategic process can be undertaken with confidence. Marketing specialization, based on the imperatives of marketing-oriented management rather than those of the production-oriented firm, can be accomplished only within the confines of an organization that allows maximal interaction among those with knowledge and skills necessary to generate and manage the portfolio of marketing mixes on which the fortunes of the firm rest. The firm provides a means of economizing on the transaction costs that occur with respect to these specialized marketing assets and secures them through contracting with employees and others to curtail the temptation to proliferate the marketing knowledge that emerges in the course of the strategic process to competitors.

Fourth, it stresses the nature of the marketing firm as a metacontingency that is made possible by a nexus of bilateral contingencies. This framework is the repository of the strategic process that includes the creation of marketing intelligence, the formulation of marketing strategy, and marketing mix management; each stage of which generates the specialized marketing assets on which corporate survival and profitability depends. All of this is a far cry from the exhortations to firms to be marketing- or customer-oriented, which provide the standard fare of the archetypal marketing textbook. Rather, as a competence theory of the firm, it makes explicit the areas of strategic practice the firm must fulfill in the face of marketing imperatives, the essential information, intelligence, and knowledge that must be gained at each stage of the strategic process, and the necessity of a corporate structure in which these operations can flourish and find protection. It is a novel understanding of consumer and marketer behavior that provides a theory of the firm encompassing marketing as well as production.

9.2 | Relation to economic theories

The theory of the marketing firm has been contrasted, in the course of this paper, with other rationales for the existence and operation of firms, but it also reflects and builds upon their insights. Economizing on transaction costs is undoubtedly part of the rationale for the firm's existence; as Spulber (2009b, p. 316) points out, firms address transaction costs by acting as intermediaries between consumers. Insofar as it emphasizes costs rather than revenues, however, this is only one part of the justification for firms' existing; closer to the actual situation is that firms facilitate marketing relationships and marketing transactions by anticipating consumer choice. This is not only a matter of cost reduction: It is that of the firm offering an enhanced strategic scope which benefits both the firm and the consumerate. Economizing marketing costs, if that emphasis is to be employed, is achieved as much through the creation of customers as by any other means. Although, in Spulber's view, it is the firm that creates markets, it is in reality the interaction of firms and consumerates that create markets. The initiating impetus for a market can come from either of these parties, but both are required in order to establish and maintain a market. Therein lies the rationale of the contemporary firm, the attitude that distances it from production orientation: the mutual exploitation of opportunity rather than the elimination of threats by means of cost cutting.

The role of authority relationships and contracting is evident in the procedures that manifest entrepreneurial encapsulation insofar as they restrict the flow of knowledge from the marketing firm to its competitors. Contractual obligations of loyalty reduce the possibility of overt industrial espionage or even casual proliferation of knowledge that is integral to the strategic process. Although the role of the firm in a network of contractual relationships is central to its operation as a marketing entity, its participation in a nexus of endogenous and exogenous bilateral contingencies is also an important emphasis. The skillful management of bilateral contingencies, indeed of multilateral contingencies, between the firm and its various stakeholders and its customers, and the interactions among them makes for a complex task of coordination, which has both contractual and noncontractual dimensions.

Specialization through the division of labor or capital is limited by the extent and nature of the market, but it is through the exploitation of marketing incompleteness that the contemporary firm prospers. It is consumer choice and consumer sophistication that determine the extent of the market, and these forces give rise to the entrepreneurial process, the strategic conversion of market information into marketing intelligence, and strategic knowledge. These imperatives of marketing-oriented management make internal planning of the marketing-response inevitable if the firm is to survive and prosper. The marketing firm internalizes the specialized marketing assets it requires to compete successfully: These may be predominantly intellectual, intangible, and sometimes tacit, but they are specialized assets nonetheless, and perform the same function in a theory of the firm as the physical assets of production.

Marketing specialization involves the administration of the firm as a metacontingency that designs, creates and manages a portfolio of marketing mixes that creates a customer, and thereby ensures the survival and profitability of the organization. This in turn requires the firm's involvement in a nexus of bilateral contingencies which may entail the internalization of marketing operations through the incorporation of marketing research functions, suppliers, and customers into the legal and economic framework that is the firm (described at greater length in Foxall, 2018).

The competitive situation of the firm is a fact of commercial life that distinguishes this transaction institution from other organizations that serve publics. This consideration is central to the need to maintain strategic knowledge within the bounds of the firm. The achievement of strategic knowledge, which is the raison d'être of the strategic process, creates marketing assets that are both costly and specific to particular transactions and the management tasks inherent in the effective deployment of the firm's marketing mix portfolio. Although the tasks examined by Bylund in the context of productive specialization are, he argues, finite and discrete rather than continuous, those involved in the strategic process are interactive and continuous in the sense that it is difficult to ascertain where one ends and another begins. Equally, it is difficult to perceive precisely to what ends the knowledge gained will be put because the intertwined nature of the marketing mixes that the firm is responsible for acts against definite applications of the firm's intellectual marketing assets. The transactions or marketing costs that would ensue from their loss to competitors are a major barrier to the pursuit of entrepreneurship in a manner that is less than fully encapsulated. Herein is found the rationale of the marketing firm.

The goal of the firm is to ensure its long-term survival through the maximization of profits as a result of creating a consumerate through the deployment of an appropriate portfolio of marketing mixes. Spulber's separation criterion, as I have understood it in relation to stakeholders rather than owners, suggests that this is not the specific goal of these groups. Even though managers and other employees create and administer marketing mixes aimed at optimally facilitating sales, there is a sense in which they cannot comprehensively accomplish this task. A facet of the marketing mix is the working together of its elements to have an overall effect on consumer choice; the means of achieving this productive harmony are probably unknowable in advance and, insofar as it is an emergent property of the interaction of mix elements, beyond the scope of strategic planning. The firm, as a metacontingency that generates and manages marketing mixes, therefore, has an output that it beyond that of its members. Accordingly, it has an objective that is not theirs. Recognition of separation rules out from being firms those consumer organizations that pursue objectives indistinguishable from their members'. It requires also that marketing transactions be pursued and actualized through the bilateral contingencies that link firms and their consumerates and that the entire marketing mix be employed in achieving this. To sum up, the goal of the marketing firm is the creation and delivery of marketing mixes that are effective in satisfying consumer requirements profitably. Only the firm has this goal; none of its stakeholders does. They may prefer the firm to produce profitable marketing mixes but their goals are income and consumption.

Although economic theories of the firm are invaluable contributors to understanding the rationale of the contemporary firm, they tend to privilege production over consumption and to restrict the scope of strategic entrepreneurship. They are not sufficiently informed by the realities of consumer choice nor by the environmental forces that enjoin a strategy of customer orientation on the firm. As a result, the goal of a theory of the marketing firm becomes that of comprehending the nature of consumer choice and its implications for corporate behavior. Neither descriptive nor prescriptive, the strategic devices proposed in explanation are in no wise recommendations for corporate action. Based on findings of consumer behavior analysis, consumers are known to purchase combinations of utilitarian and informational benefits, to which it is necessary that firms respond appropriately. The concept of the marketing firm provides the consequent device for the theory of the firm that must be sensitive to the imperatives of marketing-oriented management by adopting a philosophy of marketing-oriented management. The paper draws particular attention to the marketing firm as a means of encapsulating entrepreneurship, understood in terms of the formulation and management of the strategic scope of the firm. The operations that compose the firm's strategic process—the creation of marketing intelligence, the formulation of marketing strategy, and marketing mix management—are the basis of marketing specialization that requires corporate internalization in order to succeed.

ENDNOTES

[1]Notwithstanding this point, I shall, for the sake of concision, refer to firms as "corporate" bodies.

[2]Her full definition is that the firm is "both an administrative organization and a collection of productive resources; its general purpose is to organize the use of its "own" resources together with other resources acquired from outside the firm for the production and sale of goods and services at a profit; its physical resources yield services essential for the execution of the plans of its personnel, whose activities are bound together by the administrative framework within which they are carried on" (Penrose, 2009, p. 31).

[3]The understanding of economic psychology on which this essay is based reflects the view (see Lea, Tarpy, & Webley, 1987) that it combines both economics and psychology, rather than being a "psychology of economic behavior."

[4]I employ the terms customer-, consumer- and marketing-orientation interchangeably throughout the paper.

[5]An important contextual theory is that of Knight (1921). For a comparison of Kinght's and Coase's theories, see Demsetz (2014).

[6]Coase's argument about transaction costs and the division of labor are somewhat transmuted in Bylund's account into terms of the division of the capital stock. Increased economic growth and productivity enhancement require the augmentation and use of capital that is specialized. However, "the generation of productive capital, developed specifically to support labor workers or relieve them of the already separate and thereby simple and oftentimes repetitive tasks of production, constitutes a 'a "division of capital," a specialization of individual capital items, which enables us to resist the law of diminishing returns'" (Bylund, 2016, p. 27). The quoted material is from Lachman, L. M. (1978). *Capital and its Structure*. Kansas City, MO: Sheed, Andrews and McMeel, p. 79). Bylund (p. 28) notes that this division builds on the division of labor and that we can think of them as continually reinforcing one another as contributors to productivity. The assumption is that resources are heterogeneous and can be put to multiple uses.

[7]The full definitions are as follows: "Entrepreneurial services are those contributions to the operations of a firm which relate to the introduction and acceptance on behalf of the firm of new ideas, particularly with respect to products, location, and significant changes in technology, to the acquisition of new managerial personnel, to fundamental changes in the administrative organization of the firm, to the raising of capital, and to the making of plans for expansion, including the choice of method of expansion. Entrepreneurial services are contrasted with managerial services, which relate to the execution of entrepreneurial ideas and proposals and the supervision of existing operations. The same individuals may, and more often than not probably do, provide both types of service to the firm" (Penrose, 2009, Fn1, 31—2).

[8]Bylund (2016, p. 62) notes that Coase's emphasis is not so much on production per se as on the factors that are engaged to generate it. Coase assumes that production occurs when resources are allocated and his theory is specifically about the coordination of factors. Hence, for Coase, production is stable although its mode of coordination is a matter of cost reduction.

[9]Nor must we overlook that there are also non-marketing cost advantages that can be realized within the firm that are not available in the decentralized market: for example, the realization of synergy, economies of scale, and economies of growth (e.g., Ansoff, Kipley, Lewis, Holm-Stevens, & Ansoff, 2019; Penrose, 2009.)

[10]The "consumerate" encompasses the customer base of the marketing firm, be it composed of an aggregation of individual final consumers or a number of corporate customers.

[11]Valuable insight into the philosophy and psychology of the Austrian view of entrepreneurship and economic action generally can be found in Marsh (2011.)

[12]$\boldsymbol{U}_{(x_1,x_2)} = x_1^a x_2^b$
where
U = utility
x_1 = quantity of utilitarian reinforcement,
x_2 = quantity of informational reinforcement, and
a and b are empirically obtained parameters.

[13]Von Mises comments that "production is not something physical, material, and external; it is a spiritual and intellectual phenomenon. Its essential requisites are not human labor and external natural forces and things, but the decision of the mind to use these factors as means for the attainment of ends. What produces the product are not toil and trouble themselves, but the fact that the toiling is guided by reason" (von Mises, 1949, pp. 141–142). I fully endorse what he says of intellectuality in regard to production as equally the case for marketing, though I wonder whether "spiritual" might be a value-judgment too far in both cases!

[14]The description of ideal managerial behavior in this section and Figures 3 and 4 are indicative only. Prescriptive detail is suggested by treatises on strategic management such as Lynch (2015) and Ansoff et al. (2019.)

[15]The minutiae of strategic and tactical considerations required to actualize a customer-oriented approach are a matter of adjusting particular firms to their peculiar circumstances. Although there is a large literature on how to adapt a policy-level acceptance of customer-oriented management to specific markets via particular manifestations of marketing moves, this is not the subject of a competence theory which seeks to identify the overall intellectual demands of such a policy. These specifics of customer-oriented management require the exercise of entrepreneurial-alertness by particular managers in particular firms and are the subject of a performance theory of customer-oriented management.

[16]There is nothing here that is at odds with the resource-based view (RBV) of the firm as far as it goes, though its emphasis on internal resources rather than external search may suggest a restricted strategic outlook compared with that assumed in this paper. (See, inter alia, Barney, 1991; Montgomery, 1995; Rothaermel, 2018). At some stage in the entrepreneurial process (I would suggest at every stage) external opportunities must be investigated to extend the strategic scope of the firm. The intangible assets I have suggested as essential marketing assets must be kept within the firm. My emphasis is on intangible intellectual resources that are based on actual and tacit knowledge which confer competitive advantage and which must therefore be protected. The RBV assumes the heterogeneity of intangible assets, that is, that they differ from firm to firm and are not easily transferable. This is true of such assets as trademarks and skills, but not necessarily of the kind of information I am assuming. My information is of current marketing strategies and techniques as well as visions and plans. It is transferable to other firms insofar as competitors could immediately benefit from it—not by incorporating it themselves but simply by being aware of it and modifying their own plans and operations accordingly. It may not be heterogeneous but it is highly volatile and transmissible and of key strategic import. It therefore lies at the heart of the need for incorporation; this is especially true of marketing data and intelligence, strategic planning methods and results, marketing plans, and so on. The RBV also assumes the immobility of these resources which is true of trademarks and the like but not of the kind of strategic information that marks out the need to incorporate. This information could travel quickly through opportunism (Williamson's "self-interest seeking with guile"). It is not beyond competitors' wit to divine it without acting opportunistically in this

sense: They might just second-guess what the marketing firm is going to do, or gain information from observation of test markets, and so forth. All in all, the intellectual resources that are at the center of the marketing firm's competitive advantage and which compel entrepreneurial encapsulation provide a different emphasis from that of RBV conceptions.

[17]For, although entrepreneurship is diffused through the business organization, its affinity to marketing is apparent in that the strategic questions posed by the entrepreneurial process are essentially marketing questions (e.g., Stokes, 2000).

[18]The three marketing operations are iterative and interactive. It could be argued that marketing strategy formulation precedes marketing intelligence and planning. The point is that all three are continuing conjoint interdependent procedures.

[19]Land, labor, and capital are the obvious factors of production, but so is strategic knowledge which provides an entrepreneurial dimension of the factors of production“in fact, we might designate this knowledge “a factor of marketing.”

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How to cite this article: Foxall GR. The theory of the marketing firm. *Manage Decis Econ*. 2019;1–21. https://doi.org/10.1002/mde.3047